PolyNovo®

Improving outcomes.
Changing lives.

Globally recognised medical innovation

Annual Report 2021

Vision

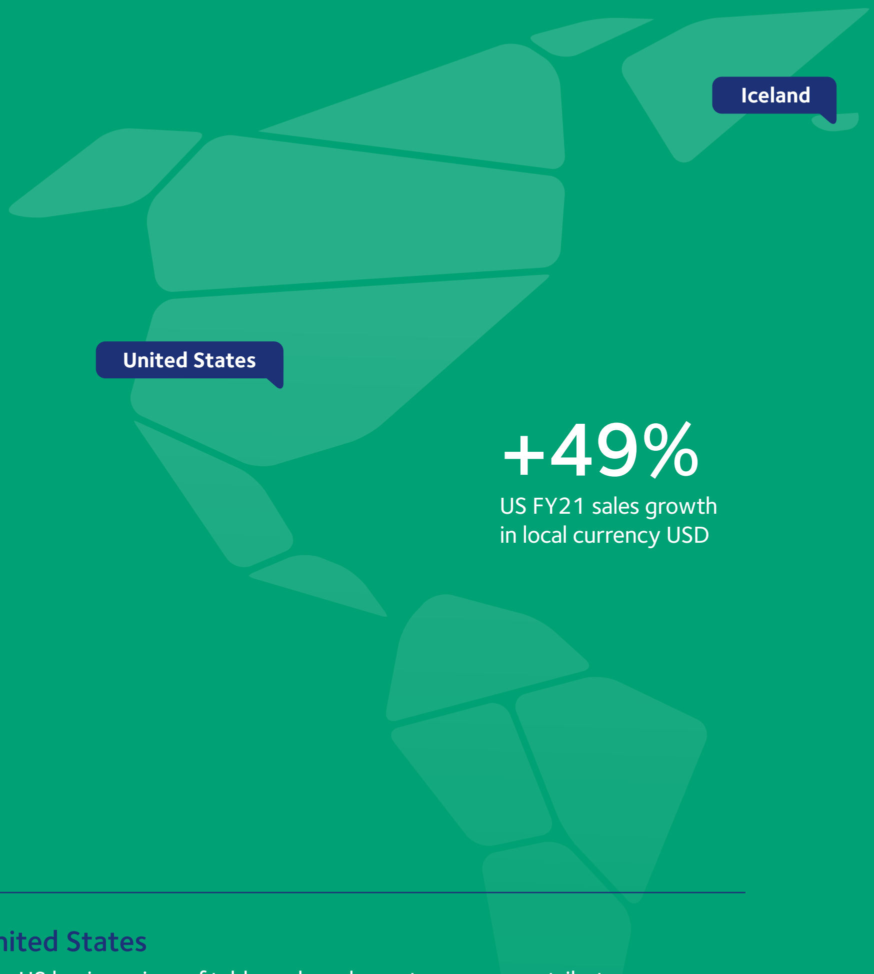
PolyNovo is prepared for an exciting future with expansion into new markets and continued growth in NovoSorb BTM production within our facilities.

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 focused on our mission: Improving outcomes and changing people's lives.

CONTENTS

Scan this QR code with your smartphone camera to find out about our new state-of-the-art facility

GLOBAL REACH



+49%
US FY21 sales growth
in local currency USD

PolyNovo has continued to invest in expanding sales teams throughout the pandemic. In FY21 this strategy has generated new account acquisitions, significant growth in sales, greater geographical coverage, and achievement of a small profit (excluding non-cash items) FY22 has started strong with excellent sales performance in July 2021.

FY21 has been challenging with restricted travel, customer access for face-to-face interactions and reduced hospital activity due to COVID-19 congestion.

Our early pivoting to digital sales and marketing strategies has been very rewarding. We have conducted many webinars across a wide variety of surgical applications that have allowed our surgeons to share their excellent outcomes with their peers.

We have continued to win new accounts, expand existing account sales, and enter new geographies. Our European market entries have been outstanding throughout FY21. This has laid the foundations for strong sales growth in FY22 as these distributors win hospital accounts. This profitable strategy enables PolyNovo to reinvest in new markets and support the general business expansion.

Logistics to support sales growth has required extra effort with freight routing and forecasting however we have stayed ahead of future demands with high stock holdings in all our markets. We will have greater flexibility and market responsiveness in FY22 with our EU 3PL Movianto coming on stream in Belgium.

Our US business is rapidly expanding in both personnel and sales revenue. We have continued the investment in sales and marketing roles throughout FY21. The US business is profitable, and we see further expansion of our sales team in FY22.

Our Clinical Trial programs continue with the BARDA pivotal burn trial and chronic wound reimbursement trial. Our SynPath chronic wound scaffold will allow us to service the $US400M Chronic wound segment in FY23.

United States

Our US business is profitable and our largest revenue contributor. We have continued to expand our sales and marketing team. We see further investment in expanding the capacity to drive revenue growth. The NovoSorb SynPath chronic wound study has completed the first 10 patients and we now embark on the second phase of this clinical trial. Our BARDA funded pivotal trial is in progress with 20 sites being enrolled and a further five Canadian sites to be added.

Scan QR code to view a short performance summary
by Ed Graubart – Sr. Vice President Sales & Marketing

Europe

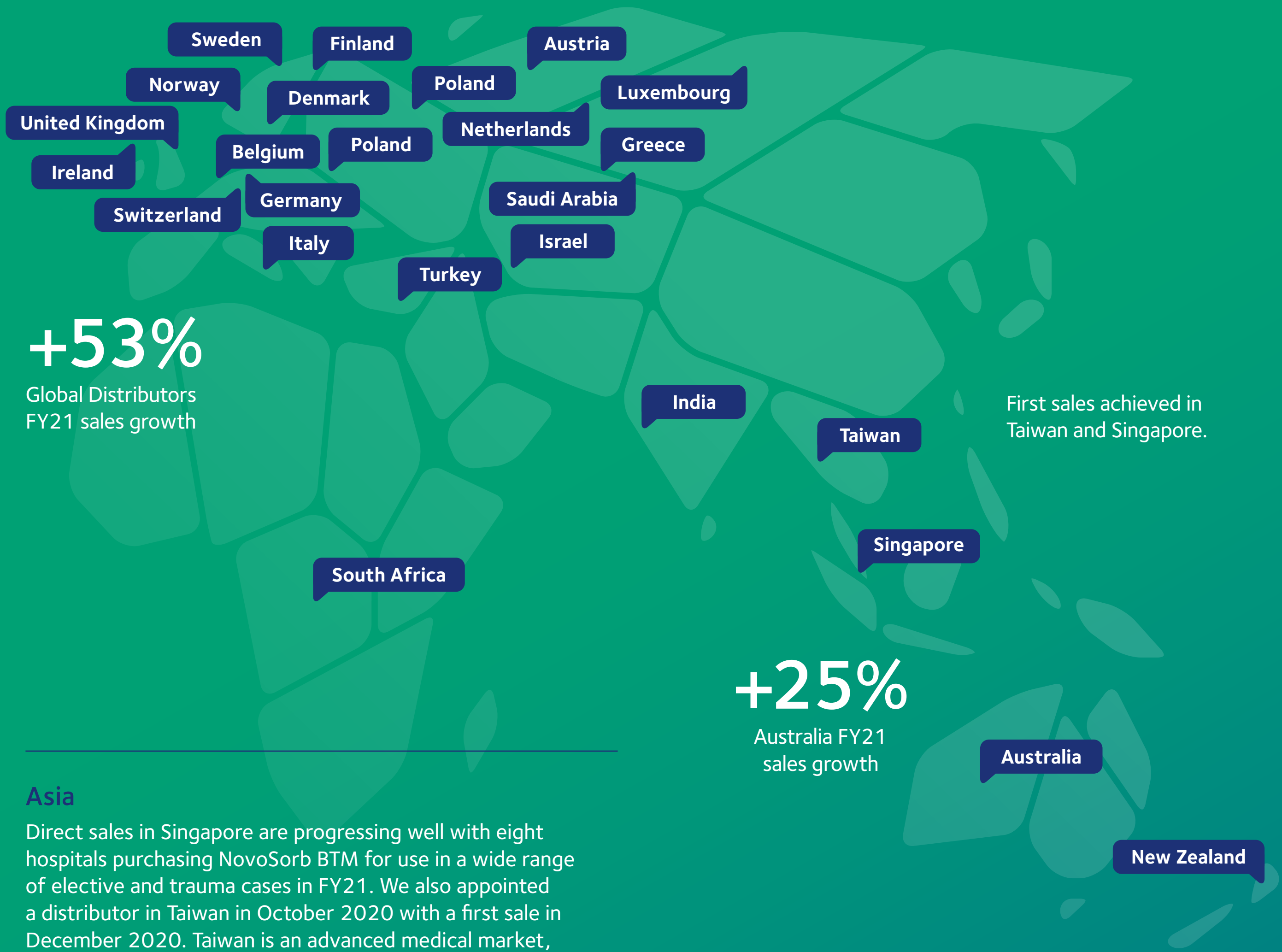
Our European expansion has been significant in FY21. Our distributor model in Europe is allowing PolyNovo to rapidly expand across Europe without significant cost and should generate profit in FY22. We have a new 3PL partner for Europe commencing 1 Sept '21 allowing us to efficiently service many markets.

Scan QR code to view a short performance summary
by David Hollis – EMEA Business Development Manager

South Africa

Our South African distributor, Ascendis Medical, is achieving reasonable sales through the public hospital system. Access to the Private Health system has been limited due to reimbursement constraints of health insurers. We will continue to support Ascendis in their endeavours for reimbursement.

Scan QR code to view a short performance summary
by David Hollis - EMEA Business Development Manager



+53%
Global Distributors FY21 sales growth

First sales achieved in Taiwan and Singapore.

+25%
Australia FY21 sales growth

Asia

Direct sales in Singapore are progressing well with eight hospitals purchasing NovoSorb BTM for use in a wide range of elective and trauma cases in FY21. We also appointed a distributor in Taiwan in October 2020 with a first sale in December 2020. Taiwan is an advanced medical market, and we anticipate FY22 to be a strong year. Surgeon feedback is excellent.

UK / Ireland

Until January UK/Ireland has been highly restricted by COVID-19. We are seeing a gradual increase in surgical activity and the re-engagement of face-to-face sales calls. Sales are trending well, and we have added a sales role in Ireland, and a further three roles in the UK. Ireland has seen a rapid uptake of NovoSorb BTM and we see good growth opportunities throughout UK/Ireland.

Scan QR code to view a short performance summary by Andy Eakins – Marketing Manager UK & EMEA

Australia

Very strong sales growth in FY21 despite COVID-19 restrictions. Our penetration of the burn market is significant, and we have achieved solid growth in elective surgery with sales to many public and private hospitals. We added two additional salespeople and see strong growth continuing throughout FY22.

Scan the QR code to view a short performance summary by Valerie Young – Sales Director, Australia / New Zealand

Middle East

Good potential delayed due to COVID-19. As vaccination programs allow greater access, we anticipate market entries in H2 FY22.

Scan QR code to view a short performance summary by David Hollis – EMEA Business Development Manager

New Zealand

Strong sales growth in New Zealand across all major hospitals. The expansion of BTM use across a wide variety of surgical applications has been exciting with market penetration expected to continue in FY22. Peer to peer referrals are strong and the surgical outcomes are outstanding.

Scan QR code to view a short performance summary by Valerie Young – Sales Director Australia/New Zealand

OUR PERFORMANCE

NovoSorb BTM USA Sales ($USD)

↑ 49.0%

2021: $15.5m | **2020:** $10.4m

Net Profit / (Loss) After Tax
EXCLUDING NON-CASH ITEMS*

↑ 121.5%

2021: $0.2m | **2020:** -$1.2m

EBITDA
EXCLUDING NON-CASH ITEMS*

↑ 161.1%

2021: $0.6m | **2020:** -$1.0m

Cash on Hand FY21 / 1H21

↑ 0.4%

FY21: $7.69m | **1H21:** $7.66m

NovoSorb BTM Group Sales

↑ 33.8%

2021: $25.5m | **2020:** $19.1m

* Non-cash items comprises of unrealised forex losses, share based payments and depreciation & amortisation

BARDA Revenue

↑ 18.1%

2021: $3.7m **2020:** $3.1m

Employee Related Expenditure
EXCLUDING SHARE BASED PAYMENTS

↑ 28.7%

2021: $16.7m **2020:** $13.0m

Cash on Hand YoY

↓ -34.0%

2021: $7.7m **2020:** $11.6m

Capital Expenditure

↓ -59.8%

2021: $3.6m **2020:** $8.9m

Total Employees

↑ 35.9%

2021: 106 **2020:** 78

Inventory Value

↑ 61.0%

2021: $2.0m **2020:** $1.2m

Total Group Revenue

↑ 32.0%

2021: $29.3m **2020:** $22.2m

Net Loss After Tax
INCLUDING NON-CASH ITEMS

↑ 9.8%

2021: -$4.6m **2020:** -$4.2m

Net Cash Outflow Operating Activities

↓ -41.4%

2021: -$0.3m **2020:** -$0.4m

WORLD LEADING—LIFE CHANGING

NovoSorb® BTM

Robust in the presence of infection

Does not act as a food source for infections, often allowing retention while the infection is treated.

Designed to minimise contracture over functionally important areas and improve cosmesis (uniformity of texture)

Compared with primary skin grafting.

Generation of a neodermis over exposed tendons and bones

Can offer alternative treatment for complex wounds.

Dermal repair to support limb salvage

By creating a vascularised neodermis for definitive closure.

CLINICAL TRIALS

USA Burns Trial

Approval for the Pivotal Trial to commence, comprising up to 150 full thickness burn patients was received from the FDA on 8 January 2021. The clinical research team is currently working to initiate all 25 North American and 5 Canadian research sites, which are a mixture of prestigious academic institutions and ABA verified burn centers. Three sites are currently actively screening potential subjects, with another 3 study sites coming on-board in August. The first patient to be recruited into the study is imminent, with a two-year enrollment period to recruit all subjects.

The virtual investigator meeting was a great success and was attended by over 98 study personnel over the course of two days. Dr Tina Palmieri, UC Davis, Sacramento, CA., our Co-Principal Investigator provided a clear overview of the study protocol in conjunction with our other Co-Principal Investigator Dr. Blome Ebverwein, Lehigh Valley Hospital, Allentown, PA. Representatives from our industry partners and government sponsor also attended the meeting and provided a clear message on the importance of this study to both the burn community and the US Government.

The 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) originally commenced on 28 September 2015 funding our feasibility study which concluded in March 2020. The Company has previously announced the result of this trial on 21 April 2020. The completion of the pivotal study is the final piece to fulfill the BARDA contract which will end in 2025.

The pivotal trial will be funded by BARDA up to USD $15 million. PolyNovo will also contribute to the trial through provision of product, staff resources, and infrastructure support. The contract is on a cost-plus monthly reimbursement basis. Successful completion of the pivotal trial will lead to a PMA application with the US FDA for the use of our scaffold in full thickness acute burns. 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.

On completion of the trial and approval of our application for a PMA from the US FDA we anticipate the US Government may add NovoSorb BTM to its national stockpile for critical healthcare products.

SynPath™ DFU Pilot Study

A Single Arm Pilot Study Evaluating Wound Closure with Application of SynPath™ in the Treatment of Non-Healing Diabetic Foot Ulcers.

The purpose of this pilot study was to assess the safety and clinical efficacy of SynPath™ to promote wound closure in non-healing diabetic foot ulcers, DFU, and to collect patient outcome data and clinician feedback in the first formal evaluation of SynPath in this chronic wound etiology.

Ten eligible subjects who presented with a Wagner Grade 1 Diabetic Foot ulcer, and who met the inclusion/exclusion criteria of the protocol were enrolled into the evaluation. All patients that consented to taking part in the study were treated with SynPath over a period of 12 weeks, or until 100% wound closure.

Patients were seen weekly from their baseline visit until healing, for up to 12 weeks, and a 2-week post healing (confirmation of closure assessment) in those that healed. If a participant's foot ulcer healed before the final 12-week visit, they attended a healing confirmation visit two weeks post the original heal date.

The initial results appear positive with 70% of ulcers achieving complete closure. The median time to healing was 7 weeks (range 3-13 weeks). The initial clinician's feedback was that SynPath appeared to have a high degree of clinical efficacy and helped promote wound closure in many hard to heal DFU's in a faster time period compared to conventional standard of care treatments in this patient population. The full study results from this pilot study will be available in late August / early September 2021, before moving onto the next phase in the project which is a randomised control trial (RCT) of 100 patients compared to the Standard of Care.

"SynPath has exceeded our expectations in this pilot and is a very viable treatment for diabetic wounds, we look forward to the final statistical analysis of the pilot and the upcoming RCT ," said Charles Zelen, DPM, principal investigator, Podiatry Section Chief; Department of Orthopedics; HCA Lewis-Gale Medical Center.

The data from this study will be used to submit for insurance reimbursement coverage for chronic wound applications in the US market. This market segment has a total addressable market of USD $400m with market entry anticipated in 2024.

CHAIRMAN AND MANAGING DIRECTOR REPORT

Dear Shareholder,

COVID-19 in FY21 had a significant impact on hospital trauma, burn and elective surgery activity. Notwithstanding limited hospital access, lockdowns, and travel restrictions, we adapted our business and had continued material sales growth with global BTM sales up by 33.8% (AUD), US BTM sales up by 49.0% in local currency (USD) and the Group achieved a small underlying profit (excluding non-cash items) of $258,756. We signed three General Purchasing Organisation (GPO) contracts during the year to 30 June 2021 with further negotiations currently in progress. These contracts will enable faster account acquisition and deeper US market penetration in FY22.

We continued our investment in building our platform for post COVID-19 growth with personnel growing from 78 to 106. Growth in our sales team was a significant driver of our sales momentum. Advanced digital programs including webinar and promotional activities are now part of our "normal" business processes. Many virtual trade shows have been conducted where we established new leads, presented NovoSorb BTM to large audiences, and reached new markets.

Sales in all our direct markets continue to grow with the second half providing strong improvement in revenues, new account acquisitions and sales team expansion. Importantly PolyNovo achieved a small profit (excluding non-cash items) and was cash breakeven, a significant company milestone. Our cash on hand position is strong as at 30 June 2021 and forward cashflows are building despite forecast expenditure required for growing sales teams and investing in new product development.

Continued manufacturing of inventory completed during FY21 means we have stock available for customers in all markets. Production capacity is high, and we increased capacity including redundancy through the completion of our new manufacturing facility. This new facility will house our polymer laboratories, film extrusion, new foam cutting machinery and ultrasonic welding capabilities. Our new equipment and skills in production enable PolyNovo to rapidly develop new medical devices constructed from our existing NovoSorb polymers.

"FY22 has begun with positive sales momentum, continued sales force expansion, Syntrel VP (hernia) study commencement and improved customer access with the (hopefully) receding of COVID-19 restrictions."

The new manufacturing facility has been commissioned and is currently undergoing internal qualification which is expected to be completed by the end of September.

New, smaller NovoSorb BTM sizes will enter specific markets in October 2021 addressing the European, UK, Australia and New Zealand demands for economically treating lesion excisions, diabetic foot ulcers, arterial ulcers and venous leg ulcers. Recent publications and presentations by Flinders University (South Australia) demonstrate great promise for the role of NovoSorb BTM in arterial leg ulcers. PolyNovo is supporting further investigations of this application.

The first phase of a diabetic foot ulcer study in the US concluded in July 2021 with enrolment of the first ten patients. We will now review the progress of these patients and adjust any trial protocols to embark on the recruitment of the next 40 patients. The data from this study will be used to submit for insurance reimbursement coverage for chronic wound applications in the US market. This market segment has a total addressable market of USD $400 million with market entry anticipated in 2024.

The BARDA funded pivotal burn trial has commenced and we are in the process of enrolling 20 US based and 5 Canadian based burn centres in performing the pivotal burn trial. BARDA revenues are expected to increase commensurate with the trial activity in the year ahead.

The R&D team has demonstrated an ability to adapt by producing finalised hernia devices called Syntrel VP in FY21. We commenced a large animal study in July 2021 to generate the data on resorption, toxicology and biocompatibility that will support our dossier submission to the US FDA in approximately March/April 2023 for our hernia product. We anticipate gaining approval to sell in the US by August 2023.

FY22 has begun with positive sales momentum, continued sales force expansion, Syntrel VP (hernia) animal study commencement and improved customer access with the expectation of receding of COVID-19 restrictions.

Clinical Trials FY21

Our $15m USD BARDA funded US pivotal burns trial is underway. This trial will compare NovoSorb BTM with the selected hospitals' standard of care looking at wound closure together with cosmetic and functional outcomes. Enrolling Canadian burn centres into the program will also facilitate our market entry to Canada in FY22.

PolyNovo will continue the 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 clinical data will ultimately lead to entering the US chronic wound care market and generate supporting clinical data for NovoSorb BTM in the treatment of these wounds in all markets. NovoSorb BTM already has regulatory approval for use in all chronic wound applications in all markets we are in.

New Markets FY21

PolyNovo has expanded its European and Asian markets during the period to 30 June 2021. To enable faster EU penetration, we have adopted a distributor model in key European countries supported by our existing UK based marketing and business development team. We have entered Belgium, Luxembourg, Netherlands (Benelux), Norway, Denmark, Finland, Sweden, Poland, Italy, Turkey, and Greece. Although European markets have also been impacted by COVID-19, we have seen NovoSorb BTM sales with continued growth over the six months to 30 June 2021.

We have taken a direct market entry into the Irish market in FY21 and have realised NovoSorb BTM sales following entry.

We anticipate the Irish market will grow strongly in FY22.

Taiwan has been added to our Asian markets and we see great potential in this advanced market.

New Markets for FY22

PolyNovo is currently working on market entry in Canada, France, Kuwait, UAE, Cyprus, Lebanon, and further Middle Eastern markets this financial year. Japan is an attractive market, and whilst we are exploring the best market entry strategy for this market, it may take until 2023 for market entry due to complex regulatory requirements.

Hernia - Syntrel

Our Syntrel hernia devices are being manufactured in our new facility. These devices are currently undergoing biocompatibility, toxicology, and resorption studies. Data from this trial is required for the US FDA regulatory dossier which we anticipate submitting in March/April 2023 and gaining approval to sell in the US by August 2023.

Much of the pre-clinical trial data relating to our NovoSorb film and ultrasonic welding processes from this development activity will be applicable to other devices in development.

PolyNovo's development teams have worked with our global suppliers to commission complex machinery throughout COVID-19. Consequently, the teams have developed new and advanced skillsets which will provide ongoing benefits to our other new product development programs.

Tissue Reinforcement

PolyNovo has employed additional scientific and marketing support to drive this program. Tissue reinforcement is the use of the NovoSorb foam that can be used alone or with the NovoSorb film reinforcement to fill internal tissue defects. We are currently scoping the unmet needs of surgeons so that we can capture their requirements within the design of novel NovoSorb products. We will share an estimated development timeline with the market once we have reached later stage gate milestones.

Beta-Cell Diabetes application

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. Animal studies have demonstrated that NovoSorb foam is a safe and viable environment for Islet cell transplants. BetaCell has secured funding and plans to start human trials using NovoSorb BTM in FY22 for Type I diabetics who have undergone renal transplants.

New Product pipeline

PolyNovo sees multiple device development opportunities for NovoSorb applications, and we are actively screening near term programs.

Summary of FY21

- Annual NovoSorb BTM revenue growth of 33.8%
- Annual US revenue growth in $USD of 49.0%
- Annual Distributor sales growth of 53.1%
- Increased gross margin by 2.8% on product sales
- Commenced the $15M ($USD) BARDA funded Pivotal trial
- Signed three General Purchasing Organisations (GPO's) in the US
- Achieved profitability/breakeven (excluding non-cash Items)
- Staff increased from 78 to 106 with a US sales team of 36
- Appointed a Director of R&D
- Signed Taiwan distributor and achieved first sales
- Signed 6 European distributors which covers an additional 8 markets
- Expanded German distributor's territory to include Belgium, Netherlands, Luxemburg, and Sweden
- Implemented advanced digital marketing strategies to drive sales and marketing during COVID-19
- Completed the build of the new production facility for hernia, film, foam, and polymer (redundancy capacity for BTM)
- Implemented Business Intelligence software including an electronic Quality Management System
- Initiated a US chronic wound study for health insurance reimbursement
- Initiated a chronic wound study with Flinders University South Australia

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 2021 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 as well as in mergers and acquisitions and capital raising. He has 30+ years' experience working with and advising ASX-listed companies in the food, medical device, and pharmaceutical sectors.

Mr Williams is currently a Director 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 Vice President of the Board of the Institute of Patent and Trade Mark Attorneys of Australia 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 is currently IP & Commercialisation manager at RMIT University and was previously 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.

Mr Leon Hoare
GradDipBus, AssocDipAppSc (Ortho), GAICD

Non-executive Director

Mr Hoare was appointed a Director of PolyNovo on 27 January 2016.

He is currently 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 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 has also included a senior role at Bristol-Myers Squibb (medical devices), 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).

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 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).

DIRECTORS' REPORT CONTINUED

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

Mr Rathie was appointed a Director of PolyNovo on 18 February 2010. He 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 20 years' experience as a full time professional Non-executive Director. He is currently Chairman of Capricorn Mutual Limited and a Non-executive Director of ASX listed Cettire Limited (ASX:CTT), Capricorn Society Limited and Australian Meat Processors Limited. In the medical device space, he is currently 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.

Mr Andrew Lumsden
MA (Hons) in Accountancy & Finance, CA, AGIA ACG, MAICD
Non-executive Director

Mr Lumsden was appointed a Director of PolyNovo on 4 June 2021. He is an accomplished Chartered Accountant and finance executive with more than 20 years' experience locally and internationally. He holds a Master of Arts in Accountancy and Finance (First Class Hons), is an Associate of The Chartered Governance Institute and a member of the Australian Institute of Company Directors. Mr Lumsden is currently Global Chief Operating Officer of Wellcom Group Pty Ltd (formerly Wellcom Group Limited) having previously held the roles of Chief Financial Officer and Company Secretary. Prior to joining Wellcom, Mr Lumsden was a Senior Manager within the Audit and Assurance practice of PricewaterhouseCoopers.

Mr Paul Brennan
MBA, BSc (Nursing) RN RM
Managing Director

Mr Brennan was appointed Chief Executive Officer (CEO) of PolyNovo Limited 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 Limited 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.

Dr Anthony Kaye
BSc (Hons) Chemistry PhD
Organic Chemistry
Chief Operating Officer

Dr Anthony Kaye joined PolyNovo on 9 November 2020. Dr Kaye holds a Ph.D. in Synthetic Organic Chemistry from Latrobe University and commenced his career with Biota holdings undertaking post-Doctoral research. Since then, Dr Kaye has held senior operational roles in the pharmaceutical and advanced materials industries initially at IDT Australia and Boron Molecular. Most recently Dr Kaye held senior operational and capital expansion project roles with CSL Behring, based at the Broadmeadows manufacturing facility.

Dr Kaye has extensive experience in product development, process scale-up, advanced manufacturing, process automation, end to end supply chain and cleanroom facility design.

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 2021, PolyNovo Limited had eight wholly owned subsidiaries: PolyNovo Biomaterials Pty Limited, NovoSkin Pty Ltd, NovoWound Pty Ltd, PolyNovo NZ Ltd, PolyNovo UK Ltd, PolyNovo North America LLC (PNA LLC), PolyNovo Singapore Private Ltd and PolyNovo Ireland Ltd. The first three subsidiary companies listed above are Australian proprietary companies whilst the other entities are the trading and employment entities for those countries. PolyNovo NZ Ltd does not employ direct staff and is currently managed by the Australian sales team.

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 on next page.

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. BTM is commercially sold in Australia, USA, Canada (by exemption), New Zealand, United Kingdom, Ireland, Germany, Austria, Switzerland, Sweden, Finland, Norway, Benelux, Italy, Poland, Singapore, Malaysia, South Africa, India, Saudi Arabia, Israel, Greece, and Taiwan. Further markets are under consideration for FY22.

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. The 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 NovoSorb BTM during FY20. The data generated in this study will support our Premarket Approval (PMA) application and add to the body of evidence demonstrating the mode of action of NovoSorb BTM.

The pivotal trial is funded by BARDA to USD $15 million after extending the contract in FY21. PolyNovo will also contribute to the trial through provision of product, staff resources and infrastructure support. We are currently recruiting patients into the trial through a planned 20 US burn centres and five Canadian burn centres. 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.

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. Dr Tina Palmieri, UC Davis Sacramento, and Dr Sigrid Eberwein, Lehigh Valley, are the principal investigators for this study.

Regulatory approvals for NovoSorb BTM in FY21

Taiwan

PolyNovo achieved Taiwan FDA regulatory approval for NovoSorb BTM in FY21. First sales followed in Q2 FY21.

South Korea

PolyNovo successfully passed the South Korean FDA audit in Q3 of FY21. Regulatory application for approval as a class III device for NovoSorb BTM is now in progress.

Hernia Repair

PolyNovo has completed the building and commissioning of the Unit 1 facility, and the internal qualification is expected to be completed by end of September. This facility enables PolyNovo to manufacture a wide variety of NovoSorb products including polymer, pellets, extruded films and fully converted medical devices such as Syntrel VP (hernia) devices. Pre-clinical trials are currently underway to develop the biocompatibility, toxicology and resorbsion data required for regulatory filings. We anticipate submitting for a US FDA 510(k) in March/April 2023 and gaining approval to sell in US by August 2023.There remains some risk in the timeline as we work through the regulatory processes and trials.

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

Tissue Reinforcement (Breast)

PolyNovo's internal development program for a portfolio of products for use in reconstructive and aesthetic surgery is well defined and has shared technologies. Our Hernia product is exciting but importantly it serves as an effective building block for tissue reinforcement products in orthopaedics, breast, etc. We anticipate that manufacturing processes and the technology will be shared across a range of new products.

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 has completed several swine studies with good results. It is 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, has funding supported from 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 with the addition of further research and development resources.

Capital Investment

PolyNovo has completed the majority of our capital program with completion of the Unit 1 manufacturing facility. We have a low capital investment program for FY22. The Unit 1 facility brings a wealth of new capacity and manufacturing technologies to PolyNovo, such as NovoSorb film extrusion, microsphere manufacturing, ultrasonic welding, higher speed foam cutting, NovoSorb BTM manufacturing redundancy/capacity and high-volume polymer manufacturing.

PolyNovo has invested in enhanced IT systems that bring increased efficiencies in finance, quality management and building/manufacturing operations. We will, in FY22, further add to our IT infrastructure enabling faster global data transfer and business intelligence through fully encrypted cloud-based systems.

COVID-19

COVID-19 in FY21 had a significant impact on hospital trauma, burn and elective surgery activity. Hospital and surgeon access was restricted due to the priority in treating patients with COVID-19, the many lockdowns and travel restrictions imposed across all geographies.

To maintain customer engagement and drive sales we adapted our business to reduce the impact on traditional sales techniques and achieved 33.8% BTM sales growth globally. Notably in the US revenue was up by 49% in local currency (USD). In markets such as the US, high vaccination rates have led to population movement and lifestyles being "COVID-resilient", which in turn increased sales with record results in Q4. The growth achieved is significant when considering the impact of COVID-19 globally.

Focusing on digital sales and marketing campaigns was effective in servicing existing customers and winning new customers in all markets we operate.

Status of Markets:

US

- Vaccinations are increasing hospital capacity. Some areas in the US remain challenging with low vaccination rates but overall the country's vaccination rate is amongst the highest globally.
- In many states people are moving around freely and activities potentially leading to trauma events are occurring.
- Improved face to face access for sales teams and access to operating rooms, however sales calls will be a mix of digital and face to face.

UK/Ireland

- Hospital access has improved. Elective surgery rates are recovering. Steady revenue improvements reflecting high vaccination rates and removing of restrictions.

Australia

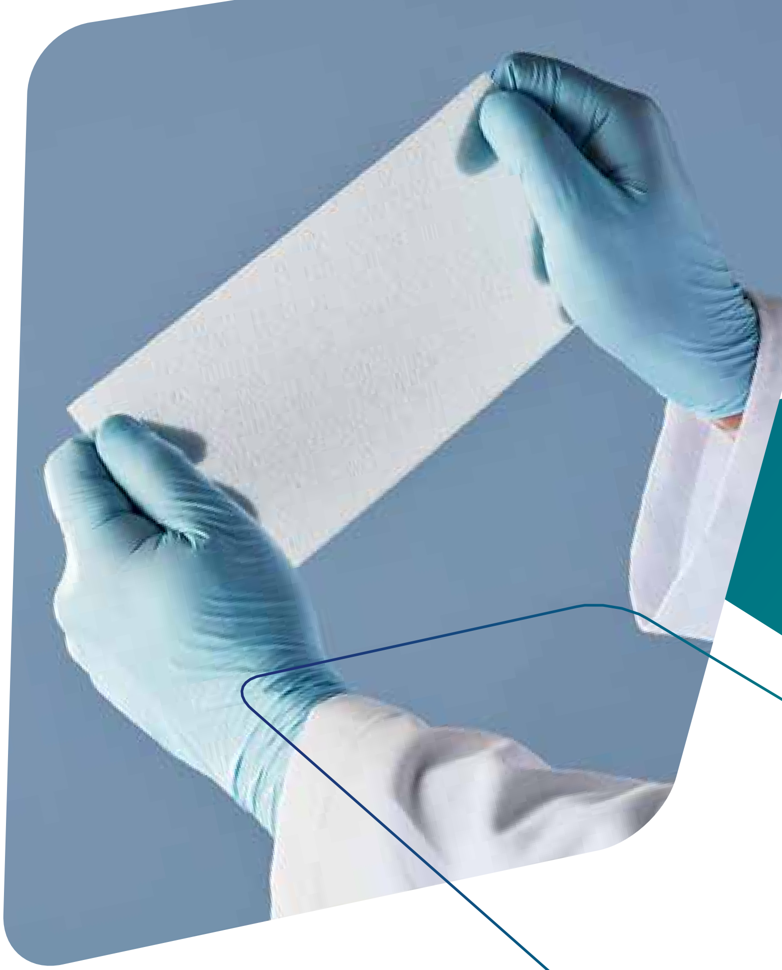
- Maintaining surgeon engagement in Australia, however we continue to see fluctuations in elective surgery rates due to lockdowns. Vaccination rates are increasing which should lead to relaxation of restrictions.

New Zealand

- Intermittent access to NZ from Australia, good digital engagement, good growth in sales and wide indications use.

EU

- Continued expansion in FY22. Virtual market support throughout FY21 however we see improving face to face access.



Forecasting revenue is more challenging due to COVID-19 but we have a well-established demand forecasting process in place. To counteract any demand planning and supply chain issues caused by COVID-19, stock levels in all direct markets have been increased and continue to be maintained at high levels.

Logistics costs have increased and we update our cash flow forecasts to include the impact of changes in costs. The Group has a level of discretion in managing cash outflows in response to changes to the impact of COVID-19.

A global COVID-safe plan has been implemented across the business in line with government guidelines to ensure the safety of staff and minimise business interruption. The Group will continue to monitor the impact of COVID-19 and adapt where required to ensure customer service is maintained, and business expansion plans are executed.

Significant Changes in the State of Affairs

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 2021.

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 Syntrel hernia devices leading to the filing of US FDA 510(K) March/April 2023
- Establish 20 US and 5 Canadian recruitment sites for the US pivotal burn trial
- Advance our new product pipeline with the addition of scientist and other resources
- Support the BetaCell expansion of NovoSorb BTM use as a dermal deposit for Type 1 diabetes
- Finalise recruitment of the next patient's cohort in the US DFU/VLU reimbursement trial
- Exploit our GPO/IDN agreements in the US to further accelerate sales revenue
- Establish a European warehousing and logistics hub with 3PL provider Movianto in Belgium which will enable customer order fulfilment from 1 September 2021.

Significant Events After the Balance Date

Trade finance facility was extended to 31 August 2021. The Directors are not aware of any other matters or circumstances since the end of the financial year other than those described above, nor otherwise dealt with in this report, which have significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Financial Results

PolyNovo Limited reported revenue for the year ended 30 June 2021 of $29,339,324 an increase of $7,110,823 from the prior year's $22,228,501. The net loss after tax (NLAT) of $4,605,032 for FY21 was an increase of $411,294 from the prior year's $4,193,738. Excluding non-cash items of share-based payments $2,626,897, unrealised forex loss $1,120,568, and depreciation & amortisation $1,116,323 the underlying net profit after tax is $258,756 (2020: loss $1,204,839).

Several factors contributed to the result as follows:

- Revenue from the sale of commercial products for FY21 increased by 34% to $25,507,859 from the prior year's $19,064,983.

DIRECTORS' REPORT CONTINUED

- Revenue from BARDA for FY21 increased by 18% to $3,650,065 from the prior year's $3,091,140. This increase is reflective of the commencement of the pivotal trial. Revenue is expected to increase in FY22 as patients are recruited into the Pivotal trial.
- Included in other income is payments from the Australian Government for COVID-19 assistance for $180,034.
- Employee related expenses increased by 29% to $19,376,331. This increase is due to share-based payments expense provided to key management personnel and headcount increase to drive growth primarily within sales, marketing, production, quality, and finance.
- Depreciation and amortisation increased by $126,165 attributable to property, plant and equipment acquired for the new manufacturing facility.
- Corporate, administrative, and overhead expenses increased by 29% to $8,068,493 reflecting the increased growth and activity in the business.

R&D Tax Incentives

During the 2021 financial year, the Company received a 38.5% non-refundable tax offset of $506,381 (non-cash) in relation to the FY20 R&D tax incentive scheme.

As the Company has exceeded the $20.0 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.

Closing share price

Date	$
30 June 2017	$0.21
30 June 2018	$0.54
30 June 2019	$1.54
30 June 2020	$2.54
30 June 2021	**$2.82**

A high of $4.01 was reached on 29 December 2020.

Loss Per Share

In Australian dollars $	Cents
Basic loss per share – cents	(0.69)
Diluted loss per share – cents	(0.69)

As the Group made a loss for the year ended 30 June 2021, 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.

As at 30 June 2021, there are 2,700,000 share options and 3,300,330 share awards unissued.

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 2021, 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.

Board and Committee Meetings

		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		11		2		3	
Mr David Williams	Non-Executive Director	11	11	-	-	3	3
Dr Robyn Elliott	Non-Executive Director	11	11	1	1	-	-
Ms Christine Emmanuel	Non-Executive Director	10	11	-	-	2	2
Dr David McQuillan	Non-Executive Director	11	11	-	-	-	-
Mr Leon Hoare*	Non-Executive Director	11	11	-	-	3	3
Mr Bruce Rathie**	Non-Executive Director	11	11	2	2	-	-
Mr Andrew Lumsden	Non-Executive Director	1	1	-	-	-	-
Mr Paul Brennan	Executive Director	11	11	-	-	-	-
Mr Max Johnston***	Non-Executive Director	4	4	1	1	-	-
Mr Philip Powell***	Non-Executive Director	4	4	1	1	-	-

* Mr Leon Hoare is Chair of the Remuneration Committee.
** Mr Bruce Rathie is Chair of the Audit Committee.
*** Mr Max Johnson and Mr Philip Powell resigned on 13 November 2020.

Directors' Shareholdings and Declared Interests

At 30 June 2021, the Directors of PolyNovo collectively hold 33,039,500 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	-	18,900,000
Mr Bruce Rathie	-	3,050,000
Dr David McQuillan	608,313	-
Mr Leon Hoare	-	1,180,220
Dr Robyn Elliott	-	-
Ms Christine Emmanuel	-	-
Mr Andrew Lumsden	-	-
Mr Paul Brennan	5,115,872	4,185,095
Total	5,724,185	27,315,315

As at 30 June 2021 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 2021 Annual Report. Further details of the equity interests of Directors can be found in the Remuneration Report.

Auditor

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

Non-audit Services

During the year ended 30 June 2021, 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.

Non-audit services	$
Tax compliance and corporate secretarial services	93,461

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 37.

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 our knowledge 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. We strive to improve on all aspects of our business year on year in line with our phase of commercial development.

Our Approach to ESG

PolyNovo acknowledges the importance of an integrated and consistent approach to Environmental, Social and Governance (ESG) risk factors across our business. We have added additional resources dedicated to delivering a holistic and integrated robust ESG framework and package.

Environment

PolyNovo acknowledges we have an important role in protecting the environment and recognises the contribution we can make towards transitioning to a low carbon economy. Our BTM manufacturing process is already low emitting, with approximately 560 grams of carbon emitted per batch.

We are currently in the process of gaining Climate Active Certification and will be developing a carbon reduction strategy upon achieving certification. PolyNovo is fully committed to achieving carbon neutral certification by the end of FY23.

PolyNovo only utilises environmentally certified commercial waste disposal providers, with minimal waste produced in our manufacturing process. To further improve our waste management processes, we have engaged a specialised third-party consultancy to develop a waste management and reduction plan in FY22.

We are committed to reducing our operational waste and water use. Our recycling programs will be further enhanced by the ongoing migration to paperless documentation systems in our business support functions.

PolyNovo's Environment Policy can be found on its website: https://polynovo.com/about-us/

Social

Our People

At PolyNovo, every employee plays a role in our success. Working together, we develop new opportunities for our customers and products, communities, and shareholders.

The company has a strong focus on learning and development. All staff at PolyNovo 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 for personal and professional growth. Training is achieved through targeted educational programs and mentorship from colleagues and managers.

“PolyNovo acknowledges the importance of an integrated and consistent approach to Environmental, Social and Governance (ESG) risk factors across our business.”

“PolyNovo is fully committed to achieving carbon neutral certification by the end of FY23.”

PolyNovo's Gender Diversity Profile

PolyNovo aims to provide an inclusive workplace where everyone is valued and treated with respect, without discrimination or bias. We have developed a company-wide Diversity Profile, which is actively monitored to ensure we are a leading example of a diverse organisation in the industry in which we operate. We celebrate religious and cultural events of our teams with learnings from these informing our international operations. Embracing our existing national and international diversity makes PolyNovo an interesting, exciting, and dynamic workplace where alternative thinking provides us with an innovative edge.

The following graphs and table highlight the proportion of women and men on the Board, in senior management positions as well as all employees across the whole organisation as of 13 August 2021.

Health & Safety

Safety is central to the responsible operation of our business, and the health and safety of our employees and contractors is our top priority. We maintain a strong focus on preventing injuries and continuously improving our practices.

Our Health & Safety Policy affirms our aspiration to avoid harm, empower our people to perform their tasks safely and responsibly, and continuously improve our performance.

In FY21, we started measuring our safety performance monthly to track progress and enable comparison with published industry data. Over the financial year reporting period, there was one (1) lost time injury and zero (0) medical treatment injuries to our employee and contractor workforce. The company Total Recordable Injury Frequency Rate (TRIFR) for this base year is 5.62. This number may appear high however it is a result of a small workforce that amplifies the ratio.

PolyNovo's Health & Safety Policy can be found on its website: https://polynovo.com/about-us/

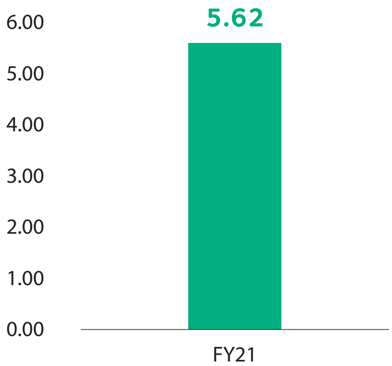
COVID-19

Our manufacturing operations continued as an "essential service" throughout the COVID-19 pandemic. Sales and account acquisition in FY21 was strong in all our direct markets. We continued to build inventories throughout lockdowns and successfully navigated logistical challenges to ensure ample stock was available for our customers.

With the safety of our personnel at the forefront, PolyNovo responded to COVID-19 dynamically, whilst simultaneously and successfully meeting customer demand, we expanded hygiene and safety measures, implemented 'work from home' arrangements and redesigned our office spaces to enable physical distancing.

Figure 2

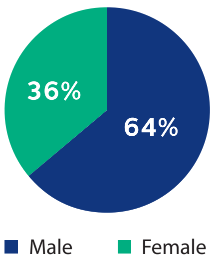
Total Recordable Injury Frequency Rate (TRIFR)



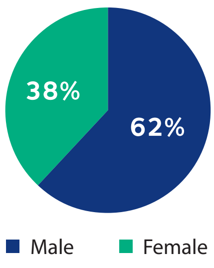
Total Recordable Injury Frequency Rate (TRIFR) is the rate of injuries resulting in a fatality, lost time from work of one day/shift or more, and medical treatment beyond first aid. Calculation method: TRIFR = (# Injuries) x (1,000,000) / (Hours Worked). Data is calculated over a rolling 12-month period of time.

Figure 1

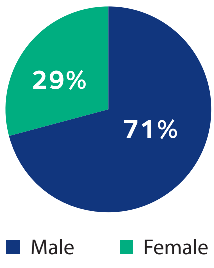
All Employees



Managers / Supervisors



Board of Directors



Total Staff by Dept	Staff #s	Female	Middle East / African	Hispanic	Asian	Female	Middle East / African	Hispanic	Asian
Sales	43	15	1	1	4	35%	2%	2%	9%
Marketing	9	4	1	0	1	44%	11%	0%	11%
Rest of Company	58	21	5	2	28	36%	9%	3%	48%
Total Staff	110	40	7	3	33	36%	6%	3%	30%
Managers/Supervisors	26	10	1	0	8	38%	4%	0%	31%
C Suite	4	0	0	0	0	0%	0%	0%	0%

ESG STATEMENT AND CORPORATE GOVERNANCE CONTINUED

Our Community

We support a number of charitable and community-based programs, whose principles align with PolyNovo's, including organisations that advance the lives of those in disadvantaged social situations.

An example of this engagement is our partnership with Angel Faces, a charity focused on the social and personal recovery of young women who have suffered burn injuries.

We are committed to engaging with research and clinical activities that advance the quality of life for those impacted by burn, trauma, and infectious diseases. We are proud to provide NovoSorb BTM at no-cost for surgical applications when surgeons are participating in charitable or out-reach programs.

Bioethics

PolyNovo is committed to upholding best-practice bioethics principles and conducts its operations in accordance with the highest standards of bioethics, including in the conduct of clinical trials.

PolyNovo only commissions animal testing where required for regulatory approval. Any necessary animal studies required are conducted externally through specialised providers and institutes, under ethics committee approval. Such studies meet audited GLP standards and have the appropriate level of oversight in place from health regulators, including the US Food and Drug Administration (FDA).

PolyNovo's Commercial Code of Conduct can be found on its website: https://polynovo.com/about-us/

Modern slavery

PolyNovo respects ethical labour practices and takes a zero-tolerance approach to any form of human rights abuses, including modern slavery in our operations and supply chains. We expect that all our employees, suppliers, subcontractors, and agents uphold these values.

PolyNovo has developed a Modern Slavery Statement that outlines our process for complying with local and international Modern Slavery laws. PolyNovo surveys suppliers for compliance to this policy and only sources materials from accredited manufacturers.

PolyNovo's Slavery Statement can be found on its website: https://polynovo.com/about-us/

Governance

PolyNovo recognises the importance of good corporate governance and the part it plays ensuring business is conducted honestly, fairly, and legally. PolyNovo is committed to adopting corporate governance policies to achieve the objectives of acting ethically and responsibly, safeguarding the integrity in corporate reporting, making timely and balance disclosures, and recognising and managing risk.

The Board of PolyNovo reviews its policies and governance practices in reference to the eight Principles of Good Corporate Governance (Principles) established by the ASX Corporate Governance Council. The policies and governance practices in place are listed under Principles of Good Corporate Governance below:

Figure 3

	Principle	PolyNovo Policy
1	Lay solid foundations for management and oversight	PolyNovo Board Charter
2	Structure the board to be effective and add value	PolyNovo Board Charter
3	Instil a culture of acting lawfully, ethically, and responsibly	Commercial Code of Conduct Whistle-blower Policy Gender Diversity Policy Share Trading Policy Environment Policy Modern Slavery Statement
4	Safeguard the integrity of corporate reports	Audit and Risk Committee Charter
5	Make timely and balanced disclosure	Market Disclosure Protocol
6	Respect the rights of security holders	Communications Policy
7	Recognise and manage risk	PolyNovo Risk Management Policy Health and Safety Policy
8	Remunerate fairly and responsibly	Remuneration and Nomination Committee Charter

PolyNovo's Corporate Governance Statement and policies can be found on its website https://polynovo.com/about-us/

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 2021

This Remuneration Report is audited. Variable pay arrangements to key management personnel are subject to the governance and approval of the Remuneration Committee. This Remuneration Report forms part of the Directors' Report and includes details of the Group's remuneration strategy and arrangements for the 2021 financial year.

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

Key management personnel

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

Non-executive Directors

- Mr David Williams – Non-executive Chairman
- Dr Robyn Elliott – Non-executive Director
- Ms Christine Emmanuel – Non-executive Director
- Mr Leon Hoare – Non-executive Director
- Mr Max Johnston – Non-executive Director (resigned 13 November 2020)
- Dr David McQuillan – Non-executive Director
- Mr Philip Powell – Non-executive Director (resigned 13 November 2020)
- Mr Bruce Rathie – Non-executive Director
- Mr Andrew Lumsden – Non-executive Director (appointed 4 June 2021)

Managing Director and Senior Managers

- Mr Paul Brennan – Managing Director
- Mr Jan Gielen – Chief Financial Officer/Company Secretary
- Dr Anthony Kaye – Chief Operating Officer (appointed 9 November 2020)

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 $850,000 (2020: $600,000).

Total Non-executive Directors' fees (including superannuation but excluding share-based payments and consulting fees) for the year ended 30 June 2021 were $511,409 (2020: $490,663). 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 achieving budgeted total group revenue and EBITDA and exceeding budgeted total group revenue and EBITDA by at least ten percent (10%). The maximum incentive is twenty percent (20%) of salary.

Mr Anthony Kaye is entitled for a bonus of $19,433 inclusive of superannuation during the financial year 2021 in relation to service performed in the financial year 2021.

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 2020, 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 key terms of his contract are as follows:

- a salary of $400,160 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 Long-term incentive plan and the fair value of awards 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 2020, 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 $210,000 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)

Mr Anthony Kaye was appointed COO on 9 November 2020.

His employment contract is aligned 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 $228,311 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 'COO 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.

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 hurdle for the share awards 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 $2,184,268 (2020: $1,633,713).

Amendment to Managing Director's Long Term Incentive (subject to shareholder approval)

The Group issued an ASX announcement on 7 July 2021 outlining the proposed modification to the MD's existing share awards addressing issues relating to the strike against the prior year's Remuneration Report. The modification is being taken to shareholders for approval at the upcoming AGM on 26 October 2021. Given shareholder approval for modification of the award has not yet been obtained, there has been no change to initial share award expense recognised in the period to 30 June 2021.

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 Jan 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 continuous 3 months.

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 option expense in the period was $nil, as the option expense fully incurred as at 30 June 2020.

REMUNERATION REPORT – AUDITED CONTINUED

COO Performance Incentives

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

On 9 November 2020, PolyNovo issued an options package comprising three tranches totalling 500,000 options to the COO, Mr Anthony Kaye. Details of the three tranches are set out below.

The vesting hurdle for the options is linked to Mr Anthony Kaye'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 $2.25 must be sustained over a period of at least continuous 3 months.

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

- Tranche 1: 150,000 options – not to be exercised before 9 November 2021 and not later than 31 December 2024;
- Tranche 2: 150,000 options – not to be exercised before 9 May 2022 and not later than 31 December 2024; and
- Tranche 3: 200,000 options – not to be exercised before 9 November 2022 and not later than 31 December 2024.

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

The exercise price is $2.25 per option tranche.

Once vested, sixty percent (60%) of the shares will be in escrow for a period of 12 months from date of issue and are restricted shares subject to rule 9 of the Employee Option Plan. The remaining forty percent (40%) are available immediately.

The fair value of the options relating to the incentive scheme shares was $418,450. The expense relating to the incentive scheme shares during the financial year was $211,660 (2020: $nil).

Remuneration of Key Management Personnel

Details of the remuneration for key management personnel for the years ended 30 June 2020 and 30 June 2021 are set out in Table A below.

		Short-Term				Post employment	Leave allowance		Share-based payments		
Table A		**Cash salary & fees $**	**Cash bonus $**	**Consulting fees $**	**Non-monetary benefits $**	**Superannuation $**	**Annual and long service leave $**	**Termination benefits $**	**Share options & share awards $**	**Total $**	**% Performance based**
Directors											
Mr David Williams (Chairman/ Non-Executive Director)	2020	84,133	–	–	–	7,993	–	–	–	92,126	–
	2021	100,457	–	–	–	9,410	–	–	–	109,867	–
Mr Bruce Rathie (Non-Executive Director)	2020	59,030	–	–	–	5,608	–	–	–	64,637	–
	2021	63,927	–	–	–	6,073	–	–	–	70,000	–
Dr David McQuillan (Non-Executive Director)[1]	2020	59,463	–	24,490	–	–	–	–	–	83,953	–
	2021	63,927	–	–	–	–	–	–	–	63,927	–
Mr Max Johnston (Non-Executive Director)[2]	2020	59,030	–	–	–	5,608	–	–	–	64,637	–
	2021	23,767	–	–	–	2,258	–	–	–	26,025	–
Mr Philip Powell (Non-Executive Director)[2]	2020	59,030	–	–	–	5,608	–	–	–	64,637	–
	2021	23,767	–	–	–	2,258	–	–	–	26,025	–
Mr Leon Hoare (Non-Executive Director)	2020	59,030	–	–	–	5,608	–	–	–	64,637	–
	2021	63,927	–	–	–	6,073	–	–	–	70,000	–
Ms Robyn Elliott (Non-Executive Director)	2020	42,651	–	–	–	4,052	–	–	–	46,703	–
	2021	63,927	–	–	–	6,073	–	–	–	70,000	–
Ms Christine Emmanuel (Non-Executive Director)	2020	8,523	–	–	–	810	–	–	–	9,333	–
	2021	63,927	–	–	–	6,073	–	–	–	70,000	–
Mr Andrew Lumsden[3] (Non-executive Director)	2020	–	–	–	–	–	–	–	–	–	–
	2021	5,081	–	–	–	483	–	–	–	5,564	–
Subtotal compensation for Directors	2020	430,889	–	24,490	–	35,285	–	–	–	490,663	–
	2021	472,708	–	–	–	38,701	–	–	–	511,409	–

REMUNERATION REPORT – AUDITED CONTINUED

		Short-Term				Post employ-ment	Long-term		Share-based pay-ments		
Table A (continued)		**Cash salary & fees $**	**Cash bonus $**	**Con-sulting fees $**	**Non-mone-tary benefits $**	**Super-annuat-ion $**	**Annual and long service $**	**Termin-ation benefits $**	**Options and Perfor-mance rights $**	**Total $**	**% Perfor-mance based**
KMP											
Key Management Personnel											
Mr Paul Brennan (MD)	2020	359,589	68,493	–	–	40,668	31,524	–	1,633,713	2,133,987	80%
	2021	**397,152**	**–**	**–**	**–**	**37,729**	**3,751**	**–**	**2,184,268**	**2,622,900**	**83%**
Mr Jan Gielen (CFO/Company Secretary)	2020	195,662	–	–	–	18,588	13,135	–	264,787	492,172	54%
	2021	**207,500**	**–**	**–**	**–**	**19,712**	**8,275**	**–**	**–**	**235,488**	**–**
Mr Ashok Srinivasan (COO)[4]	2020	69,231	–	–	–	6,577		3,741		79,549	–
	2021	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Mr Anthony Kaye[5] (COO)	2020	–	–		–	–	–	–	–	–	–
	2021	**147,231**	**19,433**	**–**	**–**	**13,987**	**6,688**	**–**	**211,660**	**398,999**	**53%**
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%
	2021	**751,883**	**19,433**	**–**	**–**	**71,429**	**18,713**	**–**	**2,395,928**	**3,257,387**	**74%**
Total compensation for all Key Management Personnel	2021	1,055,370	68,493	24,490	–	101,118	44,659	3,741	1,898,500	3,196,371	62%
	2021	**1,224,591**	**19,433**	**–**	**–**	**110,130**	**18,713**	**–**	**2,395,928**	**3,768,795**	**64%**

Notes

1. Mr 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. The consulting fees were excluded from the aggregate Directors' fee pool limit.
2. Mr Max Johnston and Mr Philip Powell resigned on 13 November 2020.
3. Mr Andrew Lumsden was appointed as Non-executive Director on 4 June 2021.
4. Mr Ashok Srinivasan resigned on 20 December 2019 and annual leave balance was paid on termination of employment.
5. Mr Anthony Kaye was appointed as Chief Operating Officer on 9 November 2020.

Share options and awards granted as part of remuneration

During the year ended 30 June 2021, 500,000 share options (2020: nil) and nil share awards (2020: 3,300,330) were granted, no share options and awards were cancelled (2020: nil), and no share options and awards were forfeited (2020: nil). The options issued are 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	Grant date	Grant number	Average fair value per option at grant date[1] $	Fair Value of options and awards granted during the year $	Number of shares and awards issued upon exercise of options	Value of options and awards exercised during the year[2] $	Value of shares received upon exercise of options and awards[3] $	Value of options and awards yet to be expensed $
Mr Paul Brennan								
Share awards	01/10/2019	1,100,110	0.514	–	–	–	–	213,789
Share awards	01/10/2019	1,100,110	0.493	–	–	–	–	205,054
Share awards	01/10/2019	1,100,110	0.475	–	–	–	–	654,264
Subtotal		3,300,330		–	–	–	–	1,073,107
Mr Jan Gielen								
Options	06/03/2019	300,000	0.236	–	300,000	543,000	723,000	–
Options	06/03/2019	300,000	0.311	–	–	–	–	–
Options	06/03/2019	400,000	0.394	–	–	–	–	–
Subtotal		1,000,000		–	300,000	543,000	723,000	–
Mr Anthony Kaye								
Options	09/08/2020	150,000	0.789	118,350	–	–	–	58,403
Options	09/08/2020	150,000	0.838	125,700	–	–	–	61,752
Options	09/08/2020	200,000	0.872	174,400	–	–	–	86,635
Subtotal		500,000		418,450	–	–	–	206,790
Total		4,800,330		418,450	300,000	543,000	723,000	1,279,898

Table B (continued)	Fair Value of options and awards included in remuneration during the year $	% compensation consisting of options and awards during the year %
Mr Paul Brennan		
Share awards	848,185	32%
Share awards	813,531	31%
Share awards	522,552	20%
Subtotal	2,184,268	83%
Mr Jan Gielen		
Options	–	–
Options	–	–
Options	–	–
Subtotal	–	–
Mr Anthony Kaye		
Options	59,947	24%
Options	63,948	26%
Options	87,765	36%
Subtotal	211,660	86%
	2,395,928	–

Note:
1. Determined at the time of grant per AASB 2. For details on the valuation of the options, including models and assumptions used, please refer to not 34.
2. Determined at the time of exercise at the intrinsic value. Exercise price was $0.6, market price was $2.41.
3. Determined at the time of exercise at the market value.
4. Nil options were forfeited or lapsed during the year. Refer to note 34.

Share options and awards granted in year ended 30 June 2020

The fair value of share awards 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 share awards included in remuneration during the year was $1,633,713. This represents 80% allocation to the year ended 30 June 2020 as the share awards have not yet vested.

Share options granted in year ended 30 June 2021

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 $211,660. This represents 86% allocation to the year ended 30 June 2021 as the options have not yet vested.

Share awards and options expiry dates

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

Other terms of the share awards 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 awards are available in the following year.
- Escrow period – once vested, fifty percent (50%) of the share awards 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.

Participant	Expiry 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 –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.

Participant	Expiry Date
Mr Anthony Kaye	
• Tranche 1	31 December 2024
• Tranche 2	31 December 2024
• Tranche 3	31 December 2024

Other terms of the share options include:

- Vesting hurdles – 12 months of employment with the Company.
- Exercise price – $2.25 per option tranche.
- Escrow period –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 remaining forty percent (40%) are available immediately.

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 2020[2]	Granted as compen-sation	On exercise of options	Net change other[1]	Balance at 30 June 2021	Balance at end of year – directly held	Balance at end of year – indirectly held
Directors							
Mr David Williams	18,000,000	–	–	900,000	18,900,000	–	18,900,000
Dr Robyn Elliott	–	–	–	–	–	–	–
Ms Christine Emmanuel	–	–	–	–	–	–	–
Mr Leon Hoare	1,280,220	–	–	(100,000)	1,180,220	–	1,180,220
Dr David McQuillan	608,313	–	–	–	608,313	608,313	–
Mr Bruce Rathie	3,605,555	–	–	(555,555)	3,050,000	–	3,050,000
Mr Andrew Lumsden	–	–	–	–	–	–	–
Other key management personnel							
Mr Paul Brennan	9,500,967	–	–	(200,000)	9,300,967	5,115,872	4,185,095
Mr Jan Gielen	–	–	300,000	–	300,000	300,000	–
Mr Anthony Kaye	–	–	–	–	–	–	–

Note:
1. 'Net Change Other' reflects shares privately acquired or disposed during the period.
2. Opening balance excludes shares held by closely related parties where there is no control or significant influence by the KMP.

Share options and awards of key management personnel

The share options, share awards and share holdings of key management personnel for the year ended 30 June 2021 are set out in the following table:

Table D	Balance at 1 July 2020	Granted as compen-sation	Options exercised	Balance at 30 June 2021	Total vested at end of year	Total exercisable at end of year	Total not exercisable at end of year	Total vested during year
Other Key Management Personnel								
Mr Paul Brennan	3,300,330	–	–	3,300,330	–	–	3,300,330	–
Mr Jan Gielen	1,000,000	–	300,000	700,000	700,000	–	700,000	–
Mr Anthony Kaye	–	500,000	–	500,000	–	–	500,000	–
Total	4,300,330	500,000	300,000	4,500,330	700,000	–	4,500,330	–

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 2021.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the Directors

Mr David Williams
Chairman

26 August 2021

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

Building a better working world

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 2021, 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

Ashley Butler
Partner
26 August 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2021

	Note	Consolidated 30 June 2021 $	Consolidated 30 June 2020 $
Revenue			
Revenue from contracts with customers	4	**29,157,924**	22,156,123
Research and development tax benefit	5	**–**	36,956
Interest income	6	**1,103**	35,311
Other income	7	**180,297**	111
		29,339,324	22,228,501
Expenses			
Changes in inventories of finished goods and work in progress		**(1,555,393)**	(1,703,521)
Employee-related expenses	8	**(19,376,331)**	(15,073,365)
Research and development expenses		**(3,647,424)**	(2,352,698)
Depreciation and amortisation expenses	9	**(920,684)**	(837,175)
Corporate, administrative and overhead expenses	10	**(8,068,493)**	(6,271,861)
Interest expense	11	**(321,403)**	(98,977)
Finance costs	22	**–**	(18,000)
Loss before income tax expense		**(4,550,404)**	(4,127,096)
Income tax expense	12	**(54,628)**	(66,642)
Loss after income tax expense for the year attributable to the owners of PolyNovo Limited		**(4,605,032)**	(4,193,738)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Gain/ (Loss) on translation of foreign operation		**338,156**	(152,132)
Other comprehensive income for the year, net of tax		**338,156**	(152,132)
Total comprehensive income for the year attributable to the owners of PolyNovo Limited		**(4,266,876)**	(4,345,870)

		Cents	Cents
Earnings per share for loss attributable to the owners of PolyNovo Limited			
Basic earnings per share	33	**(0.69)**	(0.63)
Diluted earnings per share	33	**(0.69)**	(0.63)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Note	Consolidated 30 June 2021 $	30 June 2020 $
Assets			
Current assets			
Cash and cash equivalents	13	7,688,554	11,647,701
Trade and other receivables	14	5,667,055	3,921,519
Contract cost assets	15	146,315	–
Inventories	16	1,959,835	1,217,042
Other financial assets	25	50,000	50,000
Prepayments	20	732,403	2,441,740
Total current assets		16,244,162	19,278,002
Non-current assets			
Contract cost assets	15	475,522	–
Property, plant and equipment	17	17,584,398	13,890,380
Right-of-use assets	18	2,238,759	2,646,521
Intangibles	19	1,652,320	1,900,168
Other assets	20	144,137	141,870
Total non-current assets		22,095,136	18,578,939
Total assets		38,339,298	37,856,941
Liabilities			
Current liabilities			
Trade and other payables	21	4,961,148	3,171,995
Interest-bearing loans and borrowings	22	2,525,006	5,304,372
Lease liability	18	350,368	323,876
Income tax payable	12	74,093	54,729
Provisions	23	739,010	608,722
Deferred tax liability		–	10,837
Total current liabilities		8,649,625	9,474,531
Non-current liabilities			
Interest-bearing loans and borrowings	22	5,058,338	1,983,494
Lease liability	18	2,063,331	2,420,058
Provisions	23	215,959	166,834
Total non-current liabilities		7,337,628	4,570,386
Total liabilities		15,987,253	14,044,917
Net assets		22,352,045	23,812,024
Equity			
Issued capital	24	139,250,502	139,070,502
Reserves	24	(1,637,216)	(4,602,269)
Accumulated losses	24	(115,261,241)	(110,656,209)
Total equity		22,352,045	23,812,024

The above statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2021

Consolidated	Contributed Equity $	Other Reserves $	Acquisition of Non-Controlling Interest Reserves $	Accumulated Losses $	Total equity $
Balance at 1 July 2019	139,070,502	2,782,047	(9,293,956)	(106,462,471)	26,096,122
Loss after income tax expense for the year	–	–	–	(4,193,738)	(4,193,738)
Other comprehensive income for the year, net of tax	–	(152,132)	–	–	(152,132)
Total comprehensive income for the year	–	(152,132)	–	(4,193,738)	(4,345,870)
Share-based payments (note 34)	–	2,061,772	–	–	2,061,772
Balance at 30 June 2020	139,070,502	4,691,687	(9,293,956)	(110,656,209)	23,812,024

Consolidated	Contributed Equity $	Other Reserves $	Acquisition of Non-Controlling Interest Reserves $	Accumulated Losses $	Total equity $
Balance at 1 July 2020	139,070,502	4,691,687	(9,293,956)	(110,656,209)	23,812,024
Loss after income tax expense for the year	–	–	–	(4,605,032)	(4,605,032)
Other comprehensive income for the year, net of tax	–	338,156	–	–	338,156
Total comprehensive income for the year	–	338,156	–	(4,605,032)	(4,266,876)
Exercise of options	180,000	–	–	–	180,000
Transactions with owners in their capacity as owners:					
Share-based payments (note 34)	–	2,626,897	–	–	2,626,897
Balance at 30 June 2021	139,250,502	7,656,740	(9,293,956)	(115,261,241)	22,352,045

The above statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2021

	Note	Consolidated 30 June 2021 $	30 June 2020 $
Cash flows from operating activities			
Receipts from customers		24,780,651	18,419,968
Receipts from BARDA reimbursements and advances		4,379,446	3,385,242
Receipts of research and development benefit		36,956	694,182
Receipts from royalty revenue		289	245
Payment of interest on borrowings		(211,916)	–
Payment of interest on lease liabilities		(98,771)	(98,977)
Payments to suppliers and employees		(29,136,876)	(22,827,983)
Net cash used in operating activities	13	(250,221)	(427,323)
Cash flows from investing activities			
Payments for property, plant and equipment	17	(3,568,717)	(8,869,219)
Interest received		1,484	24,759
Net cash used in investing activities		(3,567,233)	(8,844,460)
Cash flows from financing activities			
Proceeds from borrowings		7,253,987	7,287,866
Repayment of principal on borrowings		(7,141,826)	–
Repayment of principal on lease liabilities		(362,528)	(260,584)
Proceeds from the exercise of options		180,000	–
Net cash from/(used in) financing activities		(70,367)	7,027,282
Net decrease in cash and cash equivalents		(3,887,821)	(2,244,501)
Cash and cash equivalents at the beginning of the financial year		11,647,701	13,920,695
Effects of exchange rate changes on cash and cash equivalents		(71,326)	(28,493)
Cash and cash equivalents at the end of the financial year	13	7,688,554	11,647,701

The above statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2021

Note 1. Corporate Information

The Financial Report of Polynovo Limited (the Company) and its controlled entities (the Group) for the year ended 30 June 2021 was authorised for issue in accordance with a resolution of the Directors on 26 August 2021.

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, Ireland, Singapore and the USA.

Note 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 Australian 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 consolidated financial statements provide comparative information in respect of the previous period. Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

(b) Going concern

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, and the ongoing need to fund these activities through the Group's working capital movements, budgeted growth in sales and existing finance facilities. 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 a level of discretion in managing cash outflows in a response to changes of the impact of the pandemic, together with continuing to consider possible geographic licensing expansion and capital management strategies if required.

(c) 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 2020. Those Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective, have not been adopted.

(d) 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 disclosed in note 2 (v).

(e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2021. 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.

(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.

(g) Contract cost asset

A contract cost asset is the costs incurred in fulfilling a contract with a customer. The costs relate directly to a contract that the Group can specifically identify, enhance resources of the Group that will be used in satisfying performance obligations in the future and are expected to be recovered.

(h) 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).

(i) 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 19 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.

(j) 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.

(k) 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 2021. Information relating to this Plan is set out in note 34 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 34. 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

(l) 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.

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

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.

(m) Plant and equipment

Construction in progress is stated at cost, net of accumulated impairment losses. Plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses. 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

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 until there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

NOTES TO THE FINANCIAL STATEMENTS 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.

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 12.

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 34 and in the Remuneration Report.

Contract cost assets

Estimating the utilisation of contract cost assets requires selection of an appropriate amortisation method. The Group adopted straight line method to amortise contract cost assets over the period of the contract, consistently with the transfer of the services to which the asset relates. Further details on contract cost assets are disclosed in note 15.

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 19.

Expected Credit Loss

Estimating the expected credit loss (ECL) for trade receivables and BARDA income receivables requires selection of an appropriate method and significant judgement to determine the amount. The method applied categorises trade receivables and BARDA income receivables 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 14.

(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, Singapore dollars for Singapore entity, New Zealand dollars for New Zealand entity and Euro for European entities. 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) Security deposits

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

(ab) 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 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.

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 14.

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 include loans and borrowings and payables that are classified at fair value through profit or loss 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.

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 22.

Note 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 Consolidated Statement of Comprehensive Income and Consolidated 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 13% (2020: 14%) of total sales revenue from contracts with customers.

	Consolidated	
	30 June 2021 $	30 June 2020 $
Revenue from contracts with customers		
Geographical areas		
United States of America	24,323,537	18,665,595
Australia and New Zealand	3,243,920	2,822,146
Other countries	1,590,467	668,382
	29,157,924	22,156,123

	Consolidated	
	30 June 2021 $	30 June 2020 $
Non-current assets		
Geographical areas		
United States of America	500,612	722,817
Australia and New Zealand	21,569,409	15,930,338
Other countries	25,115	–
	22,095,136	16,653,155

Note 4. Revenue from contracts with customers

	Consolidated	
	30 June 2021 $	30 June 2020 $
BARDA revenue	3,650,065	3,091,140
Commercial product sales	25,507,859	19,064,983
	29,157,924	22,156,123

Note 5. Research and development tax benefit

	Consolidated	
	30 June 2021 $	30 June 2020 $
Research and development tax benefit	–	36,956

Research and development tax benefit was not refundable in FY2021, as the aggregated turnover of the Group exceeded $20 million. Receivable of $36,956 was recognised as other income in the Statement of Comprehensive Income in last financial year, as it related to financial year 2019.

Note 6. Interest income

	Consolidated	
	30 June 2021 $	30 June 2020 $
Term deposit interest	–	22,905
Bank account interest	974	10,067
Other	129	2,339
	1,103	35,311

Note 7. Other income

	Consolidated	
	30 June 2021 $	30 June 2020 $
Other income	180,297	111

During the year the Group received government support of $180,034 (2020: $nil) in response to COVID-19. The support was provided in the form of a cash flow boost to reduce cash liabilities and to assist with retaining employees during a period of economic uncertainty.

Note 8. Employee-related expenses

	Consolidated	
	30 June 2021 $	30 June 2020 $
Wages and salaries (including sales commission)	13,438,931	10,522,502
Superannuation	705,162	532,366
Share-based payments expense	2,626,897	2,061,772
Other	2,605,341	1,956,725
	19,376,331	15,073,365

Included in other employee related expenses are directors' fees of $520,738 (2020: $466,174), payroll taxes and employer contribution of $784,456 (2020: $515,073) and health insurance contribution of $422,982 (2020: $301,830).

Note 9. Depreciation and amortisation expenses

	Consolidated	
	30 June 2021 $	30 June 2020 $
Depreciation – property, plant and equipment	165,057	121,973
Depreciation – laboratory equipment	60,817	46,955
Depreciation – leasehold improvements	115,492	76,798
Subtotal	341,366	245,726
Depreciation – lease assets	331,470	343,601
Amortisation – intangible assets	247,848	247,848
	920,684	837,175

In addition to the depreciation and amortisation expenses listed above, depreciation relating to manufacturing of $195,639 ($127,061 for depreciation of fixed assets and $68,578 for depreciation of lease assets) is included in the cost of inventory. Total depreciation and amortisation expenses amount in FY21 is $1,116,323.

Refer to note 17 for property, plant and equipment reconciliation and note 18 for lease assets reconciliation.

Note 10. Corporate, administrative and overhead expenses

	Consolidated	
	30 June 2021 $	30 June 2020 $
Insurances	1,438,629	1,003,364
Accounting and audit fees	498,799	476,386
Investor relations and share registry expenses	473,763	459,685
Consultants and contractors	826,471	559,962
Communication expenses	292,173	191,002
Travel	617,034	1,320,545
Marketing costs	802,135	801,401
Realised foreign exchange (gain)/ loss	142,343	5,234
Unrealised foreign exchange (gain)/ loss	1,120,568	(63,031)
Other	1,856,578	1,517,313
	8,068,493	6,271,861

Included in other administrative expenses are software licences $144,124 (2020: $165,243), third party logistic fees $292,438 (2020: $279,258) and freight $597,063 (2020: $357,158).

Note 11. Interest expense

	Consolidated	
	30 June 2021 $	30 June 2020 $
Lease liability interest expenses	98,771	98,977
Loan facility interest expense	222,632	–
	321,403	98,977

The Group has lease contracts for various items of property, office equipment and lease equipment used in its operation. Further details on leases are disclosed in note 18.

The Group has secured two finance facilities, further details on loan facility are disclosed in note 22.

Note 12. Income tax expense

(a) Income tax expense

	Consolidated	
	30 June 2021 $	30 June 2020 $
Current income tax	54,628	66,642
Deferred income tax	–	–
Relating to origination and reversal of temporary differences	–	–
Aggregate income tax expense	54,628	66,642
Reconciliation of income tax expense to prima facie tax payable		
Loss before income tax expense	(4,550,404)	(4,127,096)
Tax at the statutory tax rate of 27.5%	(1,251,361)	(1,134,951)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Research and development	–	399,879
Non-assessable R&D income tax credit	(164,790)	(87,142)
Share-based payments	722,397	567,056
Meals and entertainment	22,612	–
Other	(54,256)	–
	(725,398)	(255,158)
Current year tax losses not recognised	459,752	476,670
Current year temporary differences not recognised	320,274	(154,870)
Income tax expense	54,628	66,642

(b) Deferred tax assets and liabilities

	Consolidated	
	30 June 2021 $	30 June 2020 $
Deferred tax assets	437,318	565,994
Deferred tax liabilities	(437,318)	(565,994)
	–	–
Deferred tax balance reflects temporary differences attributable to:		
Amounts recognised in profit and loss		
Recognised on temporary differences	(437,318)	(518,580)
Tax effect of new accounting standard changes	–	(47,414)
Amount recognized due to acquisition of PolyNovo (intangibles)	(437,318)	(565,994)
Net deferred tax assets/ (liabilities) as 30 June	–	–

(c) Deferred tax assets not brought to account

	Consolidated	
	30 June 2021 $	30 June 2020 $
Deferred tax assets not recognised		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Unrecognised, unconfirmed tax losses for which no deferred tax asset has been recognised	93,031,756	95,483,316
Deductible temporary differences – no deferred tax asset has been recognised	757,592	563,162
Unrecognised, unconfirmed R&D offsets for which no deferred tax asset has been recognised	1,083,147	–
Total	94,872,495	96,046,478

	Consolidated	
	30 June 2021 $	30 June 2020 $
Potential tax benefit at 27.5%	26,875,218	26,412,781

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 leases, 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.

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 2021 is contingent upon the following:

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

Given the Group's history of recent losses, 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.

(d) Current tax liability

	Consolidated	
	30 June 2021 $	30 June 2020 $
Provision for Income Tax	74,093	54,729

Note 13. Cash and cash equivalents

	Consolidated	
	30 June 2021 $	30 June 2020 $
Cash and cash equivalents are denominated in:		
Australian dollars	1,299,765	6,260,340
US dollars	5,585,170	5,291,876
NZ dollars	420,571	93,112
GBP	383,048	2,373
	7,688,554	11,647,701

(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 before income tax to net cash flow from operating activities

	Consolidated	
	30 June 2021 $	30 June 2020 $
Net loss	(4,550,404)	(4,193,738)
Adjustments for non-cash items:		
Depreciation and amortisation	1,116,323	837,175
Share-based payment expense	2,626,897	2,061,772
Finance cost	–	18,000
Interest	10,716	(35,311)
Loss on inventory write-off	56,606	87,722
Unrealised foreign exchange rate differences	711,087	152,132
Change in assets and liabilities during the financial year:		
(Increase)/decrease in trade receivables	(1,745,536)	(870,525)
(Increase)/decrease in prepayments	896,623	(347,668)
(Increase)/decrease in contract cost assets	(621,837)	–
(Increase)/decrease in inventory	(742,793)	(1,592)
(Increase)/decrease in other assets	(2,267)	28,897
Increase/(decrease) in payables	1,789,153	1,030,247
Increase/(decrease) in provisions	179,413	415,646
Increase/(decrease) in other liabilities	25,798	389,920
Net cash outflows from operating activities	(250,221)	(427,323)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 14. Trade and other receivables

	Consolidated	
	30 June 2021 $	30 June 2020 $
Trade receivables	5,022,587	2,901,346
R&D tax concession	–	36,956
BARDA Income Receivables	201,852	782,716
GST recoverable	–	179,386
Sundry receivables	442,564	20,785
Interest receivables	52	330
	5,667,055	3,921,519

Trade receivables 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.

Short-term deposits of $418,980 was recognised as sundry receivables during the period, including deposits for hernia packaging tools and other machines.

The changes in the balance of trade receivables and the information about the credit exposure are disclosed in note 25.

BARDA Income Receivables

BARDA income receivables 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 BARDA income receivables are reclassified to trade receivables. As at 30 June 2021, the Group has BARDA income receivables of $201,852 (2020: $782,716). Amounts are invoiced in the month following satisfaction of the performance obligation. There are no significant expected credit losses related to the BARDA income receivables. The Group has an agreement with BARDA to provide research and development services which was extended during the period 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 BARDA income receivables the Group has recognised $6,306 as at 30 June 2021 (2020: $40,412). $nil trade and other receivables were written off during the year.

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 BARDA income receivables using a provision matrix as at 30 June 2021:

	Trade and other receivables					
	Not due	June 1-30 Days	May 30-60 Days	Apr 60-90 Days	Mar+ 90+ Days	Total
Expected credit loss rate (average)	0%	0.57%	0.43%	1.42%	7.2%	
Gross carrying amount ($)	4,052,737	707,751	170,424	95,192	2,789	5,028,893
Expected credit loss ($)	–	(4,018)	(733)	(1,354)	(201)	(6,306)
Net balance ($)						5,022,587

Trade and other receivables which are not due as at 30 June 2021 was $4,052,737, which was not expected to have any credit loss. Trade receivables and BARDA income receivables due in less than 30 days and other financial assets have an expected credit loss which are not significant.

Note 15. Contract cost assets

	Consolidated	
	30 June 2021 $	30 June 2020 $
Contract cost assets (Current)	146,315	–
Contract cost assets (Non-current)	475,522	–
	621,837	–

In FY2021, the Group engaged subcontractor to fulfill specific performance obligations with regards to the Group's BARDA arrangement. The Group was required to prepay a specific amount to the subcontractor upfront to support the delivery of the Group's responsibility under the BARDA contract. Amortisation is calculated on a straight-line basis over the life of the contract.

Note 16. Inventories

	Consolidated	
	30 June 2021 $	30 June 2020 $
Raw materials	49,121	73,048
Work in progress	420,539	323,594
Finished goods	1,504,792	907,441
Provision for finished goods	(14,617)	(87,041)
Subtotal - finished goods	1,490,175	820,400
	1,959,835	1,217,042

The total of inventory is held at lower of cost or net realisable value (NRV). During the period, the loss on inventory write off was $1,160.

Note 17. Property, plant and equipment

Reconciliations of the carrying amount at the beginning and end of the current and previous financial year are set out below:

	Land and Buildings	Laboratory Plant & Equipment	Office Equipment	Leasehold Improve-ments	Construction in Progress	Total
As at 30 June 2021						
Cost	5,338,322	1,984,386	1,408,060	2,099,893	10,745,338	21,575,999
Accumulated depreciation	(212,536)	(1,447,365)	(670,588)	(1,661,112)	–	(3,991,601)
Carrying amount at 30 June 2021	5,125,786	537,021	737,472	438,781	10,745,338	17,584,398
Carrying amount at 1 July 2020	5,235,319	564,220	767,671	475,458	6,847,712	13,890,380
Additions (at cost)	–	113,363	148,324	16,598	3,897,626	4,175,910
Disposals (at cost)	–	–	–	–	–	–
Depreciation expense	(109,533)	(140,562)	(165,057)	(53,275)	–	(468,427)
Foreign exchange difference	–	–	(13,466)	–	–	(13,466)
Carrying amount at 30 June 2021	5,125,786	537,021	737,472	438,781	10,745,338	17,584,398

	Land and Buildings	Laboratory Plant & Equipment	Office Equipment	Leasehold Improve-ments	Construction in Progress	Total
As at 30 June 2020						
Cost	5,338,322	1,871,021	1,276,399	2,083,291	6,847,712	17,416,745
Accumulated depreciation	(103,003)	(1,306,801)	(508,728)	(1,607,833)	–	(3,526,365)
Carrying amount at 30 June 2020	5,235,319	564,220	767,671	475,458	6,847,712	13,890,380
Carrying amount at 1 July 2019	4,894,863	498,435	174,452	381,170	59,299	6,008,219
Additions (at cost)	443,459	198,411	713,692	140,511	6,788,413	8,284,486
Disposals (at cost)	–	(9,298)	–	–	–	(9,298)
Depreciation expense	(103,003)	(123,328)	(121,971)	(46,223)	–	(394,525)
Foreign exchange difference	–	–	1,498	–	–	1,498
Carrying amount at 30 June 2020	5,235,319	564,220	767,671	475,458	6,847,712	13,890,380

Note 18. Right-of-use assets

Group as a lessee

	Consolidated	
	30 June 2021 $	30 June 2020 $
Right-of-use assets (Non-current)	2,238,759	2,646,521

	Consolidated	
	30 June 2021 $	30 June 2020 $
Lease liability (Current)	350,368	323,876
Lease liability (Non-current)	2,063,331	2,420,058
	2,413,699	2,743,934

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.

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

Reconciliation of carrying amounts	Property $	Office Equipment $	Manufacturing Equipment $	Motor Vehicle $	Total $
Balance as at 1 July 2020	2,605,889	8,828	31,804	–	2,646,521
Additions	–	–	–	32,294	32,294
Depreciation expense	(372,622)	(7,563)	(12,714)	(7,149)	(400,048)
Exchange difference	(39,981)	–	–	(27)	(40,008)
Balance as at 30 June 2021	2,193,284	1,265	19,093	25,117	2,238,759

Reconciliation of carrying amounts	Property $	Office Equipment $	Manufacturing Equipment $	Motor Vehicle $	Total $
Transition adjustment t 1 July 2019	2,461,155	16,395	22,374	–	2,499,924
Additions	469,187	–	21,011	–	490,198
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.

	Consolidated	
	30 June 2021 $	30 June 2020 $
Depreciation expense of right-of-use assets	400,048	343,601
Interest expense on lease liabilities	98,771	98,977
Total amount recognised in profit or loss	498,819	442,578

The Group had total cash outflows for leases of $461,299 (2020: $359,561).

Group as Lessor

The Group has not entered into any leases as lessor.

Note 19. Intangibles

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 2021.

	Consolidated	
	30 June 2021 $	30 June 2020 $
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	(619,620)	(371,772)
Amortisation for the year	(247,848)	(247,848)
Closing balance	(867,468)	(619,620)
Net book value	1,652,320	1,900,168

Note 20. Other assets

	Consolidated	
	30 June 2021 $	30 June 2020 $
Security deposits	144,137	141,870

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

The current prepayment relates predominantly to prepaid insurance $335,144 (2020: $283,621).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 21. Trade and other payables

	Consolidated	
	30 June 2021 $	30 June 2020 $
Trade payables	1,814,219	1,611,945
Other payables	3,146,929	1,560,050
	4,961,148	3,171,995

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

Included in other payables are deferred income on upfront fees paid under BARDA contract of $857,006 (2020: $nil), accrued commission of $460,539 (2020: $514,009), accrued other liabilities of $410,015 (2020: $265,643). BARDA contract liability will be recognised over the period of the contract. Revenue recognised in FY21 was $85,936 in relation to the BARDA contract deferred income.

Note 22. Interest-bearing loans and borrowings

	Consolidated	
	30 June 2021 $	30 June 2020 $
Current		
Equipment Finance	1,466,246	495,873
Trade Finance	1,058,760	4,808,499
Total current interest-bearing loans and borrowings	2,525,006	5,304,372
Non-Current		
Equipment Finance	5,058,338	1,983,494
Trade Finance	–	–
Total non-current interest-bearing loans and borrowings	5,058,338	1,983,494

(a) Interest bearing facility details

The Group had secured two finance facilities in FY20 with National Australia Bank (NAB). The facilities detailed below are used to fund capital expenditure items.

	Facility Amount $	Interest rate $	Repayment Terms	Maturity Date**	Interest amount during the period $
Financing Facilities					
Trade finance*	6,000,000	BBSY+1.7	Interest only	31 July 2021	67,105
Equipment finance*	9,300,000	2.82%	5 years principal and interest from initial drawdown	June-Dec 2025	155,527
Total	15,300,000				222,632

* Drawdown on the facilities commenced in late June 2020, therefore no interest has been paid nor has any interest expense been accrued in FY20. Finance cost of $18,000 incurred in FY20 to set up the loan facilities.

** In July 2021, the Trade finance facility was extended to 31 August 2021.

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 $6.0 million and was made available on the 22 May 2020. The facility limit reduced to $1.0 million on 30 September 2020 and the facility was extended to 31 August 2021. The facility will be closed on this date. The limit reduction to $1.0 million 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. The facility is non-revolving. In FY21, a total of $7,253,987 has been drawn down.

Repayments are made over 5 years and comprise of principal and interest. The facility currently attracts an interest rate of 2.82% 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.

Note 23. Provisions

	Consolidated	
	30 June 2021 $	30 June 2020 $
Current provisions		
Annual leave	654,364	530,973
Long service leave	84,646	77,749
Total current provisions	739,010	608,722
Non-current provisions		
Long service leave	140,959	91,834
Make good	75,000	75,000
Total non-current provisions	215,959	166,834

Provisions are recognised when all three of the following conditions are met:

- The Group has a present or constructive obligation arising from a past transaction or event
- It is probable that an outflow of resources will be required to settle the obligation
- A reliable estimate can be made of the obligation

Provisions recognised reflect our best estimate of the expenditure required to settle the present obligation at the reporting date.

Note 24. Reserves

(a) Movement in contributed equity

	Consolidated	
	30 June 2021 $	30 June 2020 $
Contributed equity at beginning of year	139,070,502	139,070,502
Exercise of options	180,000	–
Contributed equity at end of year	139,250,502	139,070,502
Number of shares authorized and fully paid		
On issue at beginning of year	661,088,044	661,088,044
Exercise of options	300,000	–
On issue at end of year	661,388,044	661,088,044

(b) Reserves

	Consolidated	
	30 June 2021 $	30 June 2020 $
Share-based payments reserve (i)	7,846,655	5,219,758
Foreign currency translation reserve (ii)	(189,915)	(528,071)
Acquisition of non-controlling interest reserve (iii)	(9,293,956)	(9,293,956)
Balance at end of period	**(1,637,216)**	(4,602,269)

	Consolidated	
	30 June 2021 $	30 June 2020 $
(i) Share-based payments reserve		
Balance at beginning of year	5,219,758	3,157,986
Share-based payments movement	2,626,897	2,061,772
Balance at end of year	**7,846,655**	5,219,758

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

	Consolidated	
	30 June 2021 $	30 June 2020 $
(ii) Foreign currency translation reserve		
Opening balance	(528,071)	(375,939)
Translation of foreign operations	338,156	(152,132)
Balance at end of period	**(189,915)**	(528,071)

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.

	Consolidated	
	30 June 2021 $	30 June 2020 $
(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

	Consolidated	
	30 June 2021 $	30 June 2020 $
Accumulated losses at beginning of year	(110,656,209)	(106,462,471)
Net loss attributable to members of the parent	(4,605,032)	(4,193,738)
Accumulated losses at end of financial year	**(115,261,241)**	(110,656,209)

Note 25. 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.

	Consolidated	
	30 June 2021 $	30 June 2020 $
Cash and cash equivalents	7,688,554	11,647,701
Trade and other receivables	5,225,292	3,921,519
Other financial assets[1]	50,000	50,000
Trade and other payables	(3,611,201)	(3,171,995)
Lease liabilities	(2,413,700)	(2,743,934)
Trade finance facility	(1,058,760)	(4,808,499)
Equipment finance facility	(6,524,584)	(2,479,367)

1. As at t 30 June 2021 $50,000 is held in a term deposit maturing on 16 March 2022 at an interest rate of 0.36%.

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

(e) Financial risk management

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

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

Interest rate risk

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

The Group is exposed to interest rate risks in relation to its holdings in cash and cash equivalents 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 2021, along with prior year comparatives, was as follows:

2021	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	0.05%	7,688,554	–	–	–	–	–	7,688,554
Other financial assets	0.36%	–	–	50,000	–	–	–	50,000
Trade and other receivables		–	–	–	–	–	5,225,292	5,225,292
Total financial assets		7,688,554	–	50,000	–	–	5,225,292	12,963,846
Financial liabilities								
Trade and other payables		–	–	–	–	–	3,611,201	3,611,201
Trade Finance Facility	BBSY+1.7%	1,058,760	–	–	–	–	–	1,058,760
Equipment Finance Facility	2.82%	6,524,584	–	–	–	–	–	6,524,584
Leases liabilities	3.90%	2,413,700	–	–	–	–	–	2,413,700
Total financial liabilities		9,997,044	–	–	–	–	3,611,201	13,608,245

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
Equipment Finance Facility		7,287,866	–	–	–	–	3,171,995	10,459,861

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) 2021 $	Loss (higher)/lower Equity higher/(lower) 2020 $
+0.5% (50 basis points)	38,943	58,239
-0.5% (50 basis points)	(38,943)	(58,239)

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. BARDA income receivables have low credit risk as it is a project with USA government.

In 2021, 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+ days $	Total $
2021					
Trade and other receivables	4,959,176	169,690	93,838	2,588	5,225,292

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 2021	Less than 3 months $	3 to 12 months $	1 to 5 years $	over 5 years $	Total $
Interest-bearing loans and borrowings[1]	1,421,199	1,103,807	5,058,338	–	7,583,344
Lease Liabilities	86,624	263,744	1,206,118	857,214	2,413,700
Trade and other payables	3,611,201	–	–	–	3,611,201
	5,119,024	1,367,551	6,264,456	857,214	13,608,245

Year ended 30 June 2020	Less than 3 months $	3 to 12 months $	1 to 5 years $	over 5 years $	Total $
Interest-bearing loans and borrowings[1]	4,808,499	495,873	1,983,494	–	7,287,866
Lease Liabilities	104,219	319,831	1,869,319	906,590	3,199,959
Trade and other Payables	3,121,925	–	–	–	3,121,925
	8,034,643	815,704	3,852,813	906,590	13,609,750

* Interest-bearing loans and borrowings include Trade finance loan facility ($1,058,760) and Equipment finance loan facility ($6,524,584).

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, GBP and EURO. The Group receives payment from its overseas customers in USD, NZD, GBP and EURO and pays US, NZD, GBP, SGD and EURO trade payables from its 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. The Company had opened a EURO and GBP bank account to mitigate foreign currency exposure and will open a SGD bank account in near future.

The holdings of cash and cash equivalents, trade receivables and trade payables analysed by nominated currency at 30 June 2021, along with prior year comparatives, were as follows.

2021	Denominated in AUD $	Denominated in USD $	Denominated in NZD $	Denominated in GBP $	Denominated in EUROP $	Denominated in SGD $	Total $
Financial assets							
Cash and cash equivalents	1,349,765	5,585,170	420,571	383,048	–	–	7,738,554
Trade and receivables	1,389,545	3,476,854	156,176	48,560	105,016	49,141	5,225,292
Total financial assets	2,739,310	9,062,024	576,747	431,608	105,016	49,141	12,963,846
Financial liabilities							
Trade and other payables	(1,670,994)	(1,725,514)	(64,409)	(87,634)	(20,012)	(42,638)	(3,611,201)
Total financial liabilities	(1,670,994)	(1,725,514)	(64,409)	(87,634)	(20,012)	(42,638)	3,611,201
Total headroom/ (shortfall)	1,068,316	7,336,510	512,338	343,974	85,004	6,503	9,352,645

2020	Denominated in AUD $	Denominated in USD $	Denominated in NZD $	Denominated in GBP $	Denominated in EURO $	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 headroom/ (shortfall)	4,699,842	7,295,904	83,685	336,229	(7,427)	(11,008)	12,397,225

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 2021) with all other variables held constant would have the following effect on the loss and equity for the 2021 financial year for the Group:

Country	$	
United States of America	(361,849)	Unfavourable
United Kingdom	(92,195)	Unfavourable
New Zealand	25,870	Favourable
Singapore	(19,409)	Unfavourable
Ireland	(2,372)	Unfavourable
Total	(449,955)	

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

Note 26. Key management personnel disclosures

(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 2021 and 2020 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

	Consolidated	
	30 June 2021 $	30 June 2020 $
Short term	1,244,024	1,148,354
Post-employment – superannuation	110,130	101,118
Leave allowances	18,713	44,659
Share-based payments	2,395,928	1,898,500
Termination benefits	–	3,741
	3,768,795	3,196,372

(c) Interests held by key management personnel

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

Issue date	Expiry date	Exercise price	2021 number outstanding	2020 number outstanding
Jan Gielen				
01/10/2019	30/06/2021	$0.60	–	300,000
01/10/2019	30/06/2022	$0.60	300,000	300,000
01/10/2019	30/06/2023	$0.60	400,000	400,000
			700,000	1,000,000
Paul Brennan				
06/03/2019	30/06/2023	–	1,100,110	1,100,110
06/03/2019	30/06/2023	–	1,100,110	1,100,110
06/03/2019	30/06/2023	–	1,100,110	1,100,110
			3,300,330	3,300,330
Anthony Kaye				
09/08/2020	31/12/2024	$2.25	150,000	150,000
09/08/2020	31/12/2024	$2.25	150,000	150,000
09/08/2020	31/12/2024	$2.25	200,000	200,000
			500,000	500,000
			4,500,330	4,800,330

(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 2021 as follows:

- David McQuillan and Associates LLC, an entity associated with Dr David McQuillan, provided consulting service to PolyNovo North America LLC in last financial year. The consulting service was in relation to advisory and consulting services for the hernia project and it was completed in this financial year, $nil was charged in this financial year (2020: $24,490).

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

Note 27. 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:

During the financial year the following fees were paid or payable for services provided by Ernst & Young, the auditor of the company, and its network firms:

	Consolidated	
	30 June 2021 $	30 June 2020 $
Fees to Ernst & Young (Australia)		
Audit or review of the financial statements	231,650	171,401
Fees for other services:		
• Tax compliance	35,010	22,000
Fees for assurance services that are required by legislation to be provided by the auditor	–	–
Fees for other assurance and agreed-upon-procedures services under other legislation or contractual arrangements where there is discretion as to whether the service is provided by the auditor or another firm	–	–
	35,010	22,000
Total fees to Ernst & Young (Australia)	266,660	193,401
Fees to other overseas member firm of Ernst & Young (Australia)		
Audit or review of the financial statements	19,825	10,395
Other services:		
• Tax compliance and secretarial support	93,461	186,693
Fees for assurance services that are required by legislation to be provided by the auditor	–	–
Fees for other assurance and agreed-upon-procedures services under other legislation or contractual arrangements where there is discretion as to whether the service is provided by the auditor or another firm	–	–
	93,461	186,693
Total fees to overseas member firms of Ernst & Young (Australia)	113,286	197,088

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.

Note 28. 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 $386,801 will be paid accordingly during FY22.

Contingencies

The Directors are not aware of any other contingent liabilities or contingent assets at 30 June 2021. There has been no change in this assessment up to the date of this report.

Note 29. Related party transactions

Related party transactions are disclosed under note 26 Key management personnel.

Note 30. Parent entity information

	Parent	
	30 June 2021 $	30 June 2020 $
Loss after income tax	(4,231,283)	(3,435,457)
Total comprehensive income	(4,231,283)	(3,435,457)

Statement of financial position

	Parent	
	30 June 2021 $	30 June 2020 $
Total current assets	47,751,864	47,527,016
Total assets	53,783,437	53,558,589
Total current liabilities	4,516,166	2,689,410
Total liabilities	4,516,166	2,689,410
Equity		
Issued capital	139,250,502	139,070,502
General reserve	1,882,436	(744,462)
Accumulated losses	(91,865,667)	(87,456,861)
Total equity	49,267,271	50,869,179

In accordance with the terms and conditions of the NAB facility arrangements disclosed in note 22, 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.

Note 31. Controlled Entities

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

		Ownership interest	
Name	Principal place of business / Country of incorporation	30 June 2021 %	30 June 2020 %
PolyNovo Limited	Australia	100.00%	100.00%
PolyNovo North America LLC	United States	100.00%	100.00%
PolyNovo Biomaterials Pty Ltd	Australia	100.00%	100.00%
NovoSkin Pty Ltd	Australia	100.00%	100.00%
NovoWound Pty Ltd	Australia	100.00%	100.00%
PolyNovo NZ Limited	New Zealand	100.00%	100.00%
PolyNovo Singapore Private Ltd	Singapore	100.00%	100.00%
PolyNovo UK Limited	United Kingdom	100.00%	100.00%
PolyNovo Ireland Ltd	Ireland	100.00%	–

Note 32. Events after the reporting period

In July 2021, the trade financial facility was extended to 31 August 2021. The Group is in the process of drawing down on the equipment facility to close out the trade finance facility. Details refer to note 22.

Other than above, no matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 33. Earnings per share

	Consolidated	
	30 June 2021 $	30 June 2020 $
Loss after income tax attributable to the owners of PolyNovo Limited	(4,605,032)	(4,193,738)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	661,189,962	661,088,044
Adjustments for calculation of diluted earnings per share:		
Unexercised share options and awards	2,193,151	2,700,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	663,383,113	663,788,044
	Cents	Cents
Basic earnings per share	(0.69)	(0.63)
Diluted earnings per share	(0.69)	(0.63)

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of PolyNovo Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

At 30 June 2021 there existed share options that if vested, would result in the issue of additional ordinary shares over the period to FY2026. 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.

Between the reporting date and the issue date of the 30 June 2021 Financial Report, there have been no transactions involving ordinary shares or potential ordinary shares that would impact the calculation of EPS disclosed in the table above.

Note 34. 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 2021 and 30 June 2020 were $2,626,897 and $2,061,772 respectively.

(b) Share-based payments for the year ended 30 June 2021

During the 2021 financial year, 1,000,000 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 9 November 2020, the Company granted employee share options to the Chief Operating Officer, Mr Anthony Kaye. He was granted 500,000 options exercisable at $2.25. The options vest upon 12 months of employment with the Company and a share price of $2.25 being sustained over a period of at least 3 months. Once vested, the options can be exercised as follows:

- Tranche 1: 150,000 options – not to be exercised before 9 November 2021 and not later than 31 December 2024;
- Tranche 2: 150,000 options – not to be exercised before 9 May 2022 and not later than 31 December 2024; and
- Tranche 3: 200,000 options – not to be exercised before 9 November 2022 and not later than 31 December 2024.

The options package will expire on 31 December 2024. The expense relating to the options package during the year was $211,660. Any unvested options will be cancelled on the date of termination or cessation of employment.

On 10 May 2021, the Company granted employee share options to the Director of Research and Development, Mr Joshua Cheetham. He was granted 500,000 options exercisable at $2.74. The options vest upon 12 months of employment with the Company and a share price of $2.74 being sustained over a period of at least 3 months. Once vested, the options can be exercised as follows:

- Tranche 1: 150,000 options – not to be exercised before 10 May 2022 and not later than 30 May 2026;
- Tranche 2: 150,000 options – not to be exercised before 10 November 2022 and not later than 30 May 2026; and
- Tranche 3: 200,000 options – not to be exercised before 10 May 2023 and not later than 30 May 2026.

The options package will expire on 30 May 2026. The expense in relation to the options package during the year was $42,380. Any unvested options will be cancelled on the date of termination or cessation of employment.

2021	Balance at 1 July 2020	Granted as compen-sation	Options exercised	Balance at 30 June 2021	Total vested at end of year	Total not exercisable at end of year	Total vested during year	Share-based payments expense $
Key management personnel								
Mr Paul Brennan	3,300,330	–	–	**3,300,330**	–	3,300,330	–	2,184,268
Mr Jan Gielen	1,000,000	–	300,000	**700,000**	700,000	700,000	–	–
Mr Anthony Kaye	–	500,000	–	**500,000**	–	500,000	–	211,660
	4,300,330	500,000	300,000	**4,500,330**	700,000	4,500,330	–	2,395,928
Other employees								
Mr Ed Graubart	1,000,000	–	–	**1,000,000**	–	1,000,000	–	188,589
Mr Joshua Cheetham	–	500,000	–	**500,000**	–	500,000	–	42,380
	1,000,000	500,000	–	**1,500,000**	–	1,500,000	–	230,969
Total	5,300,330	1,000,000	300,000	**6,000,330**	700,000	6,000,330	–	2,626,897

The fair value of options granted during FY21, 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

Anthony Kaye

Grant date	Number of options	Exercise Price	Vesting hurdle	Risk-free interest rate	Volatility	Expiry	Dividend yield	Average fair value per option
09/11/2020	500,000	$2.25	12 months service period and 3 months share price exceeds $2.25	T1 0.30%	55.15%	31 Dec 2024	–	$0.789
				T2 0.30%	55.15%	31 Dec 2024	–	$0.838
				T3 0.30%	55.15%	31 Dec 2024	–	$0.872

Joshua Cheetham

Grant Date	Number of options	Exercise Price	Vesting hurdle	Risk-free interest rate	Volatility	Expiry	Dividend yield	Average fair value per option
10/05/2021	500,000	$2.74	12 months service period and 3 months share price exceeds $2.74	T1 0.80%	54.23%	30 May 2026	–	$0.779
				T2 0.80%	54.23%	30 May 2026	–	$0.863
				T3 0.80%	54.23%	30 May 2026	–	$0.954

Key valuation assumptions for the Employee Share Options:

Parameters	Assumptions
Valuation date	Grant Date.
Share price	Closing share price as at the valuation Date.
Expected life	Assumed that the 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 characteristics 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 price 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.

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

During the 2020 financial year, 4,300,330 share options and awards 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 share awards at $3.03. The share awards 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 share awards package will expire on 30 June 2023. The expense in relation to the share awards 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.

2020	Balance at 1 July 2019	Granted as compen-sation	Options exercised	Balance at 30 June 2020	Total vested at end of year	Total not exercis-able at end of year	Total vested during year	Share-based payments 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
	1,000,000	4,300,330	–	5,300,330	1,000,000	5,300,330	1,000,000	2,061,772

Options issued during financial year 2020

Grant date	Number of options	Exercise price	Vesting hurdle	Risk-free interest rate	Volatility	Expiry	Dividend yield	Average fair value per option
13/08/2019	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

DIRECTORS' DECLARATION
30 June 2021

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 2021 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 2021.

On behalf of the directors

Mr David Williams
Chairman

26 August 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF POLYNOVO LIMITED

Building a better working world

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

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

Independent Auditor's Report to the Members of PolyNovo Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of PolyNovo Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2021, 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 2021 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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Going concern basis of preparation of financial statements

Why significant	How our audit addressed the key audit matter
As described in Note 2 of the financial report, the financial statements have been prepared on a going concern basis. The Group incurred a loss of $4.3 million during the year and had net operating cash outflows of $0.3 million. It is anticipated that further investment will be incurred by the Group in its planned growth and ongoing product commercialisation over the next 12 months. The Group's forecast growth in revenues and cash inflows may be impacted by COVID-19 differently in each of the geographies it operates within, which could impact on the Group's ability to pay its debts and obligations as they fall due. The Directors have considered existing cash and working capital balances, available current financing facilities, and forecasts of future cash flows for a period of at least 12 months from the date of the financial report. The Cash flow forecasts involve judgements and estimations based on management's view of business operations, expected growth and market conditions. Assessing the appropriateness of the Group's basis of preparation of the financial statements on a going concern basis required judgement in assessing the Group's forecast cashflows for a period of at least 12 months from the date of the audit report. The availability of sufficient cash flows and/or funding is critical to the ongoing viability of the business and, as such, was a significant aspect of our audit.	Our audit considered the requirements of Australian Auditing Standard ASA 570 *Going Concern*. Our audit procedures included but were not limited to: ► Obtained and evaluated management's assessment of the Group's ability to continue as a going concern, including the related forecast cash flows for the 12 month period ending 31 August 2022 including all relevant information based on our knowledge of the Group as a result of our audit. ► Reviewed the financial condition of the Group taking into consideration the debts on the statement of financial position at year end and the Group's ability to settle its debts as and when they become due. ► Assessed the forecast cash flow assumptions based on historical results, current economic and industry indicators, publicly available information and the Group's strategic plans. This included assumptions in relation to customer sales values and retention rates, cashflow saving initiatives including deferral of identified projects and growth rates. ► Reviewed relevant external information to assess a range of possible scenarios, including those associated with the impact of COVID-19 in the different geographies the Group operates within. ► Obtained evidence with respect to the Group's forecast modelling including support for customer growth, sales ordering, current and recent sales run rates and identified cash savings. ► Inquired of management as to whether they are aware of any events or conditions through to the date of our audit report that may cast significant doubt on the entity's ability to continue as a going concern. ► Assessed the appropriateness of the Groups' going concern basis of preparation disclosures for financial statements for consistency with Australian Accounting Standards.

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 activities. For sales of commercial products, revenue is recognised upon delivery of the product to the customer. The Group sells to customers in various geographic territories. Commercial product sales have significantly increased this financial year. Services revenue is recognised as the services are delivered.	Our audit procedures with respect to the Group's revenue recognition included: ► Assessed new contracts with customers for terms and conditions that could impact the timing of recognition and measurement of revenue. ► Assessed the operating effectiveness of the Group's revenue controls by testing a sample of controls with respect to the initiation and recording of commercial sales transactions.

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Recognition of revenue (continued)

Why significant	How our audit addressed the key audit matter
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 volumes and customer arrangements entered into by the Group.	► Assessed on a sample basis, whether revenue was correctly recognised based on the products delivered as at 30 June 2021 with reference to supporting documentation including contracts, purchase orders proof of delivery, cash receipts and credit notes. ► Assessed the Group's performance obligations under the services contracts to check that revenue is recognised only for services provided during the year and at the contracted rate. ► Assessed whether the Company's revenue disclosures as outlined in Notes 2, 3 and 4 are complete and meet the requirements of Australian Accounting Standards.

Existence and valuation of inventory

Why significant	How our audit addressed the key audit matter
At 30 June 2021, the Group held inventory of $1.98 million which comprised raw materials, work in progress and finished goods. The disclosure in respect of inventory is included in note 16 of the financial statements. 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 including overheads and, where applicable, capitalisable manufacturing variances. The net realisable value of the inventory is assessed at year end considering sale price of product, 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: ► Attended inventory counts that occurred at the year end, reperforming a sample of 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 the US third-party logistics provider inventory count. However, we observed the inventory counts using video streaming and other technologies. ► Assessed that the nature of costs included in inventory, including allocations of labour and manufacturing overheads, were consistent with the requirements of Australian Accounting Standards. ► Agreed, on a sample basis, the amount of costs capitalised into inventory to supporting documentation. ► Assessed and recalculated the Group's manufacturing variances. ► Assessed inventory net realisable values with reference to the ageing of inventory, expiry dates, gross margins achieved, sales forecasts and outcomes of quality assessments. ► Assessed whether the Group's disclosures in respect of inventory in the financial statements are complete and meet the requirements of Australian Accounting Standards.

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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 2021 annual report other than the financial report and our auditor's report thereon. We obtained the directors' report that is to be included in the annual report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the annual report after the date of this auditor's report.

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 on the other information obtained prior to the date of this auditor's report, 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.

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.

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- 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.

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Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 26 to 36 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of PolyNovo Limited for the year ended 30 June 2021, 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

Ashley Butler
Partner
Melbourne
26 August 2021

SHAREHOLDER INFORMATION

30 June 2021

Additional Information Required by ASX

For the year ended 30 June 2021.

Ordinary Shares

As at 13 August 2021 there were 661,388,044 ordinary shares on issue held by 21,588 shareholders.

Each ordinary share carries one vote per share.

Top 20 Shareholders as at 13 August 2021

Shareholder	Number of shares	% Units
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	86,192,215	13.03
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	41,780,382	6.32
CITICORP NOMINEES PTY LIMITED	27,212,802	4.11
MOGGS CREEK PTY LTD <MOGGS CREEK SUPER A/C>	17,800,000	2.69
NATIONAL NOMINEES LIMITED	16,084,276	2.43
LATERAL INNOVATIONS PTY LTD <TRUST A/C>	10,924,103	1.65
MR ANTHONY SHANE KITTEL + MRS MICHELE THERESE KITTEL <KITTEL FAMILY SUPER A/C>	7,960,000	1.20
BNP PARIBAS NOMS PTY LTD <DRP>	7,944,172	1.20
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	6,340,183	0.96
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	5,300,974	0.80
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>	4,019,409	0.61
BNP PARIBAS NOMINEES PTY LTD SIX SIS LTD <DRP A/C>	3,397,939	0.51
SANDHURST TRUSTEES LTD <ENDEAVOR ASSET MGMT MDA A/C>	3,374,840	0.51
MR PAUL LAPPIN + MRS SIOBHAN LYONS <LAPPIN SUPER FUND A/C>	3,154,631	0.48
MR DAVID KENLEY	3,139,855	0.47
DR MARCUS JAMES DERMOT WAGSTAFF + MRS LARA KATE WAGSTAFF	3,056,377	0.46
MR LAURENT FOSSAERT	3,014,172	0.46
Total	263,147,770	39.77

Unquoted Securities

Share options over unissued shares

As at 30 June 2021, a total of 2,700,000 share options over ordinary shares are on issue held by four employees. Share options do not carry a right to vote.

PolyNovo issued 1,000,000 share options during the year ended 30 June 2021. Details of the share options issued are included in note 34.

Share awards over unissued shares

As at 30 June 2021, a total of 3,300,330 share awards over ordinary shares are on issue held by Managing Director. Share awards do not carry a right to vote.

PolyNovo issued nil share awards during the year ended 30 June 2021. Details of the share awards issued are included in note 34.

SHAREHOLDER INFORMATION CONTINUED

The range of shareholders based on number of shares held as at 13 August 2021 is as follows:

Range of Units As at 13 August 2021	Number of holders	Number of shares
1 to 1,000	6,561	3,564,131
1,001 to 5,000	7,628	20,981,275
5,001 to 10,000	2,849	22,488,472
10,001 to 100,000	3,873	119,542,035
100,001 and over	677	494,812,131
	21,588	661,388,044

Holding less than a marketable parcel	1,113	152,765

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 Shareholder

	Number of shares	%
HSBC Custody Nominees (Australia) Limited	86,192,215	13.03
JP Morgan Nominees Australia Pty Ltd	41,780,382	6.32
	127,972,597	19.35

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

30 June 2021

Non-executive Chairman	Mr David Williams
Non-executive Directors	Dr Robyn Elliott Ms Christine Emmanuel Mr Leon Hoare Dr David McQuillan Mr Bruce Rathie Mr Andrew Lumsden
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 register	Computershare Investor Services Pty Ltd Yarra Falls 452 Johnson Street Abbotsford, Victoria 3067 T 1300 850 505
Auditor	Ernst & Young 8 Exhibition St Melbourne Victoria 3000
Stock exchange listing	PolyNovo Limited shares are listed on the Australian Securities Exchange (ASX code: PNV)
Website	www.polynovo.com

PolyNovo®

Improving outcomes.
Changing lives.

2/320 Lorimer Street
Port Melbourne
Victoria Australia 3207

T +613 8681 4050
F +613 8681 4099

polynovo.com