2023 Reports

Announcement of Full-Year Results

Appendix 4E

Chairman and CEO Report

Directors' Report

Financial Statements

PolyNovo Limited
ABN 96 083 866 862
23 August 2023

PolyNovo Limited
ABN 96 083 866 862

2/320 Lorimer Street
Port Melbourne
VIC Australia 3207

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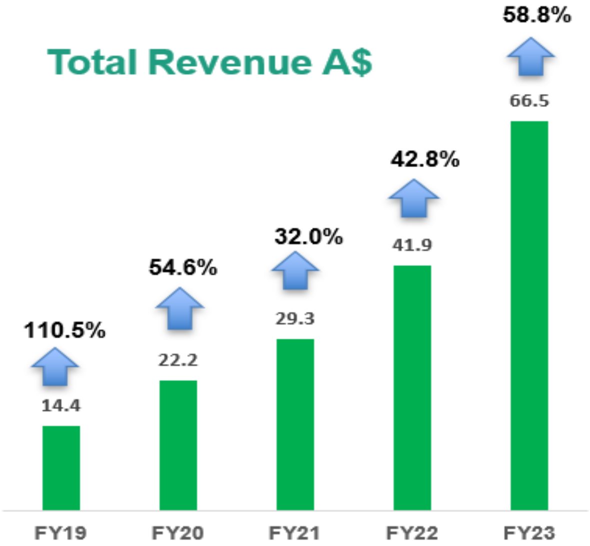
23 August 2023

ASX Announcement

FY23 Results

The company is pleased to report revenue growth of **58.8%** and strong sales growth of **58.3%.**



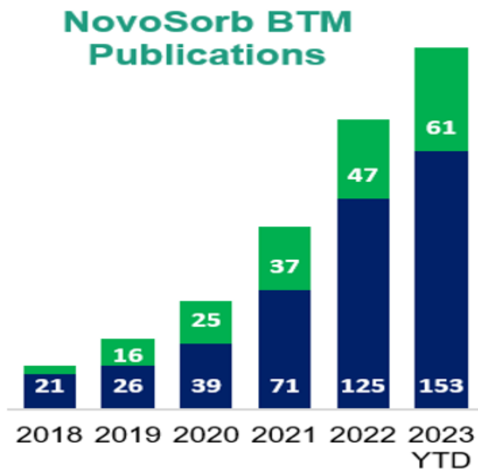
- Total revenue including BARDA of **A$66.5m up 58.8% on prior year of A$41.9m**
- Strong growth in U.S. achieving sales of **A$46.1m up 44.6% on prior year of A$31.9m**
- ROW sales of **A$13.5m up by 133.9% on prior year A$5.8m**

The Group recorded a net loss after tax of **A$4.93m** (2022: $1.19m loss). The loss in the prior year FY22 included the reversal of A$4.7m in share-based payments from the forfeiture by the previous CEO and COO on their resignations. The underlying net loss after tax excluding non-cash items is **A$2.32m** (2022: $2.00m loss).

At year end the business had **A$46.8m** cash on hand.

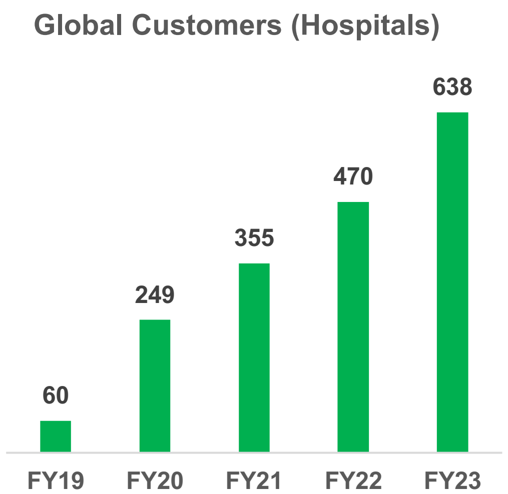
Excellent sales growth can be explained by the genius technology that is NovoSorb BTM and NovoSorb MTX, and by an increased sales force and geographical expansion. However unprompted surgeon engagement around the world in trialing the product, and publishing and presenting their results and developing new uses for the product has been amazing. The table below provides a small snapshot of clinician engagement with the technology.

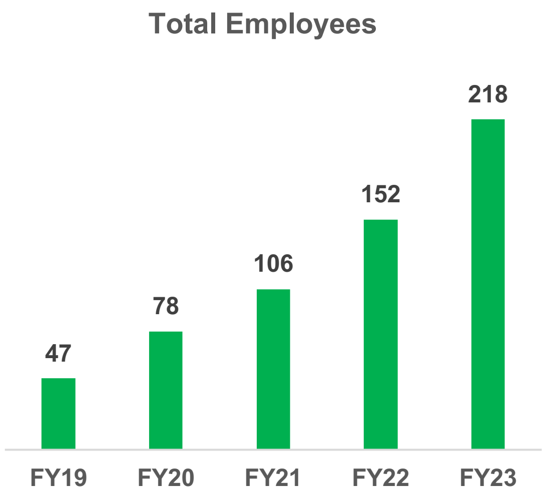
Improving outcomes. Changing lives.



The Company's other key initiatives and achievements include:

- First $7 million sales month in May 2023 (May 2022: $3.3 million), Total Revenue $8.3m in May 2023
- $53m capital raising
- 510(k) clearance from the FDA for NovoSorb MTX and saw first sales to plastics and reconstruction
- Entered Hong Kong, India, and Canada markets and saw early sales
- Grew the U.S. team from 54 to 93 and increased U.S. customer accounts from 189 to 299 hospitals
- In our direct markets including the U.S., we increased our customer accounts from 470 to 638
- Increased staff worldwide from 152 to 218
- Enrolled 64 patients into the U.S. BARDA pivotal burns study (53%)
- Enrolled 25 patients into the U.S. DFU Chronic Wound study for health insurance reimbursement (18%)
- Enrolled 35 patients into the chronic wound study with Flinders University South Australia (55%)
- Leased an adjacent property in Port Melbourne to significantly increase manufacturing capacity
- Awarded Victorian Government grant for manufacturing Diabetic Foot Ulcer product (NovoSorb SynPath)





FY24 and Beyond

More sales staff, more hospitals, use in new indications, entering new geographies, new regulatory approvals, new products, and a continuation of surgeon led research and publications. Profit.

Further information:

David Williams
Chairman
Mobile: + 61 414 383 593

Swami Raote
CEO
Mobile: +1 904 314 6346

About PolyNovo®

PolyNovo is a disruptive medical device company, focused on Advanced Wound Care. The Company designs, develops, and manufactures dermal regeneration solutions (NovoSorb BTM, NovoSorb MTX) using its patented NovoSorb biodegradable polymer technology. Our development program covers Breast Sling, Hernia, and Orthopaedic applications. For further information see polynovo.com

About NovoSorb®

NovoSorb® BTM is a dermal scaffold for the regeneration of the dermis when lost through surgery, trauma, burn or other causes of tissue loss. NovoSorb® is a novel range of bio-resorbable polymers that can be produced in many formats including film, fibre, foam, and coatings. NovoSorb's unique properties provide excellent biocompatibility, control over physical properties, and a programmable bio-resorption profile.

PolyNovo Limited
Contents
30 June 2023

PolyNovo Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	PolyNovo Limited
ABN:	96 083 866 862
Reporting period:	For the year ended 30 June 2023
Previous period:	For the year ended 30 June 2022

2. Results for announcement to the market

				$
Revenues from ordinary activities	up	58.8%	to	66,535,017
Loss from ordinary activities after tax attributable to the owners of PolyNovo Limited	up	312.9%	to	(4,924,539)
Loss for the year attributable to the owners of PolyNovo Limited	up	312.9%	to	(4,924,539)

Dividends
There were no dividends paid, recommended or declared during the current financial period.

Comments
The loss for the consolidated entity after providing for income tax amounted to $4,924,539 (30 June 2022: loss of $1,192,532).

3. Net tangible assets

	Reporting period $	Previous period $
Net tangible assets per ordinary security	0.09	0.02

Net tangible assets are defined as the net assets of the Group less intangible assets and right-of-use assets.

4. Dividends

Current period
There were no dividends paid, recommended or declared during the current financial period.

Previous period
There were no dividends paid, recommended or declared during the previous financial period.

5. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements have been audited and an unmodified opinion has been issued.

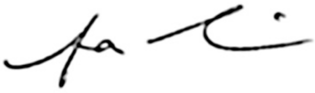
6. Attachments

Details of attachments (if any):

The Financial Report of PolyNovo Limited for the year ended 30 June 2023 is attached.

PolyNovo Limited
Appendix 4E
Preliminary final report

7. Signed



Signed ______________________________ Date: 23 August 2023

Jan Gielen
Company Secretary

Chairman and CEO Report

Dear Shareholders,

Sales growth and geographical market penetration reflect an acknowledgement that NovoSorb BTM and NovoSorb MTX are being accepted by surgeons as the *next generation dermal substitute*. Consequently, and more significantly the technology is changing the way in which many indications are treated by clinicians.

The PolyNovo team is proud to receive surgeon acceptance and recognition that NovoSorb BTM is a *robust*, *versatile* medical device, delivering *superior* outcomes with lower operational complexity and cost. Unprompted, more surgeons are writing about the product in journals and presenting their experiences at conferences. Many of these clinicians have identified other patient needs that would benefit from NovoSorb BTM or NovoSorb MTX. Underneath this surgeon engagement is the knowledge that patient lives are being changed for good.

In FY23 sales growth in our direct markets accelerated through the year and across all geographies. We had a stand-out result in May 2023, when our monthly sales exceeded A$7 million and total revenue exceeded A$8 million. Monthly sales will always be lumpy, but the sales graphs show exceptional growth over the medium term.

Group Performance

Global NovoSorb BTM sales of $59.6m were up 58.3% on the prior year. The U.S. market was up 44.6% in AUD and the Rest of World (ROW) was up 133.9% vs. prior year. Australia increased sales by 84.3%, UKI 168.8% and distributors in the EU particularly Germany grew by 192.8% vs. prior year. These results demonstrate the efforts of our commercial teams but also the ingenuity of clinicians who are driving innovation, new applications, and the education of their colleagues.

Total revenue of $66.5m was up 58.8% on the prior year which includes revenue from the BARDA pivotal trial. With 64 enrolled patients, we have crossed an important mid-point in the trial.

Net loss after tax excluding non-cash items was $2.3m, up 16.0% on the prior year $2.0m loss.

Executing on Strategic Plan

NovoSorb BTM has the ability to temporise and heal deep dermal burns and various other types of tissue loss comprehensively. PolyNovo is well known in burn procedures and has the proven ability to leverage that reputation into acute care. However, over time clinicians and their ingenuity has taken us to many new places – plastic and reconstruction surgeries associated with trauma, vascular, diabetic foot and pressure ulcers, oncological and other complex wound reconstructions. Our NovoSorb MTX product received 510(k) FDA approval during the year and already has good support from surgeons.

The core NovoSorb technology can support other clinical needs and we are open to partners to help co-develop, commercialise or distribute new products. Building successful partnerships will help PolyNovo reach many more patients sooner than we could do alone.

During the year, we launched our products in Hong Kong, Canada, India, Spain, and France. We are excited about each of these jurisdictions for different reasons. Hong Kong as a precursor to a China entry, India to prove we can satisfy the economics of developing markets and to contribute to the BARDA trial, etc. We have experienced early and impressive sales in new markets. Other markets like China and Japan are on our radar.

Employees increased from 152 to 218. We have continued to increase the sales teams in established markets particularly the U.S. whilst onboarding sales professionals in the newly entered markets of Hong Kong and India. We have invested in building our clinical capabilities and R&D teams to gain insights, evidence and build new solutions for clinicians and patients.

Our second manufacturing facility, adjacent to the current facility was commissioned and operational in May 2023. The capital raising of $53 million in November 2022 allows us to take this further, with a new co-located manufacturing facility currently being designed and estimated to be operational in Q1 FY26. The new facility will service an additional A$500 million in revenue, approximately 5 times current production volumes.

Outlook

We ended the year 30 June 2023 with $46.8 million cash, putting us in a strong position to fuel global expansion.

In FY24 we expect to see strong revenue growth in direct markets particularly the U.S., UKI and ANZ, India, and Hong Kong. We also expect our key distributor markets of Germany and Canada will continue to perform well, and that of our recently appointed distributors in Spain and France will experience early sales.

Further applications for FDA 510(k) clearances are expected in FY24 allowing expansion of our NovoSorb MTX and BTM product portfolio.

Clinical trials are progressing well, and the BARDA pivotal burns trial recently passed the mid-way point of 60 patients. 64 patients have been enrolled and we expect recruitment to be completed in FY24. A chronic wound study comparing the use of NovoSorb BTM combined with negative pressure wound therapy to clinical standard of care has enrolled 35 out of 64 patients and recruitment is expected to be completed in late CY 2023. The NovoSorb SynPath randomised control trial of 138 patients is being reviewed to make sure the Mode of Action of SynPath is not compromised by the study design and the device is working effectively. 25 patients have been enrolled so far.

Closing

We would like to thank our shareholders for their continued support and confidence. We would also like to thank the clinicians for their input and support. Lastly, we would like to thank our team around the world for their hard work and enthusiasm.

David Williams
Chairman

Swami Raote
Chief Executive Officer

We are excited about the year ahead but below we catalogue some of our achievements in FY23.

- Annual NovoSorb BTM revenue growth of 58.3%
- Annual U.S. revenue growth in $AUD of 44.6%
- Annual ROW revenue growth in $AUD of 133.9%
- First $7 million sales month in May 2023 (May 2022: $3.3 million)
- Completion of $53,000,000 capital raising
- Received for 510(k) clearance from the FDA for NovoSorb MTX
- Successfully entered Hong Kong, India, and Canadian markets
- Grew the U.S. team from 54 to 93 and increased the U.S. customer accounts from 189 to 299 hospitals
- In our direct markets including the U.S., we increased our customer accounts from 470 to 638 hospitals
- Increased staff from 152 to 218
- Enrolled 64 patients into the U.S. BARDA pivotal burns study (53%)
- Enrolled 25 patients into the U.S. DFU Chronic Wound study for health insurance reimbursement (18%)
- Enrolled 35 patients into the chronic wound study with Flinders University South Australia (55%)
- Leased an adjacent property in Port Melbourne to significantly increase manufacturing capacity
- Awarded Victorian Government grant for manufacturing Diabetic Foot Ulcer product (NovoSorb SynPath)

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 2023 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 experience advising ASX-listed companies in the food, medical device, and pharmaceutical sectors. Mr Williams is currently Chairman of RMA Global Ltd (ASX: RMY) and is Managing Director of corporate advisory firm Kidder Williams. Mr Williams is the Chair of the PolyNovo Remuneration Committee.

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 Global Head, Strategic Portfolio Management at CSL Behring, a role that is responsible for governance oversight and business value delivery from a multi-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. Dr Elliott is a member of the Audit and Risk Committee.

Ms Christine Emmanuel-Donnelly
BSc (Hons) Chemistry, MSc Enterprise,
FIPTA, MAICD
Non-executive Director

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

Mr Leon Hoare
GradDipBus, AssocDipAppSc (Orth), 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 (as one of three Regional Presidents). 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 the Board of Australia's peak medical device industry body, Medical Technology Association of Australia. He is currently a Non-Executive Director of Medical Developments International Ltd (ASX: MVP). Mr Hoare is a member of the PolyNovo Remuneration Committee.

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 Chief Executive Officer of Wellcom Worldwide Australasia having previously held the roles of Group Chief Financial Officer and Group Chief Operating Officer. Prior to joining Wellcom, Mr Lumsden was a Senior Manager within the Audit and Assurance practice of PricewaterhouseCoopers. Mr Lumsden is the Chair of the Audit and Risk Committee.

Mr Bruce Rathie
B. Comm, LLB, MBA, FIML, 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. During the period he was Chairman of Capricorn Mutual Limited, Chairman of ASX listed CleanSpace Holdings Limited (ASX:CSX) and a Non-executive Director of ASX listed Cettire Limited (ASX:CTT) and Capricorn Society 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 Rathie is a member of the Audit and Risk Committee.

Mr Swami Raote
B. Pharmacy, MBA
Chief Executive Officer

Mr Raote was appointed Chief Executive Officer of PolyNovo Limited on 29 July 2022. Mr Raote held the position of Worldwide President, Vision Care from 2017 to 2021, a division of Johnson & Johnson the world's largest medical, pharmaceutical and consumer healthcare company, where Mr Raote had a 30-year career. From 2014 to 2016 Mr Raote served a dual role as the Area Vice President, Medical Devices for North Asia and Vice President for Ethicon, Asia Pacific. From 2009 to 2014 Mr Raote served in a variety of roles across India for Johnson & Johnson including Managing Director for Janssen India and Area Managing Director ASEAN and India. Mr Raote was also President Director in Indonesia from 2004 to 2008. Mr Raote's early career included leadership roles across Johnson & Johnson Asia Pacific in sales, marketing, supply chain, finance, and IT. Mr Raote is currently a Non-executive Director of EOS Vision in China and holds several advisory roles to private and government institutions.

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, locally and internationally. Mr Gielen has extensive experience in CFO and Finance Director roles for fast growing PE and VC backed businesses and played an important part in expanding these businesses globally, both from a financial and operational perspective. Mr Gielen had a long involvement from inception with ICIX, a leading SaaS platform supporting global retailers and manufacturers where he served as Finance Director in Silicon Valley. Mr Gielen's most recent role was CFO of CardioScan for 6 years, Australia's largest cardiac reporting provider, which during his tenure expanded to HK, Singapore & North America.

Mr Philip Scorgie
Master, Bus Inf Tech
Chief Information Officer

Mr Scorgie joined PolyNovo Limited as Chief Information Officer on the 22 May 2023. Mr Scorgie holds a Master's degree in Business Information Technology from Swinburne University and is a Non-executive Director of Wallara, a disability service provider that focusses on empowering individuals with different abilities. Mr Scorgie held the position of Global Chief Information Officer in Chicago at the top 20 global law firm, Mayer Brown from 2012 – 2016. Before working for PolyNovo Limited Mr Scorgie was an independent consultant involved in strategic technology consulting, providing valuable guidance to diverse businesses ranging from local manufacturing companies to international banking and commercial law firms. Mr Scorgie has extensive experience in a wide range of technology industries across the globe including Germany, South Africa and Hong Kong. Mr Scorgie was the Regional Chief Information Officer at Deacons in Hong Kong from 1997 – 2005.

Dr David McQuillan
BSc (Hons) Biochemistry, PhD Biochemisty
Chief Technical and Scientific Officer

Dr McQuillan was appointed a Director of PolyNovo on 6 August 2012. He resigned as Non-Executive Director and was appointed as Chief Technical and Scientific Officer on 1 September 2022. He has extensive technical, medical, scientific, and regulatory knowledge. 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.

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 of 30 June 2023, PolyNovo Limited had ten 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, PolyNovo Ireland Ltd, PolyNovo Biomaterials India Private Ltd, and PolyNovo Hong Kong 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.

Principal Activities and Operations

PolyNovo's principal activity is the development of innovative medical devices for 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 numerous patents all fully owned by PolyNovo. PolyNovo has no royalty or licence obligations to any other parties. Below is a summary of PolyNovo's lead projects.

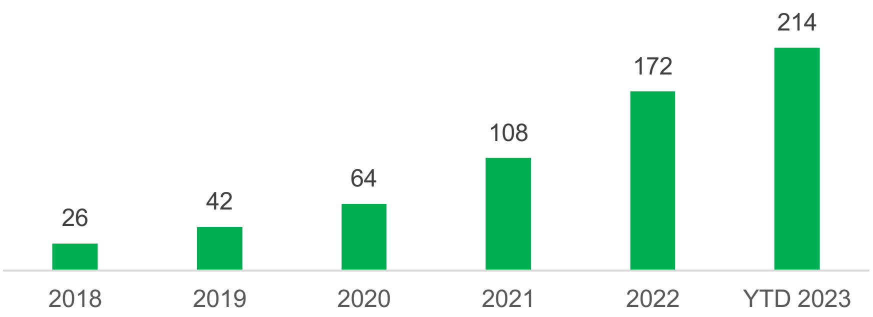
NovoSorb BTM
NovoSorb Biodegradable Temporising Matrix (BTM) is used in a fully debrided clean surgical wound to physiologically 'close the wound'. With the BTM scaffold in place, the dermal layer is regenerated within the scaffold. Once fully integrated, the outer layer of BTM is delaminated and the wound closes through secondary intention (smaller wounds) or with the application of a split skin graft.

NovoSorb BTM is sold directly by PolyNovo salesforce Australia, Hong Kong, India, Ireland, New Zealand, Singapore, United Kingdom, and the United States. PolyNovo utilises distributors for sales in Canada, the EU, Taiwan, and South Africa. The Company is working on obtaining regulatory approvals in other markets to quickly expand our geographical footprint.

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

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.

Table 1: NovoSorb BTM Publication Growth



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

The company is currently working on expanding the BTM product range of products. An additional 510(k) submission to further support the BTM range will be submitted to the FDA later in 2023. Additional 510(k) submissions are planned for 2024.

NovoSorb BTM indication for full thickness burns
NovoSorb BTM is indicated for full thickness/ third degree burns in markets outside of the U.S. Full thickness burns treatment for a U.S. FDA regulatory 'indication' requires additional clinical evidence (trials). A pivotal trial is in progress and funded by BARDA. Successful completion of this trial will enable PolyNovo to file a PMA application for full thickness burn use and may lead to BARDA stockpiling NovoSorb BTM for disaster management.

USA Burns Pivotal Trial – BARDA
PolyNovo's 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 announced the result for this trial on 21 April 2020.

PolyNovo completed a 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. The contract is a cost-plus monthly reimbursement arrangement. PolyNovo will also contribute to the trial through provision of product, employee resources and infrastructure support. The first patient was enrolled into the trial in September 2021, and we are currently recruiting patients through 21 U.S. burn centres and 1 site in Canada. We are in the process of enrolling an additional 5 U.S. sites, 4 Canadian sites and 3 Indian sites to participate in the trial. Currently, 64 patients have been enrolled into the study out of a target 120, and we expect the recruitment to be completed in FY24. Successful completion of the pivotal trial will lead to a PMA application with the U.S. FDA and the use of the BTM scaffold in full thickness acute burns.

Dr Marcus Wagstaff is 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 Blome Eberwein, Lehigh Valley, are the co-principal investigators for the pivotal trial study.

NovoSorb BTM already has the CE Mark, a requirement for the EU market, which includes an indication for use in full thickness burns as well as other surgical wounds and reconstructive procedures.

Regulatory update for NovoSorb BTM

Registrations & Certifications

NovoSorb BTM Medical Device Licence was issued in October 2022 by Health Canada in Canada.

NovoSorb MTX 510(k) clearance issued September 2022 by FDA in U.S.

EU MDR and UK K-CA submissions for NovoSorb BTM are currently under full technical review.

Registrations are under review for Bolivia and Ecuador for NovoSorb BTM and we are in the initial stages of exploring registration in UAE, China and Japan.

NovoSorb SynPath

Our NovoSorb SynPath product is being used in a randomised control trial (RCT) of 138 patients compared to the Standard of Care in the treatment of non-healing diabetic foot ulcers (DFU). The trial commenced on 21 June 2022 and 25 patients have been enrolled. We are looking closely at the study design to make sure the Mode of Action of SynPath is not compromised in any way and the device is working effectively in the patient population. The RCT follows the successful pilot study on 10 patients who presented with a Wagner Grade 1 or 2 DFU.

The purpose of the study and RCT is to assess the safety and clinical efficacy of NovoSorb SynPath to promote wound closure in non-healing DFU. The data from this study will be used to submit for insurance reimbursement coverage for chronic wound applications in the U.S. outpatient setting. The market segment has a total addressable market of USD $400 million.

Chronic Wound Study

This is a randomised controlled study comparing the use of NovoSorb BTM combined with negative pressure wound therapy (NPWT) to the usual standard of care in neuroischemic diabetic foot wounds. The study will assess rates and time to complete wound healing and rates of post-surgical infection, perioperative complications, and proximal lower limb amputations. In addition, the impact of NovoSorb BTM will be explored on a range of factors including cellular proliferation and neo-angiogenesis that are known to affect wound healing, as well as quality of life and health economics.

The focus of this study is patients with moderate to high risk of amputation. 35 out of a total 64 patients have been recruited and recruitment is expected to be complete late 2023. Data from the trial will provide additional clinical evidence for its broader use in patients with diabetic foot wounds complicated by vascular insufficiency.

NovoSorb MTX

MTX has broad applicability for single stage grafting in burns, chronic, surgical, and deep tunnelling wounds to provide increased treatment options and better outcomes. MTX and BTM are complementary, and it is expected clinicians will use both products for the treatment of soft tissue defects. MTX comprises BTM foam only without the temporising film. It is supplied in various sizes. PolyNovo announced on 19 September 2022 it had received FDA 510(k) clearance for NovoSorb® MTX with a 2mm thickness and a U.S. limited market release commenced in April 2023. The total addressable U.S. market comprising in and out-patient settings is estimated at AUD $500 million. An additional 510(k) submission to further support the MTX range will be submitted to the FDA later in 2023 with further product extensions scheduled in 2024.

Hernia Repair

PolyNovo has focused its approach to hernia repair and is developing a targeted solution for ventral hernia and complex abdominal wall reconstruction. This comprises a novel NovoSorb-based textile that will expand the clinical application of the NovoSorb polymer technology.

Plastics and Reconstructive Device Products

PolyNovo previously announced that it has taken the breast development program in-house. We envisage this program will leverage the experience and processes developed for the hernia devices. The hernia product development models serve as effective building blocks for other tissue reinforcement products in breast, orthopaedics, and other applications. We anticipate that manufacturing processes, technology and equipment will be shared across a range of new products.

NovoSorb Dermal Beta-Cell Implant

PolyNovo is supplying NovoSorb BTM in modified sizes to Beta-Cell Technologies, a third-party R&D group. Beta-Cell is collaborating with a global supplier of stem cell-derived Islet cells for use in this program. PolyNovo will be supplying NovoSorb BTM in unique shapes and sizes for the trial and Beta-Cell will explore the potential of integrated NovoSorb BTM to host pancreatic Islet cells in the skin. This treatment holds significant promise for treating Type I diabetes with reduced reliance on a donor pancreas.

Capital Investment

PolyNovo's capital expenditure in FY23 was higher than FY22 due to investing in enhancing manufacturing capabilities and office expansion. This included cleanroom upgrades and new manufacturing and process equipment. This capital investment was partly funded by the Victorian State Governments Medtech Manufacturing Capability Program in the amount of $500k.

PolyNovo leased a property in September 2022 located next door to the current facilities which will more than double the current office and manufacturing footprint. The design process has commenced for the new manufacturing facility which will service an additional A$500m in annual sales.

Status of Markets

1H23 demonstrated the unshackling of Covid-19 impacts with sales up 67.5% on the prior period and strong customer account growth. Access to hospitals, surgeons and logistics capacity is comparable to pre-Covid era albeit with some remnants remaining. PolyNovo achieved 58.3% in sales growth for FY23 including a $7.2m sales month in May 2023 and accelerated customer account growth with now over 600 accounts in direct markets.

PolyNovo recorded strong NovoSorb BTM sales growth in all markets notably in the U.S. up 34.0% in local USD currency and ROW was up 133.9%. The ROW increase includes strong performances in Australia up 84.3%, UK/Ireland up 168.8%, Germany up 192.8% and also strong sales in Canada and Hong Kong and first sales in India. Following the completion of the $53m capital raising in November 2022 a recruitment drive for the U.S. sales and marketing teams commenced and 28 hires were completed by Q4 2023. The efficient onboarding and training of the new employees has had a positive impact on sales and account growth but importantly sets up the business for further growth in FY24. Inflation and rising interest rates have increased some costs in all markets including wages and salaries. PolyNovo debt level remains low with an equipment finance facility owing $2,802,941 as at 30 June 2023. PolyNovo maximises interest earned on cash deposits via high interest term deposits. To manage the impact of higher inflation and interest costs 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 in the impact of rising costs.

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 2023.

Strategic Overview and Likely Developments

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

- Continue to accelerate revenue from NovoSorb BTM in existing markets and recently entered markets India, Canada and Hong Kong
- Expand product range of NovoSorb BTM and NovoSorb MTX
- Identify potential partners in China and Japan
- Identify potential partners for indication expansion such as hernia and breast
- Finalise device design options for hernia and breast
- Complete recruitment of 120 patients in FY24 for the U.S. BARDA pivotal trial for full thickness burns
- Near completion of the 138-patient randomized control trial for diabetic foot ulcers using NovoSorb SynPath
- Sign additional GPO/IDN agreements in the U.S. to further accelerate sales
- Support BetaCell with the supply of NovoSorb BTM for use as a dermal deposit for Type 1 diabetes
- Finalise design and appoint construction contractor for new manufacturing facility at 326 Lorimer Street Port Melbourne

Significant Events After the Balance Date

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

Announcements released by the Company after 30 June 2023 include:

- 11 August 2023 – Webcast Details FY23 Results

Financial Results

PolyNovo Limited reported revenue for the year ended 30 June 2023 of $66,535,017 an increase of $24,644,414 from the prior year's $41,890,603. The net loss after tax (NLAT) of $4,924,539 for FY23 was an increase of $3,732,007 from the prior year's net loss of $1,192,532.

Excluding non-cash items of share-based payments $1,113,207, unrealized forex gain $787,301 and depreciation & amortisation $2,282,553, the underlying net loss after tax is $2,316,080 (2022: net loss $1,996,442).

Several factors contributed to the result as follows:

- Revenue from the sale of commercial products for FY23 increased by 58.3% to $59,578,531 from the prior year's $37,643,160.
- Revenue from BARDA for FY23 increased by 49.2% to $5,662,938 from the prior year's $3,796,679. This increase is reflective of the patient enrolment in the pivotal trial which is currently at 64 patients out of a target 120 patients.
- Other Income includes $408,000 from Victorian State Government supporting our manufacturing development and commercialisation of new products.
- Employee related expenses increased by 84.1% to $39,438,210 but after excluding the reversal of share options and share awards forfeited by the previous CEO and COO on their resignations in the prior year of $4,708,151, the increase for FY23 is 50.9%. This increase is due to headcount increase to drive and support growth primarily within sales, marketing, production, research and development, and quality.
- Research and development expenses increased by 29.3% to $7,428,821 due to increased activity in research and commercialisation of new products.
- Depreciation and amortization increased by $448,446 attributable to property, plant and equipment acquired for the manufacturing facility and research and development.
- Corporate, administrative, and overhead expenses increased by 67.6% to $17,415,763 reflecting the increased growth and activity in the business.

R&D Tax Incentives

During the 2023 financial year, the Company received a 38.5% non-refundable tax offset of $887,721 (non-cash) in relation to the FY22 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 2018	$0.54
30 June 2019	$1.54
30 June 2020	$2.54
30 June 2021	$2.82
30 June 2022	$1.35
30 June 2023	$1.55

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

Loss Per Share

In Australian dollars	$
Cents Basic loss per share – cents	(0.72)
Diluted loss per share	(0.72)

As the Group made a loss for the year ended 30 June 2023, 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 2023, there are 8,450,000 unvested share options issued and nil performance rights.

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 2023, 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.

Board and Committee Meetings

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

		Full Board		Audit and Risk Committee		Remuneration Committee	
Directors	**Role**	**Meetings Attended**	**Meetings eligible to attend**	**Meetings Attended**	**Meetings eligible to attend**	**Meetings Attended**	**Meetings eligible to attend**
Total number of meetings held		12		3		5	
Mr David Williams*	Non-Executive Director	12	12	-	-	5	5
Dr Robyn Elliott	Non-Executive Director	12	12	3	3	-	-
Ms Christine Emmanuel-Donnelly	Non-Executive Director	12	12	-	-	5	5
Dr David McQuillan ***	Non-Executive Director	1	2	-	-	-	-
Mr Leon Hoare	Non-Executive Director	12	12	-	-	5	5
Mr Bruce Rathie	Non-Executive Director	12	12	3	3	-	-
Mr Andrew Lumsden**	Non-Executive Director	11	12	3	3	-	-

* Mr David Williams is Chair of the Remuneration Committee
** Mr Andrew Lumsden is Chair of the Audit and Risk Committee
*** Dr David McQuillan resigned as a director on 1 September 2022

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.

The Company recognises it has an impact on the environment, directly through its operations, and indirectly through its value chain. PolyNovo is committed to minimising the environmental impact of its operations and its products.

Forward-looking Statements

Certain statements in this Annual Report contain forward-looking statements regarding the Company's business and the therapeutic and commercial potential of its technologies and products in development. Any statement describing the Company's goals, expectations, intentions, or beliefs is a forward-looking statement and should be considered an at-risk statement. Such statements are subject to certain risks and uncertainties, particularly those risks or uncertainties inherent in the process of discovering, developing and commercialising drugs and medical devices that can be proven to be safe and effective for use in humans, and in the endeavor of building a business around such products and services. 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.

Directors' Shareholdings and Declared Interests

As at 30 June 2023, the Directors of PolyNovo collectively hold 26,315,183 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		21,421,385
Mr Bruce Rathie		3,250,000
Mr Leon Hoare		1,180,220
Dr Robyn Elliott	42,789	
Ms Christine Emmanuel-Donnelly		270,789
Mr Andrew Lumsden		150,000
Total	42,789	26,272,394

As at 30 June 2023 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 Group's 2023 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 2023, 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	149,933

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 27.

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 2023.

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 year ended 30 June 2023.

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

1. 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.

1.1 Non-executive Directors
•Mr David Williams – Non-executive Chairman
•Dr Robyn Elliott – Non-executive Director
•Ms Christine Emmanuel-Donnelly – Non-executive Director
•Mr Leon Hoare – Non-executive Director
•Dr David McQuillan – Non-executive Director (resigned as Non-executive Director and was appointed as Chief Technical and Scientific Officer on 1 September 2022)
•Mr Bruce Rathie – Non-executive Director
•Mr Andrew Lumsden – Non-executive Director

1.2 Senior Management
•Mr Swami Raote - Chief Executive Officer (appointed on 29 July 2022)
•Mr Jan Gielen – Chief Financial Officer/Company Secretary
•Dr David McQuillan - Chief Technical and Scientific Officer (appointed on 1 September 2022)
•Mr Philip Scorgie - Chief Information Officer (appointed on 22 May 2023)
•Mr Max Johnston – Interim Chief Executive Officer (appointed on 8 November 2021 and employment ended on 31 August 2022)

2. 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 difficult to apply. 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, clinical trials, expansion in direct markets and entering new markets. 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 commercialisation, additional milestones in relation to the achievement of product sales and production targets will be added to 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 against increases in shareholder value.

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. The Company has a compensation policy for Non-executive Directors and a separate policy for the CEO and Senior Managers.

2.1 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 (2022: $850,000).

Total Non-executive Directors' fees (including superannuation but excluding share-based payments) for the year ended 30 June 2023 were $635,190 (2022: $569,858). The Directors' fees are considered within the average range for similar sized companies in the biotechnology industry and are reviewed periodically.

2.2 Senior Management 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 and its shareholders;
•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. Short-term incentives, through a bonus scheme dependent upon performance against objectives and targets which are linked to PolyNovo's overall corporate strategy.
3. Long-term incentives, through participation in the PolyNovo Employee Share Option Plan (the Plan) with share price thresholds to be achieved.

2.2.1 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.

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

Short-term incentives are based on the Company exceeding budgeted total group revenue and EBITDA by at least ten percent (10%). The maximum incentive is twenty percent (20%) of salary, except for CEO Mr Swami Raote's incentive which is up to 50% of salary and also includes ESG and diversity hurdles. CEO Mr Swami Raote's incentive shall be paid in two halves, being 50% as taxable salary and 50% as free shares calculated at the 30-day Volume Weighted Average Price (VWAP) as at the date the annual bonus was awarded. Free shares awarded will be held in escrow for 12 months.

For bonus entitlement details please refer to Table A.

2.2.3 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 to 5 years.

3. Service Contracts

3.1 Chief Executive Officer (CEO)
Mr Swami Raote was appointed as CEO of PolyNovo Limited on 29 July 2022.

During the year ended 30 June 2023, 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 key terms of his contract are as follows:
•a salary of USD $450,000 per annum;
•USA pension plan 401(k) of 4% matching employee contributions based on salary;
•a short-term annual performance bonus of up to 50% of gross base salary, 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 'CEO Performance Incentives' section of the Remuneration Report and in Tables A, B, C and D below; and
•no fixed employment term.

3.2 Company Secretary and Chief Financial Officer (CFO)
Mr Jan Gielen was appointed as CFO and Company Secretary on 12 December 2018.

During the year ended 30 June 2023, 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 $247,519 per annum;
•superannuation of 10.5%;
•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; and
•no fixed employment term

3.3 Chief Technical and Scientific Officer (CTSO)
Dr David McQuillan resigned as Non-Executive Officer and was appointed as Chief Technical and Scientific Officer on 1 September 2022.

During the year ended 30 June 2023, 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 USD $215,000 per annum;
•a short-term annual performance bonus of up to 20% of gross base salary, 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 ‘CTSO Performance Incentives’ section of the Remuneration Report and in Tables A, B, C and D below; and
•no fixed employment term.

3.4 Chief Information Officer (CIO)
Mr Philip Scorgie was appointed as CIO on 22 May 2023.

During the year ended 30 June 2023, 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 $226,224 per annum;
•superannuation of 10.5%;
•a short-term annual performance bonus of up to 15% 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 ‘CIO Performance Incentives’ section of the Remuneration Report and in Tables A, B, C and D below; and
•no fixed employment term

4. Long term incentives

4.1 CEO Incentives

On 29 July 2022, PolyNovo granted 5 million shares options in five equal tranches to CEO. Details of the five tranches are set out below.

The vesting hurdle for the options is linked to CEO's length of employment and the PolyNovo volume weighted average market price. The vesting hurdles applied to all 5 tranches are as follows and options only vest when both exercise conditions have been satisfied:

- First hurdle –each tranche of 1,000,000 options cannot vest or be exercised until after the anniversary of the commencement of employment each year, details refer to below table; and
- Second hurdle – shares have been trading 30 continuous days at premium to the exercise price.

Details of the vesting hurdle for the five tranches are as follows:

- Tranche 1: – One Million (1,000,000) Options cannot vest or be exercised until after the one (1) year anniversary of the commencement of employment and until such time as shares in PolyNovo have been trading 30 continuous days at 50% greater than the exercise price or above;
- Tranche 2: One Million (1,000,000) Options cannot vest or be exercised until after the two (2) year anniversary of the commencement of employment and until such time as shares in PolyNovo have been trading 30 continuous days at 75% greater than the exercise price or above;
- Tranche 3: One Million (1,000,000) Options cannot vest or be exercised until after the three (3) year anniversary of the commencement of employment and until such time as shares in PolyNovo have been trading 30 continuous days at 100% greater than the exercise price or above;
- Tranche 4: One Million (1,000,000) Options cannot vest or be exercised until after the four (4) year anniversary of the commencement of employment and until such time as shares in PolyNovo have been trading 30 continuous days at 150% greater than the exercise price or above; and
- Tranche 5: One Million (1,000,000) Options cannot vest or be exercised until after the five (5) year anniversary of the commencement of employment and until such time as shares in PolyNovo have been trading 30 continuous days at 200% greater than the exercise price or above.

The exercise price is $1.64 per option tranche.

Sixty percent (60%) of the shares issued on the exercise of options will be restricted shares subject to rule 9 of the Employee Option Plan until the first anniversary of the date of issue of the shares. Shares issued will be in escrow for twelve months and until that time will be unable to be dealt with.

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

Accumulated share options expense recognised during the year ended 30 June 2023 was $716,338. Details of the options package are included in the Tables A, B, C and D below.

4.2 CFO Incentives

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 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.

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

Tranche 1 was exercised on 26 February 2021. Tranche 2 was exercised on 21 January 2022. Tranche 3 was exercised on 16 February 2023.

4.3 CTSO Incentives

On 2 September 2022, PolyNovo issued an options package comprising three tranches totalling 1,200,000 options to the CTSO. Details of the three tranches are set out below.

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

- First hurdle – 6 months of employment with the Company; and
- Second hurdle – shares in PolyNovo have been trading at all times at or above 150% of the exercise price for a continuous three months period.

Once vested, the options can be exercised in three tranches as follows:
- Tranche 1: 400,000 options – not to be exercised until 6 months of employment and not later than 30 May 2025;
- Tranche 2: 400,000 options – not to be exercised until 18 months of employment and not later than 30 May 2025; and
- Tranche 3: 400,000 options – not to be exercised until 24 months of employment and not later than 30 May 2026.

The exercise price is $1.81 per option tranche.

Sixty percent (60%) of the shares issued on the exercise of options will be restricted shares subject to rule 9 of the Employee Option Plan until the first anniversary of the date of issue of the shares. Shares issued will be in escrow for twelve months and until that time will be unable to be dealt with.

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

Accumulated share rewards expense recognised during the year ended 30 June 2023 was $180,411. Details of the options package are included in the Tables A, B, C and D below.

4.4 CIO Incentives

On 22 May 2023, PolyNovo issued an options package comprising three tranches totalling 500,000 options to the CIO. Details of the three tranches are set out below.

The vesting hurdle for the options is linked to CIO'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 – shares in PolyNovo have been trading at all times at or above 150% of the exercise price for a continuous three months period.

Once vested, the options can be exercised in three tranches as follows:
- Tranche 1: 150,000 options – not to be exercised until 12 months of employment and not later than 31 May 2028;
- Tranche 2: 150,000 options – not to be exercised until 24 months of employment and not later than 31 May 2028;
- Tranche 3: 200,000 options – not to be exercised until 36 months of employment and not later than 31 May 2028;

The exercise price is $1.37 per option tranche.

Sixty percent (60%) of the shares issued on the exercise of options will be restricted shares subject to rule 9 of the Employee Option Plan until the first anniversary of the date of issue of the shares. Shares issued will be in escrow for twelve months and until that time will be unable to be dealt with.

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

Accumulated share rewards expense recognised during the year ended 30 June 2023 was $10,075.

5. Key Management Personnel Statutory Remuneration Tables

Details of the remuneration for key management personnel for the years ended 30 June 2023 and 30 June 2022 are set out in Table A, B, C and D below.

5.1 Remuneration of Key Management Personnel

Table A		Short-term				Long-term				
Directors		**Cash salary & fees**	**Cash bonus**	**Share options**	**Superannuation**	**Leave allowances**	**Share options & Share awards**	**Termination benefits**	**Total**	**% Performance based**
Mr David Williams (Chairman / Non-Executive Director)	**2023**	**126,697**	-	-	**13,303**	-	-	-	**140,000**	-
	2022	107,161	-	-	10,716	-	-	-	117,877	-
Mr Bruce Rathie (Non-Executive Director)	**2023**	**86,364**		-	**9,068**	-	-	-	**95,432**	-
	2022	69,536	-	-	6,954	-	-	-	76,489	-
Dr David McQuillan (Non-Executive Director) [1]	**2023**	**18,028**	-	-	-	-	-	-	**18,028**	-
	2022	69,536	-	-	-	-	-	-	69,536	-
Mr Leon Hoare (Non-Executive Director)	**2023**	**95,432**		-	-	-	-	-	**95,432**	-
	2022	73,293	-	-	3,196	-	-	-	76,489	-
Dr Robyn Elliott (Non-Executive Director)	**2023**	**86,364**		-	**9,068**	-	-	-	**95,432**	-
	2022	69,536	-	-	6,954	-	-	-	76,489	-
Ms Christine Emmanuel-Donnelly (Non-Executive Director)	**2023**	**86,364**	-	-	**9,068**	-	-	-	**95,432**	-
	2022	69,536	-	-	6,954	-	-	-	76,489	-
Mr Andrew Lumsden (Non-executive Director)	**2023**	**93,165**	-	-	**2,267**	-	-	-	**95,432**	-
	2022	69,536	-	-	6,954	-	-	-	76,489	-
Sub total compensation for Directors	**2023**	**592,415**	-	-	**42,775**	-	-	-	**635,190**	-
	2022	528,132	-	-	41,727	-	-	-	569,858	-

Table A		Short-Term				Long-Term				
Senior Management		Cash Salary & Fees	Cash bonus [7]	Share options	Superannuation/ USA Pension Plan 401(k)	Leave allowances	Share options & Share awards	Termination Benefits	Total	% Perfor-mance based
Mr Swami Raote [2]	**2023**	**616,680**	**153,732**	**153,732**	**5,374**	**41,706**	**716,338**	**-**	**1,687,562**	**52%**
	2022	-	-	-	-	-	-	-	-	**0%**
Mr Jan Gielen	**2023**	**243,202**	**-**	**-**	**25,536**	**22,896**	**-**	**-**	**291,634**	**0%**
	2022	217,687	-	-	21,769	5,292	-	-	244,748	**0%**
Dr David McQuillan [1]	**2023**	**297,540**	**53,418**	**-**	**2,323**	**13,390**	**180,411**	**-**	**547,082**	**43%**
	2022	-	-	-	-	-	-	-	-	0%
Mr Philip Scorgie [3]	**2023**	**25,813**	**-**	**-**	**2,710**	**2,339**	**10,075**	**-**	**40,936**	**25%**
	2022	-	-	-	-	-	-	-	-	0%
Mr Paul Brennan [4]	**2023**	**-**	**-**	**-**	-	**-**	**-**	**-**	-	**0%**
	2022	254,114	-	-	25,411	(76,542)	(3,817,982)	73,348	(3,541,650)	
Mr Max Johnson [5]	**2023**	**62,525**	**-**	**-**	**4,773**	**(14,340)**	**-**	**17,071**	**70,029**	**0%**
	2022	176,923	-	-	17,692	14,340	-	-	208,955	0%
Dr Anthony Kaye [6]	**2023**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0%**
	2022	80,023	-	-	8,002	(6,688)	(211,660)	9,828	(120,494)	176%
Sub total compensation for Other Key Management Personnel	**2023**	**1,245,759**	**207,150**	**153,732**	**40,716**	**65,991**	**906,824**	**17,071**	**2,637,243**	**42%**
	2022	728,748	-	-	72,875	(63,599)	(4,029,641)	83,175	(3,208,442)	126%
Total compensation for all Key Management Personnel	**2023**	**1,838,174**	**207,150**	**153,732**	**83,491**	**65,991**	**906,824**	**17,071**	**3,272,432**	**34%**
	2022	1,256,880	-	-	114,601	(63,599)	(4,029,641)	83,175	(2,638,584)	153%

Notes

1. Dr David McQuillan resigned as Non-executive Director and was appointed as Chief Technical and Scientific officer on 1 September 2022.
2. Mr Swami Raote was appointed as Chief Executive Officer on 29 July 2022.
3. Mr Philip Scorgie was appointed as Chief Information Officer on 22 May 2023.
4. Mr Paul Brennan resigned as Managing Director on 5 November 2021.
5. Mr Max Johnston was appointed as interim CEO on 8 November 2021 and his employment ended on 31 August 2022.
6. Dr Anthony Kaye resigned as Chief Operating Officer on 6 October 2021.
7. The annual bonus is determined after the annual audited financial report has been signed of and is subject to change following Board approval.

5.2 Share options and awards granted or exercised in FY2023

During the year ended 30 June 2023, 6,700,000 share options (2022: nil) were granted to key management personnel. 400,000 share options were exercised by CFO in FY2023. The options exercised 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

KMP	Grant date	Grant number	Average fair value per option at grant date [1] $	Fair Value of options granted during the year $	Number of options exercised during the year	Value of options exercised during the year[2] $	Value of options received upon exercise[3] $
Mr Jan Gielen							
Options	06/03/2019	300,000	0.236	-	-	-	-
Options	06/03/2019	300,000	0.311	-	-	-	-
Options	06/03/2019	400,000	0.394	-	400,000	476,000	716,000
Total		**1,000,000**		**-**	**400,000**	**476,000**	**716,000**
Mr Swami Raote							
Options	29/07/2022	1,000,000	0.702	702,000	-	-	-
Options	29/07/2022	1,000,000	0.778	778,000	-	-	-
Options	29/07/2022	1,000,000	0.889	889,000	-	-	-
Options	22/07/2022	1,000,000	0.940	940,000	-	-	-
Options	29/07/2022	1,000,000	1.062	1,062,000	-	-	-
Total		**5,000,000**		**4,371,000**	**-**	**-**	**-**
Dr David McQuillan							
Options	02/09/2022	400,000	0.408	163,200	-	-	-
Options	02/09/2022	400,000	0.423	169,200	-	-	-
Options	02/09/2022	400,000	0.502	200,800	-	-	-
Total		**1,200,000**		**533,200**	-	-	-
Mr. Philip Scorgie							
Options	15/05/2023	150,000	0.682	102,300	-	-	-
Options	15/05/2023	150,000	0.621	93,150	-	-	-
Options	15/05/2023	200,000	0.541	108,200	-	-	-
Total		**500,000**		**303,650**	**-**	**-**	**-**
Mr Max Johnston							
Total		-	-	-	-	-	-

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 note 35.
Note 2. Determined at the time of exercise at the intrinsic value. Exercise price was $0.60, market price was $1.79, intrinsic value was $1.19 per share.
Note 3. Determined at the time of exercise at the market value.

5.3 Share options and awards vested or forfeited in 2023

The share options and awards of key management personnel for the year ended 30 June 2023 are set out in the following table:

Table C

KMP	Balance at 1 July 2022	Options granted during year	Options exercised during year	Options forfeited during year	Total vested at end of year	Total exercisable at end of year	Total not exercisable at end of year	Balance at 30 June 2023
Mr Swami Raote	-	5,000,000	-	-	-	-	5,000,000	5,000,000
Mr Jan Gielen	400,000	-	(400,000)	-	-	-	-	-
Dr David McQuillan	-	1,200,000	-	-	-	-	1,200,000	1,200,000
Mr Philip Scorgie	-	500,000	-	-	-	-	500,000	500,000
Mr Max Johnston	-	-	-	-	-	-	-	-
Total	**400,000**	**6,700,000**	**(400,000)**	**-**	**-**	-	**6,700,000**	**6,700,000**

5.4 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 D

Directors	Balance at 1 July 2022	Granted as compen-sation	On exercise of options	Net change other	Balance at 30 June 2023	Balance at end of year – directly held	Balance at end of year – indirectly held
Mr David Williams	24,592,087	-	-	(3,170,702)	21,421,385	-	21,421,385
Mr Bruce Rathie	3,050,000	-	-	200,000	3,250,000	-	3,250,000
Mr Leon Hoare	1,180,220	-	-	-	1,180,220	-	1,180,220
Dr Robyn Elliott	-	-	-	42,789	42,789	42,789	-
Ms Christine Emmanuel-Donnelly	115,000	-	-	155,789	270,789	-	270,789
Mr Andrew Lumsden	100,000	-	-	50,000	150,000	-	150,000
Dr David McQuillan[1]	608,313	-	-	-	608,313	608,313	-
Other key Management personnel							
Mr Jan Gielen	600,000	-	400,000	(90,000)	910,000	610,000	300,000
Dr David McQuillan[1]	608,313	-	-	59,880	668,193	668,193	-
Mr Swami Raote	-	-	-	-	-	-	-
Mr Philip Scorgie	-	-	-	-	-	-	-
Mr Max Johnston	-	-	-	-	-	-	-

Note 1. Dr David McQuillan resigned as Non-executive Director and appointed as Chief Technical and Scientific Officer on 1 September 2022. His ending balance date in Directors table and beginning balance date in KMP table is 1 September 2022.
Note 2. Opening balance excludes shares held by closely related parties where there is no control or significant influence by the KMP.
Note 3. 'Net Change Other' reflects shares privately acquired or disposed during the year and shares held by resigned KMP on the date of their cessation of employment.

6. 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.

7. Other Key Management Personnel Transactions

Kidder Williams Ltd, an entity associated with David Williams, received payment in the amount of $110,000, GST inclusive. The payment was in respect to consulting services provided to PolyNovo Limited at standard commercial terms and conditions in relation to the capital raising.

Other than as noted above, there were no transactions with key management personnel during the year ended 30 June 2023.

End of Remuneration Report - Audited.

This Directors' Report, incorporating the Corporate Governance Statement and Remuneration Report, has been signed in accordance with a Resolution of the Directors made on 23 August 2023.

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

23 August 2023

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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 2023, 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;

b. No contraventions of any applicable code of professional conduct in relation to the audit; and

c. No non-audit services provided that contravene 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
23 August 2023

PolyNovo Limited
Consolidated statement of comprehensive income
For the year ended 30 June 2023

	Note	Consolidated 30 June 2023 $	Consolidated 30 June 2022 $
Revenue			
Revenue from contracts with customers	4	65,241,469	41,439,839
Interest income		869,625	671
Other income	5	423,923	450,093
		66,535,017	41,890,603
Expenses			
Changes in inventories of finished goods and work in progress		(4,433,696)	(2,202,686)
Employee-related expenses	6	(39,438,210)	(21,419,312)
Research and development expenses		(7,428,821)	(5,747,156)
Depreciation and amortisation expenses	7	(2,037,462)	(1,589,016)
Corporate, administrative and overhead expenses	8	(17,415,763)	(10,392,159)
Interest expenses	9	(528,044)	(95,216)
Finance costs	10	(186,119)	(220,150)
Impairment loss	11	-	(1,375,832)
Loss before income tax (expense)/benefit		(4,933,098)	(1,150,924)
Income tax (expense)/benefit	12	8,559	(41,608)
Loss after income tax (expense)/benefit for the year attributable to the owners of PolyNovo Limited		(4,924,539)	(1,192,532)
Other comprehensive income/ (loss)			
Items that may be reclassified subsequently to profit or loss			
Loss on translation of foreign operation		(681,421)	(144,458)
Other comprehensive income/ (loss) for the year, net of tax		(681,421)	(144,458)
Total comprehensive income/ (loss) for the year attributable to the owners of PolyNovo Limited		(5,605,960)	(1,336,990)
		Cents	**Cents**
Loss per share for loss attributable to the owners of PolyNovo Limited			
Basic loss per share	34	(0.72)	(0.18)
Diluted loss per share	34	(0.72)	(0.18)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes

PolyNovo Limited
Consolidated statement of financial position
As at 30 June 2023

	Note	Consolidated 30 June 2023 $	Consolidated 30 June 2022 $
Assets			
Current assets			
Cash and cash equivalents	13	46,846,946	6,102,192
Trade and other receivables	14	13,692,791	6,089,442
Contract cost assets	15	306,834	146,315
Inventories	16	4,530,285	2,535,293
Other financial assets	26	50,000	50,000
Prepayments	18	1,903,339	1,261,988
Income tax receivables	12	24,030	4,279
Total current assets		67,354,225	16,189,509
Non-current assets			
Contract cost assets	15	182,893	329,208
Property, plant and equipment	19	11,115,326	9,946,085
Right-of-use assets	17	12,252,318	6,805,460
Intangibles	20	1,156,624	1,404,472
Prepayments	18	559,263	296,796
Total non-current assets		25,266,424	18,782,021
Total assets		92,620,649	34,971,530
Liabilities			
Current liabilities			
Trade and other payables	21	9,134,930	4,967,879
Interest-bearing loans and borrowings	22	1,398,158	1,330,058
Lease liabilities	23	491,979	457,750
Provisions	24	1,642,287	1,000,606
Total current liabilities		12,667,354	7,756,293
Non-current liabilities			
Interest-bearing loans and borrowings	22	1,788,769	2,802,940
Lease liabilities	23	12,364,776	6,403,721
Provisions	24	416,608	293,490
Total non-current liabilities		14,570,153	9,500,151
Total liabilities		27,237,507	17,256,444
Net assets		65,383,142	17,715,086
Equity			
Issued capital	25	191,591,311	139,430,502
Reserves	25	(4,829,857)	(5,261,643)
Accumulated losses	25	(121,378,312)	(116,453,773)
Total equity		65,383,142	17,715,086

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

PolyNovo Limited
Consolidated statement of changes in equity
For the year ended 30 June 2023

Consolidated	Contributed Equity $	Other Reserves $	Acquisition of Non-Controlling Interest Reserves $	Accumulated Losses $	Total equity $
Balance at 1 July 2021	139,250,502	7,656,740	(9,293,956)	(115,261,241)	22,352,045
Loss after income tax expense for the year	-	-	-	(1,192,532)	(1,192,532)
Other comprehensive income for the year, net of tax	-	(144,458)	-	-	(144,458)
Total comprehensive income for the year	-	(144,458)	-	(1,192,532)	(1,336,990)
Exercise of options	180,000	-	-	-	180,000
Share-based payments (note 35)	-	(3,479,969)	-	-	(3,479,969)
Balance at 30 June 2022	139,430,502	4,032,313	(9,293,956)	(116,453,773)	17,715,086

Consolidated	Contributed Equity $	Other Reserves $	Acquisition of Non-Controlling Interest Reserves $	Accumulated Losses $	Total equity $
Balance at 1 July 2022	139,430,502	4,032,313	(9,293,956)	(116,453,773)	17,715,086
Loss after income tax benefit for the year	-	-	-	(4,924,539)	(4,924,539)
Other comprehensive income for the year, net of tax	-	(681,421)	-	-	(681,421)
Total comprehensive income for the year	-	(681,421)	-	(4,924,539)	(5,605,960)
Issue of share capital	53,000,835	-	-	-	53,000,835
Capital raising costs	(1,467,526)	-	-	-	(1,467,526)
	-	-	-	-	-
Exercise of options	627,500	-	-	-	627,500
Share-based payments (note 35)	-	1,113,207	-	-	1,113,207
Balance at 30 June 2023	191,591,311	4,464,099	(9,293,956)	(121,378,312)	65,383,142

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

PolyNovo Limited
Consolidated statement of cash flows
For the year ended 30 June 2023

	Note	Consolidated 30 June 2023 $	30 June 2022 $
Cash flows from operating activities			
Receipts from customers		55,333,642	36,884,778
Receipt from BARDA reimbursements and advances		3,676,431	4,220,005
Receipt from grant income		404,800	247,720
Receipt from other revenue		72,290	-
Payment of interest on borrowings		(186,119)	(220,150)
Payment of interest on lease liabilities		(528,044)	(95,216)
Payments to suppliers and employees		(65,385,528)	(43,094,171)
Net cash used in operating activities		(6,612,528)	(2,057,034)
Cash flows from investing activities			
Payments for property, plant and equipment		(1,528,229)	(491,929)
Interest received		679,461	400
Receipts from sale and leaseback of property	11	-	6,350,000
Net cash from/(used in) investing activities		(848,768)	5,858,471
Cash flows from financing activities			
Proceeds from borrowings		-	1,860,780
Proceeds from the issue of share capital (net of equity raising costs)		51,423,489	-
Proceeds from the exercise of options		627,500	180,000
Repayment of principal on borrowings		(3,159,849)	(7,095,469)
Repayment of principal on lease liabilities		(826,759)	(333,625)
Net cash from/(used in) financing activities		48,064,381	(5,388,314)
Net increase/(decrease) in cash and cash equivalents		40,603,085	(1,586,877)
Cash and cash equivalents at the beginning of the financial year		6,102,192	7,688,554
Effects of exchange rate changes on cash and cash equivalents		141,669	515
Cash and cash equivalents at the end of the financial year	13	**46,846,946**	**6,102,192**

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

Note 1. Corporate Information

The Financial Report of Polynovo Limited (the Company) and its controlled entities (the Group) for the year ended 30 June 2023 was authorised for issue in accordance with a resolution of the Directors on 23 August 2023.

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. During the year ended 30 June 2023, the Group has incorporated two additional 100% owned subsidiaries in India and Hong Kong, China, as well as a branch in Canada.

Note 2. Summary of Significant Accounting Policies

(a) Basis of preparation

The general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, International Financial Reporting Standards (IFRS) and the *Corporations Act 2001.*

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. 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 its ability to meet its debts and obligations taking into account all available information about the future. The Group has a level of discretion in managing cash outflows in a response to any changes or unexpected demands on working capital or operating conditions.

(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 2022. 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 are disclosed in note 2 (v).

Note 2. Summary of Significant Accounting Policies (continued)

(e) Basis of consolidation
The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2023. 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 biodegradable temporal matrix (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.

The group also 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.

Biomedical Advanced Research and Development Authority (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 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.

(g) Costs to fulfill contracts

Costs to fulfil a contract include set-up costs and prepaid costs of a service provider related to goods and services which will be transferred in the future reporting periods.

The Group capitalise costs to fulfil a contract if:
- the costs relate directly to a contract or a specifically identified anticipated contract
- the cost generate or enhance resources that we control and will use when transferring further goods and services
- the Group expect to recover the costs

The Group amortise contract cost assets over the term that reflects the expected period of benefit of the expense.

Note 2. Summary of Significant Accounting Policies (continued)

(h) Trade and other receivables and contract cost assets

Trade and other receivables and contract assets are initially recorded at fair value and subsequently measured at amortised cost.

Trade and other receivables and contract cost assets are written off against their carrying amounts and expensed in the income statement when all collection efforts have been exhausted and the asset is considered uncollectable. Factors indicating there is no reasonable expectation of recovery include insolvency and significant time period since the last invoice was issued.

(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 a definite useful life on acquisition.

Internally generated intangible assets are capitalised if the product is at development phase. Costs that are directly attributable to a product's development phase are recognised as intangible assets, provided all of the following recognition requirements are met:

- the product is technically and commercially feasible
- the Group intends to and has sufficient resources to execute a commercial outcome from the product
- the Group has the ability to derive income from the product and will generate probable future economic benefits from the product, and
- the development costs can be measured reliably

Development costs not meeting these criteria for capitalisation are expensed as incurred. Directly attributable costs include employee costs incurred on development along with an appropriate portion of relevant overheads.

Expenditure on the research phase of projects is recognised as an expense as incurred and 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.

Note 2. Summary of Significant Accounting Policies (continued)

(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 2023. Information relating to this Plan is set out in note 35 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 35. 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 cost comprises the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs.

Right of use assets are subsequently measured at cost less accumulated depreciation and impairment losses. Right of use assets are reviewed for impairment under the same policy as our property, plant and equipment assets.

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 20 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:

Note 2. Summary of Significant Accounting Policies (continued)

Property	25 to 40 years
Office equipment	3 to 10 years
Laboratory plant and equipment	3 to 13.33 years
Leasehold improvements	3 to 20 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, freight expenses to third party logistics and manufacturing overheads. The value of finished goods and semi-finished goods may include an allocation of manufacturing variances incurred during the period if it is determined that the relevant production remains in inventory at balance date.

(s) Government grants

Government grants are recognised at their fair value when the grant is received and all attaching conditions have been complied with. Research and development income tax revenue is recognised when there is reasonable assurance of receipt.

Note 2. Summary of Significant Accounting Policies (continued)

(t) Trade and other payables

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

(u) Income tax

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

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).

Note 2. Summary of Significant Accounting Policies (continued)

(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 the amount of deferred tax assets that can be recognized on unused tax losses based on expectation of profit generated in the future. 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 35 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 BARDA study, 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. For the intangible assets that have finite economic lives, PolyNovo considers indicators of impairment and if an indicator exists, will determine the recoverable amount of the intangible asset. For the indefinite life intangibles and goodwill, the recoverable amount is determined every year. 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 20.

Expected Credit Loss
Estimating the expected credit loss (ECL) for trade receivables and contract assets requires selection of an appropriate method and significant judgement to determine the amount. The method applied categorises trade receivables and 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.

Lease term
PolyNovo applies judgement to determine a lease term for leases with extension, termination or purchase options. PolyNovo also considers lease modifications where we continue to use the same underlying asset for an extended term. Our lease terms are negotiated on an individual basis and contain a range of different terms and conditions, with fixed term period between 3 to 20 years. The lease term assessment is reviewed if a significant event or change in circumstances occurs which affects this assessment and that is within our control as a lessee.

Incremental borrowing rate for property lease
PolyNovo applies judgement to determine incremental borrowing rate for property lease because the interest rate implicit in lease is not readily determinable for the arrangement. The incremental borrowing rate is determined based on the interest that the lessee would have to pay to borrow over a similar term, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment, and observable inputs such as market interest rates are used as applicable. In the lease transaction of 322-326 Lorimer Street, Port Melbourne, the incremental borrowing rate is determined to be 5.62% per annum. Further details on incremental borrowing rate are disclosed in note 23.

Note 2. Summary of Significant Accounting Policies (continued)

(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, US dollars for the US entity, Canadian dollars for Canada entity, Singapore dollars for Singapore entity, New Zealand dollars for New Zealand entity, Rupees for India entity, Hong Kong dollars for Hong Kong entity, British pound sterling for UK 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.

Note 2. Summary of Significant Accounting Policies (continued)

(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 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

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

The chief operating decision-maker is the Chief Executive Officer of PolyNovo Limited.

The chief operating decision-maker reviews the results of the business on a single entity basis and assesses business performance in order to make decisions about resource allocation. Performance assessment is based on EBITDA (earnings before interest, tax, depreciation and amortisation). These measures are different from the profit or loss reported in the consolidated financial statements which is shown after net interest and tax expense.

	Consolidated	
	30 June 2023	30 June 2022
	$	$
Net Loss After Tax	(4,924,539)	(1,192,532)
Interest income	(869,625)	(671)
Interest expense	714,163	315,366
Depreciation and amortisation	2,282,553	1,797,488
Tax	(8,559)	41,608
EBITDA	(2,806,007)	961,259

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 year ended 30 June 2023, sales to BARDA in the United States of America, represented 9% (2022: 9%) of total sales revenue from contracts with customers.

	Consolidated	
	30 June 2023	30 June 2022
	$	$
Revenue from contracts with customers		
Geographical areas		
United States of America	51,763,960	35,857,273
Australia and New Zealand	4,769,010	3,206,724
Other countries	8,708,499	2,375,842
	65,241,469	41,439,839

	Consolidated	
	30 June 2023	30 June 2022
	$	$
Non-current assets		
Geographical areas		
United States of America	343,947	519,061
Australia and New Zealand	24,787,524	19,210,150
Other countries	134,953	13,778
	25,266,424	19,742,989

Note 4. Revenue from contracts with customers

	Consolidated	
	30 June 2023 $	30 June 2022 $
BARDA revenue	5,662,938	3,796,679
Commercial product sales	59,578,531	37,643,160
	65,241,469	41,439,839

Note 5. Other income

	Consolidated	
	30 June 2023 $	30 June 2022 $
Other income	423,923	450,093

Majority of the other income is generated from government grants.

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

During the year ended 30 June 2023, the Group continued to receive two government grants from the Victorian Government:

- The Victorian Government's Medtech Manufacturing Capacity Program is to help expand manufacturing for the production of new devices. In this year, PolyNovo has completed this grant program and received grant income of $300,000;

- Another Victorian Government grant is up to $252,000, which is to support the purchase of equipment and the development of the new cleanroom at PolyNovo's Port Melbourne facility. In this year, PolyNovo received grant income of $108,000.

The remainder is generated from the sale of raw materials to customers in U.S.

Note 6. Employee-related expenses

	Consolidated	
	30 June 2023 $	30 June 2022 $
Wages and salaries (including sales commission)	31,804,940	20,699,554
Superannuation	1,345,041	978,683
Share-based payments expense	1,113,207	(3,479,582)
Other	5,175,022	3,220,657
	39,438,210	21,419,312

A net share-based income of $3,479,582 was recognised during the year ended 30 June 2022, as the share option expenses of $4,708,151 recognised for the Managing Director and Chief Operating Officer were reversed at the time of their resignation.

Note 7. Depreciation and amortisation expenses

	Consolidated	
	30 June 2023 $	**30 June 2022 $**
Depreciation - property	-	330,636
Depreciation - laboratory equipment	415,992	410,094
Depreciation - office equipment	320,571	247,018
Depreciation - leasehold improvements	194,582	14,206
Subtotal	**931,145**	**1,001,954**
Depreciation - Right of use assets	858,469	339,214
Amortisation - intangible assets	247,848	247,848
Subtotal	**1,106,317**	**587,062**
Total	**2,037,462**	**1,589,016**

In addition to the depreciation and amortisation expenses listed above, depreciation relating to manufacturing of $245,091 ($169,566 for depreciation of fixed assets and $75,525 for depreciation of lease assets) is included in the cost of inventory.

Total depreciation and amortisation expenses amount in 2023 is $2,282,553 (2022: $1,797,488).

Refer to note 19 for property, plant and equipment reconciliation and note 17 for right-of-use assets reconciliation.

Note 8. Corporate, administrative and overhead expenses

	Consolidated	
	30 June 2023 $	**30 June 2022 $**
Insurances	2,517,447	2,011,584
Professional fees	770,119	562,007
Investor relations and share registry expenses	360,529	445,167
Consultants and contractors	3,553,876	1,759,264
Communication expenses	784,680	521,295
Travel	4,332,769	1,519,925
Marketing costs	2,357,593	1,260,822
Realised foreign exchange loss	114,762	151,483
Unrealised foreign exchange (gain)/ loss	(787,301)	(497,648)
Other*	3,411,289	2,658,260
	17,415,763	10,392,159

*Included in other administrative expenses are mainly third-party logistic fees of $631,574 (2022: $407,090), dues and subscriptions of $481,509 (2022: $332,946) and IT software licences of $441,174 (2022: $289,013).

Note 9. Interest expenses

	Consolidated	
	30 June 2023 $	30 June 2022 $
Lease liability interest expenses	528,044	95,216

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 17.

The Group has secured equipment finance facilities and short term loan, further details on loan facility are disclosed in note 22.

Note 10. Finance costs

	Consolidated	
	30 June 2023 $	30 June 2022 $
Interest expense	16,480	-
Interest expense - equipment finance loan	110,504	190,721
Interest expense - short term loan	59,135	29,429
	186,119	220,150

Note 11. Impairment loss

In June 2022, the Group sold the property located at Unit 1/316-320 Lorimer Street, Port Melbourne, as a funding option, which was owned by PolyNovo and includes part of PolyNovo's corporate head office and manufacturing facility. The adjacent Unit 2 is currently leased by PolyNovo through to April 2029 with no options to extend.

A non-binding purchase proposal for $6,350,000 was signed on 21 Feb 2022. The property met assets held for sale criteria when the purchase proposal was signed, therefore the value of the property was written down to the fair value ($6,350,000) and an impairment loss of $1,375,832 was recognised.

On 14 June 2022, the sale was settled. Following the sale, the Group leased back the building with a lease term of 10 years, plus two 5-year renewal options. The $6,350,000 sales proceeds were received in instalments, with 10% deposit received in May 2022 and the remainder in June 2022.

$3,052,890 of the sale proceeds was used to repay in full two outstanding equipment finance leases. The net cash received from the sale and leaseback of property was $3,050,092, after deducting the two equipment finance leases paid out and real estate commission fee.

Note 12. Income tax expense/(benefit)

(a) Income tax expense

Note 12. Income tax expense/(benefit) (continued)

	Consolidated 30 June 2023 $	Consolidated 30 June 2022 $
Current income tax charge/ (benefit)	(8,559)	41,608
Deferred income tax	-	-
Relating to origination and reversal of temporary differences	-	-
Aggregate income tax expense/(benefit)	(8,559)	41,608
Reconciliation of income tax expense to prima facie tax payable		
Loss before income tax (expense)/benefit	(4,933,098)	(1,150,924)
Tax at the statutory tax rate of 30% (2022: 25%)	(1,479,929)	(287,731)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable R&D income tax credit	691,509	614,325
Share-based payments	249,128	(869,896)
Meals and entertainment	333,962	89,415
	(205,330)	(453,887)
Current year tax losses not recognised	(1,295,857)	128,515
Current year temporary differences not recognised	1,492,628	366,980
Income tax expense/(benefit)	(8,559)	41,608

(b) Deferred tax assets and liabilities

	Consolidated 30 June 2023 $	Consolidated 30 June 2022 $
Deferred tax assets	766,242	488,561
Deferred tax liabilities	(766,242)	(488,561)
	-	-
Deferred tax balance reflects temporary differences attributable to:		
Amounts recognised in profit and loss		
Recognised on temporary differences	(766,242)	(488,561)

(c) Deferred tax assets not brought to account

	Consolidated 30 June 2023 $	Consolidated 30 June 2022 $
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	93,493,336	95,205,088
Deductible temporary differences - no deferred tax asset has been recognised	2,258,869	855,541
Unrecognised, unconfirmed R&D offsets for which no deferred tax asset has been recognised	-	146,288
Total	95,752,205	96,206,917

Note 12. Income tax expense/(benefit) (continued)

	Consolidated	
	30 June 2023	30 June 2022
	$	$
Potential tax benefit at 30% (2022: 25%)	23,938,051	24,161,445

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 2023 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 2023	30 June 2022
	$	$
Income tax receivable	24,030	4,279

PolyNovo New Zealand overpaid income tax provision instalments in 2022 and 2023, which led to a tax receivable position as at 30 June 2023 and 30 June 2022.

Note 13. Cash and cash equivalents

Cash and cash equivalents are denominated in:

	Consolidated	
	30 June 2023	30 June 2022
	$	$
AUD	37,379,970	1,849,255
USD	7,115,544	3,176,383
NZD	414,091	71,440
GBP	751,267	789,280
EUR	299,715	215,834
CAD	411,223	-
INR	475,136	-
SGD	-	-
Total	**46,846,946**	**6,102,192**

Note 13. Cash and cash equivalents (continued)

Cash at bank earns interest at floating rates based on daily bank deposit rates, except for the term deposit of $35,000,000. As at 30 June 2023, PolyNovo Limited holds a 90-day term deposit of $35,000,000, at the weighted average interest rate of 4.28%.

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

	Consolidated	
	30 June 2023 $	**30 June 2022 $**
Net loss before income tax	(4,933,098)	(1,150,924)
Adjustments for non-cash items:		
Depreciation and amortisation	2,282,553	1,797,488
Share-based payment expense	1,113,207	(3,479,582)
Interest	10,431	12,985
Loss on inventory write-off	105,039	31,671
Doubtful debts expense	34,170	-
Unrealised foreign exchange rate differences	(74,034)	(303,264)
Impairment loss	-	1,375,832
Change in assets and liabilities during the financial year:		
(Increase) in trade receivables	(7,412,949)	(422,387)
(Increase)/decrease in prepayments	(378,283)	565,691
(Increase)/decrease in contract assets	(14,204)	146,314
(Increase) in inventory	(1,994,992)	(575,458)
(Increase) in other assets	(262,467)	(152,659)
Increase/(decrease) in payables	4,167,051	(142,328)
Increase in provisions	764,799	264,127
(Increase)/ decrease in other receivables	(19,751)	(24,540)
Net cash outflows from operating activities	**(6,612,528)**	**(2,057,034)**

Note 14. Trade and other receivables

	Consolidated	
	30 June 2023 $	**30 June 2022 $**
Current assets		
Trade receivables	12,366,229	5,527,852
BARDA income receivables	683,373	248,174
Sundry receivables	452,789	313,093
	1,136,162	561,267
Interest receivable	190,400	323
Total trade and other receivables	**13,692,791**	**6,089,442**

Note 14. Trade and other receivables (continued)

	Consolidated 30 June 2023 $	30 June 2022 $
Financial assets and non-financial assets		
Trade receivables	12,366,229	5,527,852
BARDA Income Receivables	683,373	248,174
Sundry receivables	93,940	52,925
Interest receivable	190,400	323
Total financial assets	**13,333,942**	**5,829,274**
Sundry receivables	358,849	260,168
Total non-financial assets	**358,849**	**260,168**
Total trade and other receivables	**13,692,791**	**6,089,442**

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.

The changes in the balance of trade receivables and the information about the credit exposure are disclosed in note 26.

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 2023, the Group has BARDA income receivables of $683,373 (2022: $248,174). 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, as the credit risk of US Federal Government Agency is low. The Group has an agreement with BARDA to provide research and development services which was extended during the year ended 30 June 2023 until August 2025 for the Pivotal Trial. BARDA has committed funding of USD $15 million for the Pivotal Trial.

Expected credit loss

Based on the business failure rates by class of customers and Dun & Bradstreet credit score the Expected Credit Losses relating to trade receivables and contract assets the Group has recognised $44,127 as at 30 June 2023 (2022: $9,957). $Nil trade and other receivables were written off during the year.

The Group uses a provision matrix to measure its 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 2023:

	Trade and other receivables					
	Not due 0 Days	June 1-30 Days	May 30-60 Days	April 60-90 Days	March+ 90+ Days	**Total**
Gross carrying amount ($)	8,003,882	1,695,213	1,398,098	644,030	669,133	**12,410,356**
Expected credit loss ($)	-	(4,615)	(2,691)	(3,957)	(32,864)	**(44,127)**
Net balance	**8,003,882**	**1,690,598**	**1,395,407**	**640,073**	**636,269**	**12,366,229**

Trade and other receivables which are not due as at 30 June 2023 was $8,003,882, 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 2023	**30 June 2022**
	$	**$**
Contract cost assets (Current)	306,834	146,315
Contract cost assets (Non-current)	182,893	329,208
	489,727	475,523

The Group engaged subcontractors to fulfill specific performance obligations with regards to the Group's BARDA arrangement since the year ended 30 June 2021. The Group was required to prepay specific amount to the subcontractor upfront to support the delivery of the BARDA contract. Amortisation is calculated on a straight-line basis over the life of the BARDA contract from the FY2021 to FY2025.

Note 16. Inventories

	Consolidated	
	30 June 2023	**30 June 2022**
	$	**$**
Current assets		
Raw materials	222,036	106,218
Work in progress	1,617,299	854,189
Finished goods	2,721,987	1,605,737
Provision for finished goods	(31,037)	(30,851)
	2,690,950	1,574,886
	4,530,285	2,535,293

The total of inventory is held at lower of cost or net realisable value (NRV). During the year ended 30 June 2023, the loss on inventory write off was $105,039.

Note 17. Right-of-use assets

	Consolidated	
	30 June 2023	**30 June 2022**
	$	**$**
Non-current assets		
Right-of-use assets	14,380,539	8,002,374
Accum Depn - Right of use assets	(2,128,221)	(1,196,914)
	12,252,318	6,805,460

Note 17. Right-of-use assets (continued)

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.

On 1 September 2022, the Group leased the building located at 322-326 Lorimer Street, Port Melbourne with a lease term of 9.5 years, plus four 5-year renewal options. It is expected that the Group will renew the lease in line with the Group strategy, thus lease term is expected to be 20 years. A right-of-use asset of $6,279,494 was recognised on 1 September 2022 and it will be amortised on straight line basis over the next 20 years.

In addition, PolyNovo India leased the office building on 3 January 2023 and PolyNovo UK terminated the car lease for a sales representative who resigned in March 2023.

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

	Property $	Office equipment $	Manufacturing equipment $	Motor vehicle $	Total $
Carrying amount as at 1 July 2022	6,785,301	-	6,382	13,776	6,805,459
Additions	6,387,166	-	-	-	6,387,166
Depreciation expense	(929,799)	-	(5,253)	(7,928)	(942,980)
Termination	-	-	-	(6,167)	(6,167)
Foreign currency exchange differences	8,521	-	-	319	8,840
Carrying amount as at 30 June 2023	12,251,189	-	1,129	-	12,252,318

	Property $	Office Equipment $	Manufacturing Equipment $	Motor Vehicle $	Total $
Carrying amount as at 1 July 2021	2,193,284	1,265	19,093	25,117	2,238,759
Additions	4,957,639	-	-	-	4,957,639
Depreciation expense	(388,303)	(1,265)	(12,711)	(10,560)	(412,839)
Foreign currency exchange differences	22,684	-	-	(780)	21,904
Carrying amount as at 30 June 2022	6,785,304	-	6,382	13,777	6,805,463

The following are the amounts recognised in profit or loss in addition to low value and short term leases of $9,366 recognised during the year.

	Consolidated	
	30 June 2023 **$**	**30 June 2022** **$**
Depreciation expense of right-of-use assets	933,994	412,984
Interest expense on lease liabilities	528,044	95,216
Total amount recognised in profit or loss	1,462,038	508,200

The Group had total cash outflows for leases of $835,614 in 2023 ($461,590 in 2022).

Group as lessor

The Group has not entered into any leases as lessor.

Note 18. Prepayments

	Consolidated	
	30 June 2023	**30 June 2022**
	$	**$**
Current assets		
Prepayments	1,903,339	1,261,988
Non-current assets		
Security deposits	559,263	296,796

The non-current security deposit relates predominantly to PolyNovo's long-term lease of office premises in Port Melbourne and San Diego, USA, including the security deposit of $151,500 due to the leaseback of office premises at Unit 1/316 - 320 Lorimer Street, Port Melbourne.

Included in current prepayment are prepaid insurance of $862,893 (2022: $715,025) and other prepaid expenses.

Note 19. 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 Improvements	Construction in Progress	Total
As at 30 June 2022						
Cost	-	4,530,253	1,807,126	5,884,094	2,294,406	14,515,879
Accumulated depreciation	-	(1,950,245)	(927,800)	(1,691,749)	-	(4,569,794)
Impairment	-	-	-	-	-	-
Carrying amount at 30 June 2022	-	2,580,008	879,326	4,192,345	2,294,406	9,946,085
Carrying amount at 1 July 2021	5,125,786	537,021	737,472	438,781	10,745,338	17,584,398
Additions	-	141,831	369,648	14,826	678,733	1,205,038
Transfer to/ (from) CIP to FA (at cost)	6,725,630	2,404,036	-	-	(9,129,666)	-
Transfer (at cost)	(3,834,887)	-	-	3,834,887	-	-
Impairment	(1,372,153)	-	-	(3,679)	-	(1,375,832)
Disposals	(6,332,467)	-	-	(17,533)	-	(6,350,000)
Depreciation expense	(311,909)	(502,880)	(245,906)	(74,938)	-	(1,135,633)
Foreign exchange difference	-	-	18,114	-	-	18,114
Carrying amount at 30 June 2022	-	2,580,008	879,328	4,192,344	2,294,405	9,946,085

Note 19. Property, plant and equipment (continued)

	Land and Buildings	Laboratory Plant & Equipment	Office Equipment	Leasehold Improvements	Construction in Progress	Total
As at 30 June 2023						
Cost	-	5,658,377	2,399,681	6,637,991	2,096,381	16,792,430
Accumulated depreciation	-	(2,488,203)	(1,254,970)	(1,933,931)	-	(5,677,104)
Carrying amount at 30 June 2023	-	3,170,174	1,144,711	4,704,060	2,096,381	11,115,326
Carrying amount at 1 July 2022	-	2,580,008	879,328	4,192,343	2,294,405	9,946,084
Additions (at cost)	-	276,621	563,446	753,897	664,916	2,258,880
Transfer from CIP to FA (at cost)	-	851,503	11,437	-	(862,940)	-
Depreciation expense	-	(537,958)	(320,524)	(242,180)	-	(1,100,662)
Foreign exchange difference	-	-	11,024	-	-	11,024
Carrying amount at 30 June 2023	-	3,170,174	1,144,711	4,704,060	2,096,381	11,115,326

In June 2022, the Group sold the property located at Unit 1/316-320 Lorimer Street, Port Melbourne. Following the sale, the Group leased back the building sold with a lease term of 10 years, plus two 5-year renewal options. Details refer to note 11.

The Group derecognised the land and building assets and two leasehold improvement assets on the settlement date and reversed the accumulated depreciation expenses. According to the contract of sale, the Group would retain a portion of the building assets ($3,834,887), thus the Group transferred the assets to leasehold improvements. The Group sold and derecognised the remaining portion of building assets and land ($8,229,065).

Note 20. 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 2023.

	Consolidated	
	30 June 2023	**30 June 2022**
Non-current assets		
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	(1,115,316)	(867,468)
Amortisation for the year	(247,848)	(247,848)
Closing balance	(1,363,164)	(1,115,316)
Net book value	1,156,624	1,404,472

Note 21. Trade and other payables

	Consolidated	
	30 June 2023	30 June 2022
	$	$
Current liabilities		
Trade payables	2,737,976	1,870,809
Other payables	6,396,954	3,097,070
Total trade and other payables	**9,134,930**	**4,967,879**

	Consolidated	
	30 June 2023	30 June 2022
	$	$
Financial liabilities and non-financial liabilities		
Trade payables	2,737,976	1,824,432
Other payables	5,386,296	2,168,810
Total financial liabilities	**8,124,272**	**3,993,242**
Other payables	1,010,658	974,637
Total non-financial liabilities	**1,010,658**	**974,637**
Total trade and other payables	**9,134,930**	**4,967,879**

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 $523,710 (2022: $668,213), accrued commission of $2,095,315 (2022: $906,320), accrued other liabilities of $1,019,851 (2022: $276,801). BARDA contract liability will be recognised over the period of the contract.

Note 22. Interest-bearing loans and borrowings

	Consolidated	
	30 June 2023	30 June 2022
	$	$
Current liabilities		
Equipment Finance - current	1,014,172	981,573
Short term loan - current	383,986	348,485
	1,398,158	1,330,058
Non-current liabilities		
Equipment Finance - non current	1,788,769	2,802,940

Refer to note 26 for further information on financial risk management objectives and policies.

(a) Interest bearing facility details

Financing Facilities	**Facility Amount** $	**Maturity Date**	**Interest rate** %	**FY23 Interest expense** $
Equipment finance	3,800,000	June 2025 - May 2027	3.24%	126,966
Short term loan	2,346,650	Jul - Oct 2023	2.89%	59,135

Note 22. Interest-bearing loans and borrowings (continued)

Equipment finance facility

The purpose of this facility is to fund the purchase of capital expenditure items such as manufacturing equipment and construction of the cleanroom.

As a requirement from NAB, due to the sale and leaseback of Unit 1/320 Lorimer Street, Port Melbourne, which was previously used as a security for the debt facilities, NAB required $3,052,890 in the sale proceeds to be applied against the outstanding equipment finance facility. The new arrangement was effective when the settlement of the sale transaction took place on 14 June 2022.

The new facility is a $5.2 million revolving equipment finance facility with repayments over 5 years on each financial lease drawn at an interest rate between 2.5% to 6.0% (average rate of 3.24%). A total of $5,038,093 was drawn down in June 2022. Interest is calculated daily and payable on the last business day of each month. The current limit as at 30 June 2023 is $3.8 million.

The security over Unit 1/320 Lorimer Street, Port Melbourne was released on settlement of the sale transaction in return for General Security Agreement over PolyNovo Ltd, PolyNovo Biomaterials Pty Ltd, NovoSkin Pty Ltd and Novowound Pty Ltd.

No additional covenant requirements, except that PolyNovo needs to maintain a minimum cash balance of $1,285,000 at all times, reflective of 12 months interest payable and principal repayments of the facility.

Note 23. Lease liabilities

	Consolidated	
	30 June 2023	30 June 2022
	$	$
Current liabilities		
Lease liability - current	491,979	457,750
Non-current liabilities		
Lease liability - non current	12,364,776	6,403,721

Accounting policy for 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 the incremental borrowing rate of the lessee at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The Group exercises judgement when determining the incremental borrowing rate based on the interest that the lessee would have to pay to borrow over a similar term, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment, and observable inputs such as market interest rates are used as applicable.

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.

Subsequent to initial recognition, lease liabilities are measured at amortised cost. Lease liabilities are remeasured if there is a modification, such as a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group's lease liabilities are inclusive of extension options the Group is reasonably certain to exercise based upon our judgement as of the reporting date. Lease extension options that the Group is not reasonably certain to exercise as of the reporting date are appropriately excluded from the lease liabilities.

Note 23. Lease liabilities (continued)

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Group leased the building located at 322-326 Lorimer Street, Port Melbourne on 1 September 2022. Further details please refer to note 17.

Note 24. Provisions

	Consolidated	
	30 June 2023	30 June 2022
	$	$
Current provisions		
Annual leave	1,474,769	906,780
Long service leave	167,518	93,826
Total current provisions	1,642,287	1,000,606
Non-current provisions		
Long service leave	184,306	143,490
Make good	232,302	150,000
Total non-current provisions	416,608	293,490

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 25. Reserves

(a) Movement in contributed equity

	Consolidated	
	30 June 2023	30 June 2022
	$	$
Contributed equity at beginning of year	139,430,502	139,250,502
Issue of share capital	53,000,835	-
Capital raising costs	(1,467,526)	-
Exercise of options	627,500	180,000
Contributed equity at end of year	191,591,311	139,430,502
Number of shares authorized and fully paid		
On issue at start of year	661,688,044	661,388,044
Exercise of options	650,000	300,000
Issue of share capital - Institutional placement	15,789,474	-
Issue of share capital - Share purchase plan	10,526,285	-
Issue of share capital - Director placement	1,578,948	-
On issue at end of year	690,232,751	661,688,044

Note 25. Reserves (continued)

(b) Reserves

	Consolidated	
	30 June 2023 $	30 June 2022 $
Share-based payments reserve (i)	5,479,893	4,366,686
Foreign currency translation reserve (ii)	(1,015,794)	(334,373)
Acquisition of non-controlling interest reserve (iii)	(9,293,956)	(9,293,956)
Balance at end of period	(4,829,857)	(5,261,643)

	Consolidated	
	30 June 2023 $	30 June 2022 $
(i) Share-based payments reserve		
Balance at beginning of period	4,366,686	7,846,655
Share-based payments movement *	1,113,207	(3,479,969)
Balance at end of period	5,479,893	4,366,686

* Details of share-based payment movement refer to note 6 Employee-related expenses.

	Consolidated	
	30 June 2023 $	30 June 2022 $
(ii) Foreign currency translation reserve		
Opening balance	(334,373)	(189,915)
Translation of foreign operations	(681,421)	(144,458)
Balance at end of period	(1,015,794)	(334,373)

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 2023 $	30 June 2022 $
(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.

Note 25. Reserves (continued)

(c) Accumulated losses

	Consolidated	
	30 June 2023	**30 June 2022**
	$	**$**
Accumulated losses at beginning of year	(116,453,773)	(115,261,241)
Net loss attributable to members of the parent	(4,924,539)	(1,192,532)
Accumulated losses at end of financial year	(121,378,312)	(116,453,773)

Note 26. 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 2023	**30 June 2022**
	$	**$**
Cash and cash equivalents *	46,846,946	6,102,192
Trade and other receivables	13,333,942	5,829,275
Other financial assets **	50,000	50,000
Trade and other payables	8,124,272	3,993,242
Lease liabilities	12,856,755	6,861,471
Equipment finance facility	2,802,941	3,784,513
Short term loan	383,986	348,485

* As at 30 June 2023, PolyNovo Limited holds a 90-day term deposit of $35,000,000, at the weighted average interest rate of 4.28%.

** As at 30 June 2023, $50,000 is held in a term deposit maturing on 16 March 2024 at an interest rate of 4.5%.

Note 26. Financial Risk Management Objectives and Policies (continued)

(b) Risk management policy
The Group has a formal risk management policy and framework. The Group's approach to risk management involves identifying, assessing and managing risk, including consideration of identified risks, in the context of the Group's values, objectives and strategies. The Board is responsible for overseeing the implementation of the risk management system and reviews and assesses the effectiveness of the Group's implementation of that system.

The Group seeks to ensure that its exposure to risks that are likely to impact its financial performance, continued growth and survival are minimised in a cost-effective manner

(c) Significant accounting policies
Details of the significant accounting policies and methodologies adopted in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2.

(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 25. 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 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 2023, along with prior year comparatives, was as follows:

Note 26. Financial Risk Management Objectives and Policies (continued)

2023	Interest rate	Floating interest rate	Fixed interest rate				Non-interest bearing	Total
			0 to 90 days	91 to 365 days	1 to 5 years	over 5 years		
	%	$	$	$	$	$	$	$
Financial assets								
Cash and cash equivalents (Note)	3.25%	11,846,946	35,000,000	-	-	-	-	46,846,946
Other financial assets	4.50%	-	-	50,000	-	-	-	50,000
Trade and other receivables	-	-	-	-	-	-	13,333,942	13,333,942
Total financial assets		**11,846,946**	**35,000,000**	**50,000**	-	-	**13,333,942**	**60,230,888**
Financial liabilities								
Trade and other payables	-	-	-	-	-	-	8,124,272	8,124,272
Short term loan	2.89%	383,986	-	-	-	-	-	383,986
Equipment Finance Facility	3.24%	2,802,941	-	-	-	-	-	2,802,941
Lease liabilities	4.51%	-	110,665	388,521	2,867,075	9,490,494	-	12,856,755
Total financial liabilities		**3,186,927**	**110,665**	**388,521**	**2,867,075**	**9,490,494**	**8,124,272**	**24,167,954**

Note: As at 30 June 2023, PolyNovo Limited holds a 90-day term deposit of $35,000,000, at the weighted average interest rate of 4.28%.

Note 26. Financial Risk Management Objectives and Policies (continued)

2022	**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	0.16%	6,102,192	-	-	-	-	-	6,102,192
Other financial assets	1.09%	-	-	50,000	-	-	-	50,000
Trade and other receivables		-	-	-	-	-	5,829,275	5,829,275
Total financial assets		**6,102,192**	-	**50,000**	-	-	**5,829,275**	**11,981,467**
Financial liabilities								
Trade and other payables		-	-	-	-	-	3,993,242	3,993,242
Short term loan	2.51%	348,485	-	-	-	-	-	348,485
Equipment Finance Facility	3.24%	3,784,513	-	-	-	-	-	3,784,513
Leases liabilities	3.90%	6,861,471	-	-	-	-	-	6,861,471
Total financial liabilities		**10,994,469**	-	-	-	-	**3,993,242**	**14,987,711**

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) 2023 $	**Loss (higher)/ lower Equity higher/(lower) 2022** $
+ 1% (100 basis points)	118,969	61,552
- 1% (100 basis points)	(118,969)	(61,552)

The range of +1%/-1% as an assumption is based on current macro-market economic conditions in which the group holds its cash and cash equivalent balances.

Note 26. Financial Risk Management Objectives and Policies (continued)

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 2023, 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 $
2023					
Trade and other receivables	10,629,148	1,428,366	640,159	636,269	13,333,942
2022	-	-	-	-	-
Trade and other receivables	5,336,119	379,296	10,871	102,989	5,829,275

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:

30 June 2023	**Less than 3 months**	**3 to 12 months** $	**1 to 5 years** $	**Over 5 years** $	**Total**
Trade and other Payables	7,992,433	121,910	9,929	-	8,124,272
Interest-bearing loans and borrowings*	644,818	763,897	1,778,212	-	3,186,927
Lease Liabilities	110,665	388,521	2,867,075	9,490,494	12,856,755
Total	**8,747,916**	**1,274,328**	**4,655,216**	**9,490,494**	**24,167,954**

30 June 2022	**Less than 3 months** $	**3 to 12 months** $	**1 to 5 years** $	**Over 5 years** $	**Total** $
Trade and other payables	3,626,811	246,801	18,157	101,473	3,993,242
Interest-bearing loans and borrowings*	590,836	739,222	2,802,940	-	4,132,998
Lease Liabilities	111,924	345,826	1,575,784	4,827,937	6,861,471
Total	**4,329,571**	**1,331,849**	**4,396,881**	**4,929,410**	**14,987,711**

* Interest-bearing loans and borrowings include short term loan and equipment finance loan facility.

Note 26. Financial Risk Management Objectives and Policies (continued)

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, EUR, CAD and INR. To reduce foreign currency risk exposure, the Group maintains an amount of cash and cash equivalents in USD, NZD, GBP, EUR, CAD and INR. The Group receives payment from its overseas customers in USD, NZD, GBP, EUR, INR and pays USA, NZD, GBP, EURO and INR 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 CAD and INR bank account given the new incorporation of India subsidiary and Canada branch and will open an HKD bank account in near future.

The holdings of cash and cash equivalents, trade receivables and trade payables analysed by nominated currency at 30 June 2023, along with prior year comparatives, were as follows. These are amounts in foreign sub with same functional currency as foreign currency stated.

30 June 2023	Denominated in AUD	Denominated in USD	Denominated in NZD	Denominated in GBP	Denominated in EURO	Denominated in SGD	Denominated in CAD	Denominated in INR	Total
	$	$	$	$	$	$	$	$	$
Financial assets									
Cash and cash equivalents	37,379,970	7,115,546	414,091	751,267	299,715	-	411,223	475,134	46,846,946
Trade and other receivables	4,763,235	7,252,592	4,405	1,116,675	146,967	49,635	-	433	13,333,942
Other financial assets	50,000								50,000
Total financial assets	**42,193,205**	**14,368,138**	**418,496**	**1,867,942**	**446,682**	**49,635**	**411,223**	**475,568**	**60,230,888**
Financial liabilities									
Trade and	-	-	-	-	-	-		-	-
other payables	3,370,741	4,252,973	19,818	228,369	43,972	37,733	-	170,666	8,124,272
Total financial	**-**	**-**	**-**	**-**	**-**	**-**		**-**	**-**
liabilities	**3,370,741**	**4,252,973**	**19,818**	**228,369**	**43,972**	**37,733**	**-**	**170,666**	**8,124,272**
Total	**38,822,464**	**10,115,165**	**398,678**	**1,639,573**	**402,710**	**11,902**	**411,223**	**304,902**	**52,106,617**

Note 26. Financial Risk Management Objectives and Policies (continued)

30 June 2022	**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	2,615,989	2,548,706	70,217	789,280	78,000	-	6,102,192
Receivables	924,280	3,888,211	288,857	591,661	108,552	27,714	5,829,275
Other financial assets	50,000	-	-	-	-	-	50,000
Total financial assets	3,590,269	6,436,917	359,074	1,380,941	186,552	27,714	11,981,467
Financial liabilities							
Trade and other payables	(2,056,858)	(1,612,329)	(42,025)	(214,598)	(34,104)	(33,328)	(3,993,242)
Total headroom/ (shortfall)	**1,533,411**	**4,824,588**	**317,049**	**1,166,343**	**152,448**	**(5,614)**	**7,988,225**

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 2023) with all other variables held constant would have the following effect on the loss and equity for the year ended 30 June 2023 for the Group:

2023 **Country**	**$**	
United States of America	(56,543)	Unfavorable
United Kingdom	(22,718)	Unfavorable
New Zealand	(2,502)	Unfavorable
Singapore	(7,114)	Unfavorable
Ireland	(1,905)	Unfavorable
India	(1,177)	Unfavorable
Total	**(91,959)**	

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

Note 27. Key management personnel disclosures

The key management personnel compensation disclosures required by the *Corporations Act 2001* are provided in the Remuneration Report in the Directors' Report.

(a) Details of key management personnel
The key management personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the 2022 and 2023 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

Note 27. Key management personnel disclosures (continued)

	Consolidated	
	30 June 2023 $	30 June 2022 $
Short term	1,838,174	1,256,880
Post-employment - superannuation	83,491	114,601
Leave allowances	65,991	(63,599)
Share-based payments	906,824	(4,029,641)
	2,894,480	(2,721,759)

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

Issue Date	Expiry date	Exercise price	2023 number outstanding	2022 number outstanding
Jan Gielen				
6/03/2019	30/06/2021	$0.60	-	-
6/03/2019	30/06/2022	$0.60	-	-
6/03/2019	30/06/2023	$0.60	-	400,000
Subtotal			**-**	**400,000**
Swami Raote				
29/07/2022	29/07/2025	$1.64	1,000,000	-
29/07/2022	29/07/2026	$1.64	1,000,000	-
29/07/2022	29/07/2027	$1.64	1,000,000	-
29/07/2022	29/07/2028	$1.64	1,000,000	-
29/07/2022	29/07/2029	$1.64	1,000,000	-
Subtotal			**5,000,000**	**-**
David McQuillan				
2/09/2022	30/05/2025	$1.81	400,000	-
2/09/2022	30/05/2025	$1.81	400,000	-
2/09/2022	30/05/2026	$1.81	400,000	-
Subtotal			**1,200,000**	-
Philip Scorgie				-
22/05/2023	31/05/2028	$1.37	150,000	-
22/05/2023	31/05/2028	$1.37	150,000	-
22/05/2023	31/05/2028	$1.37	200,000	-
Subtotal			**500,000**	-

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

(e) Other transactions with Directors
Kidder Williams Ltd, an entity associated with David Williams, received payment in the amount of $110,000, GST inclusive. The payment was at standard commercial terms and conditions in respect to consulting services provided to PolyNovo Limited in relation to the capital raising.

Other than as noted above, there were no transactions with related parties during the year ended 30 June 2023.

Note 28. 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 year end 30 June 2023, 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 2023 $	30 June 2022 $
Audit Services - Ernst & Young (Australia)		
Fees for auditing the statutory financial report of the parent covering the group and auditing the statutory financial reports of any controlled entities	386,520	295,285
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		
- Agreed-upon procedures and other audit engagements	-	-
Fees for other services	-	-
Total fees to Ernst & Young (Australia)	386,520	295,285
Audit Services - Ernst & Young Overseas Member Firms		
Fees for assurance services that are required by legislation to be provided by the auditor	27,821	26,057
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		
- Agreed-upon procedures and other audit engagements	-	-
Fees for other services	-	-
Total fees to overseas member firms of Ernst & Young (Australia)	27,821	26,057
Total audit and other assurance services	414,341	321,342
Total non-audit services*	149,933	177,358
Total auditor's remuneration	564,274	498,700

* Non-audit services include taxation services and company secretary services.

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 29. Commitments and Contingencies

The Directors are not aware of any contingent liabilities or contingent assets at 30 June 2023. There has been no change in this assessment up to the date of this report.

Note 30. Related party transactions

Related party transactions are disclosed under note 27 Key management personnel.

Note 31. Parent entity information

	Parent	
	30 June 2023	30 June 2022
	$	$
Profit/(loss) after income tax	(2,364,644)	1,511,500
Total comprehensive income	(2,364,644)	1,511,500

Statement of financial position

	Parent	
	30 June 2023	30 June 2022
	$	$
Total current assets	101,115,691	49,344,921
Total assets	107,147,252	55,376,482
Total current liabilities	8,759,078	7,897,680
Total liabilities	8,759,078	7,897,680
Equity		
Issued capital	191,591,311	139,430,502
General reserve	(484,326)	(1,597,533)
Accumulated losses	(92,718,811)	(90,354,167)
Total equity	98,388,174	47,478,802

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 32. 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	
	Principal place of business /	30 June 2023	30 June 2022
Name	Country of incorporation	%	%
PolyNovo Limited	Australia	100%	100%
PolyNovo North America LLC	United States	100%	100%
PolyNovo Biomaterials Pty Ltd	Australia	100%	100%
NovoSkin Pty Ltd	Australia	100%	100%
NovoWound Pty Ltd	Australia	100%	100%
PolyNovo NZ Limited	New Zealand	100%	100%
PolyNovo Singapore Private Ltd	Singapore	100%	100%
PolyNovo UK Limited	United Kingdom	100%	100%
PolyNovo Ireland Ltd	Ireland	100%	100%
PolyNovo Hong Kong Limited	Hong Kong special administrative Region, China	100%	-
PolyNovo Biomaterials India Private Limited	India	100%	-

Note 33. Events after the reporting period

No matter or circumstance has arisen since 30 June 2023 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 34. Loss per share

	Consolidated	
	30 June 2023 $	30 June 2022 $
Loss after income tax attributable to the owners of PolyNovo Limited	(4,924,539)	(1,192,532)
	Number	**Number**
Weighted average number of ordinary shares used in calculating loss per share	684,454,164	660,874,406
	684,454,164	660,874,406
	Cents	**Cents**
Basic loss per share	(0.72)	(0.18)
Diluted loss per share	(0.72)	(0.18)

Basic loss per share
Basic loss 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 loss per share
Diluted loss 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 2023 there existed share options that if vested, would result in the issue of additional ordinary shares over the period to FY2028. 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 loss 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 23 August 2023 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 35. Share-based payments

(a) Employee share-based payment plans

The Group 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 2022 and 30 June 2023 are ($3,479,969) and $1,113,207 respectively.

During the year ended 30 June 2022, previous CEO and COO resigned thus their share options and awards were forfeited.

(b) Employee share-based payment details

Employee share-based payment details are summarised in below table.

Note 35. Share-based payments (continued)

2023	Balance at 1 July 2022	Options granted	Options exercised	Options forfeited	Balance at 30 June 2023	Total vested at end of year	Share-based payments expense ($)
Key management personnel							
Mr Jan Gielen	400,000	-	400,000	-	-	-	-
Mr Swami Raote	-	5,000,000	-	-	5,000,000	-	716,338
Dr David McQuillan	-	1,200,000	-	-	1,200,000	-	180,411
Mr Philip Scorgie	-	500,000	-	-	500,000	-	10,075
Subtotal	**400,000**	6,700,000	**400,000**	**-**	**6,700,000**	**-**	**906,824**
Other employees							
Mr Ed Graubart	1,000,000	250,000	250,000	250,000	750,000	-	(58,261)
Mr Joshua Cheetham	500,000	-	-	-	500,000	-	134,561
Mr Ahmed Hassan	500,000	-	-	-	500,000	150,000	130,083
Subtotal	**2,000,000**	**250,000**	250,000	250,000	**1,750,000**	150,000	**206,383**
Total	**2,400,000**	**6,950,000**	**650,000**	**250,000**	**8,450,000**	**150,000**	**1,113,207**

(c) Share options granted in FY2023

During the year ended 30 June 2023, share options were issued to below 3 key management personnel and 1 employee.

Details of 3 key management personnel are summarised in below table. Exercise price, vesting hurdle and expiry dates please refer to Remuneration Report.

Tranche	Grant date	Number of Options	Risk-free rate%	Volatility %	Average fair value per option $
Swami Raote					
Tranche 1	29/07/2022	1,000,000	2.83%	59.15%	0.702
Tranche 2	29/07/2022	1,000,000	2.88%	57.96%	0.778
Tranche 3	29/07/2022	1,000,000	2.93%	62.82%	0.889
Tranche 4	29/07/2022	1,000,000	2.98%	64.11%	0.940
Tranche 5	29/07/2022	1,000,000	3.03%	65.80%	1.062
Subtotal		**5,000,000**			
David McQuillan					
Tranche 1	02/09/2022	400,000	3.25%	69.58%	0.408
Tranche 2	02/09/2022	400,000	3.25%	69.58%	0.423
Tranche 3	02/09/2022	400,000	3.33%	65.31%	0.502
Subtotal		**1,200,000**			
Philip Scorgie					
Tranche 1	22/05/2023	150,000	3.15%	62.47%	0.682
Tranche 2	22/05/2023	150,000	3.15%	62.47%	0.621
Tranche 3	22/05/2023	200,000	3.15%	62.47%	0.541
Subtotal		**500,000**			

Details of the employee that was granted share options during the year ended 30 June 2023 are summarised in below table.

Note 35. Share-based payments (continued)

Tranche	Grant date	Number of options	Exercise price $	Vesting hurdle	Risk-free interest rate %	Volatility %	Expiry	Average fair value per option $
Ed Graubart								
Tranche 5	01/07/2022	250,000	$1.21	The options cannot vest or be exercised until after the two-year anniversary of employment and until such time as shares in PolyNovo have been trading at all times above $1.21 per option for a continuous 3-month period.	3.17%	60.46%	13/08/2026	$0.597

Key valuation assumptions for the Employee Share Options:

The fair value of options granted during the year ended 30 June 2023 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.

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 average exercise date which is the average midpoint between vesting date and option expiry date.
Risk-free interest rate	The risk free interest rates are derived from the Australian Government Bonds as at Valuation Date. The terms to maturity have been selected to align with the expected life of the options.
Dividend yield	The dividend yield is the rate of dividend expressed as a continually compounded percentage of the share price. In determining an appropriate dividend yield, forecasted dividend information provided by the management of PolyNovo Limited has been relied upon.
Expected volatility	A share's volatility measure captures the charateristics of fluctuations in the share's price. The value of options is extremely sensitive to the volatility measure and as a result great care should be taken in determining the appropriate volatility percentage. To accurately value options, a volatility measure should be selected that is most likely to represent the future volatility of the shares during the life of the options: the implied volatility. Accordingly, in determining the expected volatility, the historical market 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

PolyNovo Limited
Directors' declaration
30 June 2023

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 2023 and of their performance for the year ended on that date;

- complying with Australian Accounting Standards and *Corporations Regulations 2001*; and

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 2023.

On behalf of the directors

____
Mr David Williams
Chairman

23 August 2023

Building a better working world

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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 2023, 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 2023 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 matter

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. The matter was 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 the matter. For the 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 the matter. 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 matter below, provide the basis for our audit opinion on the accompanying financial report.

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Recognition of Revenue

Why significant	How our audit addressed the key audit matter
The Group has recognised revenue from the sale of commercial products and revenue from services performed in respect of research and development activities. Revenue from contracts with customers for the year ended 30 June 2023 was $65.2 million. For sales of commercial products, revenue is recognised upon delivery of the product to the customer. The Group sells to customers in various geographical territories. Commercial product sales have significantly increased this financial year. Services revenue is recognised as the services are delivered. Notes 2, 3 and 4 of the financial statements outline the Company's accounting policies with respect to revenue recognition and revenue disclosures. Revenue recognition was considered a key audit matter due to the sales volumes and diversity of customer arrangements entered into by the Group.	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. ► Assessed on a sample basis, whether revenue was correctly recognised based on the products delivered as at 30 June 2023 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 the appropriateness the disclosures in relation to the Group's revenue recognition and disaggregation of revenue in accordance with AASB 15 *Revenues from Contracts with Customers* as outlined in Notes 2, 3 and 4 of the financial statements.

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 2023 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 we do not and will 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.
- 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.

Building a better working world

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

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

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

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

Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 15 to 25 of the directors' report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of PolyNovo Limited for the year ended 30 June 2023, 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
23 August 2023

PolyNovo Limited
Shareholder information
30 June 2023

Additional Information Required by ASX
For the year ended 30 June 2023

Ordinary Shares

As at 7 August 2023 there were 690,232,751 ordinary shares on issue held by 19,999 shareholders.
Each ordinary share carries one vote per share.

Top 20 Shareholders as at 7 August 2023

Shareholder	Number of shares	% Units
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	94,468,202	13.69
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	58,519,477	8.48
CITICORP NOMINEES PTY LIMITED	26,811,635	3.88
MOGGS CREEK PTY LTD (MOGGS CREEK SUPER A/C)	19,010,112	2.75
BNP PARIBAS NOMS PTY LTD (DRP)	12,383,050	1.79
LATERAL INNOVATIONS PTY LTD (TRUST A/C)	10,924,103	1.58
NATIONAL NOMINEES LIMITED	8,413,960	1.22
MR ANTHONY SHANE KITTEL + MRS MICHELE THERESE KITTEL (KITTEL FAMILY SUPER A/C)	8,055,789	1.17
BNP PARIBAS NOMINEES PTY LTD (IB AU NOMS RETAILCLIENT DRP)	5,909,896	0.86
SANDHURST TRUSTEES LTD (ENDEAVOR ASSET MGMT MDA A/C)	5,739,049	0.83
NETWEALTH INVESTMENTS LIMITED (WRAP SERVICES A/C)	4,276,587	0.62
MS SIMONE MAREE BEKS	4,185,095	0.61
MR PAUL GERARD BRENNAN	4,185,095	0.61
COMMONWEALTH SCIENTIFIC AND INDUSTRIAL RESEARCH ORGANISATION	4,081,250	0.59
MR MATTHEW JAMES AVERY	3,631,338	0.53
MRS LI-HSIEN TSAI	3,292,698	0.48
MR DAVID KENLEY	3,139,855	0.45
DR MARCUS JAMES DERMOT WAGSTAFF + MRS LARA KATE WAGSTAFF	3,072,166	0.45
MR LAURENT FOSSAERT	2,929,961	0.42
MR CHRIS DAWBORN (HASKALI SUPER FUND A/C)	2,870,271	0.42
Total	285,899,589	41.43

Unquoted Securities
Share options over unissued shares
As at 30 June 2023, a total of 8,450,000 share options over ordinary shares are on issue held by 6 employees. Share options do not carry a right to vote.

PolyNovo issued 6,700,000 share options during the year ended 30 June 2023. Details of the share options issued are included in note 35.

Share awards over unissued shares
As at 30 June 2023, nil share awards over ordinary shares are on issue. Share awards do not carry a right to vote.

The range of shareholders based on number of shares held as at 7 August 2023 is as follows:

Range of Units As at 7 August 2023	**Number of holders**	**Number of shares**
1 to 1,000	5,784	3,132,030
1,001 to 5,000	6,727	18,475,646
5,001 to 10,000	2,636	20,461,479
10,001 to 100,000	4,153	128,533,048
100,001 and over	699	519,630,548
	19,999	690,232,751
Holding less than a marketable parcel	1,668	311,562

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.

Shareholder	Number of shares	%
HSBC Custody Nominees (Australia) Limited	94,468,202	13.69
JP Morgan Nominees Australia Pty Ltd	58,519,477	8.48
	152,987,679	22.17

Quotation of the Company's Shares
PolyNovo has been granted official quotation for its shares on the Australian Securities Exchange (ASX Code: PNV).

Non-executive Chairman	Mr David Williams
Non-executive Directors	Dr Robyn Elliott Ms Christine Emmanuel-Donnelly Mr Leon Hoare Mr Bruce Rathie Mr Andrew Lumsden
Chief Executive Officer	Mr Swami Raote
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