



ABN 96 083 866 862

2/320 Lorimer Street, Port Melbourne VIC 3207

Tel: +61 3 8681 4050 Fax: +61 3 8681 4099

## Appendix 4E

### Preliminary Final Report

Name of entity: PolyNovo Limited

ABN: 96 083 866 862

Reporting period: 30 June 2015

Previous corresponding  
period: 30 June 2014

#### Index

1. Results for the year ended 30 June 2015
2. Annual Report for the year ended 30 June 2015

## Results for the Year Ended 30 June 2015

PolyNovo Ltd today released its financial results for the year ended 30 June 2015. For the period the Group reported a net operating loss after tax of \$1.414m, a decrease of 52% from the prior year loss of \$2.942m.

The decrease in the loss is predominantly attributable to sale of Metabolic Pharmaceuticals Pty Ltd on 7 May 2015 for \$1.5m.

During the 30 June 2015 period the Board appointed Mr Paul Brennan as Chief Executive Officer, and also increased the number of staff in PolyNovo in the clinical, regulatory, quality and manufacturing roles. These additions will enhance the prospects of the PolyNovo business by improving the development and regulatory processes increasing the speed to market.

Positive developments for the year and key upcoming events include:

- The 510(k) submission for surgical wounds was submitted. We expect a decision by the Food and Drug Authority (FDA) in January 2016. Should the submission be successful PolyNovo will have the ability to market NovoSorb™ in the USA for surgical wounds which is a significant commercial step for the business;
- Significantly advanced our CE Mark process with the commencement of clinical trials in Toulon, France and The Alfred Hospital, Melbourne. A third site is anticipated to be added to the trial in the near term. These trials will lead to our CE Mark registration opening up commercial market access in many regions of the world;
- The human trial in burns and the use of NovoSorb™ under the authorised prescriber scheme continues to provide further encouraging evidence of the benefits of the NovoSorb™ material in the treatment of full thickness burns and surgical wounds;
- Confidential discussions are occurring with a number of local and international parties about non-dilutive funding for trials and commercialisation opportunities; and
- PolyNovo sold Metabolic Pharmaceuticals Pty Ltd for \$1.5m, retaining a royalty stream and a share of proceeds should the business be sold. This transaction has left PolyNovo as a pure-play company focussing on the development and commercialisation of our biodegradable polymer technology.

Further details in respect to the Company operations are provided in the attached Annual Report.

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

Revenues and results from Ordinary Activities:	Change from 2014 %		2015 \$
Revenues from ordinary activities	down	42	to 140,721
Net loss for the period after tax	down	52	to (1,414,321)
Loss from ordinary activities after tax			
attributable to members	down	56	to (1,302,446)
Net loss for the period attributable			
to members	down	56	to (1,302,446)
<b>Dividends</b>			
No dividends have been paid or declared by the board since the beginning of the current reporting period.			
No dividends were paid for the previous corresponding period.			
<b>Explanation on figures reported above</b>			
The Directors report that the loss for the period after tax was \$1.414m compared with a loss of \$2.941m in the prior corresponding period.			
<ul style="list-style-type: none"> <li>The decrease in loss is predominantly attributable to the revenue from the sale of all the shares of Metabolic Pharmaceuticals Pty Ltd and all Metabolic intellectual property held by PolyNovo. Metabolic was sold for \$1,500,000.</li> <li>Total revenue of \$140,721 was recognised for the year compared to \$244,577 in the prior year. The decrease is due to lower interest revenue and licence revenue in the current year.</li> <li>Employee related expenses increased to \$1,648,576 compared to \$1,570,477 in 2014. This is due to the expensing of share options to Directors of \$139,616, increase in employee costs associated with the appointment of new staff, and the severance payment to the previous CEO of \$128,661.</li> <li>In the 2015 financial year, PolyNovo received cash inflows in the form of tax benefits of \$939,461 (2014: \$804,584), relating to the Group's 2014 Research and Development tax benefit. PolyNovo has accrued \$822,298 in respect to the Group's 2015 Research and Development tax benefit. PolyNovo has filed an application with AusIndustry to allow overseas Research and Development expenditure to be claimed,</li> </ul>			

however at the date of this report a decision in respect to this submission has not been made.

- Net assets at year end totalled \$7,393,306, a decrease from \$8,668,011 at 30 June 2014. The decrease in assets is a result of lower cash holdings in the current year.
- At year end PolyNovo had cash on hand and cash held in term deposits (including those classified as a financial asset in the Statement of Financial Position) of \$3,520,454.

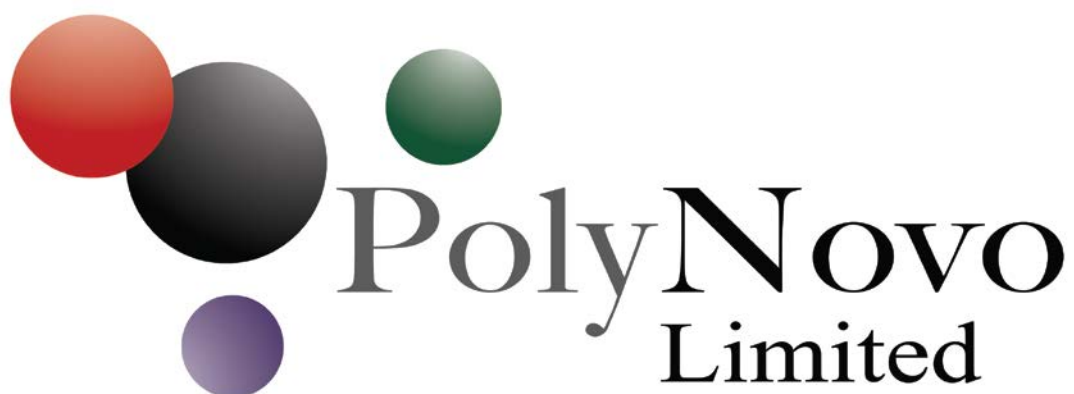
**Entities the Company gained control of during the period**

Nil.

<b>Earnings per share</b>	<b>2015</b>	<b>2014</b>
Basic	(0.33)	(0.71)
Diluted	(0.33)	(0.71)
<b>Net tangible assets</b>	<b>2015</b>	<b>2014</b>
Net tangible asset backing per security	\$0.0122	\$0.0152

The financial statements have been audited. The Annual Report including the auditor's report is attached.

Further details in respect to the financial results reported above are provided in the attached Annual Report.



ABN 96 083 866 862

## Annual Report

For the year ended 30 June 2015

## Table of Contents

---

Message from the Chairman	3
Directors' Report	4
Board of Directors and Senior Management	4
Review of Operations	7
Corporate Governance Statement	14
Remuneration Report	20
Directors' Declaration	34
Consolidated Statement of Comprehensive Income	35
Consolidated Statement of Financial Position	36
Consolidated Statement of Changes in Equity	37
Consolidated Cash Flow Statement	38
Notes to the Financial Statements	39
Independent Auditor's Report	71
Additional Information Required by ASX	73
Corporate Directory	75

# CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT

Dear Shareholder,

During FY 2015 the Board of PolyNovo identified the need to significantly and quickly increase clinical trials, regulatory filings, and more generally our commercial prospects. In order to achieve this the company required a larger management team. Accordingly we have appointed a new Chief Executive Officer and increased our regulatory team and manufacturing staff. We have more team building to do in FY 2016.

We saw a need to address the corporate structure and as a result Metabolic was divested for \$1,500,000. We retained a potential royalty stream and a share of proceeds should that business be sold. The sale of Metabolic has left PolyNovo as a pure-play company focused on developing and commercialising its NovoSorb™ polymer technology.

Our commercialisation activities have been focussed on burns and surgical wounds applications. PolyNovo submitted its 510(k) for surgical wounds with the Food and Drug Administration (FDA) and we are currently working through the consultative processes with the FDA. We expect a determination by the FDA of our 510(k) application will be made by early 2016.

PolyNovo is also focused on developing its product pipeline in the areas of hernia repair, breast sling and reconstructive surgery, urology applications and active coating technologies. In each of these applications we are in discussions with potential commercial partners and we are optimistic we will be able to make announcements on these in the medium term.

The highlights for FY 2015 are as follows:

- Paul Brennan commenced as Chief Executive Officer in February. Paul is an industry leader with a skill set that can capitalise on PolyNovo's promising development portfolio and importantly progress us towards commercialisation;
- We have added significant depth by appointing key staff with regulatory, production and project management skillsets to drive our commercialisation process;
- We have advanced our CE Mark process for burns and surgical wounds with clinical trials starting in Toulon, France and The Alfred Hospital, Melbourne. The option of a third site is possible in the near term. These trials will hopefully lead to our CE Mark registration, which will open up commercial market access in many regions of the world. Markets who recognise the CE Mark include Australia, New Zealand South East Asian Markets and India;
- During the financial year PolyNovo submitted a funding application with BARDA. A successful outcome would result in a non-dilutive funded burns trial of BTM which when completed would enable use in the US. The Board will advise shareholders once BARDA has made a final decision on PolyNovo's submission;
- The refurbishment of our Cleanroom production facilities. We now have a certified class 7 clean-room with the ability to commercially supply volume product;
- Recertification of TÜV-SÜD Good Manufacturing Practice (GMP) and ISO13485. Our Quality System is robust and essential for us to be seen as a world class manufacturer; and
- We have strengthened our patent position through the filing of further patents on the NovoSorb™ foam product.

There are many things being pursued simultaneously including the 510(k), BARDA and clinical trials. However the above list provides a sense of the energy in the business and the optimism we have for the future

David Williams

Chairman

Paul Brennan

Chief Executive Officer

## DIRECTORS' REPORT

The Board of Directors of PolyNovo Limited resolved to submit the following report together with the consolidated Annual Financial Report in respect of the financial year ended 30 June 2015.

### Board of Directors and Senior Management

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

#### **Mr David Williams (B.Ec (Hons), M.Ec, FAICD)**

##### NON-EXECUTIVE CHAIRMAN

Mr Williams was appointed as a Non-executive Director on 28 February 2014 and Chairman on 13 March 2014.

Mr Williams is an experienced Director and Investment Banker with a proven track record in business development and strategy, as well as in corporate initiatives specialising in mergers and acquisitions and capital raising. He has more than 30 years' experience working with and advising ASX listed companies in the food, medical device and pharmaceutical sectors.

Mr Williams is currently Chairman of ASX Listed Medical Developments International Ltd. (ASX:MVP), and is Managing Director of corporate advisory firm Kidder Williams Ltd. Mr Williams resigned as Non-executive Director of IDT (ASX:IDT) on 19 May 2015.

#### **Dr David McQuillan (PhD)**

##### NON EXECUTIVE DIRECTOR/JOINT ACTING MANAGING DIRECTOR

Dr McQuillan was appointed a Director of PolyNovo on 6 August 2012 and Joint Acting Managing Director from 15 July 2014 to 13 February 2015. Dr McQuillan possesses extensive technical, medical, scientific and regulatory knowledge, as well as merger and acquisition expertise.

Dr McQuillan was with LifeCell Inc/Kinetic Concepts Inc for 12 years, and served a number of roles of increasing responsibility, including Vice-President for Research and Development at LifeCell, and Senior Vice President of Advanced Research and Technology at KCI.

He was co-founder and Chief Scientific Officer for TELA Bio, a VC-funded development-stage biotechnology company from 2013 to 2015.

He currently serves as an operating partner of 1315 Capital, a private equity partnership that provides capital to commercial-stage pharmaceutical, medical technology, and healthcare services companies

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

##### NON-EXECUTIVE DIRECTOR

Mr Rathie is an experienced company director and lawyer holding degrees in law, commerce and business having practiced as a partner in a large legal firm and then as senior in-house counsel to Bell Resources Limited from 1980 to 1985 in aggregate. He studied for his MBA in Geneva and then went into investment banking in 1986.

Bruce was Head of the Industrial Franchise Group at Salomon Smith Barney in the late 1990's and led Salomon's roles in the Federal Government's privatisation of Qantas, Commonwealth Bank (CBA3) and Telstra (T1). He now has over 15 years' experience as a professional non-executive company director.

He is currently Chairman of eftpos Payments Australia Limited (6 years), Executive Chairman of DataDot Technology Limited (6 years) and a non-executive director of Capricorn Society Limited (7 years).



In the medical device space, he was previously a director of Compumedics Limited (2 years) and USCOM Limited (5 years) and has been a non-executive director of PolyNovo Limited since February 2010 (5 years). In addition, he was previously Chairman of Anteo Diagnostics Limited (3 years)

### **Mr Max Johnston**

#### **NON-EXECUTIVE DIRECTOR**

Mr Johnston was appointed a Non-executive Director on 13 May 2014.

Mr Johnston held the position of President and Chief Executive Officer of Johnson & Johnson Pacific, the world's largest Medical, Pharmaceutical and Consumer Healthcare Company for 11 years. Prior to joining Johnson & Johnson, Mr. Johnston's career also included senior roles with Diageo and Unilever in Europe.

Mr Johnston has also held several prominent industry roles as a past President of ACCORD Australasia Limited, a former Vice Chairman of the Australian Food and Grocery Council and a former member of the board of ASMI. Mr Johnston has had extensive overseas experience during his career in leading businesses in both Western and Central-Eastern Europe, Africa as well as Asia-Pacific.

Mr Johnston is currently a Non-executive Director of Medical Developments International Ltd (ASX:MVP), Enero Group Limited (ASX:EGG), and Non-executive Chairman of Probiotec Ltd (ASX:PBP).

### **Mr Philip Powell B Comm (Hons), ACA, F.Fin, MAICD**

#### **NON EXECUTIVE DIRECTOR/JOINT ACTING MANAGING DIRECTOR**

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

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

### **Dr Roger Aston (BSc (Hons) PhD)**

#### **NON-EXECUTIVE DIRECTOR**

Dr. Roger Aston was appointed Non-executive Chairman of PolyNovo Limited on 15 November 2013 and Non-executive Director on 13 March 2014. He resigned on 10 September 2014.

Dr Aston is both a scientist and seasoned biotechnology entrepreneur, with a successful track record in both fields. He currently has several executive and Non-executive board positions with prominent biotechnology companies. He has had extensive experience on boards of many pharmaceutical companies, and has been CEO of Pitney Pharmaceuticals Ltd, Psimedica, Psioncology Pty Ltd, Peptech and Cambridge Antibody Technology.

In 2001, he co-founded pSivida Limited. He served as the Chief Executive Officer of Halcyon Ltd, and as Chief Executive Officer of Mayne Pharma Group Limited until 15 February 2012. During his career, he has been closely involved in start-up companies and major pharmaceutical companies. Aspects of his experience include FDA and EU product registration, clinical trials, global licensing agreements, fundraising through private placements, and a network of contacts within the pharmaceutical, banking and stock broking sectors.

Dr Aston is currently Executive Chairman of Pharmaust (ASX:PAA) and Non-executive Director of Regeneus (ASX:RGS), Oncosil Limited (ASX:OSL) and Non-executive Chairman of Immuron Limited (ASX: IMC)

## **Mr Paul Brennan (MBA, BSc (nursing) RN RM)**

### **CHIEF EXECUTIVE OFFICER**

Mr Brennan was appointed CEO of PolyNovo Ltd on 16 February 2015. Mr Brennan has extensive knowledge, exposure and understanding of the health through his clinical background and commercial exposure with various multinational companies. He has co-ordinated the marketing, global strategy development, new product development and regulatory processes for the Asia-Pacific region for industry leading organisations in relation to medical products and devices.

He has an intimate knowledge of the manufacturing / production processes.

Previously he was the Marketing Director Australia and New Zealand and Sales Director New Zealand for Smith & Nephew Healthcare from 2008 to his commencement with PolyNovo in February 2015. Mr Brennan holds a Masters of Business Administration (MBA) from Swinburne University, a Bachelor of Science (Nursing) from the University of New England in NSW, Certificate in Midwifery Central Coast Area Health Service NSW and General Nursing Certificate St.Vincent's Hospital Darlinghurst NSW.

## **Mr Chris Mews (CPA, ACIS)**

### **COMPANY SECRETARY/CHIEF FINANCIAL OFFICER**

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

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

## **Principal Activities**

PolyNovo Limited owns 100% of PolyNovo Biomaterials Pty Ltd.

PolyNovo Biomaterials owns 80% of NovoSkin & NovoWound.

PolyNovo Biomaterials employs 8.8 (FTE) staff. Where required, PolyNovo outsources to expert contractors and consultants to gain access to the best possible expertise for continued advancement of its development assets. With the increased development work planned further expansion of staff will be required

### **Financial Results**

PolyNovo reported a net loss after tax of \$1,414,321 for the 2015 financial year. This was a decrease of 52% from the prior year loss of \$2,941,975.

Major factors in the result were as follows:

- The decrease in loss is predominantly attributable to the revenue from the sale of all the shares of Metabolic Pharmaceuticals Pty Ltd and all Metabolic intellectual property held by PolyNovo. Metabolic was sold for \$1,500,000.
- Total revenue of \$140,721 was recognised for the year compared to \$244,577 in the prior year. The decrease is due to lower interest revenue and licence revenue in the current year.
- Employee related expenses increased to \$1,648,576 compared to \$1,570,477 in 2014. This is due to the expensing of share options to Directors of \$139,616, an increase in employee costs associated with the appointment of new staff, and the severance payment to the previous CEO of \$128,661.
- In the 2015 financial year, PolyNovo received cash inflows in the form of tax benefits of \$939,461 (2014: \$804,584), relating to the Group's 2014 Research and Development tax benefit. PolyNovo has accrued \$822,298 in respect to the Group's 2015 Research and Development tax benefit. PolyNovo has filed an application with AusIndustry to allow overseas Research and Development expenditure to be claimed; however at the date of this report a decision in respect to this submission has not been made.
- A decrease in interest income from \$184,381 to \$118,382 was reported for the period. This primarily reflects lower cash holdings and interest rates.

- Net assets at year end totalled \$7,393,061, a decrease from \$8,668,011 at 30 June 2014. The decrease in assets is a result of the lower cash holdings.
- At year end PolyNovo had cash on hand and cash held in term deposits (including those classified as a financial asset in the Statement of Financial Position) of \$3,520,454.

## Loss Per Share

	Cents
Basic loss per share	(0.33)
Diluted loss per share	(0.33)

As the Group made a loss for the year ended 30 June 2015, potential ordinary shares, being options or performance rights to acquire ordinary shares, are considered non-dilutive and therefore not included in the diluted earnings per share calculation.

## Dividends

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

## Review of Operations

PolyNovo's focus is on the development of innovative medical devices for a number of medical applications utilising our NovoSorb™ biodegradable polymer technology.

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

Key attributes of NovoSorb™:

- Unparalleled range of mechanical properties & degradation times:
- Excellent biocompatibility and safety profile:
- Harmless degradation:
- Can be utilised as a foam, coating or a thermoplastic structure
- Potential to deliver drugs, biological agents, antimicrobials and cells:
- Scalable manufacturing and processing.

PolyNovo seeks to commercialise NovoSorb™ through licensing with specialist external distributors, partnering with groups that have complementary skills and expertise or by joint ventures to develop products internally.

Below is a summary of PolyNovo's lead projects:

### BTM Surgical Wounds

NovoSorb™ Biodegradable Temporising Matrix (BTM) works by stabilising a surgical skin wound and permitting new underlying skin formation as a precursor to a skin graft. Human trials in 30 patients, with free flap grafts and 3 severe burn patients, indicate that BTM is safe. It has strong medical benefits over existing treatment regimes. Several clinical papers have been published and are available on our website [www.polyново.com.au](http://www.polyново.com.au)

PolyNovo has filed for USA FDA 510(k) approval, for use of BTM in surgical wound repair, and certification is expected December 2015/January 2016.

PolyNovo is in the processes of mapping the regulatory paths and opportunities in multiple jurisdictions where a FDA 510(k) can assist in approval. Once our CE Mark trials are complete (see next section) we will then have the opportunity to commercially sell in Europe, Australia, New Zealand and other markets where a CE Mark is recognised within the regulatory process.

### BTM for Full Thickness Burns

The BTM is an innovative treatment for full thickness burns (as distinct from surgical wounds). However the pathway to registration requires extensive clinical trials.

PolyNovo announced on 8 May 2015 that a Human Clinical Trial leading to CE mark approval is to commence in Toulon, France, with Dr Eric Dantzer. On 15 June 2015 The Alfred Hospital in Melbourne received ethics approval becoming the second trial site to participate in this trial. The details of this study can be found in the announcement. We expect this process to be completed within two years resulting in CE certification of BTM. This will open multiple large market opportunities where a CE mark is a prerequisite for commercial sale.

Last year we stated that we anticipated Victorian Government funding to assist towards these clinical trials. Unfortunately with a change in government and the reappropriation of funding we have not received financial support from the Government. PolyNovo is funding these trials from cash reserves.

Associate Professor John Greenwood has completed treating 3 of 5 planned severe burn patients with BTM at the Royal Adelaide Hospital. The clinical and cosmetic outcomes have been outstanding. The patients themselves appreciate the improved quality of the skin compared to the rest of their body treated traditionally with skin grafting. Two significant clinical publications on the BTM can be found on our website [www.polyново.com.au](http://www.polyново.com.au)

### Hernia Repair & Breast Sling Development

PolyNovo planned to enter a development agreement with a USA based specialised medical company for the NovoSorb™ polymer use in the field of hernia repair. Due to various internal processes with the USA entity this process has been delayed. We are restarting and adding significant resources to this application as this is a significant commercial market opportunity for PolyNovo.

### Topical Negative Pressure Wound Therapy (TNPWT)

TNPWT is the application of a wound interface under suction from a mechanical pump. This creates a negative pressure thereby exerting positive pressure on the wound to stimulate angiogenesis whilst evacuating excess wound exudate. This process can reduce infection, encourages new tissue growth, increases the blood supply so nutrients and oxygen are delivered to the wound keeping it moist and pulling the edges of the wound together. TNPWT involves a package of a foam dressing over the wound, a suction pump, and a drainage tube from the dressing to a canister. Our NovoPore™ wound dressing provides the foam component.

As previously announced, PolyNovo received CE Mark certification on 21 July 2014 and FDA 510(k) clearance on 6 March 2014 for NovoPore™. PolyNovo remains in discussions with companies in this market segment to explore a supply partnership.

### Facial Aesthetics

On 9 July 2013 PolyNovo announced it had entered into an agreement with NovoPlastiq, LLC, a Company formed by US specialists to commercialise and distribute medical devices in the field of facial implant and aesthetic surgery. We terminated this agreement in February 2015 due to the lack of tangible progress. This is not a focus area in our immediate strategies.

## Other

The range of applications for our polymer technology is considerable. PolyNovo is developing Breast Sling and Breast reconstruction products and also exploring other opportunities with commercially interested companies. These are in early stages of development with good commercial prospects.

## Significant Changes in the State of Affairs

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

## Strategic Overview and Likely Developments

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

- finalise a commercial partnership for the BTM product on the back of 510(k) regulatory approval in full thickness surgical wounds;
- Continue the CE Mark trial being conducted at The Alfred and Toulon, France;
- Conclude a commercial supply arrangement for NovoPore™ in TNPWT market;
- Develop advanced Hernia prototypes for clinical trials;
- Develop advanced Breast Sling prototypes for non-clinical / clinical trials;
- Pursue our strategies for development of other new fields of NovoSorb™ applications;
- Advance our Bone Void Filler agreement with Smith & Nephew towards a commercial application; and
- Continue the trial being conducted at the Royal Adelaide Hospital in full thickness burn patients until the fifth and final patient is treated. The final results of this trial will then be published in due course.

Other developmental areas have been outlined above.

## Significant Events after the Balance Date

On 6 August 2015 PolyNovo issued an options package to its Chief Executive Officer Mr Paul Brennan. Details of these options are:

Exercise price: \$0.09

Terms:

- (a) 4,185,095 Options will be granted and will become immediately exercisable at 9 cents only when the weighted average share price of PolyNovo Ltd is above \$0.18 for more than 3 months.
- (b) 4,185,095 Options will be granted and will become immediately exercisable at 9 cents only when the weighted average share price of PolyNovo Ltd is above \$0.25 for more than 3 months.
- (c) 4,185,095 Options will be granted and will become immediately exercisable at 9 cents only when the weighted average share price of PolyNovo Ltd is above \$0.35 for more than 3 months.

Expiry date: When the options are exercisable, he will have 3 months to exercise them after which time they will lapse.

The options package will expire on 5 August 2018.

The Directors are not aware of any other matters or circumstances since the end of the financial year other than those described above, not otherwise dealt with in this report which have significantly affected, or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

## Indemnification and Insurance of Directors and Officers

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

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

## Inherent Risks of Investment in Biotechnology Companies

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

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

## Forward-looking statements

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

## Environmental Regulation

PolyNovo is not subject to significant environmental regulations.

## Board Monitoring

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

## Board and Committee Meetings

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

	Full Board		Audit Committee		Remuneration Committee <sup>1</sup>	
Directors	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend
Total number of meetings held	10		3		—	
Mr David Williams	10	10	-	-	-	-
Mr Bruce Rathie	10	10	3	3	-	-
Dr David McQuillan	9	10	-	-	-	-
Mr Philip Powell	10	10	3	3	-	-
Mr Max Johnston	10	10	2	2	-	-
Dr Roger Aston <sup>2</sup>	2	1	1	1	-	-

<sup>1</sup>PolyNovo does not have an established Remuneration Committee. Due to the small size of the business the Board acts as the Remuneration Committee and addresses such issues during the year as they arise.

<sup>2</sup>Dr Aston was appointed a Director on 15 November 2013 and resigned on 10 September 2014.

## Directors' Shareholdings and Declared Interests

At 30 June 2015, the Directors of PolyNovo collectively hold 3,670,770 shares in the Company.

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

Name	Shares held directly	Shares held indirectly
<b>Directors:</b>		
Mr David Williams	—	2,190,000
Mr Bruce Rathie	—	1,230,770
Dr David McQuillan	—	—
Mr Max Johnston	—	150,000
Mr Philip Powell	—	100,000
<b>Total:</b>	—	<b>3,670,770</b>

As at 30 June 2015 and as at the date of this report, no Director has an interest in any contract or proposed contract with PolyNovo other than as disclosed below or in the Group's 2015 Annual Report. Further details of the equity interests of Directors can be found in the Remuneration Report in this Directors' Report and Note 23 (C) of the Annual Financial Report.

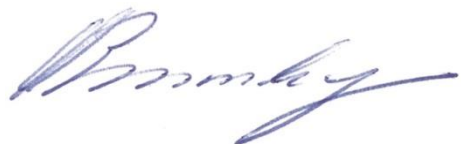
The Directors received the following declaration from the auditor of PolyNovo Limited.

## Auditor's Independence Declaration to the Directors of PolyNovo Ltd

In relation to our audit of the financial report of PolyNovo Ltd for the financial year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



Don Brumley  
Partner  
20 August 2015



Auditor’s Independence and Non-Audit Services

**Non-Audit Services**

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

Preparation of tax returns	\$12,500
Preparation and lodgement of Research and Development tax benefit application	\$22,500

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

# CORPORATE GOVERNANCE STATEMENT

## Introduction

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

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

## Principle 1: Lay solid foundations for management and oversight

### RECOMMENDATION 1.1

The role of the Board is to represent the interests of shareholders, by providing the Group with good governance and strategic direction. PolyNovo has adopted a Board Charter setting out the matters reserved to them, including their function and responsibilities and those delegated to management.

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

Senior Management report directly to the Chief Executive Officer.

The Board Charter is available at [www.polyново.com.au](http://www.polyново.com.au) in the Corporate Governance section.

### RECOMMENDATION 1.2

PolyNovo carefully considers the character, industry or relevant experience, education and skillset, as well as interests and associations of candidates for appointment to the Board and conducts appropriate checks to verify the suitability of the candidate, prior to their election.

PolyNovo ensures that all material information relevant to a decision to elect or re-elect a director is disclosed in the notice of meeting provided to shareholders.

### RECOMMENDATION 1.3

The roles and responsibilities of Directors are set out in the letter of appointment which each Director receives and commits to on their appointment. The letter of appointment which specifies the time commitment, expectations in relation to committee work or any other special duties attaching to the Director position, reporting lines, remuneration arrangements, disclosure obligations in relation to personal interests, confidentiality obligations, insurance and indemnity entitlements and details of the Company's key governance policies. A copy of the governance policies can be found on the PolyNovo website.

Each senior executive enters into a service contract which sets out the material terms of employment, including a description of position and duties, reporting lines, remuneration arrangements and termination rights and entitlements. Contract details of senior executives which are a KMP are summarised in the Remuneration Report in the PolyNovo Annual Report.

### RECOMMENDATION 1.4

The Company Secretary is accountable to the Board for ensuring the Company's corporate governance processes are adequate. Each Director is entitled to the Company Secretary. The appointment or removal of the Company Secretary is a matter for the Board as a whole. Details of the Company Secretary's experience and qualifications are set out in the Annual Report

## RECOMMENDATION 1.5

PolyNovo has adopted a Diversity Policy setting out its objectives with respect to diversity, which is available in the Governance section on the Company's website.

The Group has 8 full time employees (2 female) and 1 part time employee (female). 2 females were appointed to the Group in senior positions for the period ended 30 June 2015.

As at the date of this report the Board of PolyNovo does not contain a female member. PolyNovo is an Equal Opportunity Employer and actively encourages diversity in the workplace.

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

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

## RECOMMENDATION 1.6

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

## RECOMMENDATION 1.7

PolyNovo conducts a formal review of the Senior Executives within the Group on an annual basis. The Remuneration Committee is performed by the full Board. The Charter of the Remuneration Committee includes the evaluation of the performance of Senior Management and Executives in consultation with the Board. The Board has assumed all the functions as outlined in the Remuneration Committee charter.

## Principle 2: Structure the board to add value

### RECOMMENDATION 2.1

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

### RECOMMENDATION 2.2, RECOMMENDATION 2.3 AND RECOMMENDATION 2.4

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

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

All Directors at the date of this report have no commercial agreements with PolyNovo and are not a substantial holder of shares in the Company. As such all Directors are considered independent as at 30 June 2015.

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

Director	Position	Independence	Area of expertise
Mr David Williams (appointed in February 2014)	Chairman, Non-executive Director	Independent	Managing Director of Kidder Williams, he is an Investment Banker with a proven track record in business development and strategy, as well as in corporate initiatives specialising in mergers and acquisitions and capital raising.
Mr Bruce Rathie (appointed in February 2010)	Non-executive Director	Independent	Extensive experience across a wide range of industries including biotech, legal, financial, investment, strategy and commercial expertise and is an experienced Non-executive Director.
Dr David McQuillan (appointed in August 2012)	Non-executive Director	Independent	Extensive experience across a wide range of biotechnology companies in the USA.
Mr Max Johnston (appointed in May 2014)	Non-executive Director	Independent	He has had extensive experience in biotechnology companies both in Australia and overseas.
Mr Philip Powell (appointed in May 2014)	Non-executive Director Acting Joint Managing Director	Independent	A Chartered Accountant with over 18 years' experience in investment banking specialising in capital raisings, IPOs and mergers and acquisitions.

## RECOMMENDATION 2.5

The Chairman is considered to be independent. The Chairman is Non Executive at the date of this report.

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

## RECOMMENDATION 2.6

The Company Secretary issues induction material to each Director upon appointment. PolyNovo has an induction process for each newly appointed Director whereby the Director has access to key Company personnel.

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

## Principle 3: Act ethically and responsibly

### RECOMMENDATION 3.1

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

The Code of Conduct Policy covers the following:

- compliance with the law:
- acting honestly and with integrity:

- to not place themselves in situations which result in a conflict of interest:
- use the Company's assets responsibly and in the best interests of the Company: and
- to be responsible and accountable for their actions.

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

## **Principle 4: Safeguard integrity in corporate reporting**

### **RECOMMENDATION 4.1**

Listed Company's audit committees are recommended to have:

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

Current membership of PolyNovo's Audit Committee addresses the criteria provided in Recommendation 4.1 as the committee comprises 3 Directors, whom are all currently Non-executive Directors. The Board has determined, that whilst Mr Powell was a Joint Acting Managing Director for a period during the 2015 financial year he should be considered independent.

The current members of the Audit Committee are:

- Mr Philip Powell – Chairman
- Mr Bruce Rathie
- Mr Max Johnston

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

There is a formal charter for the Audit Committee which is available at [www.polynovo.com.au](http://www.polynovo.com.au).

### **RECOMMENDATION 4.2**

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

### **RECOMMENDATION 4.3**

PolyNovo external audit function is performed by Ernst and Young (EY). Representatives of EY attend the Annual General Meeting each year and are available to answer shareholder questions regarding the audit.

## **Principle 5: Make timely and balanced disclosure**

### **RECOMMENDATION 5.1**

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

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

## **Principle 6: Respect the rights of shareholders**

### **RECOMMENDATION 6.1**

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

PolyNovo keeps investors informed of its corporate governance, financial performance and prospects on its website. Shareholders can access copies of ASX announcements, notices of meetings, annual reports and financial statements, Investor presentations on the website.

### **RECOMMENDATION 6.2**

Shareholders are invited to ask questions at the Company AGM. Contact details are made available on Company ASX announcements. All senior staff and Directors make themselves available to discuss Company affairs with shareholders.

### **RECOMMENDATION 6.3**

Given the size of the Company and cost PolyNovo does not provide electronic broadcast of shareholder meetings.

Shareholders are encouraged to participate in meetings and are given an opportunity to ask questions of the Company and its auditor at the AGM.

### **RECOMMENDATION 6.4**

PolyNovo provides shareholders with the option to receive communications from the Company and the share registry electronically. This includes emailing of ASX announcements and also an electronic copy of the Annual Report.

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

Policies and procedures regarding the governance of the Company are available at [www.polynovo.com.au](http://www.polynovo.com.au) in the Corporate Governance section.

## **Principle 7: Recognise and manage risk**

### **RECOMMENDATION 7.1**

PolyNovo's Audit & Risk Committee oversee the process for identifying and managing material risks in the Company in accordance with the Risk Management Policy. A copy of the Risk Policy is available in the Governance section of the Company's website. Further details regarding the Committee, its membership and the number of meetings held during the financial year are set out in response to Recommendation 4.1.

Ultimate responsibility for risk oversight and risk management has been delegated to senior management.

### **RECOMMENDATION 7.2 AND RECOMMENDATION 7.3**

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

Risks are analysed and where possible reduced, but it is not always possible to completely mitigate all the risks faced by a biotechnology Company. Identified risk are assigned to functional owners within the business and formally reviewed within the Quality System meetings, held monthly. This promotes proactive addressing of any risk mitigation initiatives.

The Risk management report is tabled at the full Board meeting June 2015.

PolyNovo does not have an internal audit function due to the size of the Company.

#### RECOMMENDATION 7.4

PolyNovo does not have any material exposure to economic, environmental and social responsibility risks.

### **Principle 8: Encourage enhanced performance**

#### RECOMMENDATION 8.1

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

#### RECOMMENDATION 8.2

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

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

Non-Executive Directors are paid fixed fees for their services in accordance with the fee pool approved by shareholders. Fees paid to Directors include all Board and Committee responsibilities. PolyNovo pays superannuation to Directors but no other retirement benefits.

#### RECOMMENDATION 8.3

PolyNovo Executives must not enter into any hedge arrangement in relation to any performance rights they may be granted or otherwise entitled to under an incentive scheme or plan, prior to exercising those rights or once exercised.

# REMUNERATION REPORT

## Remuneration Report (Audited)

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

### Key Management Personnel

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

#### NON-EXECUTIVE DIRECTORS

- Mr David Williams – *Non-executive Chairman (appointed as Non-executive Director on 28 February 2014 and Non-executive Chairman on 13 March 2014).*
- Mr Bruce Rathie – *Non-executive Director (appointed 18 February 2010).*
- Dr David McQuillan – *Non-executive Director (appointed 6 August 2012) and Joint Acting Managing Director July 2014-February 2015.*
- Mr Max Johnston – *Non-executive Director (appointed 13 May 2014).*
- Mr Philip Powell – *Non-executive Director (appointed 13 May 2014) and Joint Acting Managing Director July 2014-February 2015.*
- Dr Roger Aston – *Non-executive Director (appointed as Non-executive Chairman on 15 November 2013 and Non-executive Director on 13 March 2014) resigned 10 September 2014.*

#### SENIOR MANAGERS

- Mr Paul Brennan – *Chief Executive Officer PolyNovo (commenced 13 February 2015).*
- Mr Chris Mews – *Chief Financial Officer/Company Secretary.*
- Mr David Kenley – *Chief Executive Officer of Metabolic resigned 30 April 2015.*
- Mr Laurent Fossaert – *Chief Executive Officer PolyNovo terminated 30 November 2014.*

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

### Compensation Policy – Non-executive Directors

The Board determines the compensation of Non-executive Directors based on market practice, director duties and accountability. The Company's compensation policy is designed to attract and retain competent and suitably qualified Non-executive Directors, and the structure of their compensation endeavours to ensure that Directors' interests are aligned with the interests of shareholders. Non-executive Directors are paid a set fee plus statutory superannuation where appropriate and are reimbursed for out-of-pocket expenses incurred as a result of their Directorship or any special duties. Non-executive Directors are encouraged to own shares in PolyNovo.



Non-executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is approved by shareholders. Total Non-executive Directors' fees including superannuation paid during the 30 June 2015 year amounted to \$284,678 excluding equity plans and Acting Managing Director Fees paid to Mr Philip Powell and Dr David McQuillan from 14 July 2014 to 15 February 2015. The fees paid to PolyNovo's Non-executive Directors are considered within the average range for similar sized companies in the biotechnology industry, and these amounts are reviewed periodically. The Board has a fee pool for Non-executive Directors of \$300,000.

## Compensation – Senior Managers (including Executive Directors)

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

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

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

1. fixed annual compensation comprising salary and benefits, superannuation and non-monetary benefits:
2. short-term performance incentive, through cash bonuses: and
3. medium and long-term incentive, through participation in the PolyNovo Employee Share Option Plan ("the Plan") with share price thresholds to be achieved.

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

	<b>Cash Bonus (Short-Term Incentive)</b>	<b>Performance Rights (Medium and Long-Term Incentive)</b>
Chief Executive Officer	25%	30%
Senior Management	15%	20%
All other employees	5%	10%

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

## Fixed Annual Compensation

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

## Short-Term Incentives (STIs)

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

The individual objectives and key performance indicators are set by the Board in consultation with the Chairman. Individual performance hurdles and the achievement of corporate goals are assessed to determine any bonus payment. This assessment also takes into account how Senior Managers performed their role with regard to the Company's core values. The performance evaluation of the Chief Executive Officer of each business unit is conducted by the Board. All STIs achieved and entitled at 30 June 2015 have been included in the remuneration report under the relevant KMP or Director.

## Medium and Long-Term Incentives

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

## Options issued to Directors

On 17 November 2014, 3,000,000 options were issued to certain Directors of the Company. These options vested immediately. 1,000,000 options had an exercise price of \$0.14 and an expiry of 17 November 2017, and 2,000,000 had an exercise price of \$0.20 and an expiry date of 17 November 2017. The expense recognised in the Statement of Comprehensive Income during the period was \$139,616.

## Share Price

The share price for PolyNovo from the beginning of the financial year to the close of the financial year is as follows:

Date	Share Price
1 July 2014	\$0.105
30 June 2015	\$0.09

## Details of Compensation for Key Management Personnel

For the year ended 30 June 2015, details of the compensation for Key Management Personnel are set out in the table below.

Table A		Short-Term				Post Employment	Long-Term	Termination Benefits (including superannuation)	Share-based payments	Total	Short-Term and Long Term
Directors		Cash Salary & Fees	Cash bonus	Consulting Fees	Non-monetary benefits	Super-annuation	Long Service Leave		Options & Performance Rights		% performance related
Mr David Williams (Non-executive Chairman) <sup>5</sup>	2015	75,000	-	-	-	7,125	-	-	-	82,125	-
	2014	23,750	-	-	-	2,197	-	-	480,000	505,947	95%
Mr David Franklyn (Non-executive Chairman) <sup>1</sup>	2015	-	-	-	-	-	-	-	-	-	-
	2014	28,125	-	-	-	2,602	-	-	-	30,727	-
Mr Bruce Rathie (Non-executive Director)	2015	45,000	-	-	-	4,275	-	-	21,436	70,711	30%
	2014	45,000	-	-	-	4,162	-	-	-	49,162	-
Dr David McQuillan (Non-executive Director) <sup>4</sup>	2015	53,125	-	-	-	-	-	-	21,436	74,561	29%
	2014	45,000	-	-	-	-	-	-	-	45,000	-
Dr Roger Aston (Non-executive Director) <sup>2</sup>	2015	8,884	-	-	-	844	-	-	-	9,728	-
	2014	39,134	-	-	-	3,620	-	-	-	42,754	-
Mr Max Johnston (Non-executive Director) <sup>6</sup>	2015	45,000	-	-	-	4,275	-	-	48,372	97,647	50%
	2014	6,173	-	-	-	571	-	-	-	6,744	-
Mr Philip Powell (Non-executive Director) <sup>7</sup>	2015	132,019	-	-	-	12,541	-	-	48,372	192,932	25%
	2014	6,173	-	-	-	571	-	-	-	6,744	-
Sub total compensation for Directors		2015	359,028	-	-	29,060	-	-	139,616	527,704	26%
		2014	193,355	-	-	13,723	-	-	480,000	687,078	70%

	Short-Term				Post Employment	Long-Term	Termination Benefits (including superannuation)	Share-based payments	Total	Short-Term and Long Term
	Cash Salary & Fees	Cash bonus	Consulting Fees	Non-monetary benefits	Super-annuation	Long Service Leave		Options & Performance Rights		% performance related
Other Key Management Personnel										
Mr Paul Brennan (Chief Executive Officer – PolyNovo Limited)20152014	91,788-91,788	-	-	-	8,719-	1,538-	-	-	102,045-	-
Mr Chris Mews (CFO/Company Secretary)20152014	186,558181,125	10,000-	-	-	17,72316,754	3,3973,016	-	-	217,678200,895	-
Mr Laurent Fossaert (Chief Executive Officer – PolyNovo Biomaterials Pty Ltd)20152014	140,460235,000	-	-	-	20,46421,737	28,8013,914	128,661-	-	318,386260,651	-
Mr David Kenley (Chief Executive Officer – Metabolic Pharmaceuticals Pty Ltd)320152014	-	-	239,528237,455	-	-	-	-	-	239,528237,455	-
Sub total compensation for Other Key Management Personnel20152014	418,806416,125	10,000-	239,528237,455	-	46,90638,491	33,7366,930	128,661-	-	877,637699,001	-
Total compensation for all Key Management Personnel20152014	777,834609,480	10,000-	239,528237,455	-	75,96652,214	33,7366,930	128,661-	139,616480,000	1,405,3411,386,079	10%35%

<sup>1</sup> Mr David Franklyn was appointed Chairman and Non-executive Director on 16 April 2009 and resigned on 15 November 2013.

<sup>2</sup> Dr Roger Aston was appointed Chairman and Non-executive Director on 15th November 2013. Dr Aston resigned as Chairman on 13 March 2014 however remained a Non-executive Director of the Company until [ ] September 2014.

<sup>3</sup> Mr Kenley's services as CEO of Metabolic Pharmaceuticals Pty Ltd were contracted through a services agreement between PolyNovo and Lateral Innovations Pty Ltd.

<sup>4</sup> Dr David McQuillan was appointed as Non-executive Director on 6 August 2012 and Joint Acting Managing Director on 15 July 2014 to 15 February 2015. Mr McQuillan received \$8,125 for his role as Acting Joint Managing Director in addition to his Non-Executive Director fee of \$45,000.

<sup>5</sup> Mr David Williams was appointed as Non-executive Director on 28 February 2014 and Non-executive Chairman on 13 March 2014.

<sup>6</sup> Mr Max Johnston was appointed as Non-executive Director on 13 May 2014.

<sup>7</sup> Mr Philip Powell was appointed as Non-executive Director on 13 May 2014 and Acting Joint Managing Director on 15 July 2014 to 15 February 2015. Mr Powell received \$87,019 for his role as Acting Joint Managing Director in addition to his Non-Executive Director fee of \$45,000.

## OPTION AND PERFORMANCE RIGHTS HOLDINGS OF KEY MANAGEMENT PERSONNEL

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

30 June 2015	Balance at beginning of year	Granted as compensation	Options exercised	Net change other	Balance at end of year	Total vested at end of year	Total exercisable at end of year	Total Not exercisable at end of year	Total vested during year
<b>Directors</b>									
Mr David Williams	10,000,000	-	-	-	10,000,000	-	10,000,000	-	-
Mr David Franklyn	500,000	-	-	-	500,000	-	500,000	-	-
Mr Bruce Rathie	500,000	500,000	-	-	1,000,000	500,000	500,000	-	500,000
Dr David McQuillan	500,000	500,000	-	-	1,000,000	500,000	500,000	-	500,000
Mr Max Johnston	-	1,000,000			1,000,000	1,000,000	-	-	1,000,000
Mr Philip Powell	-	1,000,000			1,000,000	1,000,000	-	-	1,000,000
<b>Other Key Management Personnel</b>									
Mr Laurent Fossaert	-	-	-	-	-	-	-	-	-
Mr David Kenley <sup>1</sup>	-	-	-	-	-	-	-	-	-
Mr Chris Mews <sup>1</sup>	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>11,500,000</b>	<b>3,000,000</b>	<b>-</b>	<b>-</b>	<b>14,500,000</b>	<b>3,000,000</b>	<b>11,500,000</b>	<b>-</b>	<b>3,000,000</b>

30 June 2014	Balance at beginning of year	Granted as compensation	Options exercised	Net change other	Balance at end of year	Total vested at end of year	Total exercisable at end of year	Total Not exercisable at end of year	Total vested during year
<b>Directors</b>									
Mr David Williams	-	10,000,000	-	-	10,000,000	10,000,000	-	-	10,000,000
Mr David Franklyn	500,000	-	-	-	500,000	-	500,000	-	-
Mr Bruce Rathie	500,000	-	-	-	500,000	-	500,000	-	-
Dr David McQuillan	500,000	-	-	-	500,000	-	500,000	-	-
<b>Other Key Management Personnel</b>									
Mr Laurent Fossaert	3,200,000	-	3,200,000	-	-	-	-	-	-
Mr David Kenley	4,622,222	-	4,622,222	-	-	-	-	-	-
Mr Chris Mews	1,355,556	-	1,355,556	-	-	-	-	-	-
<b>Total</b>	<b>10,677,778</b>	<b>10,000,000</b>	<b>9,177,778</b>	<b>-</b>	<b>11,500,000</b>	<b>10,000,000</b>	<b>1,500,000</b>	<b>-</b>	<b>10,000,000</b>

### **(ii) Performance Rights holdings of Key Management Personnel**

No performance rights were granted to Key Management Personnel for the year ending 30 June 2015.

## SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL

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

### Shares held in PolyNovo Limited

		Balance at beginning of year	Granted as compensation	On exercise of options or Performance Rights	Net change other	Balance at end of year
<b>Directors</b>						
Mr. David Williams <sup>(a)</sup>	<b>2015</b>	<b>190,000</b>	-	-	<b>2,000,000</b>	<b>2,190,000</b>
	<b>2014</b>	-	-	-	190,000	190,000
Mr. David Franklyn <sup>(b)</sup>	<b>2015</b>	<b>1,130,050</b>	-	-	<b>(150,000)</b>	<b>980,050</b>
	<b>2014</b>	899,280	-	-	230,770	1,130,050
Mr Bruce Rathie <sup>(c)</sup>	<b>2015</b>	<b>1,230,770</b>	-	-	-	<b>1,230,770</b>
	<b>2014</b>	1,000,000	-	-	230,770	1,230,770
Dr David McQuillan	<b>2015</b>	-	-	-	-	-
	<b>2014</b>	-	-	-	-	-
Dr Roger Aston	<b>2015</b>	-	-	-	-	-
	<b>2014</b>	-	-	-	-	-
Mr Max Johnston <sup>(h)</sup>	<b>2015</b>	-	-	-	<b>150,000</b>	<b>150,000</b>
	<b>2014</b>	-	-	-	-	-
Mr Philip Powell <sup>(g)</sup>	<b>2015</b>	<b>100,000</b>	-	-	-	<b>100,000</b>
	<b>2014</b>	-	-	-	100,000	100,000
<b>Other Key Management Personnel</b>						
Mr. Paul Brennan <sup>(i)</sup>	<b>2015</b>	-	-	-	<b>244,929</b>	<b>244,929</b>
	<b>2014</b>	-	-	-	-	-
Mr. David Kenley <sup>(e)</sup>	<b>2015</b>	<b>30,374,777</b>	-	-	<b>332,815</b>	<b>30,707,592</b>
	<b>2014</b>	24,989,475	-	4,622,222	763,080	30,374,777
Mr Chris Mews <sup>(d)</sup>	<b>2015</b>	<b>1,661,747</b>	-	-	<b>(43,037)</b>	<b>1,618,710</b>
	<b>2014</b>	152,344	-	1,355,556	153,847	1,661,747
Mr Laurent Fossaert <sup>(f)</sup>	<b>2015</b>	<b>9,249,814</b>	-	-	-	<b>9,249,814</b>
	<b>2014</b>	5,494,774	-	3,200,000	555,040	9,249,814
<b>Total</b>	<b>2015</b>	<b>43,937,158</b>	-	-	<b>2,534,707</b>	<b>46,471,865</b>
	<b>2014</b>	32,535,873	-	9,177,778	2,223,507	43,937,158

Notes:

Shares held indirectly included in balance at 30 June 2015 - (a) 2,190,000 (b) 980,050 (c) 1,230,770 (d) 263,124 (e) 21,791,526 (f) 3,295,480, (g) 100,000 (h) 150,000 and (i) 82,352.

## Fair Value of Share-Based Compensation

### (A) FAIR VALUE OF OPTIONS

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

Table A provides the following details:

- the pricing model assumptions used in calculating the fair value of each option:
- the fair value of each option included in the compensation of each of the Key Management Personnel for the year ended 30 June 2015: and
- the date when options may be exercised, subject to conditions.

Table A 2015 Financial Year		Options Granted on 29 April 2011	Options Granted on 20 November 2012	Options Granted on 19 May 2014	Options Granted on 19 May 2014	Options Granted on 12 November 2014	Options Granted on 12 November 2014	TOTAL
Exercise Price		\$0.085	\$0.11	\$0.09	\$0.20	\$0.20	\$0.14	
Risk-free interest rate		6.16%	2.70%	2.80%	2.80%	2.71%	2.71%	
Volatility		60%	90%	75%	75%	74%	74%	
Expiry Date:		01/04/2014	20/11/2015	30/07/2017	03/07/2017	17/11/2017	17/11/2017	
Dividend yield		-	-	-	-	-	-	
Average Fair Value per option (cents)		1.4	1.73	5.3	3.3	4.3	5.4	
NAME	Number and value of Options for the year ended 30 June 2015							
Mr David Williams	Number of options granted	-	-	-	-	-	-	-
	Value for year ended 30 June 2015	-	-	-	-	-	-	-
Mr Bruce Rathie	Number of options granted	-	-	-	-	500,000	-	500,000
	Value for year ended 30 June 2015	-	-	-	-	\$21,436	-	\$21,436
Dr David McQuillan	Number of options granted	-	-	-	-	500,000	-	500,000
	Value for year ended 30 June 2015	-	-	-	-	\$21,436	-	\$21,436
Mr Philip Powell	Number of options granted	-	-	-	-	500,000	500,000	1,000,000
	Value for year ended 30 June 2015	-	-	-	-	\$21,436	\$26,936	\$48,372
Mr Max Johnston	Number of options granted	-	-	-	-	500,000	500,000	1,000,000
	Value for year ended 30 June 2015	-	-	-	-	\$21,436	\$26,936	\$48,372
Mr Paul Brennan	Number of options granted	-	-	-	-	-	-	-
	Value for year ended 30 June 2015	-	-	-	-	-	-	-
Mr Chris Mews	Number of options granted	-	-	-	-	-	-	-
	Value for year ended 30 June 2015	-	-	-	-	-	-	-
Mr David Kenley	Number of options granted	-	-	-	-	-	-	-
	Value for year ended 30 June 2015	-	-	-	-	-	-	-
Mr Laurent Fossaert	Number of options granted	-	-	-	-	-	-	-
	Value for year ended 30 June 2015	-	-	-	-	-	-	-
VESTING PROPORTIONS		33% - 29.04.11	100% - 20.11.12	100% - 19.05.14	100% - 19.05.14	100% - 17.11.14	100%- 17.11.14	-
		33% - 01.04.12	-	-	-	-	-	-
		34% - 01.04.13	-	-	-	-	-	-

Table B provides the following details:

- the pricing model assumptions used in calculating the fair value of each option:
- the fair value of each option included in the compensation of each of the Key Management Personnel for the year ended 30 June 2014: and
- the date when options may be exercised, subject to conditions.

Table B 2014 Financial Year		Options Granted on 15 December 2010	Options Granted on 15 December 2010	Options Granted on 29 April 2011	Options Granted on 29 April 2011	Options Granted on 29 April 2011	Options Granted on 20 November 2012	Options Granted on 19 May 2014	Options Granted on 19 May 2014	TOTAL
Exercise Price		\$0.04	\$0.06	\$0.04	\$0.06	\$0.085	\$0.11	\$0.09	\$0.20	
Risk-free interest rate		6.06%	6.06%	6.16%	6.16%	6.16%	2.70%	2.80%	2.80%	
Volatility		80%	80%	60%	60%	60%	90%	75%	75%	
Expiry Date:		01/12/2013	01/12/ 2013	01/12/ 2013	01/12/ 2013	01/04/2014	20/11/2015	030/7/2017	03/07/2017	
Dividend yield		-	-	-	-	-	-	-	-	
Average Fair Value per option (cents)		0.87	0.61	3.0	2.1	1.4	1.73	5.3	3.3	
NAME	Number and value of Options for the year ended 30 June 2014									
Mr David Williams	Number of options granted	-	-	-	-	-	-	7,500,000	2,500,000	10,000,000
	Value for year ended 30 June 2014	-	-	-	-	-	-	397,500	82,500	480,000
Mr David Franklyn	Number of options granted	-	-	-	-	-	-	-	-	-
	Value for year ended 30 June 2014	-	-	-	-	-	-	-	-	-
Mr Bruce Rathie	Number of options granted	-	-	-	-	-	-	-	-	-
	Value for year ended 30 June 2014	-	-	-	-	-	-	-	-	-
Dr David McQuillan	Number of options granted	-	-	-	-	-	-	-	-	-
	Value for year ended 30 June 2014	-	-	-	-	-	-	-	-	-
Mr David Kenley	Number of options granted	-	-	-	-	-	-	-	-	-
	Value for year ended 30 June 2014	-	-	-	-	-	-	-	-	-
Mr Laurent Fossaert	Number of options granted	-	-	-	-	-	-	-	-	-
	Value for year ended 30 June 2014	-	-	-	-	-	-	-	-	-
Mr Chris Mews	Number of options granted	-	-	-	-	-	-	-	-	-
	Value for year ended 30 June 2014	-	-	-	-	-	-	-	-	-
VESTING PROPORTIONS		33% - 15.12.10	33% - 15.12.10	50% - 01.02.12	50% - 01.02.12	33% - 29.04.11	100% - 20.11.12	100% - 19.05.14	100% - 19.05.14	-
		33% - 15.12.11	33% - 15.12.11	50% - 01.02.13	50% - 01.02.13	33% - 01.04.12	-	-	-	-
		34% - 15.12.12	34% - 15.12.12	-	-	34% - 01.04.13	-	-	-	-



## Options and Performance Rights granted as part of compensation

During the year ended 30 June 2015 3,000,000 options (2014: 10,000,000) were granted, no options were cancelled (2014: nil), and no options were forfeited (2014: nil).

Table C, D and E provides a breakdown of each share-based payment included in the compensation of Key Management Personnel for the year ended 30 June 2015 and 30 June 2014.

Table C 2015 Financial Year	Grant date	Grant number	Average Fair Value per option at grant date	Fair Value of options granted during the year	Value of options forfeited/ forfeited during the year	Value of options exercised during the year	Number of shares issued upon exercise of options	Value of shares received upon exercise of options	Value of options yet to be expensed	Fair Value of options included in remuneration during the year	% compensation consisting of options during the year
<b>Mr David Williams</b>											
• Options	19 May 2014	2,500,000	\$0.033	-	-	-	-	-	-	-	-
• Options	19 May 2014	7,500,000	\$0.053	-	-	-	-	-	-	-	-
<b>Mr David Franklyn</b>											
• Options	20 November 2012	500,000	\$0.0173	-	-	-	-	-	-	-	-
<b>Mr Bruce Rathie</b>											
• Options	20 November 2012	500,000	\$0.0173	-	-	-	-	-	-	-	-
• Options	17 November 2014	500,000	\$0.043	\$21,436	-	-	-	-	-	\$21,436	29%
<b>Dr David McQuillan</b>											
• Options	20 November 2012	500,000	\$0.0173	-	-	-	-	-	-	-	-
• Options	17 November 2014	500,000	\$0.043	\$21,436	-	-	-	-	-	\$21,436	30%
<b>Mr Philip Powell</b>											
• Options	17 November 2014	500,000	\$0.043	\$21,436	-	-	-	-	-	\$21,436	11%
• Options	17 November 2014	500,000	\$0.054	\$26,936	-	-	-	-	-	\$26,936	13%
<b>Mr Max Johnston</b>											
• Options	17 November 2014	500,000	\$0.043	\$21,436	-	-	-	-	-	\$21,436	22%
• Options	17 November 2014	500,000	\$0.054	\$26,936	-	-	-	-	-	\$26,936	27%
<b>TOTAL</b>		<b>14,500,000</b>		<b>\$139,616</b>	-	-	-	-	-	<b>\$139,616</b>	-

<b>Table D 2014 Financial Year</b>	<b>Grant date</b>	<b>Grant number</b>	<b>Average Fair Value per option at grant date</b>	<b>Fair Value of options granted during the year</b>	<b>Value of options forfeited/ forfeited during the year</b>	<b>Value of options exercised during the year</b>	<b>Number of shares issued upon exercise of options</b>	<b>Value of shares received upon exercise of options</b>	<b>Value of options yet to be expensed</b>	<b>Fair Value of options included in remuneration during the year</b>	<b>% compensation consisting of options during the year</b>
<b>Mr David Williams</b>											
• Options	19 May 2014	2,500,000	\$0.033	\$82,500	-	-	-	-	-	\$82,500	16%
• Options	19 May 2014	7,500,000	\$0.053	\$397,500	-	-	-	-	-	\$397,500	78%
<b>Mr David Franklyn</b>											
• Options	20 November 2012	500,000	\$0.0173	-	-	-	-	-	-	-	-
<b>Mr Bruce Rathie</b>											
• Options	20 November 2012	500,000	\$0.0173	-	-	-	-	-	-	-	-
<b>Dr David McQuillan</b>											
• Options	20 November 2012	500,000	\$0.0173	-	-	-	-	-	-	-	-
<b>Mr David Kenley</b>											
• Options	15 December 2010	1,066,667	\$0.0074	-	-	\$7,893	1,066,667	\$53,333	-	-	-
• Options	29 April 2011	2,133,333	\$0.0255	-	-	\$54,400	2,133,333	\$106,667	-	-	-
<b>Mr Laurent Fossaert</b>											
• Options	15 December 2010	3,200,000	\$0.0074	-	-	\$23,680	3,200,000	\$160,000	-	-	-
<b>Mr Chris Mews</b>											
• Options	29 April 2011	1,000,000	\$0.014	-	-	\$14,000	1,000,000	\$85,000	-	-	-
<b>TOTAL</b>		<b>18,900,000</b>		<b>\$480,000</b>	<b>-</b>	<b>\$99,973</b>	<b>7,400,000</b>	<b>\$405,000</b>	<b>-</b>	<b>\$480,000</b>	

## Options granted, vested and exercised during the year ended 30 June 2015

Table E		Options		
		Number of Options granted during the year	Number of Options vested during the year	Number of Options exercised during the year
Directors and Key Management Personnel				
Mr David Williams	2015 2014	– 10,000,000	– 10,000,000	– –
Mr David Franklyn	2015 2014	– –	– –	– –
Mr Bruce Rathie	2015 2014	500,000 –	500,000 –	– –
Dr David McQuillan	2015 2014	500,000 –	500,000 –	– –
Dr Roger Aston	2015 2014	– –	– –	– –
Mr Max Johnston	2015 2014	1,000,000 –	1,000,000 –	– –
Mr Philip Powell	2015 2014	1,000,000 –	1,000,000 –	– –
Mr Paul Brennan	2015 2014	– –	– –	– –
Mr David Kenley	2015 2014	– –	– –	– 4,622,222
Mr Laurent Fossaert	2015 2014	– –	– –	– 3,200,000
Mr Chris Mews	2015 2014	– –	– –	– 1,355,556

## Group Performance

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

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

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

compensation policy to ensure competitive and appropriate rewards that endeavour to result in greater shareholder wealth.

## Board Performance

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

## Service Contracts

### CHIEF EXECUTIVE OFFICER – POLYNOVO LIMITED

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

Terms of his contract are as follows:

- Salary of \$246,575 per annum;
- Superannuation of 9.50%;

Bonus of up to 25% of base salary upon achieving set KPIs. No bonus will be paid for the period ended 30 June 2015. To achieve this bonus Mr Brennan must meet value creating targets for the financial year which may include:

- Develop and implement a 3 to 5 year corporate and product strategy;
  - Align clinical strategy with regulatory and commercial outcomes;
  - Commercialisation of wounds and burns products; and
  - Advance the use of NovoSorb™ in other areas.
- No fixed contract term;
  - Termination payment of 3 months salary.

### COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER

Mr Chris Mews was appointed Company Secretary on 16th April 2009 and CFO on 1 September 2009, his current employment terms are as follows:

- Salary set at \$186,558 per annum;
- Superannuation of 9.50%;
- Termination payment of six months' salary;
- No fixed employment term; and
- Up to 25% performance based cash bonuses at the discretion of the Board. Bonuses are set in accordance with KPIs in respect to ensuring compliance with statutory reporting and compliance requirements, implementation and embedding procedures within the group in respect to ASX Corporate Governance Recommendations.

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

### CHIEF EXECUTIVE OFFICER – METABOLIC

Mr David Kenley was appointed Chief Executive Officer of Metabolic. He resigned 30 April 2015.

Terms of his contract and separation are as follows:

- Salary of \$237,455 per annum;
- Superannuation is included in salary;

### CHIEF EXECUTIVE OFFICER – POLYNOVO BIOMATERIALS

Mr Laurent Fossaert was appointed Chief Executive Officer of PolyNovo Biomaterials was terminated on 30 November 2014.

His employment terms up until the date of his departure are as follows:

- Salary of \$235,000 per annum;
- Superannuation of 9.25%.

## Other Information

### LOANS TO DIRECTORS AND EXECUTIVES

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

This Directors' Report, incorporating the Corporate Governance Statement and Remuneration Report, has been signed in accordance with a Resolution of the Directors made on 20 August 2015.



**Mr David Williams**

**Chairman**

20 August 2015

# DIRECTORS' DECLARATION

## POLYNOVO LIMITED

(A.C.N. 083 866 862)

### DIRECTORS' DECLARATION FOR THE YEAR ENDED 30 JUNE 2015

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

1. In the opinion of the Directors:

- (a) The financial report and the Remuneration Report included in the Directors' report, of the Company and of the Group are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Company and the Group's financial position as at 30 June 2015 and of their performance for the year ended on that date:
  - (ii) complying with Australian Accounting Standards and Corporations Regulations 2001: and
  - (iii) complying with International Financial Reporting Standards as issued by the International Accounting Standards Board.
- (b) There are reasonable grounds to believe that the Company and the Group will be able to pay their debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to Directors in accordance with section 295A of the *Corporations Act 2001* for the financial period ended 30 June 2015.

On behalf of the Board,



**Mr David Williams, Chairman**

20 August 2015

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2015

	Notes	30 June 2015 \$	30 June 2014 \$
Finance revenue	4(A)	118,382	184,381
Licence revenue		-	52,375
Sale of materials		3,000	3,000
Royalty revenue		19,339	4,821
<b>Total revenue</b>		<b>140,721</b>	<b>244,577</b>
Other income			
Research and development tax benefit	4(G)	819,282	959,232
Other Income		10,144	24,216
Profit on sale of subsidiary		1,500,000	-
Government grant income	4(B)	75,000	-
Profit on sale of assets		38,715	-
Operating leases	4(E)	(305,143)	(312,271)
Employee related expenses	4(C)	(1,648,576)	(1,570,477)
Research and development expenses		(1,038,670)	(1,091,240)
Depreciation and amortisation expense	4(D)	(205,159)	(215,177)
Corporate administrative and overhead expenses	4(F)	(774,335)	(980,835)
Loss on revaluation of available for sale assets		(3,750)	-
Impairment of fixed assets		(22,550)	-
<b>Net loss before income tax</b>		<b>(1,414,321)</b>	<b>(2,941,975)</b>
Income tax benefit	5	-	-
<b>Net loss for the period</b>		<b>(1,414,321)</b>	<b>(2,941,975)</b>
<b>Other comprehensive income that may be reclassified subsequently to profit and loss</b>			
Net fair value gains on available for sale assets	10	-	16,250
<b>Total comprehensive income/(loss) for the period</b>		<b>(1,414,321)</b>	<b>(2,925,725)</b>
<b>Loss for the period is attributable to:</b>			
Non controlling interest	16	(111,875)	(5,596)
Owners of the parent		(1,302,446)	(2,936,379)
		<b>(1,414,321)</b>	<b>(2,941,975)</b>
<b>Total comprehensive income/(loss) for the period is attributable to:</b>			
Non controlling interest	16	(111,875)	(5,596)
Owners of the parent		(1,302,446)	(2,920,129)
		<b>(1,414,321)</b>	<b>(2,925,725)</b>
Basic loss per share (cents per share)	6	(0.33) cents	(0.71) cents
Diluted loss per share (cents per share)	6	(0.33) cents	(0.71) cents

The accompanying notes form part of these financial statements

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 30 JUNE 2015

	Note	30 June 2015 \$	30 June 2014 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	3,460,454	4,666,360
Receivables	8	850,872	996,823
Prepayments		11,061	11,539
Other financial asset	22	60,000	60,000
Total current assets		<u>4,382,387</u>	<u>5,734,722</u>
<b>NON-CURRENT ASSETS</b>			
Available-for-sale financial assets	10	98,750	102,500
Plant and equipment	11	1,007,723	949,710
Intangible assets	24	2,519,788	2,519,788
Other assets	9	117,142	106,998
Total non-current assets		<u>3,743,403</u>	<u>3,678,996</u>
<b>Total assets</b>		<u>8,125,790</u>	<u>9,413,718</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	417,513	375,762
Provisions	14(A)	71,565	118,940
Total current liabilities		<u>489,078</u>	<u>494,702</u>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	14(B)	30,150	24,661
Deferred rent liability		213,256	226,344
Total non-current liabilities		<u>243,406</u>	<u>251,005</u>
<b>Total liabilities</b>		<u>732,484</u>	<u>745,707</u>
<b>Net assets</b>		<u>7,393,306</u>	<u>8,668,011</u>
<b>EQUITY</b>			
Contributed equity	15(A)	94,870,080	94,870,080
Reserves	15(B)	1,912,597	1,772,981
Retained earnings/(Accumulated losses)	15(C)	(89,227,201)	(87,924,755)
<b>Parent interests</b>		<u>7,555,476</u>	<u>8,718,306</u>
<b>Non controlling interest</b>	16	<u>(162,170)</u>	<u>(50,295)</u>
<b>Total equity</b>		<u>7,393,306</u>	<u>8,668,011</u>

The accompanying notes form part of these financial statements



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2015

	Contributed equity	Gains/ (Losses) on available- for-sale financial assets	Other reserves	Acquisition of non controlling interest Reserve	Retained earnings	Owners of the parent	Non controlling interest	Total
	\$	\$	\$	\$	\$		\$	\$
<b>As at 30 June 2013</b>	<b>91,581,364</b>	<b>87,500</b>	<b>1,659,687</b>	<b>(477,596)</b>	<b>(84,988,376)</b>	<b>7,862,579</b>	<b>(44,699)</b>	<b>7,817,880</b>
- Loss for the period	-	-	-	-	(2,936,379)	(2,936,379)	(5,596)	<b>(2,941,975)</b>
- Other comprehensive income	-	16,250	-	-	-	16,250	-	<b>16,250</b>
- Total comprehensive income for the period	-	16,250	-	-	(2,936,379)	(2,920,129)	(5,596)	<b>(2,925,725)</b>
- Share based payments	-	-	487,140	-	-	487,140	-	<b>487,140</b>
- Net proceeds from issue of shares	2,613,966	-	-	-	-	2,613,966	-	<b>2,613,966</b>
- Proceeds from exercise of options	674,750	-	-	-	-	674,750	-	<b>674,750</b>
<b>As at 30 June 2014</b>	<b>94,870,080</b>	<b>103,750</b>	<b>2,146,827</b>	<b>(477,596)</b>	<b>(87,924,755)</b>	<b>8,718,306</b>	<b>(50,295)</b>	<b>8,668,011</b>
- Loss for the period	-	-	-	-	(1,302,446)	(1,302,446)	(111,875)	<b>(1,414,321)</b>
- Other comprehensive income	-	-	-	-	-	-	-	-
- Total comprehensive income for the period	-	-	-	-	(1,302,446)	(1,302,446)	(111,875)	<b>(1,414,321)</b>
- Share based payments	-	-	139,616	-	-	139,616	-	<b>139,616</b>
<b>As at 30 June 2015</b>	<b>94,870,080</b>	<b>103,750</b>	<b>2,286,443</b>	<b>(477,596)</b>	<b>(89,227,201)</b>	<b>7,555,476</b>	<b>(162,170)</b>	<b>7,393,306</b>

The accompanying notes form part of these financial statements

## CONSOLIDATED CASH FLOW STATEMENT

### FOR THE YEAR ENDED 30 JUNE 2015

	Note	30 June 2015 \$	30 June 2014 \$
Payments to suppliers and employees		(3,615,321)	(3,538,977)
Receipt of government grants		82,500	-
Income from sale of materials		2,992	3,000
Receipts from research and development tax benefit		939,461	804,584
Receipts from licence revenue		-	52,375
Receipts from royalty revenue		23,087	-
Refund of rent deposit		-	66,168
<b>Net cash outflows from operating activities</b>	7	<u>(2,567,281)</u>	<u>(2,612,850)</u>
Interest received		127,389	183,147
Payments for plant and equipment		(317,429)	(76,320)
Proceeds from the sale of fixed assets		41,415	-
Term deposits now classified as cash and cash equivalents		-	1,100,000
Sale of investment in Metabolic Pharmaceuticals Pty Ltd		1,510,000	-
<b>Net cash inflows/(outflows) from investing activities</b>		<u>(1,361,375)</u>	<u>1,206,827</u>
Proceeds from the issue of shares (net of costs)		-	2,613,966
Proceeds from exercise of options		-	674,750
<b>Cash flows from financing activities</b>		<u>-</u>	<u>3,288,716</u>
Net increase/(decrease) in cash and cash equivalents		(1,205,906)	1,882,693
Cash and cash equivalents at beginning of period		4,666,360	2,783,667
<b>Cash and cash equivalents at end of period</b>	7	<u>3,460,454</u>	<u>4,666,360</u>

The accompanying notes form part of these financial statements

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2015

### 1. Corporate Information

The financial report of PolyNovo Limited (the Company) and its controlled entities (the Group) for the year ended 30 June 2015 was authorised for issue in accordance with a resolution of the Directors on 20 August 2015.

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

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

### 2. Summary of Significant Accounting Policies

#### (A) BASIS OF PREPARATION

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

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

The financial report is presented in Australian dollars.

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

#### (B) STATEMENT OF COMPLIANCE

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2015. These are outlined in the table following.

#### (C) CHANGES IN ACCOUNTING POLICY, DISCLOSURES, STANDARDS AND INTERPRETATIONS

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2015.

#### Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities

- |                  |   |
|------------------|---|
| • AASB 2012 – 3  | Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities                   |
| • AASB 2013 -4   | Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting [AASB 139] |
| • AASB 1031      | Materiality   |
| • AASB 2013-9    | Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments             |
| • AASB 2014-1    | Part A -Annual Improvements 2010–2012 Cycle   |
| • AASB 2014-1    | Part A -Annual Improvements 2011–2013 Cycle   |
| • AASB CF 2013-1 | Amendments to the Australian Conceptual Framework   |

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

In 2014, the Group early adopted AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets.

The following standards and interpretations have been issued by the AASB but are not yet effective for the period ended 30 June 2015.

AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.</p> <ul style="list-style-type: none"> <li>(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</li> <li>(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</li> <li>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</li> <li>(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: <ul style="list-style-type: none"> <li>-The change attributable to changes in credit risk are presented in other comprehensive income (OCI)</li> <li>-The remaining change is presented in profit or loss</li> </ul> </li> </ul> <p>AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.</p> <p>AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.</p> <p>AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after <b>1 January 2015</b>.</p>	<p>The Directors are in the process of considering the impact of this amendment however it is not expected to result in a material change to the manner in which the Groups financial result is determined.</p>	1 July 2018

AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	<p>AASB 116 and AASB 138 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.</p> <p>The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.</p>	The Directors are in the process of considering the impact of this amendment however it is not expected to result in a material change to the manner in which the Groups financial result is determined.	1 July 2016

AASB 15	Revenue from Contracts with Customers	<p>AASB 15 Revenue from Contracts with Customers replaces the existing revenue recognition standards AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations (Interpretation 13 Customer Loyalty Programmes, Interpretation 15 Agreements for the Construction of Real Estate, Interpretation 18 Transfers of Assets from Customers, Interpretation 131 Revenue—Barter Transactions Involving Advertising Services and Interpretation 1042 Subscriber Acquisition Costs in the Telecommunications Industry). AASB 15 incorporates the requirements of IFRS 15 Revenue from Contracts with Customers issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).</p> <p>AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <ul style="list-style-type: none"> <li>(a) Step 1: Identify the contract(s) with a customer</li> <li>(b) Step 2: Identify the performance obligations in the contract</li> <li>(c) Step 3: Determine the transaction price</li> <li>(d) Step 4: Allocate the transaction price to the performance obligations in the contract</li> <li>(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</li> </ul> <p>Currently, AASB 15 is effective for annual reporting periods commencing on or after 1 January 2017. Early application is permitted. (Note A)</p> <p>AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.</p>	<p>The Directors are in the process of considering the impact of this amendment however it is not expected to result in a material change to the manner in which the Groups financial result is determined.</p>	1 July 2017*

AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle	<p>The subjects of the principal amendments to the Standards are set out below:</p> <p><i>AASB 5 Non-current Assets Held for Sale and Discontinued Operations:</i></p> <ul style="list-style-type: none"> <li>Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change.</li> </ul> <p><i>AASB 7 Financial Instruments:</i> Disclosures:</p> <ul style="list-style-type: none"> <li>Servicing contracts - clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is ‘continuing involvement’ for the purposes of applying the disclosure requirements in paragraphs 42E–42H of AASB 7.</li> <li>Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 <i>Disclosure—Offsetting Financial Assets and Financial Liabilities</i> is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 <i>Interim Financial Reporting</i> when its inclusion would be required by the requirements of AASB 134.</li> </ul> <p><i>AASB 119 Employee Benefits:</i></p> <ul style="list-style-type: none"> <li>Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.</li> </ul> <p><i>AASB 134 Interim Financial Reporting:</i> Disclosure of information ‘elsewhere in the interim financial report’ -amends AASB 134 to clarify the meaning of disclosure of information ‘elsewhere in the interim financial report’ and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.</p>	<p>The Directors are in the process of considering the impact of this amendment however it is not expected to result in a material change to the manner in which the Groups financial result is determined.</p>	1 July 2016



AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	The Standard makes amendments to AASB 101 <i>Presentation of Financial Statements</i> arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.	The Directors are in the process of considering the impact of this amendment however it is not expected to result in a material change to the manner in which the Groups financial result is determined.	1 July 2016

\* The IASB in its July 2015 meeting decided to confirm its proposal to defer the effective date of IFRS 15 (the international equivalent of AASB 15) from 1 January 2017 to 1 January 2018. The amendment to give effect to the new effective date for IFRS 15 is expected to be issued in September 2015. At this time, it is expected that the AASB will make a corresponding amendment to the effective date of AASB 15.

## (C) BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

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

## (D) BUSINESS COMBINATION

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 139 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of AASB 139, it is measured in accordance with the appropriate AASB. Contingent consideration that is classified as equity is not re-measured and

subsequent settlement is accounted for within equity.

#### (E) INTANGIBLE ASSETS

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

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

#### (F) IMPAIRMENT OF INTANGIBLE ASSETS

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

#### (G) SHARE-BASED PAYMENTS

Share-based payment transactions

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

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

- (i) The PolyNovo Employee Share Option Plan.

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

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

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

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

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

#### (H) PLANT AND EQUIPMENT

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

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

## (I) PLANT AND EQUIPMENT IMPAIRMENT

### Impairment

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

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

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

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

### De-recognition and disposal

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

## (J) RESEARCH AND DEVELOPMENT COSTS

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

## (K) INVESTMENTS

### Available-for-sale investment

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

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

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

## (M) CASH AND CASH EQUIVALENTS

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

## (N) EMPLOYEE LEAVE BENEFITS

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

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

## (O) OPERATING LEASES

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

## (P) REVENUE RECOGNITION

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

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

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

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

## (Q) GOVERNMENT GRANTS

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

Research and Development tax benefit revenue is recognised when there is reasonable assurance of receipt.

## (R) TRADE AND OTHER PAYABLES

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

## (S) INCOME TAX

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

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

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

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

## (T) SIGNIFICANT ACCOUNTING, ESTIMATES AND ASSUMPTIONS

### DEFERRED TAX LIABILITY

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

### SHARE BASED PAYMENTS

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

### IMPAIRMENT OF INTANGIBLES

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

## (U) GOODS AND SERVICES TAX (GST)

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

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

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

#### (V) EARNINGS PER SHARE (EPS)

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

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

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

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

#### (W) CONTRIBUTED EQUITY

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

#### (X) FOREIGN CURRENCY TRANSLATION

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

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

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

#### (Y) COMPARATIVES

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

#### (Z) SECURITY DEPOSITS

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

#### (AA) HELD-TO-MATURITY INVESTMENTS

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

### 3. Segment Information

#### Operating Segment

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

The chief operating decision maker from 13 February 2015 is the Chief Executive Officer of PolyNovo Limited. The chief operating decision maker was previously the Joint Acting Managing Directors and the Chairman.

The Company has been re-structured and only operates in one business and geographic segment. The chief operating decision maker reviews the results of the business on a single entity basis. For financial results refer to the Statement of Comprehensive Income and Statement of Financial Position.

The Board monitors the operating results of the Group for the purpose of making decisions about resource allocation to each project. Projects are evaluated based on progressing the PolyNovo technology in accordance with budgeted Company expenditure, consistent with the presentation of the information in the Statement of Comprehensive Income.

For a description of PolyNovo's current projects refer to the Directors Report.

#### Geographical areas

The Group operates in only one geographical area.

### 4. Revenues and Expenses

	30 June 2015 \$	30 June 2014 \$
(A) REVENUE		
Finance revenue	118,382	184,381
Details of finance revenue:		
Term deposit interest	111,661	164,774
Bank account interest	6,721	19,607
	118,382	184,381

#### (B) GOVERNMENT GRANT INCOME

Government grants	75,000	-
-------------------	--------	---

PolyNovo received \$75,000 from the Victorian State Government (2014: nil) to fund a feasibility study at The Alfred.

The Group did not benefit directly from any other forms of Government assistance in 2015 and 2014.

#### (C) EMPLOYEE RELATED EXPENSES

	30 June 2015 \$	30 June 2014 \$
Wages and salaries	(957,815)	(780,179)
Superannuation	(120,738)	(91,479)
Share-based payment (See Note 12)	(139,616)	(487,140)
Directors' fees	(272,289)	(193,066)
Severance payments (including superannuation)	(128,661)	-
Long service leave provision	(15,111)	(15,551)
Annual leave provision	(14,346)	(3,062)
	(1,648,576)	(1,570,477)

#### (D) DEPRECIATION AND AMORTISATION EXPENSE

Depreciation – office equipment	(15,415)	(17,663)
Depreciation – laboratory equipment	(77,152)	(78,310)
Depreciation – leasehold improvements	(112,592)	(119,204)
	(205,159)	(215,177)

## (E) RENTAL EXPENSE RELATING TO OPERATING LEASES

Rental expense and outgoings – Laboratory & administration	(305,143)	(312,271)
	<u>(305,143)</u>	<u>(312,271)</u>

## (F) OTHER ADMINISTRATIVE AND OVERHEAD EXPENSES

Insurances	(67,939)	(53,700)
Accounting and audit fees	(129,640)	(138,605)
Investor relations & share registry expenses	(48,605)	(151,506)
Legal fees	(121,035)	(177,929)
Consultants and contractors	(33,889)	(59,218)
Travel	(63,957)	(125,902)
Other	(309,270)	(273,975)
	<u>(774,335)</u>	<u>(980,835)</u>

## (G) RESEARCH AND DEVELOPMENT TAX BENEFIT

Research and development tax benefit income of \$819,282 (2014:\$959,232) was recorded as income in the statement of comprehensive income and as a receivable in the statement of financial position.

An advanced finding request has been submitted to AusIndustry to allow PolyNovo to claim the Research and Development tax benefit on spending incurred overseas. At the date of this report no decision had been made by AusIndustry on whether PolyNovo's submission has been successful.

## 5. Income Tax

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

	30 June 2015 \$	30 June 2014 \$
<i>Current income tax</i>		
Current income tax charge	-	-
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	-	-
Income tax benefit / (income tax expense)	<u>-</u>	<u>-</u>

### Income Tax Recognised Directly In Equity

Deferred tax expense	-	-
Available for sale asset	<u>-</u>	<u>-</u>

### Reconciliation of Income Tax Expense to Prima Facie Tax Payable

Net loss before income tax expense	1,414,321	2,941,975
Prima facie tax calculated at 30%	(424,295)	(882,593)
Tax effect of amounts which are not included in accounting loss:		
Research and development	546,188	626,308
Non-assessable rental deposit	(3,043)	(7,265)
Non-assessable grant income	(245,785)	(287,770)
Tax effect of amounts which are not deductible:		
Share based payments	41,885	146,142
Other	978	660
	<u>(84,072)</u>	<u>(404,518)</u>
Current year tax losses not brought to account	249,984	434,433
Current year temporary differences not brought to account	(165,912)	(29,915)
Income tax benefit / (income tax expense)	<u>-</u>	<u>-</u>

### (B) DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets	761,967	764,218
Deferred tax liabilities	<u>(761,967)</u>	<u>(764,218)</u>
Net deferred tax assets /(liabilities)	<u>-</u>	<u>-</u>



## DEFERRED TAX BALANCES REFLECTS TEMPORARY DIFFERENCES ATTRIBUTABLE TO:

	30 June 2015 \$	30 June 2014 \$
Amounts recognised in Profit and Loss		
Recognised tax losses	653,602	610,828
Recognised on temporary differences	108,364	153,390
Interest receivable	(6,030)	(8,281)
Amount recognised due to acquisition of PolyNovo	(755,936)	(755,936)
Net deferred tax assets /(liabilities)	-	-

### Movement in temporary differences during the year:

Balance as of 1 July	-	-
Credit to profit and Loss	-	-
Charged to equity	-	-
Net deferred tax assets /(liabilities) as 30 June	-	-

### (C) DEFERRED TAX ASSETS NOT BROUGHT TO ACCOUNT

	30 June 2015 \$	30 June 2014 \$
Unrecognised, unconfirmed tax losses for which no deferred tax asset has been recognised	80,037,015	81,922,928
Deductible temporary differences - no deferred tax asset has been recognised	212,402	256,919
	80,249,417	82,179,847
Potential tax benefit at 30%	24,074,825	24,653,954

The availability of the tax losses held by the Group in future periods is uncertain and will be dependent on the Group satisfying strict requirements with respect to continuity of ownership and the same business test imposed by income tax legislation. The recoupment of available tax losses as at 30 June 2015 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 which would adversely affect the Group from realising the benefit from the losses.

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

### (D) INCOME TAX BENEFIT

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

## 6. Earnings Per Share (EPS)

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

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

#### Basic EPS:

30 June 2015	(0.33) cents per share
30 June 2014	(0.71) cents per share

#### Diluted EPS:

30 June 2015	(0.33) cents per share
30 June 2014	(0.71) cents per share

	30 June 2015	30 June 2014
The following reflects the income and share data used in the calculation of basic and diluted EPS:		
Net loss used in calculating basic and diluted EPS attributable to equity holders of the parent entity	(\$1,302,446)	(\$2,936,379)
Weighted average number of ordinary shares on issue used in the calculation of basic EPS	418,509,426	410,941,500
Potential ordinary shares that are not dilutive and are excluded from the calculation of diluted EPS	-	-

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

## 7. Cash and Cash Equivalents

### Reconciliation of cash at the end of the year

	30 June 2015	30 June 2014
	\$	\$
Cash at bank and in hand <sup>(i)</sup>	260,454	566,360
Short-term deposits <sup>(ii)</sup>	3,200,000	4,100,000
	<u>3,460,454</u>	<u>4,666,360</u>

Notes:

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

(ii) Short-term deposits mature within 3 months and have interest rates at 2.87% (2014: short-term deposit mature within 3 months and have interest rates at 3.56%).

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

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

	30 June 2015	30 June 2014
	\$	\$
Net Loss	(1,414,321)	(2,941,975)
Adjustments for non-cash items:		
Depreciation/Amortisation	205,159	215,177
Share-based payment expense	139,616	487,140
Interest	(118,382)	(184,381)
Revaluation of available for sale assets	3,750	-
Profit on sale of assets	(38,715)	-
Impairment of assets	22,550	-
Sale of Metabolic Pharmaceuticals Pty Ltd	(1,500,000)	-
Change in assets and liabilities during the financial year:		
(Increase)/decrease in prepayments	478	(11,539)
(Increase)/decrease in receivables	145,951	(165,356)
(Increase)/decrease in other assets	(10,148)	41,951
Increase/(decrease) in payables	41,751	(72,485)
Increase/(decrease) in provisions	(41,882)	18,618
Increase/(decrease) in other liabilities	(3,088)	-
Net cash outflows from operating activities	<u>(2,567,281)</u>	<u>(2,612,850)</u>

## 8. Receivables (Current)

	30 June 2015	30 June 2014
	\$	\$
Research and Development tax concession	822,298	939,462
Interest receivable	13,590	19,886
GST recoverable	7,755	19,177
Royalty revenue receivable	6,511	5,098
Sundry receivables	718	13,200
	<u>850,872</u>	<u>996,823</u>

## 9. Other Assets (Non-Current)

### NON-CURRENT

	30 June 2015	30 June 2014
	\$	\$
Security deposit	117,142	106,998

The non-current security deposit relates to PolyNovo's long term lease of premises in Port Melbourne. During the period ended 30 June 2014 the Company received a partial refund of this deposit in the amount of \$66,168.

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

	30 June 2015	30 June 2014
	\$	\$
Balance at beginning of year	102,500	86,250
Gain/(impairment) of available-for-sale financial asset	(3,750)	16,250
Balance at end of year	<u>98,750</u>	<u>102,500</u>

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

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

From 1 July 2014 to 30 June 2015 there was a decrease of \$3,750 in the fair value of the investment in Neuren which was recorded as a loss on available for sale assets in the Statement of Financial Performance.

## 11. Plant and Equipment

	30 June 2015	30 June 2014
	\$	\$
<b>OFFICE EQUIPMENT</b>		
<b>(i) Cost</b>		
Opening balance	180,242	177,532
Additions	29,398	2,710
Disposals and write-off of equipment	-	-
Closing balance	<u>209,640</u>	<u>180,242</u>
<b>(ii) Accumulated Depreciation</b>		
Opening balance	(136,585)	(118,922)
Depreciation for the year	(15,415)	(17,663)
Closing balance	<u>(152,000)</u>	<u>(136,585)</u>
<b>Net book value – Office equipment</b>	<u>57,640</u>	<u>46,657</u>

## LABORATORY PLANT AND EQUIPMENT

### (i) Cost

Opening balance	685,231	611,621
Additions	121,733	73,610
Impairment	(22,550)	-
Closing balance	<u>784,414</u>	<u>685,231</u>

### (ii) Accumulated Depreciation

Opening balance	(510,950)	(432,640)
Depreciation for the year	(77,152)	(78,310)
Closing balance	<u>(588,102)</u>	<u>(510,950)</u>
<b>Net book value – Laboratory plant and equipment</b>	<u>196,312</u>	<u>174,281</u>

## LEASEHOLD IMPROVEMENTS

### (i) Cost

Opening balance	1,327,257	1,327,257
Additions	134,591	-
Closing balance	<u>1,461,848</u>	<u>1,327,257</u>

### (ii) Accumulated Depreciation

Opening balance	(595,485)	(476,281)
Depreciation for the year	(112,592)	(119,204)
Closing balance	<u>(708,077)</u>	<u>(595,485)</u>
<b>Net book value – Leasehold improvements</b>	<u>753,771</u>	<u>731,772</u>
<b>Net book value – Plant and equipment</b>	<u>1,007,723</u>	<u>949,710</u>

The impairment charge of \$22,550 (2014; nil) relates to Research and Development machinery that was no longer fit for purpose.

## 12. Share-Based Payments

### (A) EMPLOYEE SHARE-BASED PAYMENT PLANS

The Company provided benefits to employees in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). No benefits provided during the period under the following plans:

#### (i) The PolyNovo Employee Performance Share Plan.

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

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

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

No current employees have performance rights.

#### (ii) Employee Share Option Plan

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

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

The fair value of the options granted under the PolyNovo Employee Share Option Plan are determined by using a binomial approximation model. This model takes into account, as at grant date, the exercise price and expected

life of the option, the vesting criteria, the current price of the underlying share and its expected volatility, expected dividends and the risk-free interest rate for the expected life of the option.

Options granted in the 2013 year were granted in accordance with performance guidelines established by the Directors of PolyNovo Limited. The options were granted for varying terms ranging from 12 to 36 months and are exercisable on vesting dates between the date of grant and expiry date. These options were issued pursuant to the PolyNovo Employee Share Option Plan. The option-pricing model values each of these vesting portions separately.

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

	23 Nov 2010	15 Dec 2010	29 Apr 2011	29 Apr 2011	20 Nov 2012	12 Apr 2013	1 Aug 2013	19 May 2014	19 May 2014
<b>Binomial Option Pricing</b>									
<b>Model Variables</b>									
Exercise price	\$0.04 \$0.06	\$0.04 \$0.06	\$0.04 \$0.06	\$0.085	\$0.11	\$0.11	\$0.11	\$0.09	\$0.20
Risk-free interest rate	6.06%	6.06%	6.16%	6.16%	2.70%	2.70%	2.70%	2.80%	2.80%
Volatility	80%	80%	60%	60%	90%	90%	90%	75%	75%
Expiry date	01/12/13	01/12/13	01/12/13	01/04/14	20/11/15	12/10/14	31/12/14	03/07/17	03/07/17
Dividend yield	-	-	-	-	-	-	-	-	-
Average fair value per option	\$0.0074	\$0.0074	\$0.0255	\$0.0140	\$0.0173	\$0.0106	\$0.0238	\$0.053	\$0.033

**(A) INFORMATION WITH RESPECT TO THE NUMBER OF OPTIONS GRANTED:**

(i) Employee and Director Options over Ordinary Shares (No. of Options) at 30 June 2015.

<b>Date of Issue</b>	<b>20/11/12<sup>1</sup></b>	<b>12/4/13<sup>2</sup></b>	<b>19/05/14<sup>3</sup></b>	<b>17/11/14</b>	<b>17/11/14</b>	<b>Total</b>
On issue at beginning of the year	1,500,000	850,000	10,000,000	-	-	12,350,000
Granted during the year	-	-	-	2,000,000	1,000,000	3,000,000
Exercised during the year	-	-	-	-	-	-
Expired unexercised during the year	-	850,000	-	-	-	850,000
Forfeited/Forfeited during the period	-	-	-	-	-	-
On issue at balance date	1,500,000	-	10,000,000	2,000,000	1,000,000	14,500,000
Issued subsequent to balance date	-	-	-	-	-	-
Exercised subsequent to balance date	-	-	-	-	-	-
Forfeited/Forfeited subsequent to balance date	-	-	-	-	-	-
On issue at date of Directors' Report	1,500,000	-	10,000,000	2,000,000	1,000,000	14,500,000
Current number of recipients	3	2	1	3	2	
Exercise price	\$0.11	\$0.11	\$0.09 \$0.20	\$0.20	\$0.14	
Exercise period: From	20/11/12	12/04/13	04/07/14	17/11/14	17/11/14	
To	20/11/15	12/10/14	04/07/17	17/11/17	17/11/17	
Expiration date	20/11/15	12/10/14	04/07/17			
The following proportions vest from the dates shown:						
	100% immediately	100% immediately	100% immediately	100% immediately	100% immediately	

<sup>1</sup> All options issued vested immediately.

<sup>2</sup> All options issued vested immediately.

<sup>2</sup> All options issued vested immediately.

(ii) Employee and Director Options over Ordinary Shares (No. of Options) at 30 June 2014.

Date of Issue	23/11/10 <sup>2</sup>	15/12/10 <sup>1</sup>	29/04/11	29/04/11	20/11/12 <sup>3</sup>	12/4/13 <sup>4</sup>	01/08/13 <sup>5</sup>	19/05/14 <sup>5</sup>	Total
On issue at beginning of the year	3,200,000	5,801,667	2,133,333	1,000,000	1,500,000	850,000	-	-	14,485,000
Granted during the year	-	-	-	-	-	-	300,000	10,000,000	10,300,000
Exercised during the year	3,200,000	5,801,667	2,133,333	1,000,000	-	-	300,000	-	12,435,000
Expired unexercised during the year	-	-	-	-	-	-	-	-	-
Forfeited/Forfeited during the period	-	-	-	-	-	-	-	-	-
On issue at balance date	-	-	-	-	1,500,000	850,000	-	-	12,350,000
Issued subsequent to balance date	-	-	-	-	-	-	-	-	-
Exercised subsequent to balance date	-	-	-	-	-	-	-	-	-
Forfeited/Forfeited subsequent to balance date	-	-	-	-	-	-	-	-	-
On issue at date of Directors' Report	-	-	-	-	1,500,000	850,000	-	10,000,000	12,350,000
Current number of recipients	3 <sup>2</sup>	6	1	1	3	2	1	1	
Exercise price	\$0.04 \$0.06	\$0.04 \$0.06	\$0.04 \$0.06	\$0.085 -	\$0.11	\$0.11	\$0.11	\$0.09 \$0.20	
Exercise period: From	23/11/10	15/12/10	29/04/11	29/04/11	20/11/12	12/04/13	01/08/13	04/07/14	
To	23/11/11	01/12/13	01/12/13	01/04/14	20/11/15	12/10/14	31/12/14	04/07/17	
Expiration date	23/11/13	01/12/13	01/12/13	01/04/14	20/11/15	12/10/14	31/12/14	04/07/17	
The following proportions vest from the dates shown:									
50%	23/11/10		01/02/12		100% immediately	100% immediately	100% immediately		
50%	23/11/11		01/02/13						
33%		15/12/10		29/04/11					
33%		01/12/11		01/04/12					
34%		01/12/12		01/04/13					

<sup>1</sup>100% of options granted in December 2010 to Mr David Kenley vested on 15/12/2010.

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

<sup>3</sup> All options issued vested immediately.

<sup>4</sup>All options issued vested immediately.

<sup>5</sup>Options granted vested immediately.

## (B) INFORMATION RELATING TO OPTIONS EXERCISED BY EMPLOYEES DURING THE YEAR ENDED 30 JUNE 2015

No options were exercised by employees of the Company during the year ended 30 June 2015 (2014:12,435,000).

## (C) INFORMATION RELATING TO OPTIONS EXERCISED BY EMPLOYEES DURING THE YEAR ENDED 30 JUNE 2014

12,435,000 options were exercised by employees of the Company during the year ended 30 June 2014 (2013:Nil).

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

	30 June 2015 \$	30 June 2014 \$
Options expensed	139,616	487,140
	<u>139,616</u>	<u>487,140</u>

## 13. Trade and Other Payables (Current)

	30 June 2015 \$	30 June 2014 \$
Trade creditors and payables <sup>(i)</sup>	133,197	209,494
Other payables	284,316	166,268
Total trade and other payables	<u>417,513</u>	<u>375,762</u>

Note:

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

## 14. Provisions (Current & Non-Current)

	30 June 2015 \$	30 June 2014 \$
<b>(A) CURRENT PROVISIONS</b>		
Annual leave	42,112	70,309
Long service leave	29,453	48,631
<b>Total Current Provisions</b>	<u>71,565</u>	<u>118,940</u>

## (B) NON-CURRENT PROVISIONS

Long service leave	30,150	24,661
<b>Total Non-Current Provisions</b>	<u>30,150</u>	<u>24,661</u>

## 15. Contributed Equity and Reserves

### (A) MOVEMENT IN CONTRIBUTED EQUITY

	30 June 2015 \$	30 June 2014 \$
Contributed equity at beginning of year	94,870,080	91,581,364
Shares issued during the year	-	2,613,966
Costs of share issue	-	-
Exercise of options	-	674,750
Contributed equity at end of year	<u>94,870,080</u>	<u>94,870,080</u>



	Number of Shares	
On issue at start of year	418,509,426	365,863,047
Shares issued during the year <sup>(i)</sup>	-	40,211,379
Exercise of options	-	12,435,000
On issue at end of year	418,509,426	418,509,426

### Terms and conditions of contributed equity

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

### (i) Securities issued or granted during the year ended 30 June 2015

#### Ordinary Fully Paid Shares:

- No shares were issued during the period ended 30 June 2015.
- No options were exercised during the period ended 30 June 2015.

#### Performance Rights and Options Granted:

- No performance rights were granted during the period ended 30 June 2015.
- 3,000,000 options were granted during the period ended 30 June 2015.

### (ii) Securities issued or granted during the year ended 30 June 2014

#### Ordinary Fully Paid Shares:

- 40,211,379 shares were issued during the period ended 30 June 2014 under the Company's Share Purchase Plan.
- 12,435,000 options were exercised during the period resulting in the issue of 12,435,000 shares.

#### Performance Rights and Options Granted:

- No performance rights were granted during the period ended 30 June 2014.
- 10,300,000 options were granted during the period ended 30 June 2014.

	30 June 2015 \$	30 June 2014 \$
--	-----------------------	-----------------------

### (B) RESERVES

Share based payments reserve (i)	2,286,443	2,146,827
Gains on available-for-sale financial assets (ii)	103,750	103,750
Acquisition of non controlling interest reserve (iii)	(477,596)	(477,596)
Balance at end of period	1,912,597	1,772,981

	30 June 2015 \$	30 June 2014 \$
--	-----------------------	-----------------------

### (i) Share Based Payments Reserve

Balance at beginning of period	2,146,827	1,659,687
Share-based payments movement	139,616	487,140
Balance at end of period	2,286,443	2,146,827

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

### (ii) Gains on Available-for-sale Financial Assets Reserve

	30 June 2015 \$	30 June 2014 \$
Opening balance	103,750	87,500
Unrealised gain on available-for-sale financial assets	-	16,250
Balance at end of period	103,750	103,750

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

**(iii) Acquisition of Non Controlling Interest Reserve**

	<b>30 June 2015 \$</b>	<b>30 June 2014 \$</b>
Opening balance	(477,596)	(477,596)
Acquisition of non controlling interest	-	-
Balance at end of year (i)	<u>(477,596)</u>	<u>(477,596)</u>

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

	<b>30 June 2015 \$</b>	<b>30 June 2014 \$</b>
--	--------------------------------	--------------------------------

**(C) ACCUMULATED LOSSES**

Accumulated losses at beginning of year	(87,924,755)	(84,988,376)
Net loss attributable to members of the parent	(1,302,446)	(2,936,379)
Accumulated losses at end of financial year	<u>(89,227,201)</u>	<u>(87,924,755)</u>

**16. Non Controlling Interests**

	<b>30 June 2015 \$</b>	<b>30 June 2014 \$</b>
Opening balance	(50,295)	(44,699)
Current year share of accumulated losses	(111,875)	(5,596)
Balance at end of year	<u>(162,170)</u>	<u>(50,295)</u>

In 2010 the Group together with Skin Pty Ltd formed two companies, NovoSkin Pty Ltd and NovoWound Pty Ltd, holding an 80% share in each with the remaining 20% interest held by Skin Pty Ltd.

**17. Commitments and Contingencies**

**OPERATING LEASE COMMITMENTS – COMPANY AS LESSEE**

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

	<b>30 June 2015 \$</b>	<b>30 June 2014 \$</b>
Not later than one year	264,065	253,907
Later than one year, but not later than five years	1,139,510	1,121,341
Later than five years	-	282,234
	<u>1,403,575</u>	<u>1,657,482</u>

**CONTINGENCIES**

The Directors were not aware of any other contingent liabilities or contingent assets at 30 June 2015. There has been no change since that date.

**18. Related Party Disclosures**

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

Lateral Innovations Pty Ltd, an entity associated with Mr David Kenley received payments in the amount of \$239,528 (2014: \$237,455). These payments were in respect to consulting services to Metabolic Pharmaceuticals Pty Ltd, PolyNovo Biomaterials Pty Ltd and PolyNovo Limited.

PolyNovo completed the sale of all the shares in Metabolic Pharmaceuticals Pty Ltd to Lateral Pharma Pty Ltd, a Company associated with Mr David Kenley, on 7 May 2015 as well as any Metabolic-related intellectual property held by PolyNovo. For details of the transaction see note 25.

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

## 19. Events after the Balance Sheet Date

On 6 August 2015 PolyNovo issued an options package to its Chief Executive Officer Mr Paul Brennan. Details of these options are:

Exercise price: \$0.09

Terms:

- (a) 4,185,095 Options will be granted and will become immediately exercisable at 9 cents only when the weighted average share price of PolyNovo Ltd is above \$0.18 for more than 3 months.
- (b) 4,185,095 Options will be granted and will become immediately exercisable at 9 cents only when the weighted average share price of PolyNovo Ltd is above \$0.25 for more than 3 months.
- (c) 4,185,095 Options will be granted and will become immediately exercisable at 9 cents only when the weighted average share price of PolyNovo Ltd is above \$0.35 for more than 3 months.

Expiry date: When the options are exercisable, he will have 3 months to exercise them after which time they will lapse.

The options package will expire on 5 August 2018.

The Directors are not aware of any other matters or circumstances since the end of the financial year other than those described above, not otherwise dealt with in this report which have significantly affected, or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

## 20. Auditor's Remuneration

The auditor of PolyNovo Limited is Ernst & Young.

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

	30 June 2015 \$	30 June 2014 \$
An audit or review of the financial reports of the entity:		
- Half-year and full-year audits	87,000	87,000
Other services in relation to the entity:		
- Preparation of tax returns	12,500	12,500
- Preparation and lodgement of Research and Development tax benefit application, AusIndustry review and overseas applications	22,500	13,750
Total for entity auditors	122,000	113,250

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

## 21. Parent Entity Information

	30 June 2015 \$	30 June 2014 \$
Information relating to PolyNovo Ltd:		
Current assets	3,748,358	4,433,408
Total assets	15,259,362	15,993,889
Current liabilities	167,097	176,236
Total liabilities	181,701	188,799
Issued capital	94,870,080	94,870,080
Retained earnings	(82,182,612)	(81,315,567)
Total reserves	2,390,193	2,250,577
Total shareholders' equity	15,077,661	15,805,090
Profit/(loss) of the parent entity	(1,799,424)	(1,393,433)
Total comprehensive income/(loss) of the parent entity	(1,799,424)	(1,377,183)

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries	-	-
Details of any contingent liabilities of the parent entity – refer note 17		
Details of any contractual commitments by the parent entity for the acquisition of property, plant or equipment.	-	-

## 22. Financial Risk Management Objectives and Policies

### (A) FINANCIAL INSTRUMENTS

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

	30 June 2015 \$	30 June 2014 \$
Cash and cash equivalents	3,460,454	4,666,360
Trade and other receivables	850,872	996,823
Other financial asset (classified as held to maturity) <sup>1</sup>	60,000	60,000
Trade and other payables	417,513	375,762

<sup>1</sup> At 30 June 2015 and 30 June 2014, the carrying value of these held-to-maturity assets approximated fair value.

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

	30 June 2015 \$	30 June 2014 \$
Available-for-sale financial asset	98,750	102,500

The Group's available-for-sale financial asset at 30 June 2015 consists of 1,250,000 fully paid ordinary shares held in Neuren Pharmaceuticals Limited ('Neuren'), a Company listed on the Australian Securities Exchange (ASX Code: NEU).

### (C) RISK MANAGEMENT POLICY

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

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

### (D) SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

## (E) CAPITAL RISK MANAGEMENT

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

## (F) FINANCIAL RISK MANAGEMENT

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

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

### Interest Rate Risk

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

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

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

2015	Weighted Average Effective Interest Rate	Floating Interest Rate \$	Fixed interest rate 0 – 90 days \$	Fixed Interest Rate 91-365 days \$	Fixed Interest Rate 1 to 5 years \$	Fixed Interest Rate Over 5 Years \$	Non-Interest Bearing \$	Total \$
<b>Financial assets:</b>								
Cash and cash equivalents	2.87%	260,454	3,200,000	-	-	-	-	3,460,454
Other financial assets	2.35%	-	-	60,000	-	-	-	60,000
Receivables	-	-	-	-	-	-	850,872	850,872
<b>Total financial assets:</b>		<b>260,454</b>	<b>3,200,000</b>	<b>60,000</b>	<b>-</b>	<b>-</b>	<b>850,872</b>	<b>4,371,326</b>
<b>Financial liabilities:</b>								
Trade and other Payables	-	-	-	-	-	-	382,513	382,513
<b>Total financial liabilities:</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>382,513</b>	<b>382,513</b>
<b>2014</b>								
	Weighted Average Effective Interest Rate	Floating Interest Rate \$	Fixed interest rate 0 – 90 days \$	Fixed Interest Rate 91-365 days \$	Fixed Interest Rate 1 to 5 years \$	Fixed Interest Rate Over 5 Years \$	Non-Interest Bearing \$	Total \$
<b>Financial assets:</b>								
Cash and cash equivalents	3.56%	566,360	4,100,000	-	-	-	-	4,666,360
Other financial assets	2.68%	-	-	60,000	-	-	-	60,000
Receivables	-	-	-	-	-	-	996,823	996,823
<b>Total financial assets:</b>		<b>566,360</b>	<b>4,100,000</b>	<b>60,000</b>	<b>-</b>	<b>-</b>	<b>996,823</b>	<b>5,723,183</b>
<b>Financial liabilities:</b>								
Trade and other Payables	-	-	-	-	-	-	375,762	375,762
<b>Total financial liabilities:</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>375,762</b>	<b>375,762</b>

There has been no change to the Group's exposure to interest rate risk or the manner in which it manages and measures its risk in the year ended 30 June 2015.

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

	<b>Higher/(Lower) 2015</b>	<b>(Higher)/Lower 2014</b>
+ 1% (100 basis points)	35,204	47,264
- 1% (100 basis points)	(35,204)	(47,264)

### Credit risk

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

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

In recent years the Group has had minimal trade and other receivables, with the majority of its cash receipts being provided via shareholder investment. The Group's receivables at 30 June 2015 largely relate to accrued interest, license revenue receivable and the research and development tax benefit. At 30 June 2015, \$822,298 relates to the R and D tax benefit in respect to the 2015 financial year.

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

The analysis of trade and other receivables is as follows.

<b>2015</b>	<b>0-30 days \$</b>	<b>30-60 days \$</b>	<b>60-90 days \$</b>	<b>90+ day \$</b>	<b>Total \$</b>
Trade and other receivables	21,305	7,269	-	822,298	<b>850,872</b>

<b>2014</b>	<b>0-30 days \$</b>	<b>30-60 days \$</b>	<b>60-90 days \$</b>	<b>90+ day \$</b>	<b>Total \$</b>
Trade and other receivables	39,063	18,298	-	939,462	<b>996,823</b>

### Liquidity risk

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

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

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

<b>2015</b>	<b>0-30 days \$</b>	<b>30-60 days \$</b>	<b>60-90 days \$</b>	<b>90+ day \$</b>	<b>Total \$</b>
Trade and other payables	99,147	318,366	-	-	<b>417,513</b>

<b>2014</b>	<b>0-30 days \$</b>	<b>30-60 days \$</b>	<b>60-90 days \$</b>	<b>90+ day \$</b>	<b>Total \$</b>
Trade and other payables	140,697	183,762	-	51,303	<b>375,762</b>

### Other price risk – Available-for-sale financial asset

The Group's available-for-sale financial asset at 30 June 2015 consists of 1,250,000 fully paid ordinary shares held in Neuren Pharmaceuticals Limited ('Neuren'), a Company listed on the Australian Securities Exchange (ASX Code: NEU), and therefore subject to price risk associated with fluctuations in the market price.

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

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

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

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

From 1 July 2012 to 30 June 2013 there was an increase of \$60,000 in the fair value of the investment in Neuren which was recorded as Other Comprehensive Income (Equity).

From 1 July 2013 to 30 June 2014 there was an increase of \$16,250 in the fair value of the investment in Neuren which was recorded as Other Comprehensive Income (Equity).

From 1 July 2014 to 30 June 2015 there was a decrease of \$3,750 in the fair value of the investment in Neuren which was recorded as an expense in the Statement of Financial Performance (profit and loss).

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

	Higher/(Lower) 2015 \$	Higher/(Lower) 2014 \$
<b>Equity:</b>		
Share Price + 20%	19,750	20,500
Share Price – 20%	-	-
<b>Profit and Loss:</b>		
Share Price + 20%	(19,750)	(20,500)
Share Price – 20%	-	-

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

At 30 June 2015, the carrying value of debt and equity investments which fair values were determined directly, in full or in part, by reference to published price quotations amounted to \$98,750 (2014: \$102,500).

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

#### Fair value measurements recognised in the statement of financial position

##### Level 1

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

##### Level 2

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

##### Level 3

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

30 June 2015	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	98,750	-	-	98,750
<b>Total</b>	<b>98,750</b>	<b>-</b>	<b>-</b>	<b>98,750</b>

30 June 2014	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	102,500	-	-	102,500
<b>Total</b>	<b>102,500</b>	<b>-</b>	<b>-</b>	<b>102,500</b>

## 23. Key Management Personnel Disclosures

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

### (A) DETAILS OF KEY MANAGEMENT PERSONNEL

The Key Management Personnel of the Group are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the 2015 and 2014 financial years. Unless otherwise indicated they were Key Management Personnel during the whole of the financial years. The Key Management Personnel are:

#### (i) Directors

- Mr David Williams - *Chairman (Non-executive) – appointed Non-executive Director on 28 February 2014 and Non-executive Chairman on 13 March 2014.*
- Mr Bruce Rathie - *Director (Non-executive) – appointed 18 February 2010.*
- Dr David McQuillan – *Director (Non-executive) – appointed 6 August 2012.*
- Mr Max Johnston – *Director (Non-executive) – appointed 13 May 2014.*
- Mr Philip Powell – *Director (Non-executive) – appointed 13 May 2014.*
- Mr David Franklyn - *Chairman (Non-executive) – appointed 16 April 2009, resigned 15 November 2013.*
- Dr Roger Aston – *Director (Non-executive) – appointed Chairman on 15 November 2013 and Non-executive Director on 13 March 2014, resigned 14 September 2014.*

#### (ii) Other Key Management Personnel

- Mr Paul Brennan – *Chief Executive Officer PolyNovo Limited – appointed February 2015.*
- Mr Chris Mews – *Chief Financial Officer/Company Secretary – appointed CFO 1 September 2009 and held title of Company Secretary since 16 April 2009.*
- Mr David Kenley – *Chief Executive Officer of Metabolic Pharmaceuticals Pty Ltd – resigned 30 April 2014.*
- Mr Laurent Fossaert - *Chief Executive Officer of PolyNovo Biomaterials – terminated 30 November 2014.*

### COMPENSATION BY CATEGORY: KEY MANAGEMENT PERSONNEL

	30 June 2015 \$	30 June 2014 \$
Short-Term	1,027,362	846,935
Post Employment - Superannuation	75,966	52,214
Long-Term	33,736	6,930
Share-based Payments	139,616	480,000
Termination benefits	128,661	-
	<b>1,405,341</b>	<b>1,386,079</b>



## 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	2015 Number Outstanding	2014 Number Outstanding
2012	20/11/15	\$0.110	1,500,000	1,500,000
2014	03/07/17	\$0.090	7,500,000	7,500,000
2014	03/07/17	\$0.200	2,500,000	2,500,000
2014	17/11/17	\$0.140	1,000,000	-
2014	17/11/17	\$0.20	2,000,000	-
			14,500,000	11,500,000

## (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

Lateral Innovations Pty Ltd of which David Kenley is a Director was engaged by PolyNovo Limited to provide consulting services to Metabolic Pharmaceuticals Pty Ltd. Consulting and Director fees of \$239,528 (2014: \$237,455) were paid by PolyNovo during the financial year.

## 24. Intangible assets

	30 June 2015 \$	30 June 2014 \$
Intangible assets	2,519,788	2,519,788

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

The impairment assessment at 30 June 2015 took into consideration a valuation report prepared by an independent third party.

The valuation report was prepared on a value in use basis by assigning a value to projects in the Group's pipeline using a probability weighted basis based on future cash flows over a period of 6 years which is consistent with the life of the patent family. In arriving at a valuation for each project, various assumptions were made depending on the individual project. The assumptions for each project are as outlined below:

Growth rate	3%
Valuation date	30 June 2014
Pre-tax discount rate	28.57%
Royalty on sales	4%
Market penetration	5% to 10%

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

*Royalty on sales:* is based on available industry data.

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

A sensitivity analysis was performed where the value of the assumptions were changed by 10%, which is considered to be a reasonable possible change. In this instance, the value placed on the Intellectual Property was still above the carrying value.

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

The Directors considered this valuation report and it is the opinion of the Directors that no impairment of the Intellectual Property is necessary as at 30 June 2015.

## 25. Controlled entities

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

	Country of incorporation	Percentage Owned	
		2015 %	2014 %
<b>Company:</b>			
PolyNovo Limited	Australia		
<b>Subsidiaries of PolyNovo Limited:</b>			
PolyNovo Biomaterials Pty Ltd	Australia	100	100
Metabolic Pharmaceuticals Pty Ltd	Australia	-	100
NovoSkin Pty Ltd	Australia	80	80
NovoWound Pty Ltd	Australia	80	80

PolyNovo completed the sale of all the shares in Metabolic Pharmaceuticals Pty Ltd to Lateral Pharma Pty Ltd on 30 May 2015 as well as any Metabolic-related intellectual property held by PolyNovo. Key terms of the sale include:

Upfront cash payment of \$1,500,000;

Licensing revenues which includes 15% of Lateral's revenues in the form of upfront payments, milestone payments and other licensing payments;

Royalties of 3.5% of Lateral's sales of AOD9604 manufactured, marketed and distributed products;

Upon any future IPO by the Purchaser, PolyNovo's interest may convert, at the option of either PolyNovo or the Purchaser into securities in the IPO at valuation; or upon a partial or full trade sale PolyNovo is to be paid 20% of the consideration received by the Purchaser less deduction for all expenses incurred by the Purchaser in its development, protection and commercialisation of the AOD assets to the date of sale, subject to a minimum payment of at least 15% of the consideration; and

Within 4 months the purchaser must outline its development plan for gaining regulatory approval for AOD9604 to be used as a treatment for Osteoarthritis or Osteoarthritis pain. Within 15 months Lateral must spend or commit to spend at least \$1,000,000 in the pursuit of that plan.

## Independent auditor's report to the members of PolyNovo Limited

### Report on the financial report

We have audited the accompanying financial report of PolyNovo Limited, which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is attached to the directors' report.

## **Opinion**

In our opinion:

- a. the financial report of PolyNovo Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

## **Report on the remuneration report**

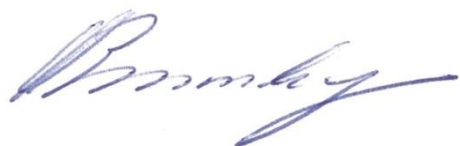
We have audited the Remuneration Report included in pages 19 to 32 of the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## **Opinion**

In our opinion, the Remuneration Report of PolyNovo Limited for the year ended 30 June 2015, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Don Brumley  
Partner  
Melbourne  
20 August 2015

## ADDITIONAL INFORMATION REQUIRED BY ASX FOR THE YEAR ENDED 30 JUNE 2015

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

### Ordinary Shares

As at 17 August 2015 there were 418,509,426 ordinary shares on issue held by 5,128 shareholders. Each ordinary share carry's one vote per share.

### Top 20 Shareholders as at 17 August 2015

Shareholder	No. of Shares	%
Trust Company Ltd <MOF A/C>	63,135,964	15.09
HSBC Custody Nominees Ltd	13,531,836	3.23
Lateral Innovations Pty Ltd	12,117,436	2.90
Monash Investment Holdings Pty Ltd	9,607,520	2.30
Kittel Family Super Account	7,901,620	1.89
Mr Laurent Fossaert	5,954,334	1.42
Shepherd Investment A/C	5,661,451	1.34
Ms Suzanne Kenley	5,481,098	1.31
Mr David Kenley	5,126,800	1.23
Lappin Super Fund A/C	4,337,964	1.04
CSIRO	4,081,250	0.97
Mr David Kenley	3,789,266	0.91
Semblance Pty Ltd	3,660,000	0.87
Mrs Georgina Panayiaris	3,060,289	0.73
Dr Marcus Wagstaff and Mrs Lara Wagstaff	3,000,822	0.72
I & M Siklich Super	3,000,000	0.72
ABN Amro Custodian a/c	2,867,828	0.69
Haslaki Super Fund	2,849,036	0.68
Professor Frank Ng	2,725,000	0.64
TW Davis Holdings Pty Ltd	2,500,000	0.60
<b>Total</b>	<b>164,389,514</b>	<b>39.28</b>

### Unquoted securities

#### Options over unissued shares

As at 17 August 2015 a total of 27,055,285 options over ordinary shares are on issue held by 6 individual holders.

There are 14,500,000 options on issue to Directors and 500,000 to a former Director at the date of this report. Options do not carry a right to vote.

On 6 August 2015 PolyNovo issued 12,555,285 options to its Chief Executive Officer Mr Paul Brennan.

### Range of Shareholders as at 17 August 2015

	No. of Holders	No. of shares
1 - 1000	700	466,618
1,001 – 5,000	1,574	4,656,788
5,001 – 10,000	784	6,418,545
10,001 – 100,000	1,564	53,911,093
100,001 and over	506	353,056,382
Number of holders with less than a marketable parcel	2,034	3,923,406

## ADDITIONAL INFORMATION REQUIRED BY ASX

### FOR THE YEAR ENDED 30 JUNE 2015

#### Voting rights

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

#### Substantial Shareholders

Name of shareholding	No. of shares
Trust Company Ltd <MOF Account>	63,135,964
Mr David Kenley	30,707,592

#### Quotation of the Company's Shares

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

## Corporate Directory

**ABN 96 083 866 862**

### **Non-executive Chairman**

Mr David Williams

### **Non-executive Directors**

Mr Bruce Rathie

Dr David McQuillan

Mr Philip Powell

Mr Max Johnston

### **Chief Executive Officer**

Mr Paul Brennan

### **Company Secretary**

Mr Chris Mews

### **Registered Office**

Unit 2/320 Lorimer St

Port Melbourne

Victoria 3207

Tel: (03) 8681 4050

Fax: (03) 8681 4099

### **Share Registry**

Computershare Investor Services Pty Ltd

Yarra Falls

452 Johnston St

Abbotsford, Victoria 3067

Telephone: 1300 850 505

### **Auditors**

Ernst & Young

8 Exhibition St

Melbourne Victoria

### **Website**

[www.polynovo.com.au](http://www.polynovo.com.au)

### **Australian Securities Exchange**

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