PolyNovo®

2022 Reports

Announcement of Full-Year Results
Appendix 4E
Chairman and CEO Report
Directors' Report
Financial Statements

PolyNovo Limited
ABN 96 083 866 862
26 August 2022

PolyNovo Limited
ABN 96 083 866 862

2/320 Lorimer Street
Port Melbourne
VIC Australia 3207

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26 August 2022

ASX Announcement

Full Year Results FY22

The company is pleased to report strong sales growth 47.6%.

NOVOSORB BTM GROUP SALES
↑ **47.6%**
2022 **$37.6m**
2021 **$25.5m**

NOVOSORB BTM USA SALES
↑ **55.1%**
2022 **$32.1m**
2021 **$20.7m**

NOVOSORB BTM ANZ SALES POST COVID
↑ **63.0%**
2H22 **$1.9m**
1H22 **$1.2m**

BARDA REVENUE
↑ **4.0%**
2022 **$3.8m**
2021 **$3.7m**

TOTAL REVENUE
↑ **42.8%**
2022 **$41.9m**
2021 **$29.3m**

CAPITAL EXPENDITURE
↓ **86.2%**
2022 **$0.5m**
2021 **$3.6m**

TOTAL EMPLOYEES
↑ **43.4%**
2022 **152**
2021 **106**

Audited results were a net loss after income tax of $1.19m (2021 $4.61m loss) but this includes the reversal of $4.71m in share-based payments expense and an unrealised foreign exchange gain $0.50m.

In the first half of FY22 COVID had a significant impact on hospital trauma, burn and elective surgery activity. Notwithstanding limited hospital access, lockdowns, and travel restrictions, we adapted our business and continued material sales growth globally and notably in the U.S. with BTM sales up by **55.1%** and sales in UK/IRE up by **184.9%.** ANZ sales rebounded strongly the 2H22 following the end of lockdowns with sales up **63.0%** on 1H22.

At year end the business had $6.1m in cash (FY21 $7.7m).

Improving outcomes. Changing lives.

We continued to invest in building our capacity to drive revenue with personnel growing from 106 to 152. Investing in our sales teams is a significant driver of sales momentum with sales teams increasing in all direct markets, notably the U.S where the sales team has 54 staff (Jul-22). In the second half we saw revenues continue to grow and stronger account acquisition with accounts (hospitals) increasing by 135 globally (excluding distributors). With the increase in the sales team and customer base we expect to deliver a strong FY23.

Sales to distributors in Europe were impacted by COVID but the 2H22 improved and was up **38.0%** on 1H22. Revenue from new markets increased with sales to Denmark, Greece, Cyprus, Poland and Turkey and strong performance in Finland. There were follow-on sales to distributors in India, Taiwan, and South Africa.

During the Period, the Company's other key initiatives and achievements include:

- Appointed CEO Swami Raote
- Appointed a Director of Operations
- Expanded research and development team to intensify new product development
- Lodged 510(k) for new product MTX with the FDA
- Lodged application for BTM registration in Canada following MDSAP certification
- Commenced recruitment in:
    - BARDA funded ($15m USD) Pivotal trial
    - U.S. chronic wound study for health insurance reimbursement
    - Chronic wound study with Flinders University South Australia
- Contributed $0.62m of BTM product for use in clinical trials
- Donated $0.52 of BTM product for humanitarian causes
- Increased customer accounts (hospitals) by 135 globally (excluding distributors)
- Sold and leased back Unit 1, 320 Lorimer St. Port Melbourne for $6.35m
- Completed internal qualification of the new manufacturing facility
- 3PL Movianto in Belgium went live in September 2021

This announcement has been authorised by PolyNovo Company Secretary Jan-Marcel Gielen.

About NovoSorb®

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

PolyNovo Limited
Contents
30 June 2022

PolyNovo Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	PolyNovo Limited
ABN:	96 083 866 862
Reporting period:	For the year ended 30 June 2022
Previous period:	For the year ended 30 June 2021

2. Results for announcement to the market

				$
Revenues from ordinary activities	up	42.8%	to	41,890,603
Loss from ordinary activities after tax attributable to the owners of PolyNovo Limited	down	74.1%	to	(1,192,532)
Loss for the year attributable to the owners of PolyNovo Limited	down	74.1%	to	(1,192,532)

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

Comments
The loss for the consolidated entity after providing for income tax amounted to $1,192,532 (30 June 2021: loss of $4,605,032).

3. Net tangible assets

	Reporting period $	Previous period $
Net tangible assets per ordinary security	0.02	0.03

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

4. Dividends

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

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

5. Audit qualification or review

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

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

6. Attachments

Details of attachments (if any):

The Financial Report of PolyNovo Limited for the year ended 30 June 2022 is attached.

7. Signed

Signed ____________________________ Date: 26 August 2022

Jan Gielen
Company Secretary

Chairman and CEO Report

Dear Shareholder,

The FY22 effects of COVID-19 lockdowns and healthcare staff shortages on hospital trauma, burn and elective surgery is well known. As the year progressed, lockdowns ended and as we learned to live with COVID-19, sales improved significantly. Global BTM sales were up 47.6% on the prior year and the U.S. market was up 55.1% (49.5% in local currency USD). This strong sales growth demonstrates the strength of our sales and marketing teams, the effectiveness of both digital and traditional sales techniques, and the surgeon demand for our products.

Staff increased from 106 to 152 to drive and support growth globally. We have continued to increase the sales team, particularly in the U.S. which has driven sales growth and customer account acquisition. We have also increased the size of the R&D team to focus on new product development and faster commercialisation.

Sales growth in each of our direct markets continued throughout the year particularly in 2H22 where in January monthly sales exceeded $4 million for the first time. Monthly sales have consistently exceeded $3 million since December 2021 and are edging closer to consistently exceeding $4 million. Growth in sales has been driven by organic growth in established accounts together with new customer account acquisition. This has been facilitated through an increase in our sales teams in all direct markets, particularly the U.S.

We expanded our reach in the EU achieving first sales in Denmark, Cyprus, Poland, Greece and Turkey and recurring orders from most EU distributors. While EU growth overall was flat, a number of markets experienced stronger growth compared to the prior period, including Finland and Italy with Denmark having a strong start in FY22. We are focused on optimising our distributor model to improve its effectiveness in the EU.

India, South Africa, and Taiwan placed orders in FY22, which we see as useful building blocks for FY23.

New Markets for FY22

The Canada BTM licence application was submitted in Q4 FY22 following MDSAP certification. We are expecting approval and market entry in Q2 FY23.

Registrations in progress

EMEA
Kuwait, UAE, Czech Republic, Portugal, Spain, and EU MDR BTM registrations are under review in Peru, Ecuador, and Bolivia

APAC
Hong Kong

North and South America
Canada, Ecuador, Peru, Bolivia

We ended the year 30 June 2022 with $6.0m cash on hand which puts us in a strong position to support the working capital required to expand sales teams particularly in the U.S. The market available to PolyNovo is significant and we will continue to invest cash flows to accelerate capturing this market and growing top line revenue.

Our new manufacturing facility, adjacent to and integrated into the current manufacturing facility was commissioned last year and recently completed internal qualification. The new facility will be used to manufacture our range of NovoSorb devices BTM, MTX and SynPath. The facility increases capacity significantly, provides redundancy to our existing manufacturing facility and allows for greater capability in meeting the complexity of manufacturing our medical devices. This new facility will house our polymer laboratories, film extrusion, new foam cutting machinery and ultrasonic welding capabilities. Our new equipment and skills in production enable PolyNovo to rapidly develop new medical devices constructed from our NovoSorb polymers.

Our portfolio of established medical devices and new devices being developed by our R&D team can be categorised into three segments being advanced wound healing (BTM, MTX and SynPath), implantable (hernia, abdominal wall repair, breast reconstruction, tendon reinforcement) and therapeutics (drug elution and diabetes dermal depot).

SynPath will be launched in the U.S. after completion of a 138-patient Diabetic Foot Ulcer (DFU) trial. SynPath will meet the demand for treating lesion excisions, diabetic foot ulcers, arterial ulcers, and venous leg ulcers.

A 64-patient trial at Flinders University (South Australia) has also commenced for the treatment of neuroischemic diabetic foot wounds. Previous publications and presentations by Flinders University demonstrate great potential for the role of NovoSorb in arterial leg ulcers. We are excited by the opportunity as the first pilot phase of the DFU trial in the U.S. for 10 patients has produced excellent results.

Clinical Trials

US Burns Pivotal Trial (BARDA)

The USD $15 million BARDA funded pivotal burn trial has commenced. We have activated 20 sites in the U.S. and are in the process of enrolling 5 Canadian based burn centres to participate in the trial. This randomised controlled trial will compare NovoSorb BTM with the selected hospitals' FDA-cleared standard of care looking at wound closure together with cosmetic and functional outcomes. We currently have 23 patients enrolled out of a target of 120 and expect to complete enrolment by Q4 2023. Successful completion of this trial will enable PolyNovo to file a PMA claim for full thickness burn use and may lead to BARDA acquiring a stockpile of NovoSorb BTM for disaster management.

SynPath DFU Chronic Wound Trial

The first patient was enrolled in the 138-patient health economic and clinical trial for diabetic foot ulcers in July. This follows the successful 10 patient pilot trial. It is expected this trial will generate the data required by the U.S. health insurance groups for a reimbursement code. This clinical data will lead us into the USD $400 million U.S. chronic wound market with our SynPath branded device. The trial will also support entry into other markets.

Chronic Wound Study

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

The focus of this study is patients with moderate to high risk of amputation. A total of 64 patients will be recruited, with equal numbers (32) in each study group and followed for 12 months post-treatment. Data from the trial will provide additional clinical evidence for its broader use in patients with diabetic foot wounds complicated by vascular insufficiency.

Advanced Wound Healing

Our range of NovoSorb wound healing devices currently comprises of BTM, MTX and SynPath. These devices are derived from our first device being NovoSorb BTM. No reengineering is required, but the manufacturing process is generally the same. However, MTX does not require the application of the temporising film whereas BTM and SynPath do.

BTM & SynPath

Our BTM device continues to be used in an ever-growing range of indications. Initiatives expanding the use of BTM has been independently surgeon led and driven by our sales, marketing, and clinical teams. We are introducing smaller sizes to our BTM and SynPath range to meet the demand for economically treating lesion excisions, diabetic foot ulcers, arterial ulcers, and venous leg ulcers. The U.S. market alone for diabetic foot ulcers is USD $400 million and there is a global unmet need to significantly improve wound closure rates and improve health economics for chronic wounds.

MTX

Previously referred to as Matrix, the trademark name for this product will now be NovoSorb MTX. MTX has broad applicability for single stage grafting in burns, chronic, surgical, and deep tunnelling wounds to provide surgeons increased treatment options and better outcomes. MTX comprises of BTM foam only without the temporising film in assorted sizes and thicknesses. On 1 August 2022 PolyNovo lodged an application for 510(k) clearance for NovoSorb MTX with a 2mm thickness. Total addressable U.S. market comprising in and out-patient settings is AUD $500m with market entry anticipated late in CY22.

Implantable NovoSorb-based devices

Hernia Repair

PolyNovo has expanded its approach to hernia and is working on four design prototypes for various hernia and abdominal wall repair products. These are being developed simultaneously.

Tissue Reinforcement

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

Therapeutics

NovoSorb Dermal Beta Cell Implant

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

NovoSorb Drug Elution Depot (pellet)

PolyNovo produced polymers with up to 45% of the weight being a bound drug. Our initial work is focused on low temperature extrusion for optimal drug stabilisation. Further development will continue with the addition of further research and development resources.

We recently visited the team running this trial and met the first patient. We were encouraged and impressed by what we saw and heard.

New Product Pipeline

PolyNovo sees multiple device development opportunities for NovoSorb applications, and we are actively screening a number of near-term opportunities.

Snapshot of FY22

- Annual NovoSorb BTM revenue growth of 47.6%
- Annual U.S. revenue growth in $AUD of 55.1%
- First $4 million BTM sales month (January 2022: $4,051,542)
- Strengthened the U.S. team from 36 to 54 (July 2022) people and increased the U.S. customer accounts by 75
- Strengthened the UK and Ireland team from 5 to 8 people and increased UKI customer accounts by 31
- First sales in Denmark, Cyprus, Poland, Greece, and Turkey
- Appointed CEO Swami Raote
- Appointed a Director of Operations
- Increased staff from 106 to 152
- Lodged an application on 1 August 2022 for 510(k) clearance from the FDA for NovoSorb MTX
- Expanded the BTM range of small sizes to meet demand for chronic wounds.
- Enrolled 23 patients into the U.S. BARDA pivotal burns study
- Enrolled 6 patients into the U.S. DFU Chronic Wound study for health insurance reimbursement
- Enrolled 8 patients into the chronic wound study with Flinders University South Australia
- Lodged application for BTM registration in Canada following MDSAP certification in Q4 FY22
- Completed internal qualification of the new manufacturing facility
- 3PL Movianto in Belgium went live in September 2021
- Sold and leased back Unit 1, 320 Lorimer Street, Port Melbourne for $6.35m

David Williams
Chairman

Swami Raote
Chief Executive Officer

Directors' Report

The Directors of PolyNovo Limited (PolyNovo) present the Directors' Report, together with the Financial Report, of the Company and its controlled entities (the Group) for the year ended 30 June 2022 and the related Auditor's Report.

Board of Directors and Senior Management

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

Mr David Williams
B.Ec (Hons), M.Ec, FAICD
Non-executive Chairman

Mr Williams was appointed as a Non-executive Director on 28 February 2014 and Chairman on 13 March 2014. Mr Williams is an experienced Director and investment banker with a track record in business development as well as in mergers and acquisitions and capital raising. He has 305 years' experience working with and advising ASX-listed companies in the food, medical device, and pharmaceutical sectors. Mr Williams is currently a Director of ASX listed Medical Developments International Ltd (ASX: MVP), Chairman of RMA Global Limited and is Managing Director of corporate advisory firm Kidder Williams Ltd.

Dr Robyn Elliott
BSc (Hons) Chemistry,
PhD Inorganic Chemistry
Non-executive Director

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

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

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

Mr Leon Hoare
GradDipBus, AssocDipAppSc (Ortho), GAICD
Non-executive Director

Mr Hoare was appointed a Director of PolyNovo on 27 January 2016. He is currently the Managing Director of Lohmann & Rauscher, Australia & New Zealand (ANZ), a private EU based medical device company. Previously he was Managing Director of Smith & Nephew ANZ (all divisions) until 2015, one of Smith & Nephew's largest global subsidiaries outside the USA. He served as President of Smith & Nephew's Asia-Pacific Advanced Wound Management (AWM) businesses for 5 years and was a member of the Global Executive Management for the AWM Division. In his 24 years with Smith & Nephew, he also held roles in marketing, divisional and general management. His career has also included a senior role at Bristol-Myers Squibb (medical devices), and as Vice Chair of the Board of Australia's peak medical device body, Medical Technology Association of Australia. He is currently a Non-executive Director of Medical Developments International Ltd (ASX: MVP).

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

Dr McQuillan was appointed a Director of PolyNovo on 6 August 2012. He has extensive technical, medical, scientific, and regulatory knowledge. Previously he was a Fellow at the NIH (Bethesda, MD), an NH&MRC Fellow at the University of Melbourne, and Associate Professor at Texas A&M University (Houston, TX) where he studied Tissue Engineering, Regenerative Medicine, and Biochemistry of the Extracellular Matrix. Dr McQuillan was with LifeCell Inc/Kinetic Concepts Inc (KCI) for 12 years, holding a number of senior roles, including Vice President for Research and Development at LifeCell and Senior Vice President of Advanced Research and Technology at KCI. He was Chief Science Officer for TELA Bio, a VC-funded development-stage biotechnology company from 2013 to 2015. He is currently a Non-executive Director for Fesarius Therapeutics Inc (a privately held pre-commercial company based in Brooklyn, NY) and Non-executive Director and Co-Founder of ECM Technologies Inc (a privately held biotechnology company based in Houston, TX).

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

Mr Rathie was appointed a Director of PolyNovo on 18 February 2010. He is an experienced Company Director with a finance and legal background. He practised as a partner in a large legal firm and acted as Senior Corporate Counsel to Bell Resources Limited in its early years. He then studied for his MBA in Geneva and embarked on his 15-year investment banking career. When Head of the Industrial Franchise Group at Salomon Smith Barney he led Salomon's roles in the Federal Government's privatization of Qantas, Commonwealth Bank (CBA3) and Telstra (T1). He now has over 20 years' experience as a full time professional Non-executive Director. He is currently Chairman of Capricorn Mutual Limited, Chairman of ASX listed CleanSpace Holdings Limited (ASX:CSX) and a Non-executive Director of ASX listed Cettire Limited (ASX:CTT) and Capricorn Society Limited. In the medical device space, he is currently Chairman of ASX listed 4DMedical Limited (ASX: 4DX) and was previously Chairman of ASX listed Anteo Diagnostics Limited and a Director of Compumedics Limited and USCOM Limited.

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

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

Mr Max Johnston
Chief Executive Officer (Interim)

Mr Johnston was appointed Chief Executive Officer (Interim) of PolyNovo Limited on 8 November 2021 and his employment ends on 31 August 2022. Mr Johnston served as a Non-executive Director of PolyNovo from 13 May 2014 to 13 November 2020. Mr Johnston held the position of President and Chief Executive Officer of Johnson & Johnson Pacific, a division of the world's largest medical, pharmaceutical and consumer healthcare company for 11 years. Prior to joining Johnson & Johnson, Mr Johnston's career also included senior roles with Diageo and Unilever in Europe. Mr Johnston has also held several prominent industry roles as a past President of ACCORD Australasia Limited, a former Vice Chairman of the Australian Food and Grocery Council and former member of the board of ASMI. Mr Johnston has had extensive overseas experience during his career in leading businesses in both Western and Central-Eastern Europe and Africa as well as the Asia-Pacific region. Mr Johnston is currently a Non-executive Director of Medical Developments Ltd (ASX:MVP), Tissue Repair Ltd (ASX:TRP), Innoviq Life Sciences Ltd (ASX: IIQ) and was a former Non-executive Director of Enero Group Limited (ASX: EGG), Non-executive Chairman of Probiotec Ltd (ASX: PBP) and Non-executive Chairman of AusCann Pty Ltd.

Mr Jan Gielen
CA, Bachelor Bus (Acc)
Chief Financial Officer
and Company Secretary

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

Mr Swami Raote
B. Pharmacy, MBA
Chief Executive Officer

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

Review of Operations

Corporate and Organisational structure

PolyNovo Limited, the ultimate parent entity of the PolyNovo Group, is a public company listed on the Australian Securities Exchange. As at 30 June 2022, PolyNovo Limited had eight wholly owned subsidiaries: PolyNovo Biomaterials Pty Limited, NovoSkin Pty Ltd, NovoWound Pty Ltd, PolyNovo NZ Ltd, PolyNovo UK Ltd, PolyNovo North America LLC (PNA LLC), PolyNovo Singapore Private Ltd and PolyNovo Ireland Ltd. The first three subsidiary companies listed above are Australian proprietary companies whilst the other entities are the trading and employment entities for those countries.

Principal Activities and Operations

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

NovoSorb is a family of proprietary medical grade polymers that can be utilised to manufacture novel medical devices designed to support tissue repair and which then bio absorb in a defined fashion in-situ to harmless by-products. NovoSorb has significant advantages over competitor bioabsorbable polymers in terms of its design flexibility and biocompatibility.

PolyNovo can manufacture NovoSorb polymer devices with the ability to elute drugs, antimicrobials as well as be expressed in a variety of physical formats including:
- Films
- Foam
- Coatings/sprays
- Fibres
- Plastic structures
- Biologic carrier

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

A summary of PolyNovo's lead projects is on the next page.

NovoSorb BTM

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

NovoSorb BTM is sold directly by PolyNovo salesforce in Australia, New Zealand, the U.S., the UK, Ireland, and Singapore. PolyNovo utilizes distributors for sales of NovoSorb BTM in Germany, Austria, Switzerland, Belgium, Netherlands, Luxembourg, Sweden, Finland, Poland, Denmark, Greece, Italy, Cyprus, Turkey, South Africa, Saudi Arabia, India, Israel, and Taiwan. The Company is working on obtaining regulatory approvals in other markets to quickly expand our geographical footprint.

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

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

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

NovoSorb BTM indication for full thickness burns

NovoSorb BTM is an innovative treatment for any loss of the dermis. NovoSorb BTM is indicated for full thickness/ third degree burns in markets outside of the US Full thickness burns treatment for U.S. FDA regulatory 'claim' requires additional clinical evidence generation (trials). This pivotal trial is in progress and funded by BARDA. Successful completion of this trial will enable PolyNovo to file a PMA claim for full thickness burn use and may lead to BARDA acquiring a stockpile of NovoSorb BTM for disaster management.

USA Burns Pivotal Trial – BARDA

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

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

The pivotal trial is funded by BARDA to USD $15 million after extending the contract in FY21. PolyNovo will also contribute to the trial through provision of product, staff resources and infrastructure support. The first patient was enrolled into the trial in September 2021 and we are currently recruiting patients through 20 U.S. burn centres and a planned five Canadian burn centres. We currently have 23 patients enrolled out of a target of 120 and expect to complete enrolment in Q4 2023. Successful completion of the pivotal trial will lead to a PMA application with the U.S. FDA and the use of the BTM scaffold in full thickness acute burns. The contract is a cost-plus monthly reimbursement arrangement.

Dr Marcus Wagstaff is acting as PolyNovo Medical Director overseeing the clinical conduct of PolyNovo trials and providing valuable clinical support for our global medical teams. Dr Tina Palmieri, UC Davis Sacramento, and Dr Sigrid Eberwein, Lehigh Valley, are the principal investigators for this study.

Regulatory update for NovoSorb BTM in FY22

Canada

Canada BTM licence application submitted in Q4 following MDSAP certification. Expecting approval in Q2 FY23.

Registrations & Certifications

Expansion of BTM product portfolio to include additional smaller sizes in major markets outside the U.S. and in the U.S. registered SynPath. Medical Device Single Audit Program (MDSAP) Certification was received which allows for easier future market pathways. UK transition to new certification (UKCA) post-Brexit is underway. Submission for transfer to new EU MDR certification is being finalised.

First Sales in New Markets
Achieved first sales in Denmark, Cyprus, Poland, Greece, and Turkey.

NovoSorb SynPath
Our SynPath product is being used in a randomised control trial (RCT) of 138 patients compared to the Standard of Care in the treatment of non-healing diabetic foot ulcers (DFU). The trial commenced on 21 June 2022 and is expected to be completed by 30 June 2023. The RCT follows the successful pilot study on 10 patients who presented with a Wagner Grade 1 or 2 DFU. The purpose of the study and RCT is to assess the safety and clinical efficacy of SynPath to promote wound closure in non-healing DFU. The data from this study will be used to submit for insurance reimbursement coverage for chronic wound applications in the US outpatient setting. The market segment has a total addressable market of USD $400 million with market entry anticipated in 2024.

NovoSorb MTX
Previously referred to as Matrix, the trademark name for this product is NovoSorb MTX. MTX has broad applicability for single-stage grafting in burns, chronic, surgical and deep tunnelling wounds to provide increased treatment options and better outcomes. MTX comprises of BTM foam only without the temporising film in various sizes and thicknesses. On 1 August 2022 PolyNovo lodged an application for 510(k) clearance for NovoSorb MTX with a 2mm thickness. Total addressable U.S. market comprising in and out-patient settings is AUD $500 million with market entry anticipated late in CY22.

Hernia Repair
PolyNovo has expanded its approach to hernia and is working on four further design options for the product and various hernia types.

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

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

NovoSorb Drug Elution Depot (pellet)
PolyNovo produced polymers with up to 45% of the weight being a bound drug. Our initial work is focused on low temperature extrusion for optimal drug stabilisation. Further development will continue with the addition of further research and development resources.

Capital Investment
PolyNovo’s capital expenditure in FY22 was significantly lower than FY21 following the completion of the Unit 1 manufacturing facility. The Unit 1 facility brings a wealth of new capacity and manufacturing technologies to PolyNovo, such as NovoSorb film extrusion, microsphere manufacturing, ultrasonic welding, higher speed foam cutting, manufacturing redundancy/capacity and high-volume polymer manufacturing. The new facility also accommodates manufacturing our expanding wound product range including NovoSorb SynPath and MTX.

PolyNovo continues to invest in enhancing manufacturing capabilities and to support that investment the Victorian State Government awarded PolyNovo in July 2022 a $500k grant as part of the Governments Medtech Manufacturing Capability Program.

Status of Markets

COVID-19
In 1H22 COVID-19 continued to have significant impact on hospital trauma, burn and elective surgery activity. Australia and New Zealand (ANZ) experienced extended lockdowns during 1H22 whereas other markets such as the US and the UK were not as restricted. However the US and UK were impacted by the Delta strain of the virus, followed by Omicron. Lockdowns have since ended in ANZ and people have returned nearer normal activities which in turn, leads to more incidents of burns

and trauma. With the ending of lockdowns in our direct markets towards the end of 1H22, sales improved significantly, and the group recorded its first month of $4 million in product sales in January 2022. This was aided by a return to access to hospitals and surgeons, and in person marketing events such as trade shows and conferences.

The efficiency and effectiveness of maintaining customer engagement and driving sales by digital means adapted by the business during lockdowns has continued in parallel with traditional sales techniques and has led to the achievement of 47.6% BTM sales growth globally. Notably in the U.S. revenue was up by 49.5% in local currency USD (55.1% in AUD). In our direct markets such as the U.S. and ANZ, high vaccination rates have led to a return to normal lifestyles and living with COVID-19, which in turn has increased sales. The growth not only in sales but also customer account acquisition is significant when considering the impact of COVID-19 globally.

To counteract any demand planning and supply chain issues due to the impact of COVID-19 and continued growth of the business, PolyNovo is continually working towards maintaining high stock levels in all direct markets. Logistics costs have increased, and we update our cash flow forecasts to include the impact of changes in costs. The Group has a level of discretion in managing cash out flows in response to changes in the impact of COVID-19. A global COVID-safe plan has been implemented across the business in line with government guidelines to ensure the safety of staff and minimize business interruption.

Significant Changes in the State of Affairs

Other than the above and except as otherwise set out in this report, the Directors are unaware of any significant changes in the principal activities of PolyNovo during the year ended 30 June 2022.

Strategic Overview and Likely Developments

PolyNovo's focus over the next 12 months will be to:
- Continue to accelerate revenue from NovoSorb BTM in the existing markets and expand our geographic reach
- Launch NovoSorb MTX in the U.S. market
- Enter the Canadian market
- Optimise the EU distributor model to improve sales
- Further penetrate the UKI burns market
- Achieve the required patient recruitment milestones for the US BARDA pivotal trial for full thickness burns
- Complete the 138-patient randomized control trial for diabetic foot ulcers using SynPath
- Sign additional GPO/IDN agreements in the US to further accelerate sales
- Finalise device design options for hernia
- Support BetaCell with the supply NovoSorb BTM for use as a dermal deposit for Type 1 diabetes

Significant Events After the Balance Date

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

Financial Results

PolyNovo Limited reported revenue for the year ended 30 June 2022 of $41,890,603 an increase of $12,551,279 from the prior year's $29,339,324. The net loss after tax (NLAT) of $1,192,532 for FY22 was a decrease of $3,412,500 from the prior year's net loss of $4,605,032.

Excluding non-cash items of share-based payments $3,479,582, unrealised forex gain $497,648, depreciation & amortisation $1,797,488, and impairment loss on sale and leaseback of property $1,375,832, the underlying net loss after tax is $1,996,442 (2021: net profit $258,756).

Several factors contributed to the result as follows:
- Revenue from the sale of commercial products for FY22 increased by 47.6% to $37,643,160 from the prior year's $25,507,859.
- Revenue from BARDA for FY22 increased by 4.0% to $3,796,679 from the prior year's $3,650,065. This increase is reflective of the commencement of the pivotal trial. Revenue is expected to increase in FY23 as patients are recruited into the Pivotal trial.
- Other Income includes $308,000 from Victorian State Government supporting our manufacturing development.
- Employee related expenses increased by 11% to $21,419,312. This increase is due to headcount increase to drive growth primarily within sales, marketing, production, quality, and finance.
- Depreciation and amortization increased by $681,165 attributable to property, plant and equipment acquired for the new manufacturing facility.

• Corporate, administrative, and overhead expenses increased by 29% to $10,392,159 reflecting the increased growth and activity in the business.
• The sale of property located at Unit 1, 320 Lorimer Street, Port Melbourne settled on 14 June 2022. An impairment loss of $1,375,832 relating to capital improvements made to the building was recognised at the time of the sale.

R&D Tax Incentives

During the 2022 financial year, the Company received a 38.5% non-refundable tax offset of $567,821 (non-cash) in relation to the FY21 R&D tax incentive scheme.

As the Company has exceeded the $20.0 million R&D cash tax threshold being the maximum revenue allowable for the claiming of a cash refund, a deduction is recognised against taxable income.

Closing share price

Date	**$**
30 June 2018	$0.54
30 June 2019	$1.54
30 June 2020	$2.54
30 June 2021	$2.82
30 June 2022	$1.35

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

Loss Per Share

In Australian dollars	**$**
Cents Basic loss per share – cents	(0.18)
Diluted loss per share – cents	(0.18)

As the Group made a loss for the year ended 30 June 2022, potential ordinary shares, being options or performance rights to acquire ordinary shares, are considered non-dilutive and therefore not included in the diluted earnings per share calculation.

As at 30 June 2022, there are 2,400,000 unquoted share options and nil performance rights.

Dividends

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

Indemnification and Insurance of Directors and Officers

During the year ended 30 June 2022, the Company indemnified its Directors, Company Secretary and Executive Officers in respect of any acts or omissions giving rise to a liability to another person (other than the Company or a related party) unless the liability arose out of conduct involving a lack of good faith. In addition, the Company indemnified the Directors and the Company Secretary against any liability incurred by them in their capacity as Directors or Company Secretary in successfully defending civil or criminal proceedings in relation to the Company. No monetary restriction was placed on this indemnity.

The Company has insured its Directors, Company Secretary and Executive Officers for the period under review. Under the Company's Directors' and Officers' Liability Insurance Policy, the Company shall not release to any third party or otherwise publish details of the nature of the liabilities insured by the policy or the amount of the premium.

Accordingly, the Company relies on section 300(9) of the Corporations Act 2001 to exempt it from the requirement to disclose the nature of the liability insured against and the premium amount of the relevant policy.

Indemnification of Auditors

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

Inherent Risks of Investment in Biotechnology Companies

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

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

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

Forward-looking Statements

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

Board and Committee Meetings

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

		Full Board		**Audit and Risk Committee**		**Remuneration Committee**	
Directors	**Role**	**Meetings Attended**	**Meetings eligible to attend**	**Meetings Attended**	**Meetings eligible to attend**	**Meetings Attended**	**Meetings eligible to attend**
Total number of meetings held			**12**		**4**		**2**
Mr David Williams*	Non-Executive Director	11	12	-	-	2	2
Dr Robyn Elliott	Non-Executive Director	12	12	4	4	-	-
Ms Christine Emmanuel-Donnelly	Non-Executive Director	12	12	-	-	2	2
Dr David McQuillan	Non-Executive Director	12	12	-	-	-	-
Mr Leon Hoare	Non-Executive Director	12	12	-	-	2	2
Mr Bruce Rathie	Non-Executive Director	12	12	4	4	-	-
Mr Andrew Lumsden**	Non-Executive Director	12	12	4	4	-	-
Mr Paul Brennan***	Executive Director	4	4	-	-	-	-

* Mr David Williams is Chair of the Remuneration Committee
** Mr Andrew Lumsden is Chair of the Audit Committee
*** Mr Paul Brennan resigned on 5 November 2021

Directors' Shareholdings and Declared Interests

As at 30 June 2022, the Directors of PolyNovo collectively hold 29,645,620 shares in the Company.

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

Name Directors	**Shares held directly**	**Shares held indirectly**
Mr David Williams	-	24,592,087
Mr Bruce Rathie	-	3,050,000
Dr David McQuillan	608,313	-
Mr Leon Hoare	-	1,180,220
Dr Robyn Elliott	-	-
Ms Christine Emmanuel-Donnelly	-	115,000
Mr Andrew Lumsden	-	100,000
Total	**608,313**	**29,037,307**

As at 30 June 2022 and as at the date of this report, no Director has an interest in any contract or proposed contract with PolyNovo other than disclosed below or in the Groups 2022 Annual Report. Further details of the equity interests of Directors can be found in the Remuneration Report.

Auditor

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

Non-audit Services

During the year ended 30 June 2022, the amount received, or due and receivable for non-audit services provided by PolyNovo's auditor Ernst & Young were as shown below. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Non-audit services	**$**
Tax compliance and corporate secretarial services	177,358

Auditor's Independence Declaration

The auditor has provided a written declaration that no professional engagement for the Group has been carried out during the financial year that would impair Ernst & Young's independence as auditor. The declaration is set out on page 27.

Remuneration Report - Audited
The Directors of PolyNovo present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* for the Company and its controlled entities (the Group) for the year ended 30 June 2022.

This Remuneration Report is audited. Variable pay arrangements to key management personnel are subject to the governance and approval of the Remuneration Committee. This Remuneration Report forms part of the Directors' Report and includes details of the Group's remuneration strategy and arrangements for the financial year 2022.

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

1. Key management personnel

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

1.1 Non-executive Directors
•Mr David Williams – Non-executive Chairman
•Dr Robyn Elliott – Non-executive Director
•Ms Christine Emmanuel-Donnelly – Non-executive Director
•Mr Leon Hoare – Non-executive Director
•Dr David McQuillan – Non-executive Director
•Mr Bruce Rathie – Non-executive Director
•Mr Andrew Lumsden – Non-executive Director

1.2 Senior Management
•Mr Paul Brennan – Managing Director and Chief Executive Officer (resigned on 5 November 2021)
•Mr Max Johnston – Interim Chief Executive Officer (appointed on 8 November 2021, employment ends 31 August 2022)
•Mr Jan Gielen – Chief Financial Officer/Company Secretary
•Dr Anthony Kaye – Chief Operating Officer (resigned on 6 October 2021)

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

Furthermore, the biotechnology sector as a whole is highly volatile, significantly driven by market sentiment and inherently high risk. Therefore, the direct correlation of compensation policy and key financial performance measures such as total shareholder return (TSR), net earnings per share or Company earnings, in the view of the Board, are inappropriate for research and development activities but are appropriate for commercial activities such as product sales. For research and development activities, achieving 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. For commercial activities such as product sales, financial performance measures are used to evaluate PolyNovo's progress in gaining market share.

PolyNovo's annual expenditure has predominantly been driven by research and development activities and commercial sales activities. The Group has not made a profit and therefore no dividends have been declared, nor has there been a return of capital. The Group's performance is based on its key milestones for the commercialisation stage and financial performance measures for product sales. Such milestones are directly linked to performance conditions set within the short-term incentives that form a significant proportion of Senior Management compensation. The Board continues to review the Group's compensation policy to ensure competitive and appropriate rewards that endeavour to result in greater shareholder wealth.

PolyNovo's compensation policy for key management personnel is designed to provide competitive and appropriate rewards that are transparent and fully aligned to shareholder interests. In accordance with corporate governance best practice, the Company has a compensation policy for Non-executive Directors and a separate policy for the Chief Executive Officer and Senior Managers.

2.1 Non-executive Director Remuneration

The compensation of Non-executive Directors is based on market practice, Directors' duties and the level of Director accountability. The compensation policy is designed to attract and retain competent and suitably qualified Non-executive Directors and aims to align Directors' interests with the interests of shareholders. Non-executive Directors are paid a set fee plus statutory superannuation, where appropriate, and are reimbursed for out-of-pocket expenses. In addition, as medium-and long-term incentives, Non-executive Directors may be invited to participate in the PolyNovo Employee Share Option Plan. Non-executive Directors are encouraged to own shares in PolyNovo. Non-executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is approved by shareholders. This limit has been set at $850,000 (2021: $850,000).

Total Non-executive Directors' fees (including superannuation but excluding share-based payments) for the year ended 30 June 2022 were $569,858 (2021: $511,409). The Directors' fees are considered within the average range for similar sized companies in the biotechnology industry and are reviewed periodically.

2.2 Senior Management Remuneration

PolyNovo's compensation policy for its senior managers is determined by the Board and Remuneration Committee and is designed to link performance and retention strategies to ensure that:
•the balance between fixed and variable (performance) components for each position is appropriate in light of internal and external factors;
•the objectives set for each person will result in sustainable beneficial outcomes for PolyNovo;
•all variable (performance) components are appropriately linked to measurable personal, business unit or Company outcomes; and
•total compensation (the sum of fixed and variable components) for each Senior Manager is fair, reasonable and market competitive.

Generally, there are three components of Senior Management compensation, as follows:
1. Fixed annual compensation comprising salary and benefits, superannuation, and non-monetary benefits.
2. Short-term incentives, through a cash bonus scheme dependent upon performance against objectives and targets which are linked to PolyNovo's overall corporate strategy.
3. Long-term incentives, through participation in the PolyNovo Employee Share Option Plan (the Plan) with share price thresholds to be achieved

2.2.1 **Fixed Annual Compensation**

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

2.2.2 Short Term Incentives

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

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

Dr Anthony Kaye was entitled for a bonus of $19,433 inclusive of superannuation during the financial year 2021 in relation to service performed in the financial year 2021. No executive is entitled for bonus in the financial year 2022.

2.2.3 Long Term Incentives

PolyNovo's medium-and long-term incentive policy for Senior Managers encourages high-quality performance and long-term retention. Carefully designed and performance linked equity incentive plans are widely recognised as an effective way of providing performance incentives. Long-term incentive plans are measured over 3 years.

3. Service Contracts

3.1 Managing Director (MD)
Mr Paul Brennan resigned as CEO and MD of PolyNovo Limited on 5 November 2021.

During the financial year 2022, his employment contract is aligned with executive positions in other similar companies to improve retention and to reward performance in line with Company strategy.

The key terms of his contract are as follows:
•a salary of $400,160 per annum;
•superannuation of 10%;
•a short-term annual performance bonus of up to 20% of salary inclusive of superannuation, dependent upon the Company's performance against key targets;
•a long-term incentive plan in the form of equity interest. Details of the Long-term incentive plan and the fair value of awards and other compensation are included in the 'MD Performance Incentives' section of the Remuneration Report and in Tables A, B, C and D below; and
•no fixed employment term.

3.2 Chief Executive Officer (CEO)
Mr Max Johnston was appointed as interim CEO on 8 November 2021 and his employment ends on 31 August 2022.

During the financial year 2022, his employment contract is aligned with executive position in other similar companies to improve retention and to reward performance in line with Company strategy.

The key terms of his contract are as follows:
•a salary of $272,727 per annum;
•superannuation of 10%;
•travel expenses, accommodation and other living expenses approved by the Chairman of the Board pursuant to Company policy;
•no fixed employment term; and
•either the Group or Mr Max Johnston may terminate the employment contract with two weeks' notice in writing.

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

During the financial year 2022, his employment contract is aligned with executive positions in other similar companies to improve retention and to reward performance in line with Company strategy.

The terms of his contract are as follows:
•a salary of $230,250 per annum;
•superannuation of 10%;
•a long-term incentive plan in the form of equity interest. Details of the options package and the fair value of options and other compensation are included in the 'CFO Performance Incentives' section of the Remuneration Report and in Tables A, B, C and D below;
•no fixed employment term; and
•the Group may terminate the employment contract by providing three months' notice or payment in lieu of notice. In the event of resignation, a notice period of three months is required.

3.4 Chief Operating Officer (COO)

Dr Anthony Kaye was appointed as COO on 9 November 2020 and resigned on 6 October 2021

During the financial year 2022, his employment contract is aligned with executive positions in other similar companies to improve retention and to reward performance in line with Company strategy.

The terms of his contract are as follows:
- a salary of $228,311 per annum;
- superannuation of 10%;
- a short-term annual performance bonus of up to 20% of salary inclusive of superannuation, dependent upon the Company's performance against key targets;
- a long-term incentive plan in the form of equity interest. Details of the options package and the fair value of options and other compensation are included in the 'COO Performance Incentives' section of the Remuneration Report and in Tables A, B, C and D below;
- no fixed employment term; and
- the Group may terminate the employment contract by providing three months' notice or payment in lieu of notice. In the event of resignation, a notice period of three months is required.

4. Short term and long term incentives

4.1 MD Performance Incentives

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

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

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

Once the vesting hurdle is met, the shares can be allotted in three tranches as follows:
- Tranche 1: 1,100,110 shares, vest over 2 years;
- Tranche 2: 1,100,110 shares, vest over 2 years; and
- Tranche 3: 1,100,110 shares, vest over 3 years.

Mr Paul Brennan's share awards were forfeited when he resigned on 5 November 2021. His accumulated share awards expense recognised as at 30 June 2021 was $3,817,982. During the financial year 2022, share awards expense of $594,036 was recognised. When he resigned, total accumulated share awards expense of $4,412,918 was fully reversed.

4.2 CFO Performance Incentives

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

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

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

- First hurdle – 12 months of employment with the Company; and
- Second hurdle – a share price of 90 cents must be sustained over a period of at least continuous 3 months.

Once the vesting hurdle is met, the options can be exercised in three tranches as follows:

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

The tranche 1 was exercised in 2021 and tranche 2 was exercised in 2022. The options whether they have vested or not will be cancelled on the date of termination or cessation of employment.

The exercise price is $0.60 per option tranche.

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

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

4.3 COO Performance Incentives

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

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

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

- First hurdle – 12 months of employment with the Company; and
- Second hurdle – a share price of $2.25 must be sustained over a period of at least continuous 3 months.

Once the vesting hurdle is met, the options can be exercised in three tranches as follows:

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

Dr Anthony Kaye's share options were forfeited when he resigned on 6 October 2021. His accumulated share options expense recognised as at 30 June 2021 was $211,660. During the financial year 2022, share options expense of $83,574 was recognised. When he resigned, total accumulated share options expense of $295,233 was fully reversed.

PolyNovo Limited
Directors' report
30 June 2022

5. Key Management Personnel Statutory Remuneration Tables

Details of the remuneration for key management personnel for the years ended 30 June 2021 and 30 June 2022 are set out in Table A, B, C and D below.

5.1 Key Management Personnel Remuneration 2021 and 2022

Table A		Short-term		Post-employment	Leave allowances	Termination benefits	Share-based payments	Total	% Performance based
Directors		**Cash salary & fees**	**Cash bonus**	**Superannuation**	**Annual & long service leave**		**Share options & Share awards**		
Mr David Williams (Chairman / Non-Executive Director)	**2022**	**107,161**	**-**	**10,716**	**-**	**-**	**-**	**117,877**	**-**
	2021	100,457	-	9,410	-	-	-	109,867	-
Mr Bruce Rathie (Non-Executive Director)	**2022**	**69,536**	**-**	**6,954**	**-**	**-**	**-**	**76,489**	**-**
	2021	63,927	-	6,073	-	-	-	70,000	-
Dr David McQuillan (Non-Executive Director)	**2022**	**69,536**	**-**	**-**	**-**	**-**	**-**	**69,536**	**-**
	2021	63,927	-	-	-	-	-	63,927	-
Mr Max Johnston (Non-Executive Director) **2**	**2022**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2021	23,767	-	2,258	-	-	-	26,025	-
Mr Philip Powell (Non-Executive Director) **2**	**2022**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2021	23,767	-	2,258	-	-	-	26,025	-
Mr Leon Hoare (Non-Executive Director)	**2022**	**73,293**	**-**	**3,196**	**-**	**-**	**-**	**76,489**	**-**
	2021	63,927	-	6,073	-	-	-	70,000	-
Dr Robyn Elliott (Non-Executive Director)	**2022**	**69,536**	**-**	**6,954**	**-**	**-**	**-**	**76,489**	**-**
	2021	63,927	-	6,073	-	-	-	70,000	-
Ms Christine Emmanuel-Donnelly (Non-Executive Director)	**2022**	**69,536**	**-**	**6,954**	**-**	**-**	**-**	**76,489**	**-**
	2021	63,927	-	6,073	-	-	-	70,000	-
Mr Andrew Lumsden (Non-executive Director)	**2022**	**69,536**	**-**	**6,954**	**-**	**-**	**-**	**76,489**	**-**
	2021	5,081	-	483	-	-	-	5,564	-
Sub total compensation for Directors	**2022**	**528,132**	**-**	**41,727**	**-**	**-**	**-**	**569,858**	**-**
	2021	472,708	-	38,701	-	-	-	511,409	-

5.1 Key Management Personnel Remuneration 2021 and 2022 (continued)

Table A (continued)		Short-Term		Post-Employment	Long-Term	Termination Benefits	Share-based payments	Total	% performance based
Senior Management		**Cash Salary & Fees**	**Cash bonus**	**Super-annuation**	**Annual & Long Service Leave taken 4**		**Share options & Share awards 5**		
Mr Paul Brennan (MD) **2**	**2022**	**254,114**	**-**	**25,411**	**(76,542)**	**73,348**	**(3,817,982)**	**(3,541,650)**	**108%**
	2021	397,152	-	37,729	3,751	-	2,184,268	2,622,900	83%
Mr Jan Gielen (CFO/Company Secretary)	**2022**	**217,687**	**-**	**21,769**	**5,292**	**-**	**-**	**244,748**	**-**
	2021	207,500	-	19,712	8,275	-	-	235,487	-
Dr Anthony Kaye (COO) **3**	**2022**	**80,023**	**-**	**8,002**	**(6,688)**	**9,828**	**(211,660)**	**(120,494)**	**176%**
	2021	147,231	19,433	13,987	6,688	-	211,660	398,999	58%
Mr Max Johnston (Interim CEO) **2**	**2022**	**176,923**	**-**	**17,692**	**14,340**	**-**	**-**	**208,955**	**-**
	2021	-	-	-	-	-	-	-	-
Sub total compensation for Other KMP	**2022**	**728,748**	**-**	**72,875**	**(63,599)**	**83,175**	**(4,029,641)**	**(3,208,442)**	**126%**
	2021	751,883	19,433	71,429	18,713	-	2,395,928	3,257,387	74%
Total compensation for all KMP	**2022**	**1,256,880**	**-**	**114,601**	**(63,599)**	**83,175**	**(4,029,641)**	**(2,638,584)**	**153%**
	2021	1,224,591	19,433	110,130	18,713	-	2,395,928	3,768,795	64%

Notes
1. Mr Max Johnston and Mr Philip Powell resigned as Director on 13 November 2020.
2. Mr Paul Brennan resigned as Managing Director on 5 November 2021 and Mr Max Johnston was appointed as interim CEO on 8 November 2021.
3. Dr Anthony Kaye resigned as Chief Operating Officer on 6 October 2021.
4. Mr Paul Brennan and Dr Anthony Kaye resigned, thus leave entitlements were taken and paid out.
5. Mr Paul Brennan and Dr Anthony Kaye resigned, thus their share options and awards were forfeited. The Group reversed their share options and awards expenses during the year.

5.2 Share options and awards granted or exercised in 2022

During the year ended 30 June 2022, nil share options (2021: 500,000) and nil share awards (2021: nil) were granted to key management personnel. 300,000 share options were exercised by CFO in 2022. The options exercised are pursuant to the PolyNovo Employee Share Option Plan.

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

Table B

KMP	Grant date	Grant number	Average fair value per option at grant date 1 $	Fair Value of options granted during the year $	Number of options exercised during the year	Value of options exercised during the year 2 $	Value of options received upon exercise 3 $
Mr Jan Gielen							
Tranche 1	06/03/2019	300,000	0.2360	-	-	-	-
Tranche 2	06/03/2019	300,000	0.3110	-	300,000	241,500	421,500
Tranche 3	06/03/2019	400,000	0.3940	-	-	-	-
Total		**1,000,000**	0.9410	-	**300,000**	**241,500**	**421,500**
Total		**1,000,000**	0.9410	-	**300,000**	**241,500**	**421,500**

Note 1. Determined at the time of grant per AASB 2. For details on the valuation of the options, including models and assumptions used, please refer to note 34.
Note 2. Determined at the time of exercise at the intrinsic value. Exercise price was $0.6, market price was $1.41, intrinsic value was $0.81 per share.
Note 3. Determined at the time of exercise at the market value.
Note 4. Tranche 1 of $300,000 share options were exercised in 2021.

5.3 Share options and awards vested or forfeited in 2022

The share options and awards of key management personnel for the year ended 30 June 2022 are set out in the following table:

Table C

KMP	Balance at 1 July 2021	Options granted during year	Options exercised during year	Options forfeited during year	Total vested at end of year	Total exercisable at end of year	Total not exercisable at end of year	Balance at 30 June 2022
Mr Jan Gielen	700,000	-	(300,000)	-	400,000	-	400,000	400,000
Mr Anthony Kaye	500,000	-	-	(500,000)	-	-	-	-
Mr Paul Brennan	3,300,330	-	-	(3,300,330)	-	-	-	-
Total	**4,500,330**	**-**	**(300,000)**	**(3,800,330)**	**400,000**	**-**	**400,000**	**400,000**

5.4 Movements in shares of the Company

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

Table D

Directors	**Balance at 1 July 2021**	**Granted as compensation**	**On exercise of options**	**Net change other**	**Balance at 30 June 2022**	**Balance at end of year – directly held**	**Balance at end of year – indirectly held**
Mr David Williams	18,900,000	-	-	5,692,087	24,592,087	-	24,592,087
Mr Bruce Rathie	3,050,000	-	-	-	3,050,000	-	3,050,000
Dr David McQuillan	608,313	-	-	-	608,313	608,313	-
Mr Leon Hoare	1,180,220	-	-	-	1,180,220	-	1,180,220
Ms Christine Emmanuel-Donnelly	-	-	-	115,000	115,000	-	115,000
Dr Robyn Elliott	-	-	-	-	-	-	-
Mr Andrew Lumsden	-	-	-	100,000	100,000	-	100,000
Other key Management personnel							
Mr Jan Gielen	300,000	-	300,000	-	600,000	600,000	-
Dr Anthony Kaye	500,000	-	-	(500,000)	-	-	-
Mr Paul Brennan	3,300,330	-	-	(3,300,330)	-	-	-
Mr Max Johnston	1,133,612	-	-	370,000	1,503,612	-	1,503,612

Note 1. Opening balance excludes shares held by closely related parties where there is no control or significant influence by the KMP.
Note 2. 'Net Change Other' reflects shares privately acquired or disposed during the year and shares held by resigned KMP on the date of their cessation of employment.

6. Loans to Key Management Personnel

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

7. Other Key Management Personnel Transactions

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

This Directors' Report, incorporating the Corporate Governance Statement and Remuneration Report, has been signed in accordance with a Resolution of the Directors made on 26 August 2022.

8. Subsequent event

PolyNovo announced the appointment of Mr Swami Raote as Chief Executive Officer on 29 July 2022. Details of his remuneration are disclosed below. Interim CEO Mr Max Johnston will end his employment on 31 August 2022.

Fixed Annual Remuneration

Gross Base Salary: USD $450,000 per annum
401(k)*: 4% matching employee contributions based on salary

*A 401(k) plan is a retirement savings plan in the U.S.

Short Term Incentive

•Annual Bonus of up to fifty percent (50%) of gross Base Salary, dependent upon performance against Revenue/ EBITDA/ ESG/ Diversity hurdles/ OH&S etc, to be agreed.
•If PolyNovo acquires another entity, the Company will review the Revenue/ EBITDA/ ESG/ Diversity hurdles mid-year for that year’s Annual Bonus.
•The Annual Bonus shall be determined after the Annual Audited Accounts have been signed and is also subject to Board approval.
•The first Annual Bonus shall be payable on a pro rata basis after the end of the fiscal year ending 30 June 2023.
•Each Annual Bonus shall be payable in two halves:
- half (50%) shall be paid as taxable salary and
- half (50%) shall be paid in free PolyNovo shares to an equivalent value, calculated using the 30-day Volume- Weighted Average Price (VWAP) as at the date that is 30 days after the announcement of Company’s financial results.
•Free Shares awarded as part of the Annual Bonus will be in escrow for 12 months.

Long Term Incentive

•Five Million (5,000,000) Options
•The Exercise Price is the share price at the close of trading on the date the company receives the signed employment agreement.
•Options allocated over five years in equal tranches of one million (1,000,000).
•Each tranche of one million (1,000,000) Options cannot vest or be exercised until after the anniversary of the commencement of employment each year and until such time as Shares in PolyNovo have been trading 30 continuous days at premium to the Exercise Price detailed below:

- Tranche 1: 50% or greater than the Exercise price, but cannot vest until the first anniversary of employment and must vest before the three (3) year anniversary of employment
- Tranche 2: 75% or greater than the Exercise price, but cannot vest until the second anniversary of employment and must vest before the four (4) year anniversary of employment
- Tranche 3: 100% or greater than the Exercise price, but cannot vest until the third anniversary of employment and must vest before the five (5) year anniversary of employment
- Tranche 4: 150% or greater than the Exercise price, but cannot vest until the fourth anniversary of employment and must vest before the six (6) year anniversary of employment
- Tranche 5: 200% or greater than the Exercise price, but cannot vest until the fifth anniversary of employment and must vest before the seven (7) year anniversary of employment

•Options only vest when both exercise conditions have been satisfied.
•60% of the Shares issued on the exercise of Options will be escrowed for twelve (12) months.

Proceedings on behalf of the company

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

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

On behalf of the directors

Mr David Williams
Chairman

26 August 2022

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Auditor's independence declaration to the directors of PolyNovo Limited

As lead auditor for the audit of the financial report of PolyNovo Limited for the financial year ended 30 June 2022, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;

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

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

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

Ernst & Young

Ernst & Young

Ashley Butler
Partner
26 August 2022

PolyNovo Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2022

	Note	Consolidated 30 June 2022 $	Consolidated 30 June 2021 $
Revenue			
Revenue from contracts with customers	4	41,439,839	29,157,924
Interest income		671	1,103
Other income	5	450,093	180,297
		41,890,603	29,339,324
Expenses			
Changes in inventories of finished goods and work in progress		(2,202,686)	(1,555,393)
Employee-related expenses	6	(21,419,312)	(19,376,331)
Research and development expenses		(5,747,156)	(3,647,424)
Depreciation and amortisation expenses	7	(1,589,016)	(920,684)
Corporate, administrative and overhead expenses	8	(10,392,159)	(8,068,493)
Interest expenses	9	(315,366)	(321,403)
Impairment loss on sale and leaseback of property	10	(1,375,832)	-
Loss before income tax expense		(1,150,924)	(4,550,404)
Income tax expense	11	(41,608)	(54,628)
Loss after income tax expense for the year attributable to the owners of PolyNovo Limited		(1,192,532)	(4,605,032)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Gain/ (Loss) on translation of foreign operation		(144,458)	338,156
Other comprehensive income for the year, net of tax		(144,458)	338,156
Total comprehensive income for the year attributable to the owners of PolyNovo Limited		(1,336,990)	(4,266,876)
		Cents	**Cents**
Loss per share for loss attributable to the owners of PolyNovo Limited			
Basic loss per share	33	(0.18)	(0.69)
Diluted loss per share	33	(0.18)	(0.69)

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

PolyNovo Limited
Statement of financial position
As at 30 June 2022

	Note	Consolidated 30 June 2022 $	Consolidated 30 June 2021 $
Assets			
Current assets			
Cash and cash equivalents	12	6,102,192	7,688,554
Trade and other receivables	13	6,089,442	5,667,055
Contract cost assets	14	146,315	146,315
Inventories	15	2,535,293	1,959,835
Other financial assets	25	50,000	50,000
Prepayments	17	1,261,988	732,403
Income tax receivable	11	4,279	-
Total current assets		16,189,509	16,244,162
Non-current assets			
Contract cost assets	14	329,208	475,522
Property, plant and equipment	18	9,946,085	17,584,398
Right-of-use assets	16	6,805,460	2,238,759
Intangibles	19	1,404,472	1,652,320
Prepayments	17	296,796	144,137
Total non-current assets		18,782,021	22,095,136
Total assets		34,971,530	38,339,298
Liabilities			
Current liabilities			
Trade and other payables	20	4,967,879	4,961,148
Interest-bearing loans and borrowings	21	1,330,058	2,525,006
Lease liability	22	457,750	350,368
Income tax payable	11	-	74,093
Provisions	23	1,000,606	739,010
Total current liabilities		7,756,293	8,649,625
Non-current liabilities			
Interest-bearing loans and borrowings	21	2,802,940	5,058,338
Lease liability	22	6,403,721	2,063,331
Provisions	23	293,490	215,959
Total non-current liabilities		9,500,151	7,337,628
Total liabilities		17,256,444	15,987,253
Net assets		17,715,086	22,352,045
Equity			
Issued capital	24	139,430,502	139,250,502
Reserves	24	(5,261,643)	(1,637,216)
Accumulated losses	24	(116,453,773)	(115,261,241)
Total equity		17,715,086	22,352,045

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

PolyNovo Limited
Statement of changes in equity
For the year ended 30 June 2022

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

Consolidated	Contributed Equity $	Other Reserves $	Acquisition of Non-Controlling Interest Reserves $	Accumulated Losses $	Total equity $
Balance at 1 July 2021	139,250,502	7,656,740	(9,293,956)	(115,261,241)	22,352,045
Loss after income tax expense for the year	-	-	-	(1,192,532)	(1,192,532)
Other comprehensive income for the year, net of tax	-	(144,458)	-	-	(144,458)
Total comprehensive income for the year	-	(144,458)	-	(1,192,532)	(1,336,990)
Exercise of options	180,000	-	-	-	180,000
Transactions with owners in their capacity as owners:					
Share-based payments (note 34)	-	(3,479,969)	-	-	(3,479,969)
Balance at 30 June 2022 (note 24)	139,430,502	4,032,313	(9,293,956)	(116,453,773)	17,715,086

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

PolyNovo Limited
Statement of cash flows
For the year ended 30 June 2022

	Note	Consolidated 30 June 2022 $	Consolidated 30 June 2021 $
Cash flows from operating activities			
Receipts from customers		36,884,778	24,780,651
Receipts from BARDA reimbursements and advances		4,220,005	4,379,446
Receipts of research and development benefit		-	36,956
Receipts from royalty revenue		-	289
Receipts from grant income		247,720	-
Payment of interest on borrowings		(220,150)	(211,916)
Payment of interest on lease liabilities		(95,216)	(98,771)
Payments to suppliers and employees		(43,094,171)	(29,136,876)
Net cash used in operating activities	12	(2,057,034)	(250,221)
Cash flows from investing activities			
Payments for property, plant and equipment		(491,929)	(3,568,717)
Interest received		400	1,484
Receipts from sale and leaseback of property	10	6,350,000	-
Net cash from/(used in) investing activities		5,858,471	(3,567,233)
Cash flows from financing activities			
Proceeds from borrowings		1,860,780	7,253,987
Repayment of principal on borrowings		(7,095,469)	(7,141,826)
Repayment of principal on lease liabilities		(333,625)	(362,528)
Proceeds from the exercise of options		180,000	180,000
Net cash used in financing activities		(5,388,314)	(70,367)
Net decrease in cash and cash equivalents		(1,586,877)	(3,887,821)
Cash and cash equivalents at the beginning of the financial year		7,688,554	11,647,701
Effects of exchange rate changes on cash and cash equivalents		515	(71,326)
Cash and cash equivalents at the end of the financial year	12	**6,102,192**	**7,688,554**

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

Note 1. Corporate Information

The Financial Report of Polynovo Limited (the Company) and its controlled entities (the Group) for the year ended 30 June 2022 was authorised for issue in accordance with a resolution of the Directors on 26 August 2022.

PolyNovo Limited, a for-profit entity, is a Company incorporated in Australia, whose shares are publicly traded on ASX Limited (ASX code: PNV). The Company operates predominantly in the medical device and healthcare industry and has operations in Australia, New Zealand, United Kingdom, Ireland, Singapore and the U.S.

Note 2. Summary of Significant Accounting Policies

(a) Basis of preparation

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

The Financial Report has been prepared on a historical cost basis. The Financial Report is presented in Australian dollars.

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

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

(b) Going concern

The financial statements of the Group have been prepared on a going concern basis. The Group's operations are subject to major risks due primarily to the nature of the research, development and commercialisation to be undertaken. These risks may materially impact the financial performance and position of the Group, including the value of recorded assets and the future value of its shares, options and performance rights. The financial statements take no account of the consequences, if any, of the effects of unsuccessful research, development and commercialisation of the Group's projects. The Group considered the ongoing impact of COVID-19 pandemic in making their going concern assessment assuming how the business, research and development activities might be affected as well as the Group's ability to meet its debts and obligations during such environment taking into account all available information about the future. The Group has a level of discretion in managing cash outflows in a response to any changes or unexpected demands on working capital or operating conditions.

(c) Statement of compliance

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

The Group has adopted all applicable new and amended Australian Accounting Standards and AASB Interpretations that apply as of 1 July 2021. Those Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective, have not been adopted.

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

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

In preparing the consolidated financial statements, the significant estimates, judgements and assumptions made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are disclosed in note 2 (v).

Note 2. Summary of Significant Accounting Policies (continued)

(e) Basis of consolidation
The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2022. The Group controls an investee if and only if the Group has:
•power over the investee (that is, rights that give it the ability to direct the relevant activities of the investee);
•exposure, or rights, to variable returns from its involvement with the investee; and
•the ability to use its power over the investee to affect its returns.

(f) Revenue from Contracts with Customers

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

The Group has identified the following main categories of revenue:

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

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

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

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

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

Licence revenue

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

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

Note 2. Summary of Significant Accounting Policies (continued)

(g) Contract cost asset

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

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

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

(h) Trade and other receivables and contract assets

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

A provision for expected credit loss (ECL) is measured at amortised cost, details refer to (v) Significant accounting estimates and judgments.

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

(i) Intangible Assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. The intangible assets carried by the Group, being intellectual property assets had an initial indefinite useful life on acquisition.

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

(j) Impairment of intangible and other assets

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

The Group conducts an annual impairment assessment review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated which is based on – higher of its fair value less cost of disposal and its 'value-in-use'. Value-in-use is calculated by discounting, the estimated future cash flows derived from use of the asset, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Note 2. Summary of Significant Accounting Policies (continued)

(k) Share-based payments

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

The PolyNovo Employee Share Option Plan was in place for the year ended 30 June 2022. Information relating to this Plan is set out in note 34 and in the Remuneration Report section of the Directors' Report.

The cost of share-based payments under the terms of the Share Option Plan is measured by reference to the fair value of options at the date at which they are granted. The fair value of options granted is determined by using the Monte Carlo simulation model or the binomial option valuation model. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in the Remuneration Report, and/or note 34. All option and performance right arrangements are settled in equity.

The fair value of options is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the vesting period. The employee benefit expense recognised each period takes into account the most recent estimate of the number of options that are expected to vest

(l) Group as a lessee

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

Right of use assets

The Group recognises right of use assets at the commencement of a lease. Right of use assets cost comprises the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs.

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

Right of use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful life of the assets as follows:

Property	4 to 20 years
Office equipment	4 to 5 years
Manufacturing Equipment	3 years

Lease liabilities

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

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

(m) Plant and equipment

Construction in progress is stated at cost, net of accumulated impairment losses. Plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, as follows:

Note 2. Summary of Significant Accounting Policies (continued)

Property	40 years
Office equipment	3 to 10 years
Laboratory plant and equipment	3 to 13.33 years
Leasehold improvements	3 to 20 years

The Group has reassessed the useful life of Property from 25 to 40 years effective 1 July 2021. The useful life revision is accounted for prospectively in accordance with AASB 108.

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

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

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

Note 2. Summary of Significant Accounting Policies (continued)

(n) Research and development costs

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

(o) Cash and cash equivalents

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

(p) Employee leave benefits

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

Liabilities for pro-rata long service leave for employees with less than seven years of service are recognised in non-current liabilities and are measured as the present value of the expected future payments to be made.

(q) Interest income

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

(r) Inventory

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

(s) Government grants

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

(t) Trade and other payables

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

(u) Income tax

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

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

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

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

Note 2. Summary of Significant Accounting Policies (continued)

(v) Significant accounting estimates and assumptions

Deferred taxes
The deferred tax liability (DTL) arising from the carrying value of PolyNovo's intangible assets is offset by deferred tax assets (DTAs) recognised for unused tax losses, where the continuity of ownership test is satisfied. Significant management judgement is required to determine whether these are probable of realisation and the amount of the DTA that can be used to offset the impact of the DTL. Judgment is also required in assessing whether any deferred tax assets can be recorded for unbooked tax losses and other timing differences. Further details on deferred taxes are disclosed in note 9.

Share-based payments
Estimating fair value for share-based payment transactions requires selection of the most appropriate valuation model, which in turn is dependent on the terms and conditions of the share-based payment granted. Determination of the most appropriate inputs to the valuation model, including the expected life of the share option, volatility and dividend yield, is also required. The models and related assumptions used for estimating the fair value of share-based payment transactions are disclosed in note 34 and in the Remuneration Report.

Contract cost assets
Estimating the utilisation of contract cost assets requires selection of an appropriate amortisation method. The Group adopted straight line method to amortise contract cost assets over the period of BARDA study, consistently with the transfer of the services to which the asset relates. Further details on contract cost assets are disclosed in note 14.

Impairment of intangibles
Impairment exists when the carrying value of an asset exceeds its recoverable amount. PolyNovo considers indicators of impairment and if an indicator exists, will determine the recoverable amount of the intangible asset. An estimate is provided on the useful life of the current intangible asset based on the existing patent period. The assessment for the current period is further explained in note 19.

Expected Credit Loss
Estimating the expected credit loss (ECL) for trade receivables and contract assets requires selection of an appropriate method and significant judgement to determine the amount. The method applied categorises trade receivables and BARDA income receivables into various customer segments, then to determine the ECL amount, an assessment of the correlation between historical observed default rates and forecast economic conditions is applied. Further details on expected credit loss are disclosed in note 13.

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

Incremental borrowing rate for property lease
PolyNovo applies judgement to determine incremental borrowing rate for property lease because the interest rate implicit in lease is not readily determinable for the arrangement. The incremental borrowing rate is determined based on the interest that the lessee would have to pay to borrow over a similar term, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment, and observable inputs such as market interest rates are used as applicable. In the sale and leaseback transaction of Unit 1/316-320 Lorimer Street, Port Melbourne, the incremental borrowing rate is determined to be 4.4% per annum. Further details on incremental borrowing rate are disclosed in note 22.

Note 2. Summary of Significant Accounting Policies (continued)

(w) Goods and services tax (GST)

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

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

(x) Earnings per share (EPS)

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

Diluted EPS is calculated as the net profit/(loss) attributable to members, adjusted for:
•the costs of servicing equity (other than dividends);
•the after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
•other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares. The resultant net profit/(loss) is divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

(y) Contributed equity

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

(z) Foreign currency translation

The functional currency of each of the entities in the Group must reflect the primary economic environment in which the entity operates. Accordingly, the relevant functional currencies are Australian dollars for Australian entities and US dollars for the US entity, Singapore dollars for Singapore entity, New Zealand dollars for New Zealand entity and Euro for European entities. Foreign currency items are translated to Australian currency on the following basis.
•Transactions are converted at exchange rates approximating those in effect at the date of the transaction.
•On consolidation, the assets and liabilities of the foreign operation are translated into Australian dollars at the rate of exchange prevailing at the reporting date except for retained earnings which is translated at a historic rate of exchange pertaining to the relevant financial year. The Statement of Comprehensive Income is translated at an average exchange rate over the financial year.
•The exchange difference arising on translation for consolidation are recognised in the balance sheet as a foreign currency translation reserve. On disposal of a foreign operation, the reserve is reclassified to profit or loss.

Note 2. Summary of Significant Accounting Policies (continued)

(aa) Security deposits

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

(ab) Financial Instruments

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

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

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

The provision matrix is initially based on the Group's historical observed default rates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. Generally, trade receivables are written off if past due for more than one year. The total expected credit loss is disclosed in note 13.

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

Financial Liabilities
Classification and measurement
The Group's financial liabilities include loans and borrowings and payables that are classified at fair value through profit or loss as appropriate.

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

For the purposes of subsequent measurement, after initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit and loss. For more information, refer to note 21.

Note 3. Segment Information

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

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

The chief operating decision-maker reviews the results of the business on a single entity basis.

For financial results refer to the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position.

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

During the financial year 2022, sales to BARDA in the United States of America, represented 9% (2021: 13%) of total sales revenue from contracts with customers.

	Consolidated	
	30 June 2022	**30 June 2021**
Revenue from contracts with customers		
Geographical areas		
United States of America	35,857,273	24,323,537
Australia and New Zealand	3,206,724	3,243,920
Other countries	2,375,842	1,590,467
	41,439,839	29,157,924

	Consolidated	
	30 June 2022	**30 June 2021**
Non-current assets		
Geographical areas		
United States of America	519,061	500,612
Australia and New Zealand	19,210,150	21,569,409
Other countries	13,778	25,115
	19,742,989	22,095,136

Note 4. Revenue from contracts with customers

	Consolidated	
	30 June 2022	**30 June 2021**
	$	**$**
BARDA revenue	3,796,679	3,650,065
Commercial product sales	37,643,160	25,507,859
	41,439,839	29,157,924

Note 5. Other income

	Consolidated	
	30 June 2022 $	30 June 2021 $
Other income	450,093	180,297

Majority of the other income is generated from government grants.

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

During the year, the Group received two grants from the Victorian Government:

- The Victorian Government's Medtech Manufacturing Capacity Program has selected PolyNovo to receive its maximum grant of $500,000. The aim of the grant is to help expand manufacturing for the production of new devices. In the financial year 2022, PolyNovo received grant income of $200,000;

- Another Victorian Government grant is up to $252,000, which is to support the purchase of equipment and the development of the new cleanroom at PolyNovo's Port Melbourne facility. In the financial year 2022, PolyNovo received grant income of $108,000.

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

Note 6. Employee-related expenses

	Consolidated	
	30 June 2022 $	30 June 2021 $
Wages and salaries (including sales commission)	20,699,554	13,438,931
Superannuation	978,683	705,162
Share-based payments expense	(3,479,582)	2,626,897
Other	3,220,657	2,605,341
	21,419,312	19,376,331

The Group reversed share awards and options due to the resignation of the Managing Director (MD) and Chief Operating Officer (COO) during the year. The MD and COO were offered 3,300,330 share awards and 500,000 share options respectively under certain vesting conditions. Accumulated share option expenses recognised for the MD and COO were $4,412,918 and $295,233 respectively, and in total $4,078,151. The share awards and options were forfeited when they resigned, thus the total expenses were reversed accordingly. As a result of the forfeitures, a net share-based expense of ($3,479,582) was recognised in this year.

Note 7. Depreciation and amortisation expenses

	Consolidated	
	30 June 2022 $	30 June 2021 $
Depreciation - property	330,636	109,533
Depreciation - laboratory equipment	410,094	60,817
Depreciation - office equipment	247,018	165,057
Depreciation - leasehold improvements	14,206	5,959
Subtotal	**1,001,954**	**341,366**
Depreciation - lease assets	339,214	331,470
Amortisation - intangible assets	247,848	247,848
Subtotal	**587,062**	**579,318**
Total	**1,589,016**	**920,684**

In addition to the depreciation and amortisation expenses listed above, depreciation relating to manufacturing of $208,472 ($134,792 for depreciation of fixed assets and $73,680 for depreciation of lease assets) is included in the cost of inventory. Total depreciation and amortisation expenses amount in 2022 is $1,797,488 (2021: $1,116,323).

Refer to note 18 for property, plant and equipment reconciliation and note 16 for right-of-use assets reconciliation.

Note 8. Corporate, administrative and overhead expenses

	Consolidated	
	30 June 2022 $	30 June 2021 $
Insurances	2,011,584	1,438,629
Professional fees	562,007	498,799
Investor relations and share registry expenses	445,167	473,763
Consultants and contractors	1,759,264	826,471
Communication expenses	521,295	292,173
Travel	1,519,925	617,034
Marketing costs	1,260,822	802,135
Realised foreign exchange loss	151,483	142,343
Unrealised foreign exchange (gain)/ loss	(497,648)	1,120,568
Other	2,658,260	1,856,578
	10,392,159	8,068,493

Included in other administrative expenses are software licences $289,013 (2021: $144,124), third party logistic fees $407,089 (2021: $292,438) and freight $542,098 (2021: $597,063).

Note 9. Interest expenses

	Consolidated	
	30 June 2022	30 June 2021
	$	$
Lease liability interest expenses	95,216	98,771
Equipment finance facility interest expenses	190,721	222,632
Short term loan interest expenses	29,429	-
	315,366	321,403

The Group has lease contracts for various items of property, office equipment and lease equipment used in its operation. Further details on leases are disclosed in note 16.

The Group has secured equipment finance facilities and short term loan, further details on loan facility are disclosed in note 21.

Note 10. Impairment loss on sale and leaseback of property

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

A non-binding purchase proposal for $6.350,000 was signed on 21 Feb 2022. The property met assets held for sale criteria when the purchase proposal was signed, therefore the value of the property was written down to the fair value less cost to sell ($6,350,000) and an impairment loss of $1,375,832 was recognised.

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

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

Note 11. Income tax expense

(a) Income tax expense

Note 11. Income tax expense (continued)

	Consolidated 30 June 2022 $	Consolidated 30 June 2021 $
Current income tax	41,608	54,628
Deferred income tax	-	-
Relating to origination and reversal of temporary differences	-	-
Aggregate income tax expense	41,608	54,628
Reconciliation of income tax expense to prima facie tax payable		
Loss before income tax expense	(1,150,924)	(4,550,404)
Tax at the statutory tax rate of 25%	(287,731)	(1,251,361)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable R&D income tax credit	614,325	(164,790)
Share-based payments	(869,896)	722,397
Meals and entertainment	89,415	22,612
Other	-	(54,256)
	(453,887)	(725,398)
Current year tax losses not recognised	128,515	459,752
Current year temporary differences not recognised	366,980	320,274
Income tax expense	41,608	54,628

(b) Deferred tax assets and liabilities

	Consolidated 30 June 2022 $	Consolidated 30 June 2021 $
Deferred tax assets	488,561	437,318
Deferred tax liabilities	(488,561)	(437,318)
	-	-
Deferred tax balance reflects temporary differences attributable to:		
Amounts recognised in profit and loss		
Recognised on temporary differences	(488,561)	(437,318)

(c) Deferred tax assets not brought to account

	Consolidated 30 June 2022 $	Consolidated 30 June 2021 $
Deferred tax assets not recognised		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Unrecognised, unconfirmed tax losses for which no deferred tax asset has been recognised	95,205,088	93,031,756
Deductible temporary differences - no deferred tax asset has been recognised	855,541	757,592
Unrecognised, unconfirmed R&D offsets for which no deferred tax asset has been recognised	146,288	1,083,147
Total	96,206,917	94,872,495

Note 11. Income tax expense (continued)

	Consolidated	
	30 June 2022	30 June 2021
	$	$
Potential tax benefit at 25%	24,161,445	26,875,218

Deferred tax assets and liabilities are recognised for temporary differences at the rates expected to be applied when the assets are recovered, or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits.
Deferred tax assets are recognised for deductible temporary differences including leases, provision for employee entitlements, other provisions and accrued expenses.
Deferred tax liabilities are recognised for taxable temporary differences including prepayments, differences in accounting and tax base of intangible assets and depreciable assets, and the deferred recognition of income for tax purposes.

The availability of the tax losses in future periods is uncertain and will be dependent on the Group satisfying strict requirements with respect to continuity of ownership and the same business test, imposed by income tax legislation. The recoupment of available tax losses as at 30 June 2022 is contingent upon the following:
• the Group deriving future assessable income of a nature and of an amount sufficient to enable the benefit from the losses to be realised;
• the conditions for deductibility imposed by tax legislation continuing to be complied with; and
• there being no changes in tax legislation that would adversely affect the Group from realising the benefit from the losses.

Given the Group’s history of recent losses, the Group has not recognised a net deferred tax asset with regard to unused tax losses, as it has not been determined that the Group will generate sufficient taxable profit against which the unused tax losses can be utilised.

(d) Current tax liability

	Consolidated	
	30 June 2022	30 June 2021
	$	$
Income Tax (receivable)/ payable	(4,279)	74,093

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

Note 12. Cash and cash equivalents

Cash and cash equivalents are denominated in:

	Consolidated	
	30 June 2022	30 June 2021
	$	$
AUD	1,849,255	1,299,765
USD	3,176,383	5,585,170
NZD	71,440	420,571
GBP	789,280	383,048
EURO	215,834	-
Total	**6,102,192**	**7,688,554**

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

Note 12. Cash and cash equivalents (continued)

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

	Consolidated	
	30 June 2022 $	30 June 2021 $
Net loss	(1,150,924)	(4,550,404)
Adjustments for non-cash items:		
Depreciation and amortisation	1,797,488	1,116,323
Share-based payment expense	(3,479,582)	2,626,897
Interest	12,985	10,716
Loss on inventory write-off	31,671	56,606
Unrealised foreign exchange rate differences	(303,264)	711,087
Impairment loss on sale and leaseback of property	1,375,832	-
Change in assets and liabilities during the financial year:		
(Increase) in trade receivables	(422,387)	(1,745,536)
(Increase)/decrease in prepayments	565,691	(162,137)
(Increase)/decrease in contract assets	146,314	(621,837)
(Increase) in inventory	(575,458)	(742,793)
(Increase) in other assets	(152,659)	(2,267)
Increase/(decrease) in payables	(142,328)	2,847,913
Increase in provisions	264,127	179,413
Increase/(decrease) in other liabilities	(24,540)	25,798
Net cash outflows from operating activities	**(2,057,034)**	**(250,221)**

Note 13. Trade and other receivables

	Consolidated	
	30 June 2022 $	30 June 2021 $
Current assets		
Trade receivables	5,527,852	5,022,587
BARDA income receivables	248,174	201,852
Sundry receivables	313,093	442,564
	561,267	644,416
Interest receivables	323	52
Total trade and other receivables	**6,089,442**	**5,667,055**

Note 13. Trade and other receivables (continued)

	Consolidated 30 June 2022 $	Consolidated 30 June 2021 $
Financial assets and non-financial assets		
Trade receivables	5,527,852	5,022,587
BARDA income receivables	248,174	201,852
Sundry receivables	52,925	801
Interest receivable	323	52
Total financial assets	**5,829,274**	**5,225,292**
Sundry receivables	260,168	441,763
Total non-financial assets	**260,168**	**441,763**
Total trade and other receivables	**6,089,442**	**5,667,055**

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

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

BARDA income receivables
BARDA income receivables are initially recognised for revenue earned from the provision of research and development services as receipt of consideration is conditional on the acceptance by the customer. Upon completion of the milestone and acceptance by the customer, the amounts recognised as BARDA income receivables are reclassified to trade receivables. As at 30 June 2022, the Group has BARDA income receivables of $248,174 (2021: $201,852). Amounts are invoiced in the month following satisfaction of the performance obligation. There are no significant expected credit losses related to the BARDA income receivables, as the credit risk of US Federal Government Agency is low. The Group has an agreement with BARDA to provide research and development services which was extended during the period until August 2025 for the Pivotal Trial. BARDA has committed funding of USD $15 million for the Pivotal Trial.

Expected credit loss
Based on the business failure rates by class of customers and Dun & Bradstreet credit score the Expected Credit Losses relating to trade receivables and contract assets the Group has recognised $9,957 as at 30 June 2022 (2021: $6,306). $Nil trade and other receivables were written off during the year.

The Group uses a provision matrix to measure its expected credit loss. The Group has considered the impact of COVID-19 in assessing the expected credit loss. Set out below is information about the credit risk exposure on the Group’s trade receivables and BARDA income receivables using a provision matrix as at 30 June 2022:

	Trade and other receivables					
	Not due 0 Days	June 1-30 Days	May 30-60 Days	April 60-90 Days	March+ 90+ Days	**Total**
Gross carrying amount ($)	4,047,399	988,586	379,333	11,663	110,828	**5,537,809**
Expected credit loss ($)	-	(1,056)	(82)	(808)	(8,011)	**(9,957)**
Net balance	**4,047,399**	**987,530**	**379,251**	**10,855**	**102,817**	**5,527,852**

Trade and other receivables which are not due as at 30 June 2022 was $4,047,399, which was not expected to have any credit loss. Trade receivables and BARDA income receivables due in less than 30 days and other financial assets have an expected credit loss which are not significant.

Note 14. Contract cost assets

	Consolidated	
	30 June 2022 $	30 June 2021 $
Contract cost assets (Current)	146,315	146,315
Contract cost assets (Non-current)	329,208	475,522
	475,523	621,837

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

Note 15. Inventories

	Consolidated	
	30 June 2022 $	30 June 2021 $
Current assets		
Raw materials	106,218	49,121
Work in progress	854,189	420,539
Finished goods	1,605,737	1,504,792
Provision for finished goods	(30,851)	(14,617)
	1,574,886	1,490,175
	2,535,293	1,959,835

The total of inventory is held at lower of cost or net realisable value (NRV). During the financial year 2022, the loss on inventory write off was $31,670.

Note 16. Right-of-use assets

	Consolidated	
	30 June 2022 $	30 June 2021 $
Non-current assets		
Right-of-use assets	8,002,374	3,001,782
Accum Depn - Right of use assets	(1,196,914)	(763,023)
	6,805,460	2,238,759

The Group has lease contracts for various items of property, office equipment and lease equipment used in its operations. Leases of property generally have lease terms between 3 and 10 years, while office and manufacturing equipment generally have lease terms between 3 and 5 years.

In June 2022, the Group sold the property located at Unit 1/316-320 Lorimer Street, Port Melbourne. Following the sale, the Group leased back the building sold with a lease term of 10 years, plus two 5-year renewal options. It is expected that the Group will renew the lease in line with Group strategy, thus lease term is expected to be 20 years. A right-of-use asset of $4,957,637 was recognised on 14 June 2022 and it will be amortised on straight line basis over the next 20 years.

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

Note 16. Right-of-use assets (continued)

	Property $	Office equipment $	Manufacturing equipment $	Motor vehicle $	Total $
Carrying amount as at 1 July 2021	2,193,284	1,265	19,093	25,117	2,238,759
Additions	4,957,636	-	-	-	4,957,636
Depreciation expense	(388,303)	(1,265)	(12,711)	(10,560)	(412,839)
Foreign currency exchange differences	22,684	-	-	(780)	21,904
Carrying amount as at 30 June 2022	6,785,301	-	6,382	13,777	6,805,460

	Property $	Office Equipment $	Manufacturing Equipment $	Motor Vehicle $	Total $
Carrying amount as at 1 July 2020	2,605,889	8,828	31,804	-	2,646,521
Additions	-	-	-	32,294	32,294
Depreciation expense	(372,622)	(7,563)	(12,714)	(7,149)	(400,048)
Foreign currency exchange differences	(39,981)	-	-	(27)	(40,008)
Carrying amount as at 30 June 2021	2,193,286	1,265	19,090	25,118	2,238,759

The following are the amounts recognised in profit or loss in addition to low value and short term leases of $9,563 recognised during the year.

	Consolidated	
	30 June 2022 $	**30 June 2021 $**
Depreciation expense of right-of-use assets	412,984	400,048
Interest expense on lease liabilities	95,216	98,771
Total amount recognised in profit or loss	508,200	498,819

The Group had total cash outflows for leases of $461,590 in 2022 ($430,716 in 2021).

Group as lessor

The Group has not entered into any leases as lessor.

Note 17. Prepayments

	Consolidated 30 June 2022 $	30 June 2021 $
Current assets		
Prepayments	1,261,988	732,403
Non-current assets		
Security deposits	296,796	144,137

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

The current prepayment relates predominantly to prepaid insurance of $715,025 (2021: $335,144).

Note 18. Property, plant and equipment

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

	Land and Buildings	Laboratory Plant & Equipment	Office Equipment	Leasehold Improvements	Construction in Progress	Total
As at 30 June 2021						
Cost	5,338,322	1,984,386	1,408,060	2,099,893	10,745,338	21,575,999
Accumulated depreciation	(212,536)	(1,447,365)	(670,588)	(1,661,112)	-	(3,991,601)
Impairment	-	-	-	-	-	-
Carrying amount at 30 June 2021	5,125,786	537,021	737,472	438,781	10,745,338	17,584,398
Carrying amount at 1 July 2020	5,235,319	564,220	767,671	475,458	6,847,712	13,890,380
Additions (at cost)	-	113,363	148,324	16,598	3,897,626	4,175,911
Disposals (at cost)	-	-	-	-	-	-
Depreciation expense	(109,533)	(140,562)	(165,057)	(53,275)	-	(468,427)
Foreign exchange difference	-	-	(13,466)	-	-	(13,466)
Carrying amount at 30 June 2021	5,125,786	537,021	737,472	438,781	10,745,338	17,584,398

Note 18. Property, plant and equipment (continued)

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

On 14 June 2022, the Group sold the property located at Unit 1/316-320 Lorimer Street, Port Melbourne. Following the sale, the Group leased back the building sold with a lease term of 10 years, plus two 5-year renewal options.

The Group derecognised the property, including land, building assets and associated leasehold improvement assets, at its carrying value at the time of $6,350,000. According to the contract of sale, the Group has retained certain assets previously categorised as building assets ($3,834,887), thus the Group transferred these assets to leasehold improvements and depreciated over the expected lease period, i.e. 20 years.

Note 19. Intangibles

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

Following the consistent commercial sales of NovoSorb BTM, amortisation of intangible assets commenced in FY2018 over the remaining finite life through to March 2028 being the remaining patent life period over which economic benefits will be consumed. No indicators of impairment related to the NovoSorb technology have been identified as at 30 June 2022.

	Consolidated	
	30 June 2022	**30 June 2021**
Non-current assets		
Intangibles		
(i) Cost		
Opening balance	2,519,788	2,519,788
Additions	-	-
Closing balance	2,519,788	2,519,788
(ii) Accumulated amortisation		
Opening balance	(867,468)	(619,620)
Amortisation for the year	(247,848)	(247,848)
Closing balance	(1,115,316)	(867,468)
Net book value	1,404,472	1,652,320

Note 20. Trade and other payables

	Consolidated	
	30 June 2022 $	30 June 2021 $
Current liabilities		
Trade payables	1,870,809	1,814,219
Other payables	3,097,070	3,146,929
Total trade and other payables	**4,967,879**	**4,961,148**

	Consolidated	
	30 June 2022 $	30 June 2021 $
Financial liabilities and non-financial liabilities		
Trade payables	1,824,432	1,814,219
Other payables	2,168,810	1,796,982
Total financial liabilities	**3,993,242**	**3,611,201**
Other payables	974,637	1,349,947
Total non-financial liabilities	**974,637**	**1,349,947**
Total trade and other payables	**4,967,879**	**4,961,148**

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

Included in other payables are deferred income on upfront fees paid under BARDA contract of $668,213 (2021: $857,006), accrued commission of $906,320 (2021: $460,539), accrued other liabilities of $276,801 (2021: $410,015). BARDA contract liability will be recognised over the period of the contract.

Note 21. Interest-bearing loans and borrowings

	Consolidated	
	30 June 2022 $	30 June 2021 $
Current liabilities		
Equipment Finance - current	981,573	1,466,246
Trade Finance - current	-	1,058,760
Short term loan - current	348,485	-
	1,330,058	2,525,006
Non-current liabilities		
Equipment Finance - non current	2,802,940	5,058,338

Refer to note 25 for further information on financial risk management objectives and policies.

(a) Interest bearing facility details

Financing Facilities	Facility Amount $	Maturity Date	Interest rate %	FY22 Interest expense $
Equipment finance	5,200,000	June 2025 - May 2027	3.24%	175,927
Short term loan	1,967,877	Jul - Sept 2022	2.51%	44,222

Note 21. Interest-bearing loans and borrowings (continued)

Trade finance facility

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

The facility is an interest only facility and repayment of the facility is funded by drawing down on the equipment finance facility. The facility was fully repaid in November 2021.

Equipment finance facility

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

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

The new facility is a $5.2 million revolving equipment finance facility with repayments over 5 years on each tranche drawn at an interest rate between 2.5% to 6.0% (average rate of 3.24%). Currently a total of $5,038,093 has been drawn down. Interest is calculated daily and payable on the last business day of each month.

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

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

Note 22. Lease liability

	Consolidated	
	30 June 2022 $	30 June 2021 $
Current liabilities		
Lease liability - current	457,750	350,368
Non-current liabilities		
Lease liability - non current	6,403,721	2,063,331

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

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

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

Note 22. Lease liability (continued)

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

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

In June 2022, the Group sold the property located at Unit 1/316-320 Lorimer Street, Port Melbourne. Following the sale, the Group leased back the building sold with a lease term of 10 years, plus two 5-year renewal options. It is expected that the Group will renew the lease in line with Group strategy, thus lease term is expected to be 20 years. A lease liability of $4,781,397 was recognised on 14 June 2022. Incremental borrowing rate is determined to be 4.4%. Details refer to note 2(v) Significant accounting estimates and assumptions.

Note 23. Provisions

	Consolidated	
	30 June 2022	**30 June 2021**
	$	**$**
Current provisions		
Annual leave	906,780	654,364
Long service leave	93,826	84,646
Total current provisions	1,000,606	739,010
Non-current provisions		
Long service leave	143,490	140,959
Make good	150,000	75,000
Total non-current provisions	293,490	215,959

Provisions are recognised when all three of the following conditions are met:
• The Group has a present or constructive obligation arising from a past transaction or event
• It is probable that an outflow of resources will be required to settle the obligation
• A reliable estimate can be made of the obligation.

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

Note 24. Reserves

(a) Movement in contributed equity

	Consolidated	
	30 June 2022	**30 June 2021**
Contributed equity at beginning of year	139,250,502	139,070,502
Exercise of options	180,000	180,000
Contributed equity at end of year	139,430,502	139,250,502

Number of shares authorized and fully paid

On issue at start of year	661,388,044	661,088,044
Exercise of options	300,000	300,000
On issue at end of year	661,688,044	661,388,044

Note 24. Reserves (continued)

(b) Reserves

	Consolidated 30 June 2022 $	Consolidated 30 June 2021 $
Share-based payments reserve (i)	4,366,686	7,846,655
Foreign currency translation reserve (ii)	(334,373)	(189,915)
Acquisition of non-controlling interest reserve (iii)	(9,293,956)	(9,293,956)
Balance at end of period	(5,261,643)	(1,637,216)

	Consolidated 30 June 2022 $	Consolidated 30 June 2021 $
(i) Share-based payments reserve		
Balance at beginning of period	7,846,655	5,219,758
Share-based payments movement *	(3,479,969)	2,626,897
Balance at end of period	4,366,686	7,846,655

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

	Consolidated 30 June 2022 $	Consolidated 30 June 2021 $
(ii) Foreign currency translation reserve		
Opening balance	(189,915)	(528,071)
Translation of foreign operations	(144,458)	338,156
Balance at end of period	(334,373)	(189,915)

This reserve represents on consolidation, the translation of the foreign operation into Australian dollars. The exchange difference is recognised in the balance sheet as a reserve.

	Consolidated 30 June 2022 $	Consolidated 30 June 2021 $
(III) Acquisition of non-controlling interest reserve		
Opening balance	(9,293,956)	(9,293,956)
Balance at end of year	(9,293,956)	(9,293,956)

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

(c) Accumulated losses

Note 24. Reserves (continued)

	Consolidated	
	30 June 2022 $	30 June 2021 $
Accumulated losses at beginning of year	(115,261,241)	(110,656,209)
Net loss attributable to members of the parent	(1,192,532)	(4,605,032)
Accumulated losses at end of financial year	(116,453,773)	(115,261,241)

Note 25. Financial Risk Management Objectives and Policies

(a) Financial instruments
The Group's financial instruments comprise cash and cash equivalents, trade and other receivables, trade and other payables and other financial liabilities.

	Consolidated	
	30 June 2022 $	30 June 2021 $
Cash and cash equivalents	6,102,192	7,688,554
Trade and other receivables	5,829,275	5,225,292
Other financial assets *	50,000	50,000
Trade and other payables	3,993,242	3,611,201
Lease liabilities	6,861,471	2,413,700
Trade finance facility	-	1,058,760
Equipment finance facility	3,784,513	6,524,584
Short term loan	348,485	-

* At 30 June 2022, $50,000 is held in a term deposit maturing on 16 March 2023 at an interest rate of 1.09%.

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

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

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

(d) Capital risk management
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain an optimal capital structure, the Group may issue new shares or reduce its capital, subject to the provisions of the Company's Constitution and any relevant regulatory requirements. The capital structure of the Group consists of debt and equity attributed to equity holders of the Group comprising contributed equity, reserves and accumulated losses as disclosed in note 24. The Board monitors the need to raise additional equity from the equity markets based on its ongoing review of PolyNovo's actual and forecast cash flows, which are provided by management.

(e) Financial risk management The key financial risks the Group is exposed to through its operations are:
•interest rate risk;
•credit risk;
•liquidity risk; and
•foreign currency risk

Note 25. Financial Risk Management Objectives and Policies (continued)

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

The Group is exposed to interest rate risks in relation to its holdings in cash and cash equivalents and its trade finance and equipment finance facilities. The objective of managing interest rate risk is to minimise the Group's exposure to fluctuations in interest rates. To manage this risk, the Group locks a portion of the Group's cash and cash equivalents into term deposits. The required maturity period of term deposits is determined based on the Group's cash flow forecast with particular focus on the timing of cash requirements. In addition, the Group considers the lower interest rate received on cash held in the Group's operating account compared to placing funds on term deposit. Account is also taken of the costs associated with early withdrawal of a term deposit should access to cash and cash equivalents be required.

The Group's exposure to interest rate risk and the interest rates (current at the end of each year) on the Group's financial assets and financial liabilities as at 30 June 2022, along with prior year comparatives, was as follows:

2022	**Interest rate**	**Floating interest rate**	**Fixed interest rate**				**Non-interest bearing**	**Total**
			0 to 90 days	91 to 365 days	1 to 5 years	over 5 years		
	%	$	$	$	$	$	$	$
Financial assets								
Cash and cash equivalents	0.16%	6,102,192	-	-	-	-	-	6,102,192
Other financial assets	1.09%	-	-	50,000	-	-	-	50,000
Trade and other receivables		-	-	-	-	-	5,829,275	5,829,275
Total financial assets		**6,102,192**	**-**	**50,000**	**-**	**-**	**5,829,275**	**11,981,467**
Financial liabilities								
Trade and other payables		-	-	-	-	-	3,993,242	3,993,242
Short term loan	2.51%	348,485	-	-	-	-	-	348,485
Equipment Finance Facility	3.24%	3,784,513	-	-	-	-	-	3,784,513
Lease liabilities	3.90%	6,861,471	-	-	-	-	-	6,861,471
Total financial liabilities		**10,994,469**	**-**	**-**	**-**	**-**	**3,993,242**	**14,987,711**

Note 25. Financial Risk Management Objectives and Policies (continued)

2021	Interest rate	Floating interest rate $	Fixed interest rate 0 to 90 days $	Fixed interest rate 91 to 365 days $	Fixed interest rate 1 to 5 years $	Fixed interest rate over 5 years $	Non-interest bearing $	Total
Financial assets								
Cash and cash equivalents	0.05%	7,688,554	-	-	-	-	-	7,688,554
Other financial assets	0.36%	-	-	50,000	-	-	-	50,000
Trade and other receivables		-	-	-	-	-	5,225,292	5,225,292
Total financial assets		**7,688,554**	**-**	**50,000**	**-**	**-**	**5,225,292**	**12,963,846**
Financial liabilities								
Trade and other payables		-	-	-	-	-	3,611,201	3,611,201
Trade Finance Facility	BBSY +1.7%	1,058,760	-	-	-	-	-	1,058,760
Equipment Finance Facility	2.82%	6,524,584	-	-	-	-	-	6,524,584
Leases liabilities	3.90%	2,413,700	-	-	-	-	-	2,413,700
Total financial liabilities		**9,997,044**	**-**	**-**	**-**	**-**	**3,611,201**	**13,608,245**

As noted above, cash is invested in term deposits of varying maturity terms to maximise interest income as well as to meet the timing of operational cash flow requirements. All term deposits are with the NAB, to ensure market interest rates are achieved without compromising the security of funds on deposit.

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

	Loss after tax higher/(lower) 2021 $	Equity higher/(lower) 2022 $
+ 1% (100 basis points)	(61,552)	(30,776)
- 1% (100 basis points)	61,552	30,776

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

Note 25. Financial Risk Management Objectives and Policies (continued)

Credit risk
Credit risk arises when a counterparty defaults on its contractual obligations, resulting in a financial loss to the Group.

The Group is exposed to credit risk via its cash and cash equivalents and receivables. To reduce risk exposure in relation to its holdings of cash and cash equivalents, they are placed on deposit with the Group's main bankers, the National Australia Bank (S&P Rating AA/A-1+, Moody's rating Aa1/P-1). A change to the Group's bankers requires Board approval. BARDA income receivables have low credit risk as it is a project with USA government.

In 2022, trade receivables has grown and this is expected to continue as commercial product sales to hospitals and distributors increase. The ageing analysis of trade and other receivables is as follows:

	0 - 30 days $	**30 - 60 days** $	**60 - 90 days** $	**90+ days** $	**Total** $
2022					
Trade and other receivables	5,336,119	379,296	10,871	102,989	5,829,275
2021	-	-	-	-	-
Trade and other receivables	4,959,176	169,690	93,838	2,588	5,225,292

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

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

The Group is exposed to liquidity risk via its trade and other payables and its trade finance and equipment finance facilities. Responsibility for managing liquidity risk rests with the Board, who regularly review liquidity risk by monitoring the undiscounted cash flow forecasts and actual cash flows provided to them by management. This process is undertaken to ensure that the Group continues to be able to meet its debts as and when they fall due. Contracts are not entered into unless the Board is satisfied that there is sufficient cash flow to fund the additional commitment. The Board determines when reviewing the undiscounted cash flow forecasts whether the Group needs to raise additional working capital from its existing shareholders, the equity capital markets or other available external sources. The Board may also review the timing of internal programs if necessary to moderate cash requirements.

A maturity analysis of trade and other payables is set out below:

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

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

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

Note 25. Financial Risk Management Objectives and Policies (continued)

Foreign currency risk

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

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

The Group incurs foreign currency expenses predominantly in USD, NZD and EURO. To reduce foreign currency risk exposure, the Group maintains an amount of cash and cash equivalents in USD, NZD, GBP and EURO. The Group receives payment from its overseas customers in USD, NZD, GBP and EURO and pays US, NZD, GBP, SGD and EURO trade payables from its funds. GBP and SGD denominated payable balances carry some foreign currency risk, however these payable balances are typically infrequent and low in value and are therefore considered to expose the Group to minimal risk. The Company had opened a EURO and GBP bank account to mitigate foreign currency exposure and will open a SGD bank account in near future.

The holdings of cash and cash equivalents, trade receivables and trade payables analysed by nominated currency at 30 June 2022, along with prior year comparatives, were as follows.

30 June 2022	**Denominated in AUD** $	**Denominated in USD** $	**Denominated in NZD** $	**Denominated in GBP** $	**Denominated in EURO** $	**Denominated in SGD** $	**Total** $
Financial assets							
Cash and cash equivalents	2,615,989	2,548,706	70,217	789,280	78,000	-	6,102,192
Receivables	924,280	3,888,211	288,857	591,661	108,552	27,714	5,829,275
Other financial assets	50,000	-	-	-	-	-	50,000
Total financial assets	3,590,269	6,436,917	359,074	1,380,941	186,552	27,714	11,981,467
Financial liabilities							
Trade and other payables	(2,056,858)	(1,612,329)	(42,025)	(214,598)	(34,104)	(33,328)	(3,993,242)
Total headroom/ (shortfall)	**1,483,411**	**4,824,588**	**317,049**	**1,166,343**	**152,448**	**(5,614)**	**7,938,225**

30 June 2021	**Denominated in AUD** $	**Denominated in USD** $	**Denominated in NZD** $	**Denominated in GBP** $	**Denominated in EURO** $	**Denominated in SGD** $	**Total** $
Financial assets							
Cash and cash equivalents	1,299,765	5,585,170	420,571	383,048	-	-	7,688,554
Trade and receivables	1,389,545	3,476,854	156,176	48,560	105,016	49,141	5,225,292
Other financial assets	50,000	-	-	-	-	-	50,000
Total financial assets	2,739,310	9,062,024	576,747	431,608	105,016	49,141	12,963,846
Financial liabilities							
Trade and other payables	(1,670,994)	(1,725,514)	(64,409)	(87,634)	(20,012)	(42,638)	(3,611,201)
Total financial liabilities	(1,670,994)	(1,725,514)	(64,409)	(87,634)	(20,012)	(42,638)	(3,611,201)
Total headroom/ (shortfall)	**1,068,316**	**7,336,510**	**512,338**	**343,974**	**85,004**	**6,503**	**9,352,645**

Note 25. Financial Risk Management Objectives and Policies (continued)

A hypothetical 10% strengthening in the exchange rate of the Australian dollar against the local currencies of the Parents' overseas subsidiaries as at 30 June 2022 with all other variables held constant would have the following effect on the loss and equity for the 2022 financial year for the Group:

2022 **Country**	**$**	
United States of America	(36,849)	Unfavourable
United Kingdom	10,624	Favourable
New Zealand	(3,025)	Unfavourable
Singapore	(1,707)	Unfavourable
Ireland	(559)	Unfavourable
Total	**(31,516)**	

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

Note 26. 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.

(d) Details of key management personnel

The key management personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the 2021 and 2022 financial years.

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

(b) Compensation by category: key management personnel

	Consolidated	
	30 June 2022 **$**	**30 June 2021** **$**
Short term	1,256,880	1,244,024
Post-employment – superannuation	114,601	110,130
Leave allowances	(63,599)	18,713
Share-based payments	(4,029,641)	2,395,928
	(2,721,759)	3,768,795

(c) Interests held by key management personnel

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

Issue date	Expiry date	Exercise price	2022 number outstanding	2021 number outstanding
Jan Gielen				
01/10/2019	30/06/2021	$0.60	-	-
01/10/2019	30/06/2022	$0.60	-	300,000
01/10/2019	30/06/2023	$0.60	400,000	400,000
			400,000	700,000

Note 26. Key management personnel disclosures (continued)

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

(e) Other transactions with Directors
No transactions between the Group and any of the Directors of PolyNovo or any other key management personnel have been identified.

Note 27. Auditor's Remuneration

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

During the financial year 2022, the following fees were paid or payable for services provided by Ernst & Young, the auditor of the company, and its network firms:

	Consolidated	
	30 June 2022 $	30 June 2021 $
Audit Services - Ernst & Young (Australia)		
Fees for auditing the statutory financial report of the parent covering the group and auditing the statutory financial reports of any controlled entities	295,285	274,868
Fees for other assurance and agreed-upon-procedures services under other legislation or contractual arrangements where there is discretion as to whether the service is provided by the auditor or another firm		
- Agreed-upon procedures and other audit engagements	-	-
Fees for other services	-	-
Total fees to Ernst & Young (Australia)	**295,285**	**274,868**
Audit Services - Ernst & Young Overseas Member Firms		
Fees for assurance services that are required by legislation to be provided by the auditor	26,057	19,825
Fees for other assurance and agreed-upon-procedures services under other legislation or contractual arrangements where there is discretion as to whether the service is provided by the auditor or another firm		
- Agreed-upon procedures and other audit engagements	-	-
Fees for other services	-	-
Total fees to overseas member firms of Ernst & Young (Australia)	**26,057**	**19,825**
Total audit and other assurance services	**312,342**	**294,693**
Total non-audit services	177,358	128,472
Total auditor’s remuneration	**498,700**	**423,165**

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

Note 28. Commitments and Contingencies

The Directors are not aware of any contingent liabilities or contingent assets at 30 June 2022. There has been no change in this assessment up to the date of this report.

Note 29. Related party transactions

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

Note 30. Parent entity information

	Parent	
	30 June 2022 $	30 June 2021 $
Profit/(loss) after income tax	1,511,500	(4,408,806)
Total comprehensive income	1,511,500	(4,408,806)

Statement of financial position

	Parent	
	30 June 2022 $	30 June 2021 $
Total current assets	49,344,921	47,751,864
Total assets	55,376,482	53,783,437
Total current liabilities	7,897,680	4,516,166
Total liabilities	7,897,680	4,516,166
Equity		
Issued capital	139,430,502	139,250,502
General reserve	(1,597,533)	1,882,436
Accumulated losses	(90,354,167)	(91,865,667)
Total equity	47,478,802	49,267,271

In accordance with the terms and conditions of the NAB facility arrangements disclosed in note 21, the parent entity, PolyNovo Limited, has provided a cross-guarantee in conjunction with wholly owned subsidiaries Novoskin Pty Ltd and Novowound Pty Ltd. The aggregate amount payable by the cross-guarantors is limited to $15,300,000 excluding interest and penalties.

Note 31. Controlled Entities

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

		Ownership interest	
Name	**Principal place of business / Country of incorporation**	**30 June 2022 %**	**30 June 2021 %**
PolyNovo Limited	Australia	100%	100%
PolyNovo North America LLC	United States	100%	100%
PolyNovo Biomaterials Pty Ltd	Australia	100%	100%
NovoSkin Pty Ltd	Australia	100%	100%
NovoWound Pty Ltd	Australia	100%	100%
PolyNovo NZ Limited	New Zealand	100%	100%
PolyNovo Singapore Private Ltd	Singapore	100%	100%
PolyNovo UK Limited	United Kingdom	100%	100%
PolyNovo Ireland Ltd	Ireland	100%	100%

Note 32. Events after the reporting period - to be confirmed

The Group is anticipating to lease the building next-door to Unit 1/320 Lorimer Street, Port Melbourne, and the effective start date is expected to be 1 September 2022. Currently the Group is reviewing the first draft of lease documentation.

Other than above, no matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 33. Loss per share

	Consolidated	
	30 June 2022 $	30 June 2021 $
Loss after income tax attributable to the owners of PolyNovo Limited	(1,192,532)	(4,605,032)
	Number	Number
Weighted average number of ordinary shares used in calculating loss per share	660,874,406	663,383,113
	660,874,406	663,383,113
	Cents	Cents
Basic loss per share	(0.18)	(0.69)
Diluted loss per share	(0.18)	(0.69)

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

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

At 30 June 2022 there existed share options that if vested, would result in the issue of additional ordinary shares over the period to FY2026. In the current period, these potential ordinary shares are considered antidilutive as their conversion to ordinary shares would reduce the loss per share. Accordingly, they have been excluded from the dilutive loss per share calculation. There were no further transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

Between the reporting date and the issue date of the 30 June 2022 Financial Report, there have been no transactions involving ordinary shares or potential ordinary shares that would impact the calculation of EPS disclosed in the table above.

Note 34. Share-based payments

(a) Employee share-based payment plans

The Company provides benefits to employees and Non-executive Directors in the form of share-based payment transactions, whereby employees and Non-executive Directors render services in exchange for shares or rights over shares. The expense recognised in the Statement of Comprehensive Income for the years ended 30 June 2022 and 30 June 2021 are $2,061,772 and -$3,479,969 respectively. During the financial year 2022, CEO and COO resigned thus their share options and awards were forfeited.

Note 34. Share-based payments (continued)

(b) Employee share-based payment details

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

2022	Balance at 1 July 2021	Options granted	Options exercised	Options forfeited	Balance at 30 June 2022	Total vested at end of year	Share-based payments expense ($)
Key management personnel							
Mr Paul Brennan	3,300,330	-	-	(3,300,330)	-	-	(3,817,981)
Mr Jan Gielen	700,000	-	300,000	-	400,000	400,000	-
Dr Anthony Kaye	500,000	-	-	(500,000)	-	-	(211,660)
Subtotal	**4,500,330**	**-**	**300,000**	**(3,800,330)**	**400,000**	**400,000**	**(4,029,641)**
Other employees							
Mr Ed Graubart	1,000,000	-	-	-	1,000,000	-	256,888
Mr Joshua Cheetham	500,000	-	-	-	500,000	-	244,670
Mr Ahmed Hassan	-	500,000	-	-	500,000	-	48,113
Subtotal	**1,500,000**	**500,000**	**-**	**-**	**2,000,000**	**-**	**549,671**
Total	**6,000,330**	**500,000**	**300,000**	**(3,800,330)**	**2,400,000**	**400,000**	**(3,479,970)**

(c) Share options granted in FY2022

During the financial year 2022, 500,000 share options were issued to Director of Operations, Mr Ahmed Hassan.

Details of the share options granted pursuant to the terms of the PolyNovo Employee Share Option Plan (ESOP) are as follows:

•On 15 Feb 2022, the Company granted employee share options to the Director of Operations, Mr Ahmed Hassan. He was granted 500,000 options exercisable at $1.01. The options vest upon 12 months of employment with the Company and a share price of $1.5 being sustained over a period of at least 3 months. Once vested, the options can be exercised as follows:

•Tranche 1: 150,000 options – not to be exercised until 12 months after the commencement of employment and not later than 28 Feb 2027;
•Tranche 2: 150,000 options – not to be exercised until 18 months after the commencement of employment and not later than 28 Feb 2027;
•Tranche 3: 200,000 options – not to be exercised until 24 months after the commencement of employment and not later than 28 Feb 2027.

Any options that have not been exercised will be cancelled of the date of the termination/ cessation of his employment for any reason.

Details are summarised in below table:

Note 34. Share-based payments (continued)

Tranche	Grant date	Number of options	Exercise price $	Vesting hurdle	Risk-free interest rate %	Volatility %	Expiry	Average fair value per option $
Tranche 1	15/02/2022	150,000	$1.01	12 months service period and 3 months share price exceeds $1.5	1.91%	57.20%	28/02/2027	$0.508
Tranche 2	15/02/2022	150,000	$1.01	18 months service period and 3 months share price exceeds $1.5	1.91%	57.20%	28/02/2027	$0.520
Tranche 3	15/02/2022	200,000	$1.01	24 months service period and 3 months share price exceeds $1.5	1.91%	57.20%	28/02/2027	$0.525

Key valuation assumptions for the Employee Share Options:

The fair value of options granted during the financial year 2022 were determined using a Monte Carlo simulation-based model. A Monte Carlo simulation-based model simulates the path of the share price according to a probability distribution assumption. After a large number of simulations, the arithmetic average of the outcomes, discounted to the valuation date, is calculated to represent the option value. This model can accommodate complex exercise conditions when the number of options exercised depends on some function of the whole path followed by the share price.

Note 34. Share-based payments (continued)

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

PolyNovo Limited
Directors' declaration
30 June 2022

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

In the opinion of the Directors:

The Financial Report and the Remuneration Report included in the Directors' Report, of the Company and of the Group are in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company and the Group's financial position as at 30 June 2022 and of their performance for the year ended on that date;

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

The financial statements and notes also comply with International Financial Reporting Standards.

There are reasonable grounds to believe that the Company and the Group will be able to pay their debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to Directors in accordance with section 295A of the *Corporations Act 2001* for the financial period ended 30 June 2022.

On behalf of the directors

Mr David Williams
Chairman

26 August 2022

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Independent auditor's report to the members of PolyNovo Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of PolyNovo Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors declaration.

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

a. Giving a true and fair view of the consolidated financial position of the Group as at 30 June 2022 and of its consolidated financial performance for the year ended on that date; and

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

Basis for opinion

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

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

Key audit matters

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

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

Going concern basis of preparation of financial statements

Why significant	How our audit addressed the key audit matter
As described in Note 2 of the financial report, the financial statements have been prepared on a going concern basis. For the year ended 30 June 2022, the Group incurred a loss of $1.2 million and had net operating cash outflows of $2.1 million. It is anticipated that further investment will be incurred by the Group in its planned growth and ongoing product commercialisation over the next 12 months. The Group's forecast growth in revenues and cash inflows will be influenced by the success of clinical studies, surgeon uptake of the Company's NovoSorb BTM product and the mix of repeat and new orders. The Group's forecast growth in revenues and cash flows may also be impacted differently by ongoing COVID-19 outcomes in each of the geographies it operates within, which could impact the Group's ability to pay its debts and obligations as they fall due. The Directors have considered existing cash and working capital balances, available current financing facilities, and forecasts of future cash flows for a period of at least 12 months from the date of the financial report. The cash flow forecasts involve judgements and estimations based on management's view of business operations, expected growth and market conditions. Assessing the appropriateness of the Group's basis of preparation of the financial statements on a going concern basis required judgement in assessing the Group's forecast cashflows and/or funding for a period of at least 12 months from the date of the audit report. The availability of sufficient cash flows and/or funding is critical to the ongoing viability of the business and, as such, was a significant aspect of our audit. Given the significance of the going concern consideration, and the extent of auditor attention and effort involved, we have designated the going concern basis of preparation of financial statements as a Key Audit Matter for the purposes of our enhanced auditor reporting for the year ended 30 June 2022.	Our audit considered the requirements of Australian Auditing Standard ASA 570 Going Concern. Our audit procedures included but were not limited to the following: ▶ Obtained and evaluated management's assessment of the Group's ability to continue as a going concern, including the related forecast cash flows and/or funding for the 12-month period ending 31 August 2023 including all relevant information based on our knowledge of the Group and result of our audit. ▶ Reviewed the financial condition of the Group as at 30 June 2022, taking into consideration the Group's ability to settle its debts as and when they become due. ▶ Assessed the forecast cash flow and/or funding assumptions based on historical results, current economic and industry indicators, publicly available information and the Group's strategic plans. This included assessing assumptions in relation to customer sales values, retention, recurring orders and new accounts rates, and cash flow saving initiatives including deferral of identified projects and reduction in sales growth rates. ▶ Reviewed and assessed management's sensitivity analysis in respect of the assumptions to ascertain the extent of changes in those assumptions which either individually or collectively would materially impact the determination of the appropriateness of the going concern assumption. ▶ Reviewed relevant external information to assess a range of possible scenarios, including those associated with the ongoing impact of COVID-19 in the different geographies the Group operates within. ▶ Obtained evidence with respect to the Group's forecast modelling including support for customer growth, sales ordering, current and recent sales run rates and identified cash savings. ▶ Enquired management as to whether they are aware of any events or conditions through to the date of our audit report that may cast significant doubt on the entity's ability to continue as a going concern. ▶ Assessed the appropriateness of the Group's going concern basis of preparation disclosures for financial statements for consistency with Australian Accounting Standards.

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Recognition of Revenue

Why significant	How our audit addressed the key audit matter
The Group has recognised revenue from the sale of commercial products and revenue from services performed in respect of research and development activities. For sales of commercial products, revenue is recognised upon delivery of the product to the customer. The Group sells to customers in various geographical territories. Commercial product sales have significantly increased this financial year. Services revenue is recognised as the services are delivered. Notes 2, 3 and 4 of the financial statements outline the Company's accounting policies with respect to revenue recognition and revenue disclosures. Revenue recognition was considered a key audit matter due to the increasing sales volumes and customer arrangements entered into by the Group.	Our audit procedures with respect to the Group's revenue recognition included: ▶ Assessed new contracts with customers for terms and conditions that could impact the timing of recognition and measurement of revenue. ▶ Assessed the operating effectiveness of the Group's revenue controls by testing a sample of controls with respect to the initiation and recording of commercial sales transactions. ▶ Assessed on a sample basis, whether revenue was correctly recognised based on the products delivered as at 30 June 2022 with reference to supporting documentation including contracts, purchase orders proof of delivery, cash receipts and credit notes. ▶ Assessed the Group's performance obligations under the services contracts to check that revenue is recognised only for services provided during the year and at the contracted rate. ▶ Assessed the appropriateness the disclosures in relation to the Group's revenue recognition and disaggregation of revenue in accordance with AASB 15 *Revenues from Contracts with Customers* as outlined in Notes 2, 3 and 4 of the financial statements.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2022 annual report other than the financial report and our auditor's report thereon. We obtained the directors' report that is to be included in the annual report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the annual report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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

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

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Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

Building a better working world

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

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

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

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

Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 26 of the directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of PolyNovo Limited for the year ended 30 June 2022, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Ashley Butler
Partner
Melbourne
26 August 2022

PolyNovo Limited
Shareholder information
30 June 2022

Additional Information Required by ASX
For the year ended 30 June 2022

Ordinary Shares

As at 11 August 2022 there were 661,688,044 ordinary shares on issue held by 21,138 shareholders.
Each ordinary share carries one vote per share.

Top 20 Shareholders as at 11 August 2022

Shareholder	Number of shares	% Units
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	72,331,050	10.93
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	46,707,261	7.06
CITICORP NOMINEES PTY LIMITED	24,863,697	3.76
MOGGS CREEK PTY LTD (MOGGS CREEK SUPER A/C)	17,800,000	2.69
BNP PARIBAS NOMS PTY LTD (DRP)	12,845,962	1.94
LATERAL INNOVATIONS PTY LTD (TRUST A/C)	10,924,103	1.65
NATIONAL NOMINEES LIMITED	8,440,944	1.28
MR ANTHONY SHANE KITTEL + MRS MICHELE THERESE KITTEL (KITTEL FAMILY SUPER A/C)	8,040,000	1.22
BNP PARIBAS NOMINEES PTY LTD (IB AU NOMS RETAILCLIENT DRP)	6,968,701	1.05
LAWN VIEWS PTY LTD (ANGELA WILLIAMS FAMILY A/C)	5,692,087	0.86
MS SIMONE MAREE BEKS	4,185,095	0.63
MR PAUL GERARD BRENNAN	4,185,095	0.63
COMMONWEALTH SCIENTIFIC AND INDUSTRIAL RESEARCH ORGANISATION	4,081,250	0.62
NETWEALTH INVESTMENTS LIMITED (WRAP SERVICES A/C)	3,812,276	0.58
MRS LI-HSIEN TSAI	3,276,909	0.50
MR DAVID KENLEY	3,139,855	0.47
BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	3,107,898	0.47
DR MARCUS JAMES DERMOT WAGSTAFF + MRS LARA KATE WAGSTAFF	3,056,377	0.46
MR MATTHEW JAMES AVERY	3,009,397	0.45
MR PAUL LAPPIN + MRS SIOBHAN LYONS (LAPPIN SUPER FUND A/C)	2,954,631	0.45
Total	249,422,588	37.70

Unquoted Securities
Share options over unissued shares
As at 30 June 2022, a total of 2,400,000 share options over ordinary shares are on issue held by four employees. Share options do not carry a right to vote.

PolyNovo issued 500,000 share options during the year ended 30 June 2022. Details of the share options issued are included in note 34.

Share awards over unissued shares
As at 30 June 2022, nil share awards over ordinary shares are on issue. Share awards do not carry a right to vote.

PolyNovo issued nil share awards during the year ended 30 June 2022. Details of the share awards issued are included in note 34.

The range of shareholders based on number of shares held as at 11 August 2022 is as follows:

Range of Units As at 11 August 2022	**Number of holders**	**Number of shares**
1 to 1,000	6,244	3,431,026
1,001 to 5,000	7,311	20,216,808
5,001 to 10,000	2,800	22,078,552
10,001 to 100,000	4,092	127,017,009
100,001 and over	691	488,944,649
	21,138	661,688,044
Holding less than a marketable parcel	1,011	129,979

Voting rights

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

Shareholder	Number of shares	%
HSBC Custody Nominees (Australia) Limited	72,331,050	10.93
JP Morgan Nominees Australia Pty Ltd	46,707,261	7.06
	119,038,311	17.99

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

Non-executive Chairman	Mr David Williams
Non-executive Directors	Dr Robyn Elliott Ms Christine Emmanuel-Donnelly Mr Leon Hoare Dr David McQuillan Mr Bruce Rathie Mr Andrew Lumsden
Chief Executive Officer	Mr Swami Raote
Company secretary	Mr Jan Gielen
Registered office	Unit 2/ 320 Lorimer Street Port Melbourne Victoria 3207 T (03) 8681 4050 F (03) 8681 4099
Share register	Computershare Investor Services Pty Ltd Yarra Falls 452 Johnson Street Abbotsford, Victoria 3067 T 1300 850 505
Auditor	Ernst & Young 8 Exhibition St Melbourne Victoria 3000
Stock exchange listing	PolyNovo Limited shares are listed on the Australian Securities Exchange (ASX code: PNV)
Website	www.polynovo.com