PALLA PHARMA

2019 HALF YEAR RESULTS

29 AUGUST 2019
ASX : PAL

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AGENDA

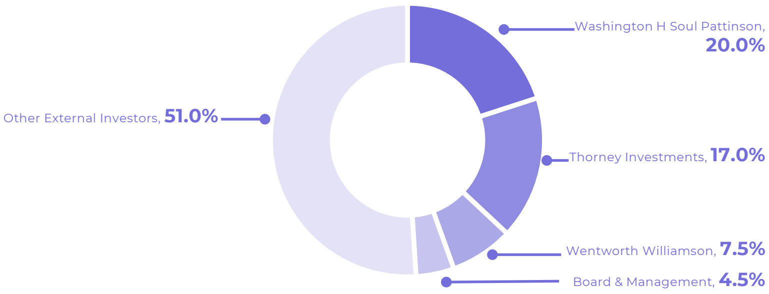
COMPANY OVERVIEW

Lowest cost narcotic raw material producer globally using unique water-based extraction process

PALLA PHARMA AT A GLANCE

- Fully integrated opiate manufacturer from farm gate to tablet production.
- Lowest cost Narcotic Raw Material ("NRM") and Active Pharmaceutical Ingredient ("API") production capability based on unique water-based extraction technology.
- Rapidly growing global supplier of pain relief, cough medicines and plans for anti-addiction Active Pharmaceutical Ingredients ("API").
- Significant contract manufacturer of Finished Dosage Formulation ("FDF") tablets via contract manufacturing organisation supply agreements ("CMO").
- Founded in 2004 and headquartered in Victoria, Australia with production facilities in Victoria, Australia and Kragerø, Norway.

SHAREHOLDERS



CAPITAL STRUCTURE

Share Price (28 August 2019)	$1.14
Fully Paid Ordinary Shares	81.1m
Share Appreciation Rights	2.1m
Market Capitalisation (28 August 2019)	$92.4m
Net debt (30 June 2019)	$28.6m

DIRECTORS & SENIOR MANAGEMENT

Simon Moore	Independent	Non-Executive Chairman
Jarrod Ritchie		Chief Executive Officer
Stuart Black	Independent	Non-Executive Director
Todd Barlow		Non-Executive Director
Sue MacLeman	Independent	Non-Executive Director
Jaime Pinto		Company Secretary
Brendan Middleton		Chief Financial Officer

EXPERIENCED GROUP EXECUTIVE TEAM

Over 120 years of experience in the narcotic industry

Mr. Jarrod Ritchie
CEO/MD/Founder

Mr. Brendan Middleton
Chief Financial Officer

Mr. Richard Scullion
Commercial & Sales Director

Ms. Lucy Waddell
Group Head of Quality

Dr. Artur Abreu
Site Director – Australia

Mr. Michael Long
Director of Agriculture

Dr. Richard Bos
Director of Research & Development

Ms. Nicole Mikschofsky
Finance and Operations Manager - Norway

Mr. Craig Sweenie
Site Director – Norway

FULLY INTEGRATED GLOBAL SUPPLY CHAIN

Diversified straw supply; fully integrated operations provides multiple channels to market

Northern Hemisphere Straw Supply

Raw material (Poppy Straw)

Southern Hemisphere Straw Supply

Sale of poppy seed for culinary purposes

Narcotic Raw Material ("NRM")

Morphine
Codeine
Thebaine
Oripavine

NRM sales to external customers

Active Pharmaceutical Ingredient ("API")

Codeine Phosphate
Pholcodine

API sales to external customers

Finished Dosage Formulation ("FDF")

Contract manufacturing ("CMO") of tablets

Opiate based tableted pain medications

Codeine Phosphate
Co-codamol

Non-opiate based tableted pain medications

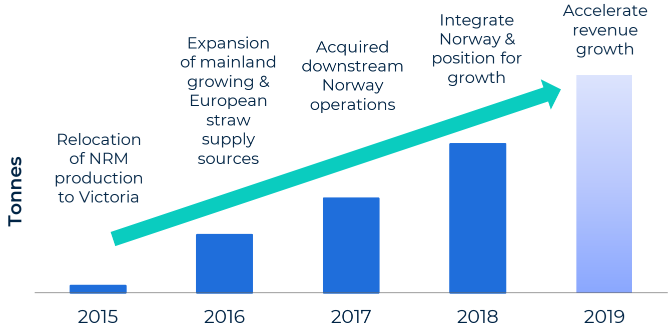
Paracetamol
Ibuprofen

Accretive gross margin for the group as NRM moves to higher value products through the supply chain

MARKET OPPORTUNITY

Significant addressable opiate equivalent market opportunity

Opiate Equivalent Volumes Sold



Source: Company records for historical data / management estimate for 2019

- Reliable and low cost straw supply hampered NRM volume growth prior to 2015; relocation of NRM production facility to Victoria, expansion of mainland growing, and alternative European supply sources significantly improved straw supply reliability.
- Acquisition of downstream Norway operations in 2017 substantially expanded addressable end use markets to further leverage cost advantage in NRM production.

Sizeable Addressable Global Opiate Market (Tonnes)

Source: INCB "Estimated World Requirements of Narcotic Drugs", July 2019.

- One of six licensed NRM producers globally, and one of only three fully integrated suppliers of opiates from NRM, API though to FDF products.
- Key competitive advantage due to NRM being 70-80% of the input cost of API/FDF products, therefore lowest cost producer opportunity in NRM, API and FDF products with multiple channels to market relative to other industry participants.
- NRM sales pricing remains subdued at US$350-380 compared to historical levels of US$450-500; low cost position enables the company to compete profitably at these price points.

RESULTS SUMMARY

JARROD RITCHIE
CHIEF EXECUTIVE OFFICER

1H19 RESULTS OVERVIEW

Maiden Operating EBITDA positive half driven by solid organic revenue growth

Revenue for 1H19 of $27.3m, +20.3% compared to 1H18 and ahead of estimate ($24-26m) provided at AGM on 31 May 2019.

Record sales volumes of opiate equivalent product increased +35.5% compared to 1H18, primarily due to growth in higher margin API sales and opiate based FDF products.

Daily API production throughput increased by 95.8% compared to 1H18 with <$50k capital investment.

Maiden Operating EBITDA* profit half of $0.3m, with higher gross profit now covering stabilised overhead costs despite additional investment in research and new product development department.

Over 100 tonnes of NRM equivalent available in raw material, providing sufficient input supply for at least the next 12 months.

Net debt increase of $7.6m driven by investment in codeine inventory due to record domestic harvest and then delay in processing straw due to codeine patent litigation. Total Inventory of $29.6m accounts for 103% of net debt $28.6m.

Opiate Equivalent Sold (mt)

+35.5%

On 1H18; solid organic revenue growth in API and opiate based FDF products.

Revenue ($)

+20.3%

On 1H18 to $27.3m; growth in API and opiate based FDF products, exceeding AGM estimate from May.

Gross Profit ($)

+23.7%

On 1H18 to A$9.4m; throughput efficiencies from increased plant utilisation driving margins.

Operating EBITDA* ($)

+$2.1m

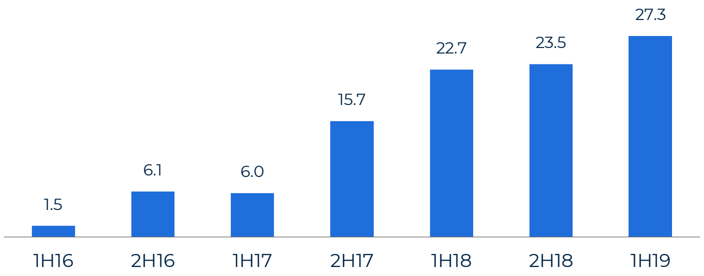
On 1H18 to $0.3m; benefit of operating leverage and further reduced indirect overhead costs.

* Operating EBITDA is a non-GAAP financial measure – see appendix for reconciliation of Operating EBITDA to statutory net profit/(loss) after tax.

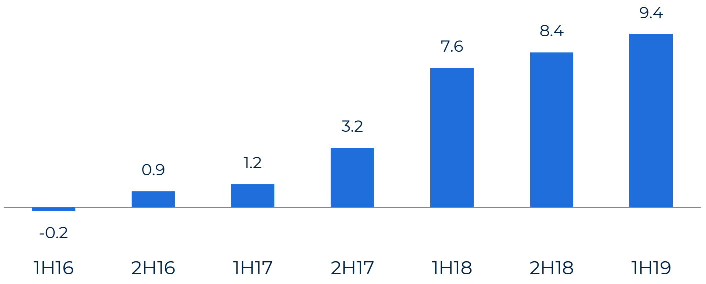
HALF YEAR RESULTS TREND

Continued market share gains driving revenue growth, increased plant utilisation leading to improved profitability

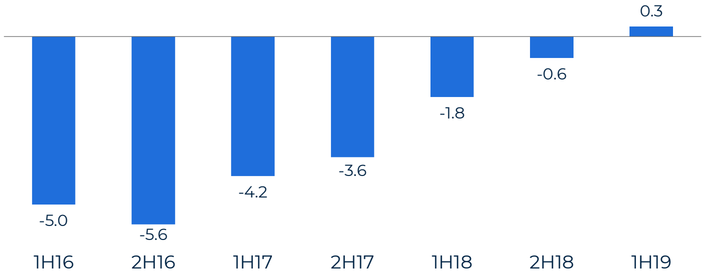
Revenue ($M)



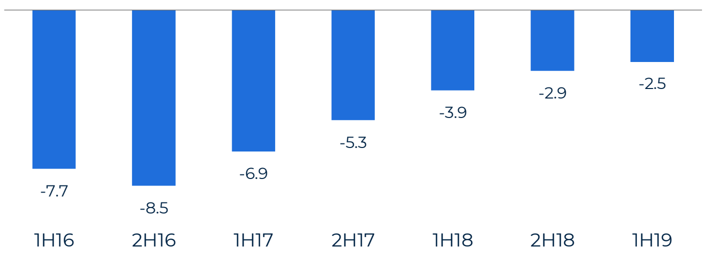
Gross Profit ($M)



Operating EBITDA* ($M)



Underlying NPAT* ($M)



* Operating EBITDA and Underlying NPAT are non-GAAP financial measures – see appendix for reconciliation of Operating EBITDA to statutory net profit/(loss) after tax.

1H19 CHALLENGES

Non-opiate CMO tableting production impacted profitability; codeine patent litigation impacted working capital

Contract Manufacturing Operations (CMO)

Non-opiate based contract manufacturing production remained challenged due to the bespoke nature of the contract and wide range of products needing to be produced at comparatively low margins.

Additional costs incurred in continuing to improve Norway quality management systems and processes.

Installation of serialisation equipment impacted CMO uptime.

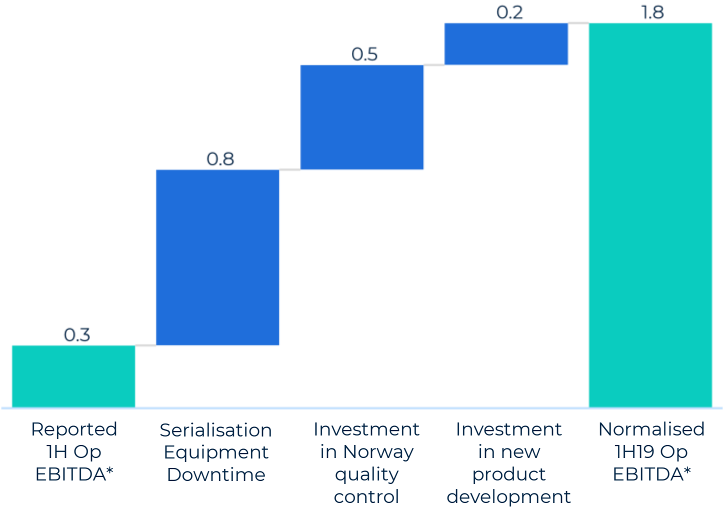
High Codeine Patent Impact on Working Capital

Successfully settled high codeine poppy patent dispute; agreed settlement of $1.6 million was a $/kg deferred payment for codeine crop previously grown and now on stock.

Standstill agreement on high codeine NRM production now lifted, allowing full production.

Expectation of a significant reduction in inventory through 2H19 as high codeine inventory is converted to finished product and sold.

Estimated impact on Operating EBITDA* ($m)



* Operating EBITDA is a non-GAAP financial measure – see appendix for reconciliation of Operating EBITDA to statutory net profit/(loss) after tax.

BUSINESS UNIT UPDATE

JARROD RITCHIE
CHIEF EXECUTIVE OFFICER

AGRICULTURE & POPPY SEED

Record straw inventory harvested; poppy seed sale prices remains robust

Agriculture

A positive growing season in Australia through 2018/19 saw record poppy straw volumes harvested at the lowest growing cost achieved for domestic harvest.

Over 100 tonne of NRM-equivalent inventory on hand at Melbourne extraction facility at 30 June, underpinning raw material supply for the next 12 months.

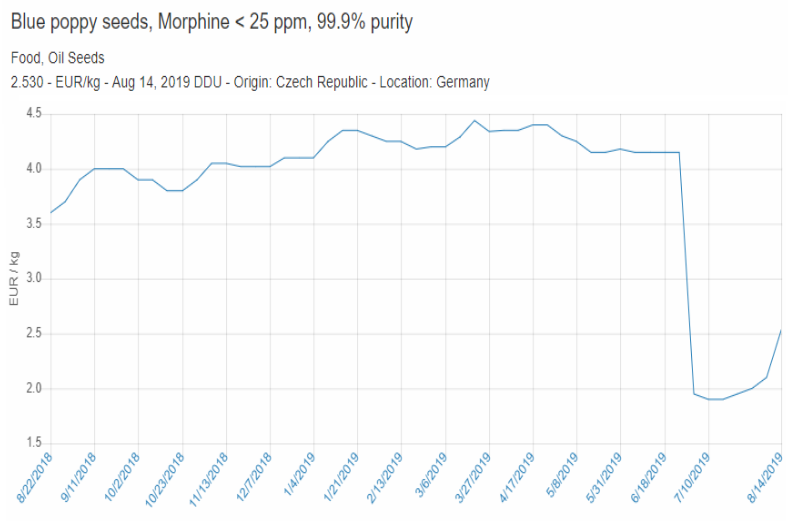
Strong rebound in plantings for Northern Hemisphere growing after previous season's drought and additional aggregator supply agreements have been secured.

Poppy Seed and Pricing

Poppy seed prices were at record levels of over €4 per kg for premium grade during 1H19; some impact to pricing in July '19 with rebound in Czech Republic and Turkey crop.

Majority of seed from domestic crop sold during 1H19 to take advantage of pricing surge.

Poppy Seed Sales Price (€/kg)



NARCOTIC RAW MATERIAL (NRM)

Extraction facility operating efficiencies growing with volume

Increased reliable raw material supply saw NRM extraction rates at the Melbourne NRM production facility increase by 17.9% compared to FY 2018.

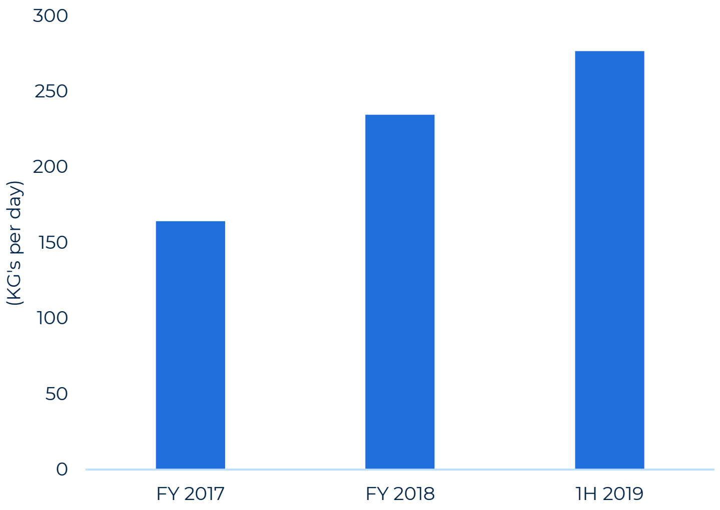
Continued investment in R&D to optimise the production process and further increase efficiencies.

Successful continued development of thebaine customer base with first samples being requested.

Consideration being given to timing of investment in additional capacity to meet customer demand.

The unique water-based extraction process used is delivering a competitive cost advantage combined with reliable straw supply, enabling higher volume and long-term supply agreements to be secured.

NRM Extracted Per Day (KG's)



ACTIVE PHARMACEUTICAL INGREDIENT (API)

Significant increase in production and sales volumes

Since acquiring the Norway operations in 2017, API production capacity has increased from 500kg/week to over 1,000kg/week.

API production for 1H19 (21 tonnes) was the equivalent of 81% of 2018 total API volume.

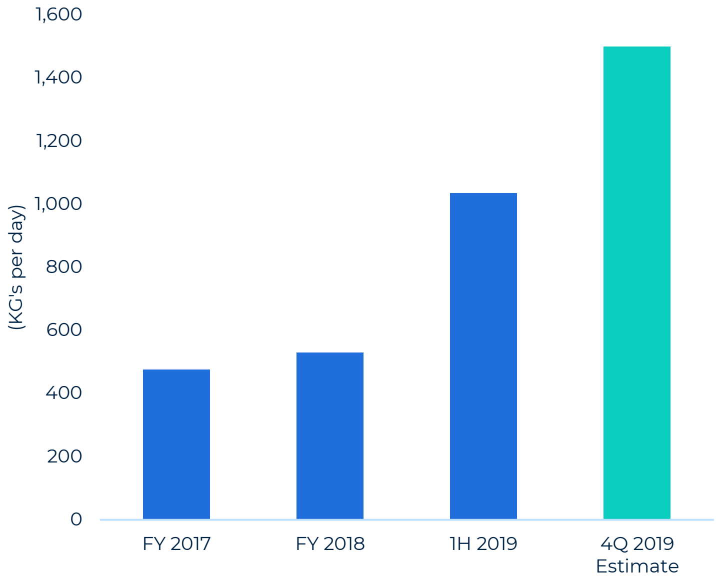
Production capacity will increase by a further 50% to >1,500kg/week by 4Q 2019 with <$100k capital investment, equating to API production capacity of 70t per annum into FY20.

The API business unit is capable of producing c$40m of revenue per annum and it is expected that capacity will need to double again within the next 12 months to meet future demand which will require further expansion capex.

A new multi year supply agreement was secured in July 2019 for 24t of Codeine Phosphate per annum with a minimum term of 3 years and total contracted revenue of not less than US$25m.

First Codeine Phosphate sales into a prominent and rapidly urbanising South-East Asia developing economy during 1H19.

Codeine Phosphate Production Per Week (KG's)



FINISHED DOSAGE FORMULATION (FDF)

Continued improvement in CMO manufacturing during the half; opportunities for further improvement identified

Further improvement in both tableting and packaging uptime was achieved during 1H19, and opportunities to further improve plant utilisation levels have been identified.

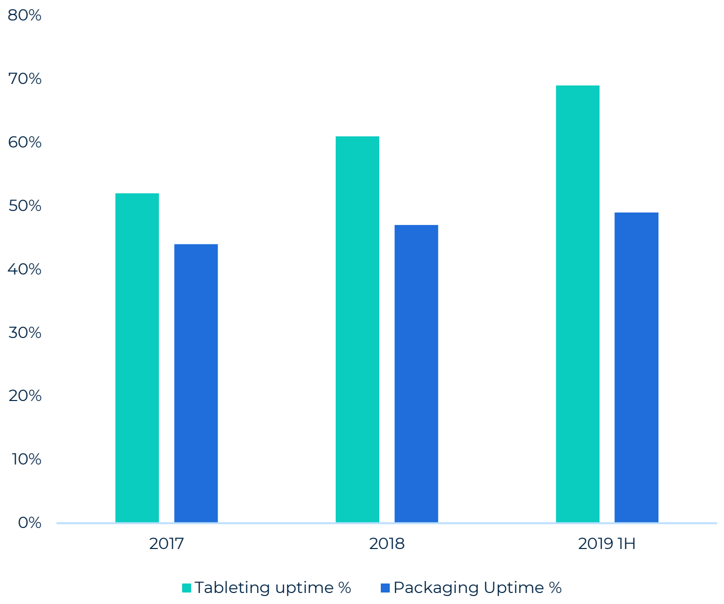
Non-opiate contract manufacturing (CMO) production remained challenging during the half, due to the bespoke nature of the contract and range of products needing to be produced.

The non-opiate CMO contract requires short runs of differing products, resulting in significant production downtime for product changeover and line cleaning.

The CMO operation is focussed in the medium term on moving from a bespoke non-opiate producer to a primarily opiate-based CMO manufacturer with greater margin opportunity.

There was a marginal decrease in tablets packed during 1H19 on an annualised run-rate basis, primarily due to a loss of production in January 2019 with the installation of serialisation equipment as per a new EU directive on all 3 packaging lines.

Current Uptime and Opportunity for Improvement



FINANCIAL RESULTS

BRENDAN MIDDLETON
CHIEF FINANCIAL OFFICER

TRADING RESULTS SUMMARY

Maiden Operating EBITDA positive half driven by continued double-digit revenue and gross profit growth

A$ million	1H19	1H18	Change %
Revenue	27.3	22.7	⬆ 20.3%
Gross profit	9.4	7.6	⬆ 23.7%
Gross margin (%)	*34.6%*	*33.3%*	⬆ *126 bps*
Indirect overhead	9.2	9.4	⬇ 2.1%
Operating EBITDA[(a)]	**0.3**	**(1.8)**	⬆ **nm**
Significant items	1.7	0.1	⬇ nm
Reported EBITDA	**(1.4)**	**(1.9)**	⬆ **26.3%**
Depreciation and amortisation	1.2	1.3	⬆ 7.7%
Reported EBIT	**(2.6)**	**(3.2)**	⬆ **18.8%**

(a) Operating EBITDA is a non-GAAP financial measure – see appendix for reconciliation of Operating EBITDA to statutory net profit/(loss) after tax.

- Double-digit revenue and gross profit growth largely due to strong API and opiate based FDF demand and seed sales.
- Further enhancement of gross margin due to the continued benefit of volume growth and operating leverage through greater plant utilisation; the benefits realised were partially offset by operational challenges in CMO manufacturing of non-opiate based finished dosage products.
- Indirect overhead costs continued to reduce compared to 1H18 despite further investment in new product development and one-off costs associated with improvement in Norway quality processes.
- Significant items comprised of the high codeine patent litigation settlement cost and first year cross-border tax implementation costs associated with the Norway acquisition.

INCOME STATEMENT SUMMARY

Improvement in underlying EBIT; underlying Net Loss impacted by increased finance expenses

A$ million	1H19	1H18	Change %
EBIT (before significant items)	**(0.9)**	**(3.1)**	⬆ **71.0%**
Net finance expenses	(1.5)	(1.0)	⬆ 50.0%
Income tax benefit	0.1	0.2	⬇ 50.0%
Net Profit/(Loss) (before significant items)	**(2.3)**	**(3.9)**	⬆ **41.0%**
Significant items	(1.7)	1.1	⬇ nm
Reported Net Profit/(Loss)	**(4.0)**	**(2.8)**	⬇ **42.9%**

- Underlying EBIT improved due to continued revenue and gross profit growth.
- Net finance expenses were unfavourably impacted by higher working capital debt facility utilisation for the period driven by increased working capital employed in inventories due to the high codeine patent litigation.
- The reported Net Loss increased for 1H19 compared to 1H18 due to the impact of significant items; the prior corresponding period included a gain on sale of the Group's Portugal operations.

CAPITAL EMPLOYED SUMMARY

Inventory levels, net working capital and net debt impacted by high codeine patent challenge litigation

A$ million	Jun 2019	Dec 2018	Change %
Trade & other receivables	13.5	14.7	-8.2%
Contract assets	3.7	3.5	+5.7%
Inventories			
- Raw materials	11.6	7.0	+65.7%
- Work in progress	17.0	13.4	+26.9%
- Finished goods	1.0	0.6	+66.7%
Total inventories	**29.6**	**21.0**	**+41.0%**
Trade & other payables, provisions	16.9	11.6	+45.7%
Net working capital	**29.9**	**27.6**	**+8.3%**
Cash	2.5	1.9	+31.6%
Borrowings	31.1	22.9	+35.8%
Net debt	**28.6**	**21.0**	**+36.2%**
Contributed equity	**181.5**	**181.5**	**0.0%**

- Inventories increased by **$8.6m** as a result of the high codeine patent litigation and inability to process straw harvested from high codeine poppies until the dispute was resolved in June 2019; this unfavourably impacted both raw materials and work in progress during the reporting period.
- Trade payables increased by **$5.3m** to fund increased inventories and the deferred high-codeine patent litigation settlement payment.
- Net debt increased by **$7.6m** during the period to fund additional inventories and finance expenses.
- Ongoing evaluation of funding strategies to support long term growth and financing obligations.

STRATEGY & OUTLOOK

JARROD RITCHIE
CHIEF EXECUTIVE OFFICER

STRATEGIC INITIATIVES

How Palla Pharma is delivering on its strategic objectives

Develop strong foundation for growth

- Lowest cost producer NRM globally; continue to develop and refine production processes
- Globally diversified poppy straw supply chain with dual hemisphere supply strategy
- Fully integrated supplier provides multiple channels to market
- Highly experienced management team

Penetrate existing markets

- One of six licensed NRM producers globally; one of three fully integrated suppliers
- Exploit lowest cost to produce competitive advantage and reliability of supply through diversified poppy straw sourcing strategy
- Secure long-term supply agreements

Continue to explore and develop new markets

- Significant unmet demand in developing countries with 92% of global supply consumed by 15% of the global population
- Strong population growth demographics in developing countries with lack of access to pain medication
- Activating existing and referral relationships with agents in Africa and Asia

Development of new products

- Develop suite of opiate based API's
- Target anti-addiction API's
- Obtain marketing authorisations to expand opiate based Finished Dosage capability
- Continue to explore market consolidation and downstream value-add acquisition opportunities

STRATEGIC PATHWAY TO LONG TERM GROWTH

2015 to 2017

ESTABLISH SUSTAINABLE MANUFACTURING FOOTPRINT

- Relocated factory to Victoria
- Invested in capacity for long term growth
- Listed on ASX

SECURE STRAW SUPPLY AND MARKET ACCESS

- Drove legalisation of NSW/VIC poppy cultivation
- Secured secondary straw supply from Europe
- Acquired Norway operations
- Developed tolling opportunity with prior industry competitors

2018

INTEGRATE NORWAY & POSITIONING FOR GROWTH

- Expanded sales channels and offerings to exploit lowest cost NRM producer status
- Significant API customer base growth
- CMO Division turnaround
- NRM volume growth as increased volumes drive down costs
- Delivered 41 tonnes of opiate equivalent sales volumes

2019

ACCELERATE REVENUE GROWTH

- Market share growth in Codeine Phosphate (CPO) and Pholcodine API's, and opiate based FDF
- Continue to diversify customer base and revenue streams: secure long-term supply agreements in API and FDF customer base
- Explore FDF dossier purchase (~A$1 million) to capture additional downstream margin
- Expand manufacturing capacity to meet sales growth
- Realise further cost benefits of increased scale
- Further manufacturing process cost reduction initiatives
- Secure additional Northern Hemisphere straw supply

2020 / 2021

DELIVER MEANINGFUL SHAREHOLDER RETURNS

- Market share growth: become the leading global supplier of Codeine Phosphate (CPO) and Pholcodine API's
- Diversify customer and product revenue: continue to grow sales of existing API products. In addition to CPO, add API products to the portfolio (Morphine Sulphate, Di-Hydrocodeine Tartrate, Diamorphine and Naloxone)
- Entry into high-value anti-addiction products
- Further penetrate developing markets
- Consider additional brownfield manufacturing footprint acquisitions
- Realise additional cost benefits of increased scale

Targeting 200t of Annual NRM Production by 2021

FY19 OUTLOOK

Continued revenue growth, capacity expansion and maiden Operating EBITDA positive full year result

FY19 revenue expected to be $60+ million driven by continued strong API, external NRM and opiate based FDF sales.

Expect continued improvement in operating leverage and gross margin enhancement to further drive Operating EBITDA growth.

Market demand for API continues to exceed capacity to supply; production run rate has doubled from 550kg per week to over 1,100kg per week and further capacity expansion will be needed.

Phase 1 capital investment in FY19 to expand API drying capacity by c.50% and additional investment in new product development for further growth.

Further work required to optimise CMO production; reviewing options to improve return on capital invested.

Address inventory and working capital levels; expect raw materials and work in progress reduction through 2H19 as high codeine poppy straw is converted and sold; reduce net debt.

APPENDIX

NON-GAAP FINANCIAL MEASURE RECONCILIATION

NON-GAAP FINANCIAL MEASURE RECONCILIATION

Reconciliation of Operating EBITDA (non-GAAP financial measure) to statutory Net Profit/(Loss)

A$ million	1H19	1H18
Net Profit/(Loss) for period	**(4,084)**	**(2,829)**
Add:		
(+) litigation settlement expenses	1,607	-
(+) acquisition related expenses	122	175
(-/+) (gain)/loss from discontinued operations	-	(1,119)
(+) depreciation and amortisation	1,228	1,263
(+) net finance expenses	1,558	966
(+/-) income tax expense/(benefit)	(85)	(199)
Less		
(-) other income	(76)	(51)
Operating EBITDA	**271**	**(1,793)**

- The consolidated financial statements of the Group are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASB's) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS's) adopted by the International Accounting Standards Board (IASB).
- This presentation includes a non-GAAP financial measure which is not prepared in accordance with IFRS being:

  Operating EBITDA: calculated by adding back (or deducting) finance expense/(income), income tax expense/(benefit), depreciation, amortization, acquisition related expenses, transaction integration services, agricultural area trialing expenses, inventory impairments, losses from discontinued operations, losses on disposal of non-core plant and equipment, litigation settlement expenses and deducting other income, to net profit/(loss) after tax.
- The Group uses this measure internally and believes this non-GAAP financial measure provides useful information to readers to assist in the understanding of the Group's financial performance, financial position or returns, but that they should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with IFRS.
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