PALLA PHARMA

PLACEMENT & ENTITLEMENT OFFER

17 OCTOBER 2019
ASX : PAL

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This presentation has been prepared by Palla Pharma Limited (**PAL**).

This presentation has been prepared in relation to PAL conducting:

- a placement to sophisticated and professional investors (**Placement**); and
- an accelerated non-renounceable pro rata entitlement offer of new shares in PAL to be made to:
  - eligible institutional shareholders of PAL (**Institutional Entitlement Offer**); and
  - eligible retail shareholders of PAL (**Retail Entitlement Offer**), under section 708AA of the *Corporations Act 2001* (Cth) (**Corporations Act**), as modified by Australian Securities and Investments Commission (**ASIC**) Corporations (Non-Traditional Rights Issues) Instrument 2016/84 (**Entitlement Offer**).

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EXECUTIVE SUMMARY

Compelling investment case	• One of three (3) fully integrated suppliers of opiate-based medications globally; unique water based Narcotic Raw Material ("NRM") extraction technology continues to provide a significant manufacturing cost advantage in NRM production. • Industry thematic supports continued strong organic growth; PAL currently has small market share of sizable addressable market. • Morphine remains the gold standard for acute pain relief and palliative care. • PAL revenue has increased at a CAGR of 123% for last 5 years since relocation of NRM production facility to Victoria from Tasmania; turned Operating EBITDA* positive in 1H 2019 after reaching break even revenue.
Use of funds	• Capex for expansion of Active Pharmaceutical Ingredient ('API') production capacity from 70 tonnes to 140 tonnes per annum, and capex for continued improvement of NRM processing capability to focus on increased automation, improved efficiency and alkaloid campaign switch flexibility. • Debt reduction and improved balance sheet flexibility to take advantage of future growth opportunities.
Offer structure and size	• Fully underwritten Placement and 2 for 5 pro-rata, accelerated, non-renounceable Entitlement Offer to raise gross proceeds of approximately $31.1 million.
Offer price	• Entitlement Offer will be conducted at $0.70 per New Share (**Offer Price**). - 22.2% discount to the last traded price of $0.90 on Wednesday, 16 October 2019. - 15.6% discount to TERP(1) of $0.83.
Existing shareholder support	• Existing major shareholders Washington H. Soul Pattinson and Company Limited (holding 16.2m shares equivalent to 20.0% of current SOI), Thorney Investments (holding 13.9m shares equivalent to 17.0% of current SOI), and Wentworth Williamson (holding 6.1m shares equivalent to 7.5% of current SOI) have each provided a commitment of their intention to participate in the Institutional Placement and fully take up their rights under the Entitlement Offer, • Each Director who holds shares will take up their entitlement. • The Company has agreed to provide a loan to the CEO on commercial terms to take up his entitlement.
Underwriting	• Offer is fully underwritten by Morgans Corporate Limited and Shaw and Partners Limited
Timing	• Trading halt and announcement of the Offer Thursday, 17 October 2019

* Operating EBITDA is a non-GAAP financial measure – refer 2019 Half Year Results presentation for further information.

(1) The TERP is the theoretical price at which PAL shares should trade at immediately after the ex-date for the Entitlement Offer. The TERP is a theoretical calculation only and the actual price at which PAL shares trade immediately after the ex-date for the Entitlement Offer will depend on many factors and may not equal the TERP. TERP is calculated by reference to PAL's closing price of $0.90 on Wednesday 16 October 2019.

OFFER SUMMARY

COMPELLING INVESTMENT CASE

One of few producers globally of a highly regulated active compound of high demand essential medicine

Industry thematic supports continued strong organic growth with opportunities for strategic acquisitions as opportunities arise.

One of three (3) fully integrated suppliers of opiate-based medications globally.

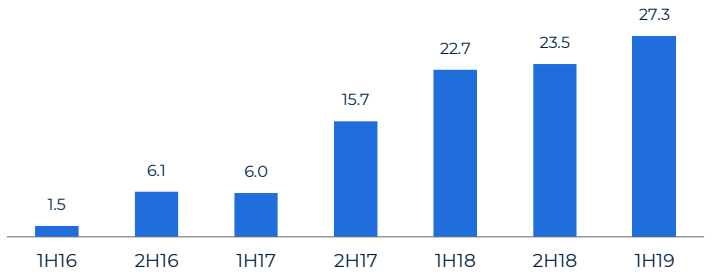
Morphine remains the gold standard for "*Pain Relief and Palliative Care*" per the World Health Organization Model List of Essential Medicines 21st edition released in 2019; unavailability persists of essential opiate-based medications in developing countries.

Fentanyl (synthetic opioid) abuse in the United States is driving 100% p.a growth of overdose treatment naloxone which is manufactured from opiates.

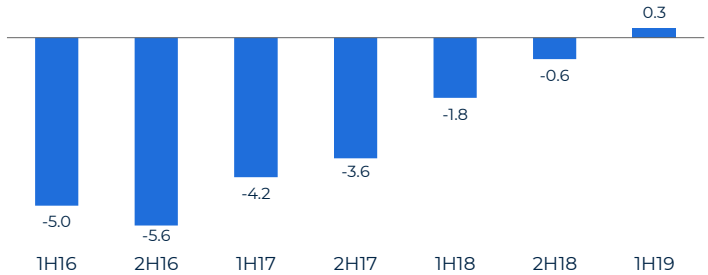
PAL revenue has increased at a CAGR of 123% for last 5 years and turned Operating EBITDA* positive in 1H 2019 after reaching break even revenue.

Unique water-based extraction technology provides significant manufacturing cost advantage in narcotic raw material production, providing a competitive advantage and leading to attractive gross margin opportunity throughout the supply chain.

Revenue ($M)



Operating EBITDA* ($M)



Source: historical audited financial reports

* Operating EBITDA is a non-GAAP financial measure – refer 2019 Half Year Results presentation for further information.

SOURCES AND USES OF FUNDS

Capital raising to accelerate growth, improve operational efficiency, and provide balance sheet flexibility

API processing facility expansion in Norway	Expansion of Active Pharmaceutical Ingredients (API) production capacity from 70 tonnes to 140 tonnes per annum.
NRM capacity expansion and automation in Australia	Improvement in Narcotic Raw Material (NRM) processing capability to focus on increased automation, higher efficiency and alkaloid flexibility. Automation expected to result in gross margin improvement.
WHSP debt reduction / Invoice Finance debt facility draw down	Invoice Finance debt facility letter of offer received, reduced cost of funding versus existing debt facility. Existing WHSP facility repayment from capital raise proceeds with balance to be refinanced from bank term debt prior to maturity in August 2020.
Working capital	Primarily to support poppy straw purchases in order to support growth.

Sources and uses of funds

Sources of funds	A$ million
Placement	8.4
Entitlement offer	22.7
Invoice Finance debt facility drawdown	6.0
Total	**37.1**

Uses of funds	A$ million
API processing facility expansion	5.0
NRM capacity expansion & automation	5.0
WHSP debt reduction	21.0
Net working capital / new product development	4.4
Transaction costs	1.7
Total	**37,1**

PROFORMA BALANCE SHEET PRE & POST OFFERING

Invest in growth capex, accelerate debt reduction through equity offering, position balance sheet for growth

	Statutory		Proforma
A$ million	**As at 30 June 2019**	**Proforma Adjustment**	**As at 30 June 2019**
Cash	2.5	4.4	6.9
Trade & other receivables	13.4		13.4
Inventories & contract assets	33.3		33.3
Property, plant & equipment	27.4	10.0	37.4
Intangibles & other assets	17.0		17.0
Total Assets	**93.6**	**14.5**	**108.1**
Trade & other payables, provisions	16.9		16.9
Borrowings	31.1	(15.0)	16.1
Total Liabilities	**48.0**	**(15.0)**	**33.0**
Total equity	**45.6**	**29.4**	**75.0**

- **c$10m** Investment in growth capex to fund API capacity expansion in Norway and NRM capacity expansion and process automation in Australia.
- Accelerate reduction of high cost working capital debt facility **(c$15m)**.
- Proforma equity adjustment represents **c$29.4m** of equity raised net of transaction fees.

OFFER DETAILS

Offer structure and size	• Fully underwritten Placement and 2 for 5 pro-rata, accelerated, non-renounceable Entitlement Offer to raise gross proceeds of approximately $31.1 million • Approximately 44.4 million New Shares to be issued
Offer price	• Entitlement Offer will be conducted at $0.70 per New Share (**Offer Price**) - 22.2% discount to the last traded price of $0.90 on Wednesday, 16 October 2019 - 15.6% discount to TERP(1) of $0.83
Institutional investors	• Approximately $12.2 million Institutional Entitlement Offer to existing institutional shareholders - the Institutional Entitlement Offer will be conducted on Thursday, 17 October 2019 - New Shares equivalent to the number of New Shares not taken up and those that would have been offered to ineligible shareholders will be placed into an institutional shortfall bookbuild to be conducted on Friday, 18 October 2019
Retail investors	• Approximately $10.5 million non-renounceable Retail Entitlement Offer to existing eligible retail shareholders - the Retail Entitlement Offer will open on 10.00am (Melbourne, Australia time) Wednesday, 23 October 2019 and close on 5.00pm (Melbourne time Monday 11 November 2019 - eligible retail shareholders may also apply for additional New Shares beyond their entitlement, up to a maximum of 100% of their Entitlement, subject to the limitations and scale-back discretion detailed in the Retail Offer Booklet
Director commitments	• Each Director who holds shares will take up their entitlement
Ranking	• New Shares issued under the Entitlement Offer and Placement will rank equally with existing fully paid ordinary shares from their time of issue, however, New Shares under the Placement do not have rights to participate in the Entitlement Offer
Underwriters	• Offer is fully underwritten by Morgans Corporate Limited and Shaw and Partners Limited

PALLA PHARMA

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OFFER TIMETABLE

Event	Date[1]
Trading halt and announcement of the offer	Thursday, 17 October 2019
Placement and Institutional Entitlement Offer opens	Thursday, 17 October 2019
Institutional Entitlement Offer closes	Friday, 18 October 2019
Placement and Institutional Shortfall Bookbuild	Friday, 18 October 2019
Trading halt lifted and shares recommence trading on ASX	Monday, 21 October 2019
Record Date for determining entitlement to subscribe for New Shares	7.00pm[2] Monday, 21 October 2019
Retail Entitlement Offer opens	10.00am[2] Wednesday, 23 October 2019
Retail Entitlement Offer Booklet despatched to eligible shareholders	Wednesday, 23 October 2019
Settlement of applications in the Institutional Entitlement Offer	Thursday, 24 October 2019
Allotment and normal trading of New Shares under the Placement and Institutional Entitlement Offer	Friday, 25 October 2019
Retail Entitlement Offer closes	5.00pm[2] Monday 11 November 2019
Settlement of Retail Entitlement Offer	Friday, 15 November 2019
Allotment of New Shares issued under the Retail Entitlement Offer	Monday, 18 November 2019
Quotation of New Shares under the Retail Entitlement Offer	Tuesday, 19 November 2019
Despatch of holding statements in respect of New Shares issued under the Retail Entitlement Offer	Wednesday, 20 November 2019

Notes:
(1) All dates and times are indicative and subject to change without notice
(2) Melbourne time, Australian Eastern / Eastern Daylight Savings Time as appropriate

COMPANY OVERVIEW

COMPANY OVERVIEW

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

PALLA PHARMA AT A GLANCE

Fully integrated opiate manufacturer from farm gate to tablet production.

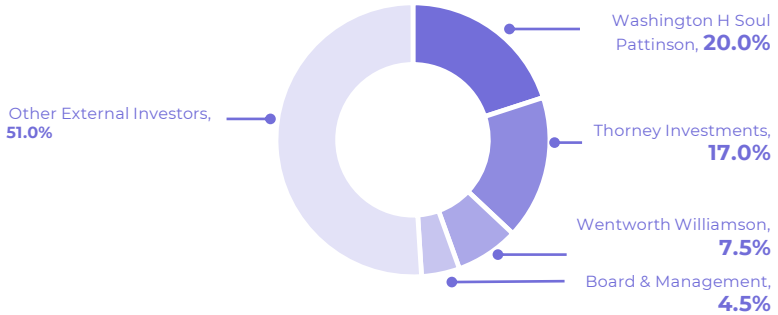
Lowest cost Narcotic Raw Material ("NRM") and Active Pharmaceutical Ingredient ("API") production capability based on unique water-based extraction technology.

Rapidly growing global supplier of pain relief, cough medicines and plans for anti-addiction products.

Significant contract manufacturer of Finished Dosage Formulation ("FDF") tablets via contract manufacturing 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 16 October 2019	$0.90
Fully Paid Ordinary Shares	81.1m
Share Appreciation Rights	2.1m
Market Capitalisation	$73.0m
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

STRONG RATE OF GROWTH AFTER RELOCATION FROM TASMANIA (FY15 TO 1H 2019)

Revenue CAGR of 123%, Gross Profit CAGR of 147%, GM% increase of 12 bps and $12.5m improvement in Operating EBITDA*

CAGR REVENUE (%)

▲ +123%

On FY15 to $27.3m 1HFY19; Solid organic revenue growth in API and opiate based FDF products.

CAGR GROSS PROFIT (%)

▲ +147%

On FY15 to $9.4m; growth in API and opiate based FDF products.

GM (%)

▲ +12 bps

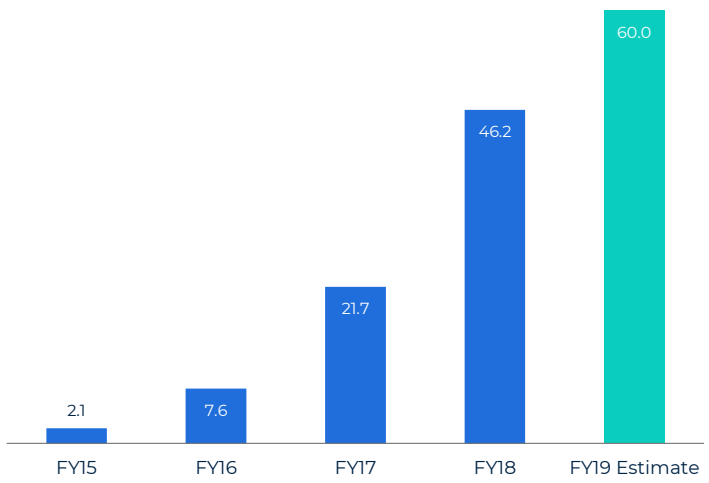
On FY15 to 35.2%; throughput efficiencies from increased plant utilisation driving margins.

OPERATING EBITDA* CHANGE ($m)

▲ +$12.5m

On FY15 to $0.5m(loss) for LTM to June '19 and 0.3m (profit) in 1HFY19;

Revenue ($M)



* Operating EBITDA is a non-GAAP financial measure – refer 2019 Half Year Results presentation for further information.

Source: historical audited financial reports for past performance / internal management forecasts for FY19 estimate

NRM MANUFACTURING COST ADVANTAGE

Lower operating cost, lower capital cost, no toxic solvents

Palla Pharma Water Based Technology	Competitors Solvent Based Technology
$20 million AUD capital investment (100 tonne facility)	$100-150 million capital investment (100 tonne facility)
No toxic solvents	Toxic solvents
No wastewater treatment	Wastewater treatment required
Operating cost lower than competitors	Significantly higher engineering/QA burden/indirect costs

FULLY INTEGRATED GLOBAL OPIATE SUPPLY CHAIN

Diversified straw supply, NRM IP provides competitive advantage throughout the supply chain

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

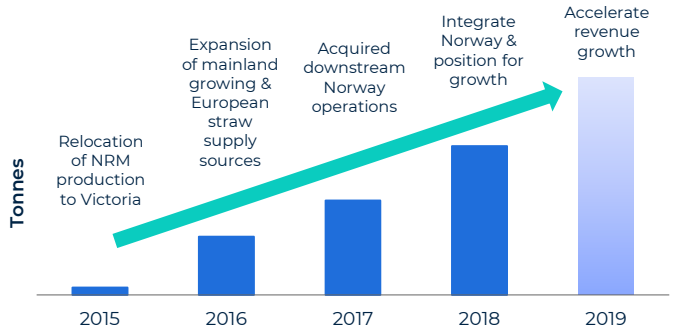
Paracetamol
Ibuprofen

Accretive gross margin for the group as NRM moves to higher value opiate 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 and customers 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 three fully integrated suppliers of opiates from NRM, API though to FDF products.
- Key competitive advantage due to NRM source 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.

EXPERIENCED GROUP EXECUTIVE TEAM

Mr. Jarrod Ritchie
CEO/MD/Founder

Mr. Brendan Middleton
Chief Financial Officer

Pending hire
Senior Group Executive

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

LICENCING CAPABILITIES

Palla Pharma holds 19 licences across the supply chain, a significant barrier to new market entrants

Australia - State	Australia - Federal	Norway	Other Compounds
• Licence to Cultivate Poppy Straw	• Licence to Manufacture	• Licence to Manufacture	• Cocaine*
• Licence to Store Poppy Straw	• Licence to Import Poppy Straw	• Wholesalers Licence	• Medicinal Cannabis*
• Licence to Manufacture	• DAFF Permit to Import Poppy Straw	• GMP Licence	• Medicinal Cannabis Tinctures*
	• Licence to Export		• Scopolamine*

* Licences obtained within the last three years

INDUSTRY UPDATE

GLOBAL OPIOID SHORTAGE

Over 85% of opioid use worldwide occurs in developed economies with 15% of the global population, leaving 85% of the population in developing but rapidly growing economies with limited access to pain medications

Approximately 298 metric tons of morphine-equivalent opioids are distributed in the world each year. However, only 0.1 metric tons (0.03%) are distributed to lower-income countries.

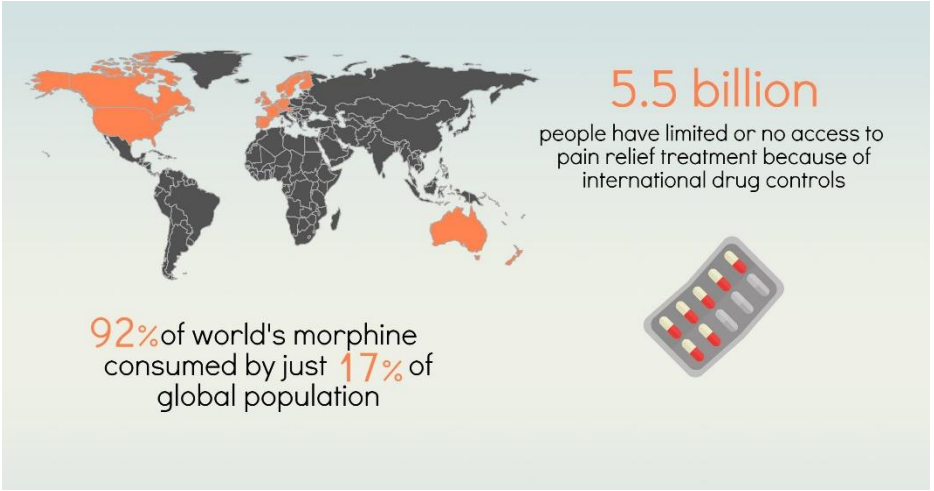
The US consumes 80% of the global opioid supply. This consumption with the current United States opioid crisis is preventing the distribution of palliative care material to African nations.

In Africa, 91% of the countries include opioids in their essential medicines list, 13% report that immediate release morphine is always available.

In developed Asian nations, such as Malaysia, only 24% of palliative care cancer patients receive regular opioid analgesia.

Despite representing over 9% of the world's population Latin America accounts for 1% of global opioid consumption.

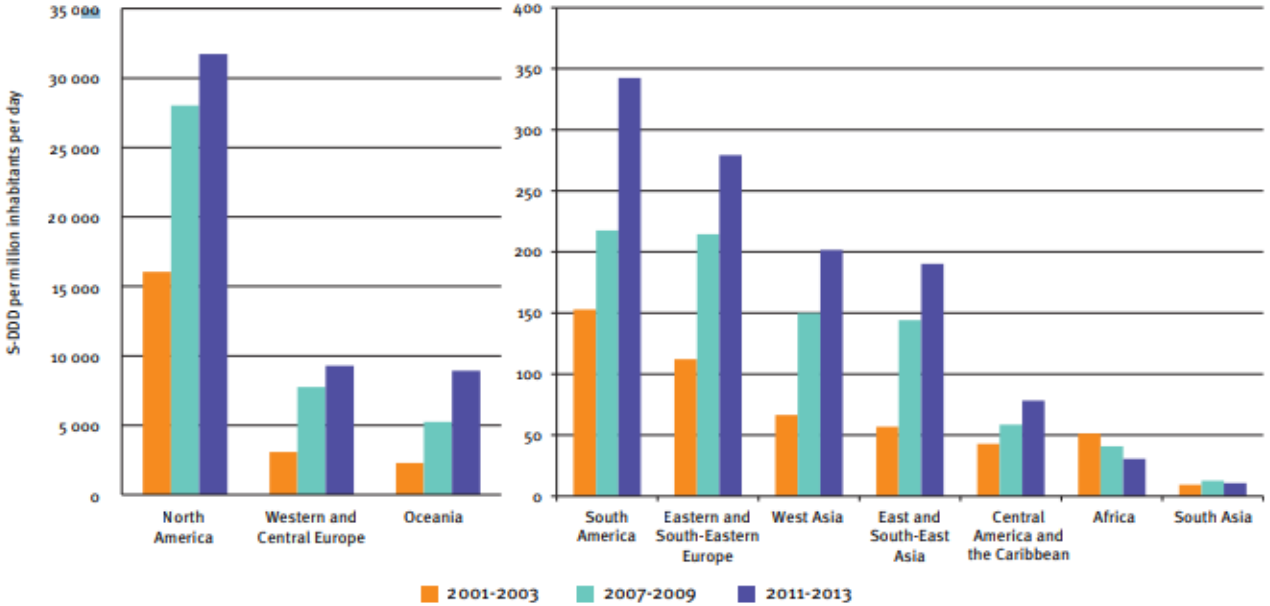
Rising incomes in developing nations combined with increased acceptance of Western health practices will provide the means and knowledge to benefit from opiate based pain relief medications.



GLOBAL OPIOID SHORTAGE

Historically North America consumes 100 times (per capita) of opioid supply compared to rest of world

Average consumption of Opioid analgesics, all regions, 2001-2003, 2007 – 2009 and 2011 - 2013



Source: International Narcotics Control Board, 2015

CURRENT OPIOID CRISIS IN THE UNITED STATES

Opioid synthetics, such as fentanyl, are the main factor in current United States opioid crisis

The United States National Institutes of Health (NIH) 2017 data shows that the sharpest increase in opioid related deaths resulted from fentanyl use (synthetic opioid) with more than 28,400 overdoses in 2017.

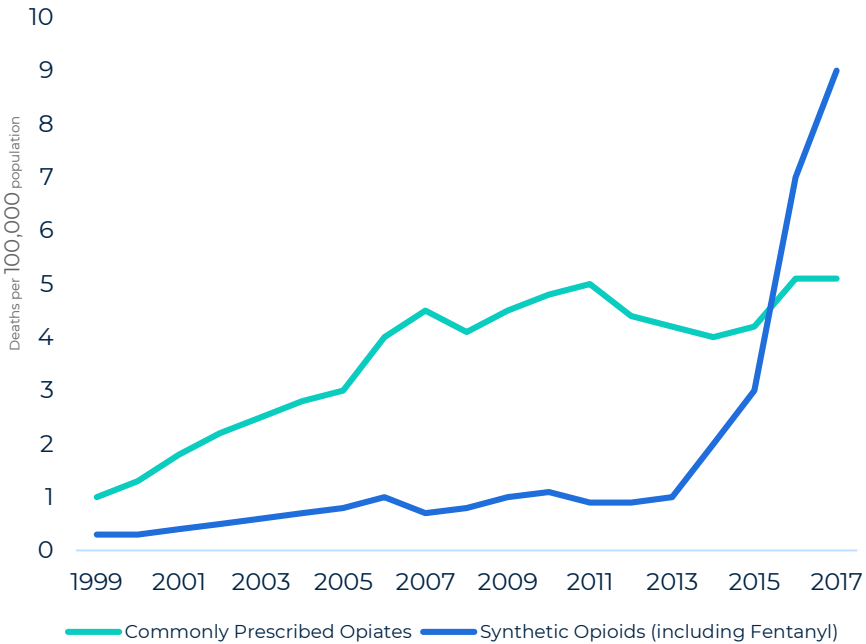
Since 2016 Drug Enforcement Administration (DEA) has reduced the quota of almost every Schedule 2 opiate and opioid medication by 25% or more.

DEA is proposing to further reduce the amount of five opioid substances by 53% in 2020, 31% of the 53% is fentanyl.

Naloxone, an opiate derived antidote, is the preferred first line treatment to help combat fentanyl opioid misuse.

Palla Pharma has never supplied into the United States and perceives the current opioid crisis as an opportunity to develop naloxone and aims to produce first samples by 2021 and enter the non-addictive market by 2022.

Opioid Associated Deaths (US)



Source: Centres for Disease Control and Prevention, National Vital Statistics System Mortality File

NALOXONE

"Overdose deaths have stopped rising for the first time in three decades due to naloxone administration"

- Centre's for Disease Control and Prevention, 6 August 2019

Naloxone is an antidote for fentanyl and opiate overdose.

Sales of naloxone have increased from $21.3 million in 2011 to $60.8 million in 2014 to $274.1 million in 2016 (USD).

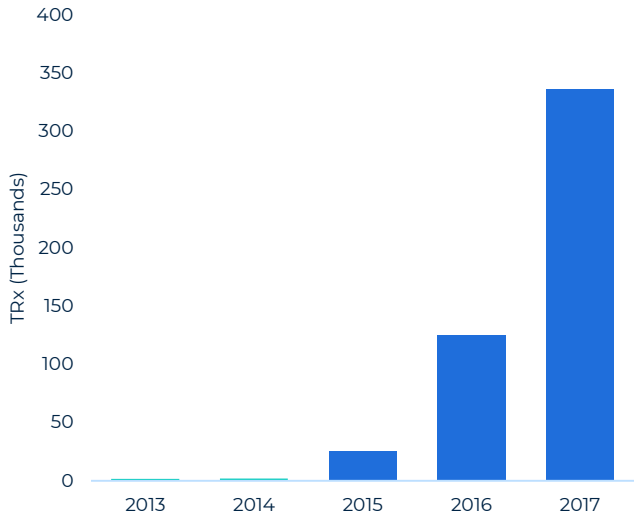
The number of US naloxone prescriptions dispensed grew from 1,600 in 2013 to 336,000 in 2017 and nearly doubled to 556,847 between 2017 and 2018.

There are two FDA approved naloxone products for community use:
- Evzio (pre-filled single use auto injector)
- Narcan® (Nasal Spray)

Our competitive advantage stems from the low cost of NRM that is transferable to low cost production of naloxone.

Palla Pharma is fully vertically integrated and willing to compete in the naloxone production market.

US naloxone Prescriptions Dispensed



Source: National Prescription Audit 2013-2017, IQVIA

MEDICINAL CANNABIS

No defined clear place for medicinal cannabis in the current treatment of acute pain relief

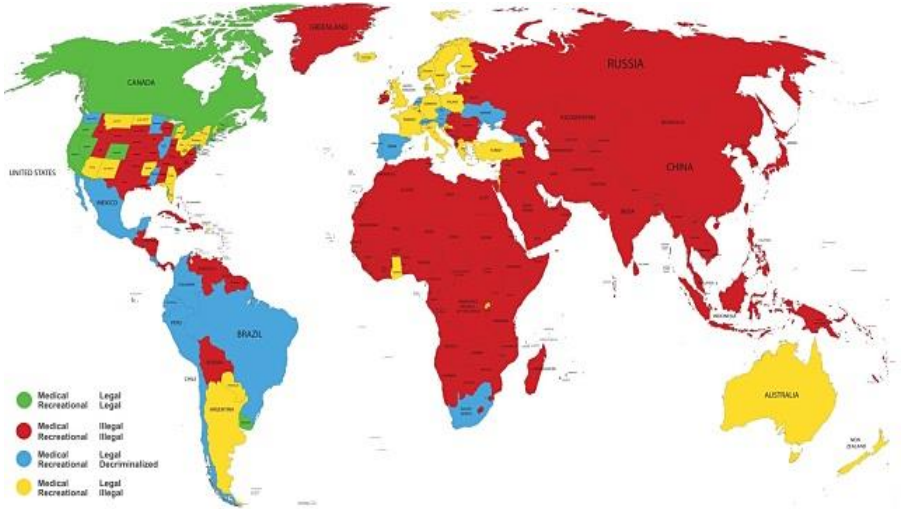
No clinical trials have proven its ability to provide relief to acute pain.

Remains excluded from the "*Pain Relief and Palliative Care*" World Health Organization Model List of Essential Medicines 21st edition released in 2019.

Three FDA approved prescriptions:
- Cesamet: side effects of chemotherapy
- Epidiolex: treats epileptic seizures (affects 0.006% world pop.)
- Marinol: side effects of chemotherapy

Palla Pharma has a license for medicinal cannabis to enable it to move quickly should suitable commercial opportunities arise.

Global legal status of cannabis



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

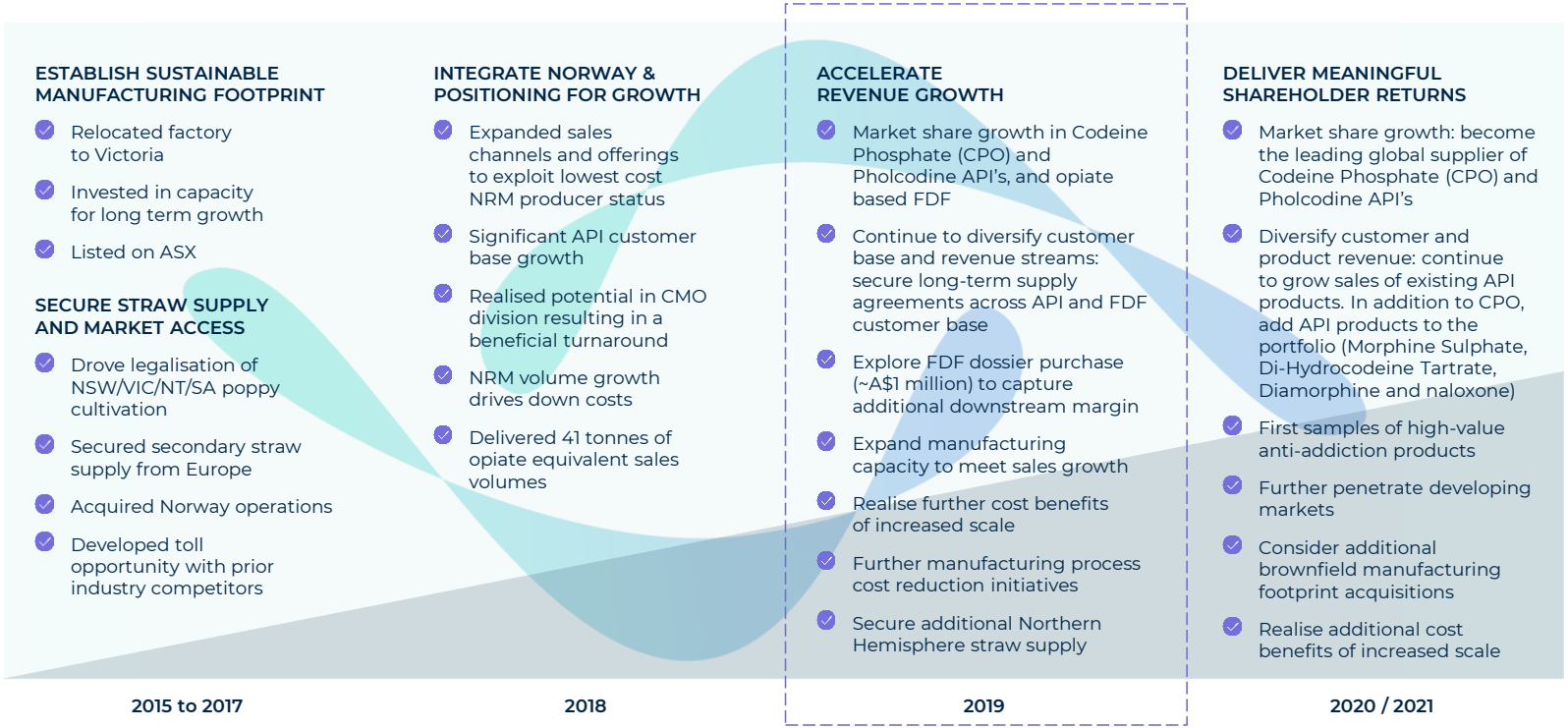
- Significant unmet demand in developing countries with 92% of global supply consumed by 17% of the global population
- Strong population growth demographics in developing countries with lack of access to pain medication
- Activating existing and referral relationships with agents in Africa and Asia

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

As at 30 June 2019

STRATEGIC PATHWAY TO LONG TERM GROWTH



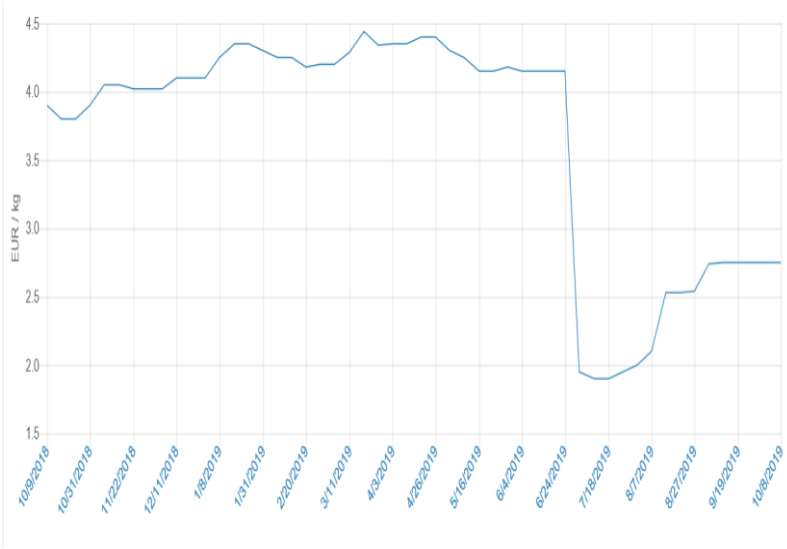
1H 2019 BUSINESS UNIT UPDATE

AGRICULTURE & POPPY SEED

Record straw inventory harvested; poppy seed sale prices remains robust

Agriculture
A positive growing season for Palla Pharma's growers through 2018/19 saw record poppy straw volumes harvested at the lowest growing cost achieved for a 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)



Source: Mundus Agri Price Chart, October 2019

NARCOTIC RAW MATERIAL (NRM)

Extraction facility operating efficiencies growing with volume

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.

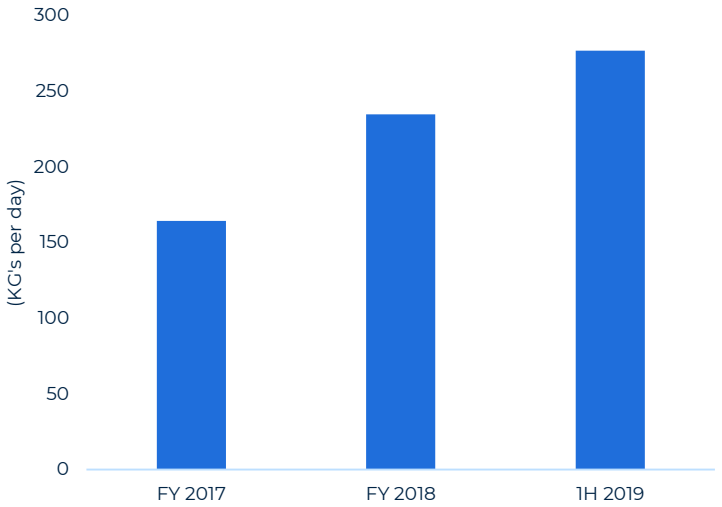
Increased reliable raw material supply saw NRM extraction rates at the Melbourne NRM production facility increase by 17.9% compared to FY2018.

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

Successful continued development of thebaine customer base with first samples expected to be supplied in 4Q2019.

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

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.

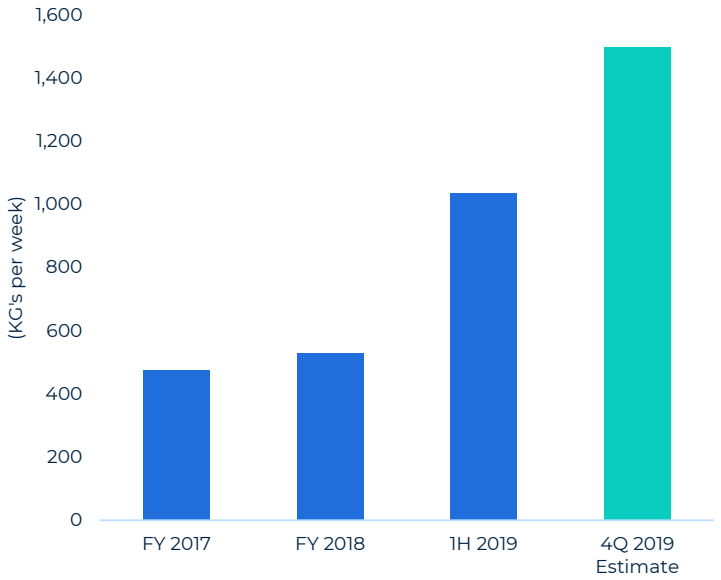
Production capacity will increase by a further 50% to >1,500kg/week by 4Q 2019 with <$100k capital investment, equating to API production capacity of 70t per annum into FY20.

The API business unit is capable of producing c$40m (AUD) 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 capex expansion.

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.

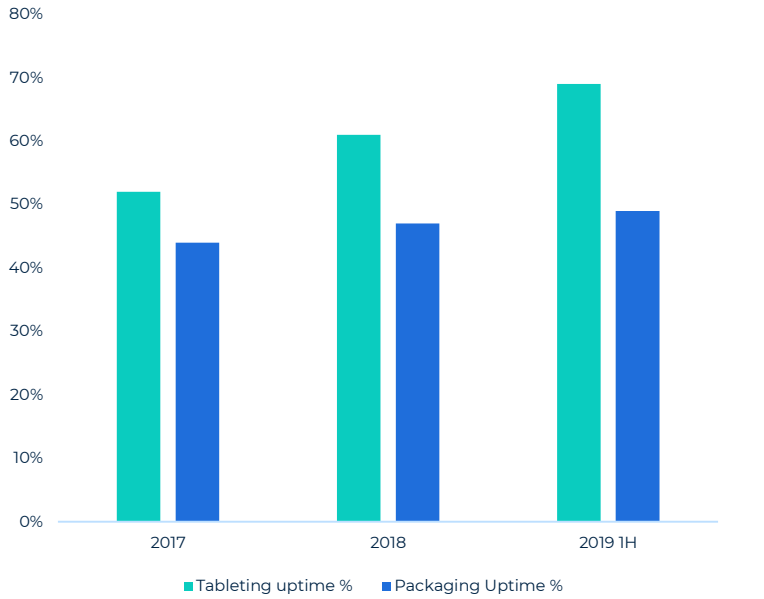
Non-opiate contract manufacturing (CMO) production remained challenging during the half, due to the bespoke nature of the contract and range of products needing to be produced.

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



FURTHER GROWTH OPPORTUNITIES

FURTHER TRANSACTION BEING CONSIDERED

Downstream value-add acquisition opportunity

Palla Pharma is currently in preliminary exclusive discussions with a private licensed pharmaceutical company located in Europe.

This portfolio represents a strong strategic fit for Palla Pharma and will allow us to access, Codeine Phosphate based marketing authorisations, codeine phosphate customer contracts for CMO, BRANDED and GENERIC FDF, significant tableting and packaging capability in one of the largest codeine phosphate markets globally.

Subject to satisfactory completion of due diligence, agreement of documentation and Board approval, the acquisition could be expected to be finalised at the conclusion of this calendar year.

Although the transaction remains subject to various conditions and approvals, including confidentiality, if completed it would allow Palla Pharma to secure additional gross margin across the whole value chain including the final Finished Dosage stage which requires the ownership of marketing authorisations.

KEY RISKS & INTERNATIONAL OFFER RESTRICTIONS

KEY RISKS

This section sets out some of the key risks associated with any investment in PAL, together with risks relating to participation in the Entitlement Offer and Placement which may affect the value of securities in PAL. The risks set out are not listed in order of importance and do not constitute an exhaustive list of all risks involved with an investment in PAL.

Before investing in PAL you should be aware that a number of risks and uncertainties, which are both specific to PAL and of a more general nature, may affect the future operating and financial performance of PAL and the value of PAL shares.

Before investing in PAL shares, you should carefully consider the risk factors and your personal circumstances. Potential investors should consider publicly available information on PAL (such as that available on the ASX website), and consult their stockbroker, solicitor, accountant or other professional advisor before making an investment decision.

Nothing in this presentation is financial product advice and this document has been prepared without taking into account your investment objectives or personal circumstances.

Environment	PAL operates in a regulatory environment that establishes high standards in terms of environmental compliance. Any material failure by PAL to adequately control hazardous substances and manufacturing operations, including the discharge of waste material, or to meet its various statutory and regulatory environmental responsibilities, could result in significant liabilities as well as ongoing costs relating to operations inefficiencies which may arise.
Market Conditions	The price at which PAL shares are quoted on ASX may increase or decrease due to a number of factors outside PAL's control and which are not explained by the fundamental operations and activities of PAL. These factors may cause the shares to trade at prices above or below the price at which the shares were initially acquired. There is no assurance that the price of the shares will increase if they are quoted on ASX.
Potential Acquisition	There is a risk that the potential acquisition referred to in this presentation may not occur at all, due to among other factors, failure to satisfy due diligence requirements, failure to reach an agreement, failure to satisfy any conditions precedent in such agreement and failure to obtain any necessary regulatory approvals for such agreement. If the acquisition does not complete for any reasons, PAL will consider options in relation to the use of funds raised under the Entitlement Offer.
Dilution Risk	If you do not take up all of your entitlement, then your percentage holding in PAL will be diluted by not participating to the full extent in the Entitlement Offer. Even if you do take up all of your Entitlement, your percentage holding in PAL will be diluted by the Placement (unless you are an institution and participate in the Placement or you apply for new shares in addition to your entitlement through the Top-Up Facility and you are successful in receiving an allocation equivalent to the full equivalent percentage of your holding in PAL.

KEY RISKS (CONTINUED)

Underwriting Risk	PAL has entered into an Underwriting Agreement under which the underwriters have agreed to fully underwrite the Entitlement and Placement Offer, subject to the terms and conditions of the Underwriting Agreement. If certain conditions are not satisfied or certain events occur, the underwriters may terminate the Underwriting Agreement. Termination of the Underwriting Agreement may have a material impact on the proceeds raised under the Entitlement and Placement Offer. Termination of the Underwriting Agreement could materially adversely affect PAL's business, cash flow, financial condition and results of operations.
Government licenses	PAL is required to obtain licences and permits across many jurisdictions. The majority of the licences are renewed either annually or biannually. There is a risk that laws or regulations may be amended in Australia or elsewhere in a manner that restricts PAL's markets for saleable product and for raw material supply. Any such change may affect the ability of PAL to carry on its business and may have a material impact on PAL's financial performance and future prospects of the business.
Agricultural Risk	PAL's supply of poppy straw is subject to risks commensurate with any agricultural enterprise. A number of factors may adversely affect both supply volume and alkaloid content. The most common adverse environmental conditions that could affect poppy crops are flood, frosts, hail, wind, storms, fires, and excessive heat and/or rain during critical physiological periods. Drought or prolonged periods of irrigation water shortages may also lead to higher profitability to growers by planting alternative crops. PAL manages agricultural risk through the diversification of supply, however poor poppy crops may have a detrimental impact on PAL's operational and financial performance, including reputational risk associated with failing to deliver on key supply contracts.
Sovereign Risk	The narcotics industry in which PAL operates is highly regulated. Changes, whether as a result of changes in government or otherwise, in international, national or state conventions, laws or regulations relating to the growing, manufacture, export or sale of narcotic raw materials could materially impact PAL's ability to operate. This may adversely affect PAL's financial performance and future prospects.
Loss of key personnel	The manufacturers in the licit NRM sector and API sector are relatively small in number and, as a consequence, the number of people skilled in the industry is lower than other pharmaceutical sectors. PAL is currently operating as a relatively flat organisation and is reliant on a few key staff. PAL operates across two countries and has facilities in three jurisdictions. Management of a complex business that operates globally has a higher employee risk/complexity than a business which operates in one jurisdiction. Loss of a few key personnel could have a material impact on PAL's operations and may impact the financial performance and future prospects of the business.
Sensitisation	Licit NRM's are by their nature toxic. If used inappropriately, they can lead to death and excessive exposure can lead to long term sensitisation, which can result in employee or other claims. Any claims may be costly and may impact PAL's ability to manufacture and the financial performance and future prospects of the business.

KEY RISKS (CONTINUED)

Changes in accounting standards	Australian Accounting Standards are issued by the Australian Accounting Standards Board and are not within the control of PAL and its Directors. Any changes to the accounting standards or to the interpretation of those standards may have an adverse effect on the reported financial performance and position of PAL.
Introduction of competing products	Companies are continually exploring new products which provide pain relief and may not exhibit side effects related to the use of opiate based pain relief (such as respiratory depression and/or addiction). An introduction of a non-narcotic opiate without adverse side effects could have a material impact on PAL's ability to compete and may impact the financial performance and future prospects of the business.
Subsidisation of competing crops	Some countries (including the European Union) currently grant subsidies for certain crops. Should existing subsidies increase or new subsidies be introduced by relevant countries (including the European Union) for crops that compete with opium poppies for returns, this may have a material impact on PAL's ability to obtain raw material at a commercially viable price. This would impact PAL's ability to compete and may impact the financial performance and future prospects of the business.
IP protection	PAL's low cost water based, solvent-free extraction process is protected as a trade secret through the use of confidentiality agreements to ensure that the process is not reasonably ascertainable by others. A risk remains that a competitor could develop a similar low cost extraction process which would compete with PAL's main competitive advantage. Any new competitor with similar intellectual property may have a material impact on PAL's competitive position and may impact PAL's financial performance and future prospects.
Diversion of material	PAL employs state of the art security and has a highly regulated and monitored security system at its facilities. Despite this, any diversion (theft or illicit use) of material during manufacture, storage or freight could result in a loss of an operating licence or substantial fine and/or reputational damage. This may have a material impact on PAL's ability to compete and may impact the financial performance and future prospects of the business.
Changes in regulation to limit supply into the US and other markets	The US government has, from time to time, restricted the quota issued for importation of NRMs in response to the abuse of prescription medication. This restriction on quota could limit the opportunities for expansion in the US market. Other countries may take a similar view and/or change the scheduling and/or availability of pain relief medication. Such changes or quota restrictions may have a material impact on PAL's ability to operate and may impact the financial performance and future prospects of the business.

KEY RISKS (CONTINUED)

Competition	PAL competes against both SOE and large multinationals. Both have a capacity to operate at a loss or compete aggressively for market share for a longer period than PAL. This may place pricing pressure on PAL and may impact PAL's ability to retain existing customers or attract new customers. If PAL cannot compete successfully, PAL's financial performance and the future prospects of the business may be adversely affected.
Foreign exchange	PAL sells NRM in US dollars and poppy seed in Euros. It buys its raw material (opium poppies) predominantly in Australian dollars and Euros. Any adverse change in currency could have a material impact on PAL's financial performance and future prospects of the business.
Poppy seed price volatility	Poppy seed is a commodity based product the price of which varies in response to supply and demand. The revenue derived from poppy seed offsets a portion of the cost of the poppy straw raw material and hence contributes to PAL's revenue and profit. The poppy seed market can be volatile and pricing can change rapidly. This volatility, in combination with €/AUD foreign exchange changes, could have a material impact on PAL's ability to compete and may impact the financial performance and future prospects of the business.
Poppy seed purity	Some countries, including the Czech Republic, are lobbying the EU to decrease the residual poppy straw dust (morphine content) in poppy seed. This would restrict the importation of poppy seed from high alkaloid countries, such as Australia and Spain. Should the EU accede to these demands the cost of purifying poppy seed could materially change. This may have a material impact on PAL's ability to compete and may impact the financial performance and future prospects of the business.
API/FDF product recalls	Product produced at an API/FDF level must be fit for human consumption and any manufacturing, documentation or regulatory errors will increase the risk of an adverse financial outcome including that associated with a pubic recall and enforcement actions. This may impact the financial performance and future prospects of the business.
Changes in tax rules or their interpretation	Changes in tax law, or changes in the way tax laws are interpreted may impact the tax liabilities of PAL, Shareholder returns, or the tax treatment of a Shareholder's investment. In particular, both the level and basis of taxation may change. Tax law is frequently being changed, both prospectively and retrospectively. Any actual or alleged failure to comply with, or any change in the application or interpretation of tax rules applied in respect of such transactions, may increase PAL's tax liabilities or expose it to legal, regulatory or other actions.
Litigation	In the ordinary course of business, PAL may be involved in possible disputes. These disputes could give rise to litigation. While the extent of any disputes and litigation cannot be ascertained at this time, any dispute or litigation may be costly and may adversely affect the operational and financial results of PAL.

INTERNATIONAL OFFER RESTRICTIONS

This document does not constitute an offer of new ordinary shares (**New Shares**) of the Company in any jurisdiction in which it would be unlawful. In particular, this document may not be distributed to any person the New Shares may not be offered or sold, in any country outside Australia except to the extent permitted below:

New Zealand
The offer of the New Shares in New Zealand is being made in reliance on the Financial Markets Conduct (Incidental Offers) Exemption Notice 2016 (**Exemption Notice**). The New Shares are (or, at the time of the Entitlement Offer, will be) overseas listed products (as defined in the Exemption Notice). The only retail investors (as defined in the Exemption Notice) to whom the New Shares will be offered in New Zealand are:
persons who, at the time fixed for determining entitlements to participate in the Entitlement Offer (i.e., 7pm (AEST) on the Entitlement Offer record date (**Record Date**)), are shareholders of the Company with registered addresses in New Zealand; or
persons in whose favour an offer to which subparagraph (i) applies has been renounced.

The Entitlement Offer to retail investors in New Zealand will be made in a separate offer document to be prepared and issued to eligible retail investors and will be made in compliance with the law of the Commonwealth of Australia and any code, rules, or other requirements relating to the Entitlement Offer that apply in the Commonwealth of Australia.

The Company, in relation to its financial statements (as defined in the Exemption Notice), complies with the law and regulatory requirements of, or permitted by, the Commonwealth of Australia that relate to the preparation, content, auditing, and public filing of those statements. The Company's financial statements comply with Australian equivalents to International Financial Reporting Standards that are required or permitted in the Commonwealth of Australia.

The Entitlement Offer is not a regulated offer (as defined in the Financial Markets Conduct Act 2013 (**FMCA**)). This document is not a product disclosure statement (as defined in the FMCA) and is not required to, and does not, contain all the information that a product disclosure statement (as so defined) is required to contain. This document has not been registered or filed with, or approved by, any New Zealand regulatory authority under the FMCA. Other than in the Entitlement Offer, the New Shares may only be offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) to a person who:

- is an investment business within the meaning of clause 37 of Schedule 1 of the FMCA;
- meets the investment criteria specified in clause 38 of Schedule 1 of the FMCA;
- is large within the meaning of clause 39 of Schedule 1 of the FMCA;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMCA; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMCA.

NOT FOR RELEASE OR DISTRIBUTION IN THE UNITED STATES
This document may not be distributed or released in the United States. This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities in the United States. The New Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended (US Securities Act), or the securities law of any state or other jurisdiction of the United States. The New Shares may not be offered or sold directly or indirectly, to persons in the United States, except in a transaction exempt from, or not subject to, the registration requirements of the US Securities Act and applicable US State securities laws.

INTERNATIONAL OFFER RESTRICTIONS

Hong Kong
WARNING: This document has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the **SFO**). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the New Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO and any rules made under that ordinance).

No advertisement, invitation or document relating to the New Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the New Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors. No person allotted New Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

Singapore
This document and any other materials relating to the New Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of the New Shares, may not be issued, circulated or distributed, nor may the New Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an existing holder of the Company's shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) an "accredited investor" (as defined in the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the New Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire the New Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

INTERNATIONAL OFFER RESTRICTIONS

Netherlands
This document has not been, and will not be, registered with or approved by any securities regulator in the Netherlands. Accordingly, this document may not be made available, nor may the New Shares be offered for sale, in the Netherlands except in circumstances that do not require a prospectus under Article 1(4) of Regulation (EU) 2017/1129 of the European Parliament and the Council of the European Union (the "Prospectus Regulation").

In accordance with Article 1(4) of the Prospectus Regulation, an offer of New Shares in the Netherlands is limited:
- to persons who are "qualified investors" (as defined in Article 2(e) of the Prospectus Regulation);
- to fewer than 150 natural or legal persons (other than qualified investors); or
- in any other circumstance falling within Article 1(4) of the Prospectus Regulation.

United Kingdom
Neither the information in this document nor any other document relating to the offer has been delivered for approval to the Financial Services Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ("FSMA")) has been published or is intended to be published in respect of the New Shares.

This document is issued on a confidential basis to fewer than 150 persons (other than "qualified investors" (within the meaning of section 86(7) of FSMA)) in the United Kingdom, and the New Shares may not be offered or sold in the United Kingdom by means of this document, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) FSMA. This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 FSMA) received in connection with the issue or sale of the New Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) FSMA does not apply to the Company.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who fall within Article 43 (members or creditors of certain bodies corporate) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005, as amended, or (ii) to whom it may otherwise be lawfully communicated (together "relevant persons"). The investment to which this document relates is available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

GLOSSARY

API – Active Pharmaceutical Ingredient
ASX – Australian Stock Exchange
AUD – Australian Dollar
Cesamet - derived from synthetic cannabinoid
CMO – Contract Manufacturing Organisation
DEA – Drug Enforcement Agency
Operating EBITDA - Operating EBITDA is a non-GAAP financial measure – refer 2019 Half Year Results presentation for further information
Epidiolex - plant derived cannabinoid
EPS – Earnings Per Share
FDA – Food and Drug Administration
FDF – Finish Dosage Formulation
Fentanyl – Synthetic Opioid
GM – Gross Margin
Invoice Finance – A revolving loan facility where loan drawdowns are based on a percentage advance rate of approved customer payments against those sales invoices are received
Marinol - synthetic tetrahydro cannabinoid
Naloxone – Narcotic Raw Material based antidote for opioid and fentanyl overdoses
NIH – National Institute of Health
NRM – Narcotic Raw Material
PAL – Palla Pharma Limited
QA – Quality Assurance
R&D – Research and Development
Thebaine – An alkaloid that is used for the production of oxycodone, buprenorphine and naloxone
USD – United States dollar
TGA – Therapeutic Goods Administration
WHO – World Health Organisation

PALLA PHARMA