Palla Pharma Limited

ACN 107 872 453

Annual report
for the year ended 31 December 2020

Palla Pharma Limited ACN 107 872 453
Annual report - 31 December 2020

Contents

Directors	Mr. Simon Moore (Independent Non-Executive Chairman) Mr. Stuart Black (Independent Non-Executive Director) Ms. Sue MacLeman (Independent Non-Executive Director) Mr. Iain Ross (Independent Non-Executive Director)
Secretary	Mr. Mark Licciardo
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Share registry	Link Market Services Limited Tower 4 727 Collins Street Docklands VIC 3008
Auditor	KPMG Tower 2 727 Collins Street Docklands VIC 3008
Australian company number	107 872 453
Mailing address	PO Box 2139 Melbourne VIC 3001
Stock exchange listing	Australian Securities Exchange (ASX Code: PAL)
Website	www.pallapharma.com

Directors' report

The directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Palla Pharma Limited (“the Company”) and the entities it controlled at the end of, or during, the year ended 31 December 2020.

Directors

The following persons were directors of Palla Pharma Limited during the whole of the financial year and up to the date of this report:

Mr. Simon Moore (Independent Non-Executive Chairman)
Mr. Stuart Black (Independent Non-Executive Director)
Ms. Sue MacLeman (Independent Non-Executive Director)

Mr. Jarrod Ritchie was Managing Director and CEO from the beginning of the financial year until his resignation on 22 December 2020.

Mr. Todd Barlow was a Non-Executive Director from the beginning of the financial year until his resignation on 5 February 2021.

Mr. Iain Ross was appointed as a Non-Executive Director on 23 December 2020 and continues in office at the date of this report.

Principal activities

During the year the principal continuing activities of the Group were the production and distribution of Narcotic Raw Material ("NRM"), Active Pharmaceutical Ingredients ("API") and Finished Dosage Formulations ("FDF") for supply to international pharmaceutical markets, and the production and distribution of poppy seed for supply to international culinary markets.

Review of operations

Financial Results Summary

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Sales of:		
Narcotic Raw Material (“NRM”) and Poppy Seed	**3,768,200**	8,043,325
Active Pharmaceutical Ingredients (“API”)	**12,349,363**	18,860,079
Finished Dosage Formulations (“FDF”)	**5,787,762**	27,781,990
Total sales	**21,905,325**	54,685,394
Statutory Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	**(30,059,746)**	(2,174,672)
Statutory Earnings Before Interest and Tax (EBIT)	**(32,720,011)**	(4,688,558)
Statutory (Loss) for the year after tax	**(34,756,056)**	(7,639,443)
Net cash (outflow) from operating activities	**(14,778,804)**	(9,469,268)
Operating EBITDA	**(15,791,506)**	(311,751)

Review of operations (continued)

Operating EBITDA, a non-GAAP financial measure, is used internally within the Group to manage performance. It is determined by adding back to Statutory EBITDA significant non-recurring items (2020: $14.3 million related to impairment of goodwill, impairment of inventory, litigation settlement and acquisition related expenses / 2019: $1.9 million related to litigation settlement and acquisition related expenses) and deducting other income and gains on non-core asset disposals. A $15.5 million increase in the reported Operating EBITDA loss from $0.3 million for the 2019 full-year period to an Operating EBITDA loss of $15.8 million for the 2020 full-year period reflects a decline in Gross Profit.

The decline in Gross Profit is attributed to:

- Reduced API sales due to a major customer with committed contracted volumes having their manufacturing license suspended for a prolonged period and reduced API demand due to the impact of COVID-19 on delayed elective surgeries;
- Production inefficiencies associated with lower throughput from the missed API sales and timing of the planned early exit from a legacy non-opiate based FDF supply agreement in Norway, intended to free up production capacity for new Marketing Authorisation products, and production of these new products due to the delay in MA regulatory approvals;
- Rework of previous FDF product supplied to a Contract Manufacturing customer; and
- Reduced margin contribution from poppy seed sales following a reduction in domestic harvest growing area last growing season.

Whilst Gross Profit margins were expected to significantly improve through the second half of 2020 as a result of improved product mix and supply of opiate based FDF products via the newly acquired Marketing Authorisations, the delay in regulatory approval of the Marketing Authorisations manufacturing site transfer until February 2021 resulted in the improvement in Gross Profit margin being deferred.

Indirect Overhead costs were reduced by $3.1 million compared to the previous full year period due to the reset cost base in Norway from the non-opiate based supply agreement termination, and the $1.1 million contribution from government JobKeeper wage subsidy receipts in Australia. The reduction in cost base in Norway was not commensurate with the reduced revenue associated with the non-opiate based supply agreement termination and significantly impacted the profitability of the Group for the 2020 full-year period.

Sales revenue reduced to $21.9 million compared to $54.7 million for the corresponding full-year period. The reduction in sales was primarily driven by reduced API volumes from a major customer having their manufacturing license suspended, reduced API demand due to the impact of COVID-19 on delayed elective surgeries, and the planned early exit from the legacy non-opiate based FDF supply agreement from February 2020. NRM and Poppy Seed sales revenue was down $4.2 million from the previous full-year period due to reduced domestic poppy straw growing area with an increased focus on offshore poppy straw supply that is in a pelletised form without seed.

A trade receivables impairment loss charge of $1.0 million was recognised during the full-year ended 31 December 2020 in relation to API product shipped in 2019 to the major customer that had its manufacturing license suspended.

Despite these short-term setbacks, the business strengthened its foundation for the future with an increased focus on downstream, margin accretive Palla MA FDF sales, with the optionality of being carried out through inhouse or contract manufacturing. To support the strategy of increasing downstream margin accretive sales, the Group acquired seven opiate based marketing authorisations during 2020 and expanded its API production capacity to 70 tonne per annum. The Group continues to focus on increased poppy straw supply diversification and alkaloid yields for its NRM operations, via its Australian and Northern Hemisphere supply sources.

The Group reported a statutory loss after income tax for the full-year ended 31 December 2020 of $34.8 million (2019: $7.6 million) and a statutory Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") loss of $30.1 million (2019: $2.2 million).

Review of operations (continued)

Net finance expenses reduced for the 2020 full-year period to $2.0 million (2019: $3.1 million) due to reduced utilisation of working capital debt facilities. Net working capital reduced by $5.6m during the year due to the cessation of the legacy non-opiate based FDF supply agreement and the reduction in a contractual requirement to hold a safety stock buffer. This was offset by an increase in raw materials and work in progress inventory to protect against COVID-19 related supply chain disruptions, and also as a result of reduced API demand.

Net debt increased during the period to fund net cash outflows from operating activities and capital expenditure associated with the acquisition of the Marketing Authorisations.

COVID-19 restrictions and impacts on operations

In March 2020, the World Health Organisation declared the COVID-19 outbreak a pandemic. In an effort to contain the spread of the virus, quarantine restrictions, travel restrictions, limitations on social gatherings, the closure of business and schools and other restrictive measures have been introduced across the world in jurisdictions in which the Group operates.

To date COVID-19 restrictions have had some impact on the financial performance of the Group, primarily from travel restrictions and social distancing limitations impacting on new market development activities, paracetamol shortages impacting Codeine Phosphate ordering patterns, the impact of delayed elective surgeries in Europe impacting Codeine Phosphate demand, the impact of potential new customers remaining focussed on managing their own businesses through the pandemic, along with additional freight cost imposts due to late flight cancellations for air freight. It is not possible to quantify the impacts of COVID-19 from other external factors impacting on the business for the full-year reporting period.

The Group remains subject to possible supply chain interruptions during the pandemic and are mitigating these risks by holding higher than normal inventory levels across all aspects of the business, which has impacted the Group’s financial position. In many markets where the Group’s is active, its products are classified as essential medication consistent with the World Health Organisation essential medicines listing and are exempted from many of the COVID-19 restrictions industries are otherwise experiencing.

In March 2020, the Group implemented strict COVID-19 safe operating procedures at its Melbourne and Norway production facilities, including the provision of additional Personal Protective Equipment, staggering shifts and breaks, and adherence to physical distancing requirements in shared working areas. To date these procedures have proved effective with minimal labour interruptions impacting manufacturing operations.

The Group has availed itself of COVID-19 government financial assistance measures in both Australia and Norway where applicable.

As a result of the evolving nature of the COVID-19 outbreak and rapidly evolving government policies of restrictive measures being put in place to contain it, as at the date of this report, it is not possible to reasonably estimate the potential financial effects of the COVID-19 outbreak on the future financial performance and financial position of the Group.

Marketing Authorisation acquisitions

During 2020, the Group acquired seven Marketing Authorisations for the supply of Finished Dosage products into the United Kingdom which all require an opiate based active ingredient as an excipient. The ownership of all of the Marketing Authorisations has been transferred to the Group and all necessary approvals for two most important MA’s were granted in February 2021 for the change of site of manufacture for its Co-Codamol tablet and caplet products. The Group has prioritised the manufacturing site change of the Co-Codamol products to target the United Kingdom’s most significant market opportunity. Further submissions will be made to the United Kingdom medicines regulator throughout 2021 for the remaining Marketing Authorisations acquired in 2020.

Review of operations (continued)

Raw Material Poppy Straw Supply and Poppy Seed

The Group had a reduced growing area for the 2019/20 domestic poppy growing season in Australia due to adverse weather events in NSW and a focus on further diversification of poppy straw sourcing towards Northern Hemisphere sources. The quality of Northern Hemisphere straw supply had improved based on product received during 2020, however the alkaloid content remains inferior compared to domestically sourced straw which impacted NRM production efficiencies during the year.

Although poppy seed sales pricing remained strong during the first half of 2020, with reduced domestic growing area, volumes sold for 2020 were lower than 2019. Northern Hemisphere sourced straw is in a pelletised form, and the Group does not benefit from poppy seed sales from this raw material input but derives benefits from a reduced purchase price of the pellets and risk mitigation through a dual hemisphere growing area diversification.

NRM production in Australia

The majority of the Group’s NRM production is transferred to Norway for conversion into both Codeine Phosphate and Pholcodine API’s. However, as the capacity of NRM production for the Group is currently greater than that of API production, external NRM sales will continue to be a revenue contributor in the short to medium term.

The Group continues to invest in research and development of its core NRM production process to further optimise the extraction process and increase production efficiencies. The unique water-based extraction process used in NRM production is delivering an extraction competitive cost advantage for the Group when the alkaloid content of straw is high, however inferior Northern Hemisphere sourced straw has impacted production efficiencies during 2020 and higher levels of Work in Progress inventory have been carried as a result. To address inventory levels being carried, a lower-straw input extraction process will be carried out during 2021 to reduce Work in Progress levels.

API production in Norway

During 2020 the Group experienced a decrease in API production and sales volumes compared to the previous full year period due to the loss of manufacturing license by a major customer for a prolonged period, softer API demand due to paracetamol shortages impacting ordering patterns, and the impact of delayed elective surgeries in Europe. Despite this, a major enhancement in production capacity achieved in the latter part of 2019 was carried forward into the first quarter of 2020 until production was reduced to match the lower demand experienced due to the major customer loss of volume.

While pricing across the industry remains at cyclical lows, the Group continues to attract new API sales at commercially attractive margins, demonstrating the Group’s competitive cost advantage in API production.

FDF production in Norway

FDF production of non-opiate based products under contract manufacturing (“CMO”) arrangements for third parties requires high levels of labour and working capital, and generated lower margins than the core businesses of the Group; NRM production and downstream conversion of NRM into API, and use of API in opiate based FDF products.

During early 2020, non-opiate based production remained a challenge due to the bespoke nature of the legacy non-opiate based contract and range of products needing to be produced. This required short production runs resulting in significant production downtime for product changeover and line cleaning. In late 2019 the Group successfully negotiated an early exit from its legacy non-opiate based CMO contract from March 2020. This planned transition freed up significant tableting capacity to direct towards higher-margin opiate-based products, while reducing operational costs and inventory holdings that were required to be contractually maintained as a safety buffer for this supply agreement. Production inefficiencies were experienced during the transition out of the CMO agreement which impacted Direct materials and labour costs incurred, leading to a lower reported Gross Profit for the Group during 2020 compared to the previous corresponding full-year period.

Review of operations (continued)

The early exit from the non-opiate based FDF supply agreement has positioned the Group for increased future profitability by releasing significant FDF tableting and packaging capacity to direct towards higher margin contribution opiate based FDF production through supply of opiate based FDF products via existing CMO supply agreements and the acquired Marketing Authorisations.

Reconciliation of Operating EBITDA to Statutory EBITDA and Loss After Tax

The consolidated financial statements comply with International Financial Reporting Standards (IFRS's) adopted by the International Accounting Standards Board (IASB). In the presentation of its financial results the Group uses 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, amortisation, litigation settlement expenses, acquisition related expenses, transaction integration services, agricultural area trialling expenses, inventory impairments, goodwill impairments, losses from discontinued operations, gains/losses on disposal of non-core plant and equipment, and deducting other income and depreciation expense from discontinued operations, to net profit/(loss) after tax.

The Group uses this measure internally and believes that this non-GAAP financial measure provides useful information to readers to assist in the understanding of the Group's financial performance, financial position and returns, as it is the predominant measure of financial performance used by management. It represents the best measure of performance as a result of initiatives and activities directly controlled by management. Non-GAAP financial measures should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with IFRS. Non-GAAP financial measures may not be comparable to similarly titled amounts reported by other companies.

The table below reconciles the Operating EBITDA to Statutory EBITDA and Loss After Tax:

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Statutory (Loss) after income tax	**(34,756,056)**	(7,639,443)
Less: Income tax benefit	**-**	(138,193)
Add: Net finance expenses	**2,036,045**	3,089,078
Statutory Earnings Before Interest and Tax (EBIT)	**(32,720,011)**	(4,688,558)
Add: Depreciation and amortisation expense	**2,660,265**	2,513,886
Statutory Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	**(30,059,746)**	(2,174,672)
Add:		
Acquisition related expenses - legal and other expenses	**293,976**	122,001
Loss on disposal of non-core property, plant and equipment	**(1,631,741)**	(14,400)
Litigation settlement expenses	**851,165**	1,913,409
Impairment of goodwill	**13,955,503**	-
Impairment of inventory to net realisable value	**1,000,000**	-
Deduct:		
Other income	**(200,663)**	(158,089)
Operating EBITDA	**(15,791,506)**	(311,751)

Review of operations (continued)

Summary of key business risks

The business, assets and operations of the Group are subject to certain risk factors that have the potential to influence the Group's operating and financial performance in the future. The Directors aim to manage these risks by carefully planning the Group's activities and implementing mitigating risk control measures. Specific risks to which the Group is exposed to include:

- failure to obtain or renew all necessary licences and permits across all jurisdictions in which the Group operates;
- inability to source sufficient raw material, including as a result of climate-induced variations such as extreme adverse weather events or plant diseases;
- changes in international, national or state laws, regulations or conventions relating to the growing, manufacture, export or sale of NRM;
- loss of key staff and inability to replace them with appropriately qualified personnel;
- claims arising from the consequences of inappropriate use or excessive exposure to NRM;
- diversion or illicit use of NRM during manufacture, storage or freight;
- introduction or growth of competing pain relief products, including non-narcotic opiate products;
- increasing poppy prices, including due to the reduction or withdrawal of government subsidies;
- failure to maintain its trade secrets, including in relation to its water based, solvent free extraction process;
- changes to scheduling or availability of pain relief medication or restrictions on import quotas for NRM;
- fluctuations in foreign exchange rates against the Group's functional currency (Australian dollars);
- changes in the supply of, and/or demand for, poppy seed and changes in pricing of poppy seed;
- changes to the cost of purifying poppy seed;
- customer and supplier performance risks;
- failure to comply with applicable standards and the risk of product recalls; and
- restrictions on sales in some countries of API's which have not been manufactured in that country or region.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Group during the year.

Events since the end of the financial year

On 26 February 2021 the Group announced a fully underwritten capital raising to raise approximately $18 million. The capital raising is comprised of a placement to institutional investors to raise approximately $4 million and an accelerated pro rata non-renounceable entitlement offer to raise approximately $14 million. As at the date of this report, the placement and institutional component of the entitlement offer has been completed raising $12.2 million with the retail component of the offer expected to raise approximately $5.8 million closing on 22 March 2021.

On 26 February 2021 the Group extended the maturity date of its standby debt facility with Washington H. Soul Pattinson and Company Limited from 28 February 2022 to 1 April 2022. The limit of the facility was reduced to $15,000,000 and the interest rate on drawn funds was amended to 12% per annum.

No other matter or circumstance has arisen since 31 December 2020 that has significantly affected the Group's operations, results or state of affairs, or may do so in future years.

Likely developments and expected results of operations

Information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

Dividends

No dividends have been paid during the financial year. The directors do not recommend that a dividend be paid in respect of the financial year (2019: $nil).

Environmental regulation

The Group's operations are not subject to any particular or significant environmental regulation under a law of the Commonwealth of Australia or of a State or Territory.

Indemnification and insurance of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors and Company Secretary (as named above), and all executive officers of the Group against a liability incurred when acting in their capacity as a Director, Company Secretary or executive officer to the extent permitted by the *Corporations Act 2001.* Further disclosure required under section 300(9) of the *Corporations Act 2001* is prohibited under the terms of the insurance contract.

Other than to the extent permitted by law, the Company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or any other related body corporate against a liability incurred as such by an officer or auditor.

Meetings of directors

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 31 December 2020, and the numbers of meetings attended by each director were:

	Board of Directors		Human Capital Committee		Audit & Risk Committee	
	Held and Eligible to Attend	Attended	Held and Eligible to Attend	Attended	Held and Eligible to Attend	Attended
Mr. Simon Moore (Independent Non-Executive Chairman)	16#	16	1	1	2	2
Mr. Jarrod Ritchie (Managing Director and CEO) **	16#	16	-	-	1*	1*
Mr. Todd Barlow (Non-Executive Director) ****	14	14	1	1	2	2
Mr. Stuart Black (Independent Non-Executive Director)	16#	16	1	1	2	2
Ms. Sue MacLeman (Independent Non-Executive Director)	14	14	1	1	2	2
Mr. Iain Ross (Independent Non-Executive Director) ***	-	-	-	-	-	-

* Attended by invitation
# Includes special purpose board sub-committee meetings
** Resigned 22 December 2020
*** Appointed 23 December 2020
**** Resigned 5 February 2021

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.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001.*

Information on directors

The following information is current as at the date of this report.

Mr. Simon Moore, B.Com/LLB (Hons), Independent Non-Executive Chairman

Qualifications and Experience

Simon Moore is currently Deputy Chairman of ASX Listed AMA Group Limited and a Non-Executive Director of Alexium International Group Limited.

Simon is a Senior Partner of Colinton Capital Partners, a mid-market Australasian private equity investment manager. He was formerly a Managing Director and Partner of global alternative asset manager, The Carlyle Group. Prior to joining Carlyle, Simon was a Managing Director and Investment Committee Member of Investcorp International, Inc. based in New York. Prior to that he worked in private equity investments and investment banking at J.P. Morgan & Co. in New York, Hong Kong and Melbourne. Simon’s personal investments include significant pastoral holdings and investments in a number of agricultural enterprises.

Former listed company directorships within past three years:
• Non-Executive Director of Megaport Limited (appointed 2015, resigned 2019)
• Non-Executive Director of First Wave Cloud Technology Limited (appointed 2017, resigned 2019)

Director of Palla Pharma Limited since 1 June 2016 and Chairman since 1 May 2018. Simon is a member of the Human Capital Committee.

Mr. Jarrod Ritchie, BSc (Hons), Managing Director and Chief Executive Officer

Qualifications and Experience

Jarrod Ritchie has over 20 years’ experience in the opiates industry. He has led Palla Pharma Limited from its inception as a start-up to its current position as Australia’s third licensed poppy processor with a strong international reputation.

Jarrod has led new research in the opiates industry including Palla Pharma Limited’s unique, environmentally-sustainable, solvent-free manufacturing process. He has also led the successful trialling of a new thebaine-rich variety of poppy; the introduction of commercial crops to Victoria and New South Wales; the trialling of poppy crops in the Northern Territory; and the expansion of Palla Pharma Limited’s global operations.

Director of Palla Pharma Limited from 5 February 2004 until 22 December 2020.

Mr. Todd Barlow, B.Bus/LLB (Hons), Non-Executive Director

Qualifications and Experience

Todd Barlow is the Managing Director and CEO of Washington H. Soul Pattinson and Company Limited and a Non-Executive Director of New Hope Corporation Limited. Before joining Washington H. Soul Pattinson and Company Limited, he was Managing Director of Pitt Capital Partners Limited, a Sydney based corporate advisory firm. He continues to serve as a Non-Executive Director of Pitt Capital Partners Limited as well as a number of unlisted entities.

Between 2005 and 2008 Todd was based in Hong Kong, and provided advice on cross-border transactions between Asia and Australia. He previously practiced as a lawyer, specialising in corporate law and mergers and acquisitions.

Former listed company directorships within past three years:
• Non-Executive Director of PM Capital Asian Opportunities Fund Limited (appointed 2014, resigned 2017)

Director of Palla Pharma Limited from 18 June 2015 until 5 February 2021.

Information on directors (continued)

Mr. Stuart Black AM, FCA, FAICD, BA (Accounting), Independent Non-Executive Director

Qualifications and Experience

Stuart Black is a Chartered Accountant with extensive experience in agribusiness. He retired in 2013 as managing partner of a practice specialising in agribusiness. Stuart is a current Non-Executive Director of ASX listed Australian Agricultural Company Limited, and a Past President of the Institute of Chartered Accountants of Australia. He was the inaugural Chair and a past board member of the Accounting Professional and Ethical Standards Board and served as the Australian representative on the International Federation of Accountants SMP Committee. Stuart is Chair of the Chartered Accountants Benevolent Fund Limited and a former Director of the Country Education Foundation of Australia Limited.

In 2012 Stuart was appointed a Member of the Order of Australia for services to the profession of accounting, to ethical standards, as a contributor to professional organisations and to the community.

Former listed company directorships within past three years:
• Non-Executive Director of NetComm Wireless Limited (appointed 2013, resigned 2019)

Director of Palla Pharma Limited since 7 June 2016. Stuart is Chair of the Audit & Risk Committee, and a member of the Human Capital Committee.

Ms. Sue MacLeman, BPharm, LLM, MMkt, FAICD, FATSE, FACPP, Independent Non-Executive Director

Qualifications and Experience

Sue MacLeman has more than 30 years' experience as a pharmaceutical, biotechnology and medical technology executive having held senior roles in corporate, medical, commercial and business development. Sue has also served as CEO and Board member of several ASX and NASDAQ listed companies in the pharmaceutical sector and is currently Chair of Oventus Medical Ltd , Chair of Anatara Lifesciences Ltd, Chair of Tali Digital Ltd, Chair of MTPConnect (MTPII-GC Ltd) and Non-Executive Director of Planet Innovation Holdings Ltd.

Former listed company directorships within past three years:
• Non-Executive Director of RHS Limited (appointed 2014, resigned 2018)

Director of Palla Pharma Limited since 27 November 2018. Sue is Chair of the Human Capital Committee and a member of the Audit & Risk Committee.

Mr. Iain Ross, BSC (Hons), C. DIR, Independent Non-Executive Director

Qualifications and Experience

Iain Ross has over 40 years experience in the international pharmaceutical and biotechnology sectors, where he has held leadership positions as an executive and board member in numerous companies. Currently, he is Chairman of Silence Therapeutics plc (LSE/NASDAQ), Redx Pharma plc (LSE) and Kazia Limited (ASX/NASDAQ). Previously he has held senior executive positions at several companies including Sandoz AG, Fisons plc, Hoffmann La Roche AG and Celltech Group plc.

Director of Palla Pharma Limited since 23 December 2020.

Information on secretary

The following information is current as at the date of this report.

Mr. Mark Licciardo, B BUS(ACC), GRADDIP CSP, FGIA, FCIS, FAICD, Company Secretary

Qualifications and Experience

Mr. Licciardo is the founder and Managing Director of Mertons Corporate Services Pty Ltd. As a former company secretary of ASX 50 companies, Transurban Group and Australian Foundation Investment Company Limited, his expertise includes working with boards of directors in the areas of corporate governance, business management, administration, consulting and company secretarial matters. He is also the former Chairman of the Governance Institute of Australia Victoria division, Academy of Design (LCI Melbourne) and Melbourne Fringe Festival and a current non-executive director of a number of public and private companies.

Company Secretary of Palla Pharma Limited since 22 May 2020.

Remuneration report

The directors present the Palla Pharma Limited 2020 remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year.

The report is structured as follows:

(a) Key management personnel (KMP) disclosed in this report
(b) Remuneration governance
(c) Principals used to determine the nature and amount of remuneration
(d) Details of remuneration
(e) Service agreements
(f) Equity instruments granted
(g) Movement in shares held
(h) Loans given to related parties
(i) Other transactions with key management personnel

(a) Key management personnel disclosed in this report

Non-executive and executive directors

(i) Non-Executive Chairman

Mr. Simon Moore

(ii) Managing Director and Chief Executive Officer

Mr. Jarrod Ritchie (until 22 December 2020)

(iii) Non-Executive Directors

Mr. Todd Barlow (until 5 February 2021)
Mr. Stuart Black
Ms. Sue MacLeman
Mr. Iain Ross (from 23 December 2020)

Other key management personnel

(i) Interim Chief Executive Officer (from 22 December 2020) and Chief Financial Officer

Mr. Brendan Middleton

(b) Remuneration governance

The Board is responsible for determining and reviewing compensation arrangements for the Non-Executive Directors, the Non-Executive Chairman and the Executive Management team. The Board has established a Human Capital Committee, which is currently comprised of three Non-Executive Directors and the Chair. This Committee is primarily responsible for making recommendations to the board on:

- the over-arching executive remuneration framework;
- the operation of incentive plans, including key performance indicators and performance hurdles;
- remuneration levels of executive directors and other key management personnel; and
- non-executive director fees.

The objective of the Committee is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Company. The Corporate Governance Statement provides further information on the role of this committee.

Remuneration report (continued)

(c) Principles used to determine the nature and amount of remuneration

The Company's goal is to engage and promote excellence at Board level, in staff members and partner organisations. The Company looks to engage the services of individuals and organisations with the experience necessary to assist the Company in meeting its strategic objectives.

The Board seeks to ensure that executive reward complies with good reward governance practices:

- Competitiveness and reasonableness;
- Acceptability to shareholders;
- Performance linkage;
- Transparency; and
- Capital management.

The Company has an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation. The Company's remuneration framework seeks alignment with shareholders' interests and is aligned to the rapid commercialisation of the Company's intellectual property and in achieving its milestones in a highly ethical and professional manner. The executive remuneration framework provides a mix of fixed and variable pay and performance incentive rewards, including a Short Term Incentive (STI) and Long Term Incentive (LTI) scheme.

The STI scheme is designed to focus the organisation on key shorter-term objectives that drive long-term shareholder value, and the Board sets annual key performance indicators (KPIs) for the CEO and executives which also serve as the Company's objectives.

The LTI scheme assists in the motivation, retention and reward of executives and employees and aligns the interests of employees with the interests of shareholders. Full time or part time employees, and Executive Directors of PAL or any of its subsidiaries will be eligible to participate in the LTI scheme. The Executive Directors of PAL will require approval from PAL's shareholders prior to being permitted to participate in the LTI scheme. There is no intention of Non-Executive Directors participating at this time.

Non-Executive Directors' fees

Non-Executive Directors' fees are determined by reference to industry standards, and were last reviewed effective 21 July 2015. Directors' fees are paid in cash. A Non-Executive Directors' Fee Pool of $700,000 has been approved by shareholders.

Directors' fees are currently set at $120,000 for the Non-Executive Chairman and $70,000 per Non-Executive Director plus statutory superannuation, with an additional $10,000 plus statutory superannuation for the Chairman of the Audit & Risk Committee. These fees reflect the demands which are made on and the responsibilities of the Directors.

Executive pay

The executive pay and reward framework has three components:

- Base pay and benefits;
- Short term performance incentives; and
- Long term incentives.

The combination of these comprises the executive's total remuneration.

Remuneration report (continued)

(c) Principles used to determine the nature and amount of remuneration (continued)

(i) Base pay and benefits

A total employment cost package may include a combination of cash and prescribed non-financial benefits at the executive’s discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. The base pay for executives is reviewed annually to ensure the executive’s pay is competitive with the market. An executive’s pay is also reviewed on promotion.

There are no ongoing guaranteed base pay increases included in any executive contracts.

(ii) Short term incentives (STI's)

STI's payable to executives are based upon the attainment of agreed corporate and individual milestones and are reviewed and approved by the Board of Directors. STI's are payable in cash.

(iii) Long term incentives (LTI's)

At the discretion of the Board of Directors, executives are issued with Share Appreciation Rights under the Company’s Share Appreciation Rights Plan as LTI's in a manner that aligns this element of remuneration with the creation of shareholder wealth. Each Share Appreciation Right is an equity security that confers on the participant a right to be issued a specified number of the Group’s shares, calculated by reference to the increase in market price of the Company’s shares over a three-year period, but subject to satisfaction of the vesting condition that the participant must be an employee of the Company on the third anniversary of the grant date. Share Appreciation Rights are granted under the plan for no consideration and carry no dividend or voting rights. Share Appreciation Rights grants are made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the creation of shareholder wealth.

(iv) Relationship between remuneration policy and company performance

LTI's and STI's may be issued to new and existing employees, subject to performance review and based on performance of the individual and/or the Company in absolute terms. The STI component of remuneration provides a short term monetary reward for past performance and the equity component of the LTI aligns employees future remuneration potential to growth in shareholder value in the future.

The Company’s remuneration policy seeks to reward staff members for their contribution to achieving significant operational, strategic, financial and regulatory milestones. Achievement of milestones selected will build sustainable and long term shareholder value.

Statutory performance indicators

The Company aims to align executive remuneration to strategic and business objectives and the creation of shareholder wealth. The table below shows measures of the Company’s financial performance over the last five years as required by the *Corporations Act 2001*. However, these measures are not necessarily consistent with the measures used in determining the variable amounts of remuneration to be awarded to executives and consequently, there may not always be a direct correlation between the statutory key performance measures and the variable remuneration awarded.

Remuneration report (continued)

(c) Principles used to determine the nature and amount of remuneration (continued)

	2020	2019	2018	2017	2016
Revenue	23,737,729	54,857,883	46,563,381	22,263,174	10,556,449
Net profit/(loss) after tax	(34,756,056)	(7,639,443)	(5,788,409)	(16,692,689)	(14,020,835)
Closing share price	$0.81	$1.06	$1.15	$2.20	$2.91
Price increase/(decrease) $	($0.25)	($0.09)	($1.05)	($0.71)	($0.99)
Price increase/(decrease) %	(23.6%)	(7.8%)	(47.7%)	(24.4%)	(25.4%)
Earnings per share (cents)	(27.60)	(8.66)	(8.52)	(23.38)	(26.96)

(d) Details of remuneration

The following table shows details of the remuneration expense recognised for the Group's executive key management personnel for the current and previous financial year measured in accordance with the requirements of the accounting standards.

2020	Short-term employee benefits			Post-employment benefits		Equity-based payments		
Name	Cash salary and fees $	STI $	Non-monetary benefits $	Super-annuation $	Other long term benefits $	Share Appreciation Rights $	Total $	Proportion of remuneration performance related %
Non-executive directors								
Simon Moore	120,000	-	-	11,400	-	-	131,400	-
Todd Barlow ***	70,000	-	-	6,650	-	-	76,650	-
Stuart Black	80,000	-	-	7,600	-	-	87,600	-
Sue MacLeman	70,000	-	-	6,650	-	-	76,650	-
Iain Ross **	1,885	-	-	-	-	-	1,885	-
Sub-total non-executive directors	341,885	-	-	32,300	-	-	374,185	-
Executive directors								
Jarrod Ritchie *	756,228	-	4,501	25,000	33,956	21,746	841,431	-
Sub-total executive directors	756,228	-	4,501	25,000	33,956	21,746	841,431	-
Other key management personnel								
Brendan Middleton	278,333	-	-	25,090	19,326	36,065	358,814	-
Sub-total other key management personnel	**278,333**	**-**	**-**	**25,090**	**19,326**	**36,065**	**358,814**	**-**
Total key management personnel compensation	**1,376,446**	**-**	**4,501**	**82,390**	**53,282**	**57,811**	**1,574,430**	

* Executive Director until 22 December 2020
** Non-Executive Director from 23 December 2020
*** Non-Executive Director until 5 February 2021

Remuneration report (continued)

(d) Details of remuneration (continued)

2019	Short-term employee benefits			Post-employment benefits				
Name	Cash salary and fees $	STI $	Non-monetary benefits $	Super-annuation $	Other long term benefits $	Share Appreciation Rights $	Total $	Proportion of remuneration performance related %
Non-executive directors								
Simon Moore	120,000	-	-	11,400	-	-	131,400	-
Todd Barlow	70,000	-	-	6,650	-	-	76,650	-
Stuart Black	80,000	-	-	7,600	-	-	87,600	-
Sue MacLeman	70,000	-	-	6,650	-	-	76,650	-
Sub-total non-executive directors	**340,000**	**-**	**-**	**32,300**	**-**	**-**	**372,300**	**-**
Executive directors								
Jarrod Ritchie	775,000	2,996	31,097	26,127	12,466	121,997	969,683	0.3
Sub-total executive directors	**775,000**	**2,996**	**31,097**	**26,127**	**12,466**	**121,997**	**969,683**	**0.3**
Other key management personnel								
Brendan Middleton	275,000	25,958	-	26,118	10,329	45,984	383,389	6.9
Sub-total other key management personnel	**275,000**	**25,958**	**-**	**26,118**	**10,329**	**45,984**	**383,389**	**6.9**
Total key management personnel compensation	**1,390,000**	**28,954**	**31,097**	**84,545**	**22,795**	**167,981**	**1,725,372**	

(e) Service agreements

Remuneration and other terms of employment for the Non-Executive Chairman, Managing Director and Chief Executive Officer, Non-Executive Directors and other key management personnel are formalised in service agreements. The agreements, other than for Non-Executive Directors, may provide for the provision of performance related cash bonuses and the award of equity in the Company.

Other major provisions of the agreements relating to remuneration are set out below:

Simon Moore, Independent Non-Executive Chairman
• Term of Agreement - Commencing from 1 May 2018
• Director’s fee - $120,000 plus statutory superannuation per annum to be reviewed independently and annually by the Board of Directors
• Termination - No terms have been agreed
• Bonus - Nil
• Equity - Nil

Remuneration report (continued)

(e) Service agreements (continued)

Jarrod Ritchie, Managing Director and Chief Executive Officer
• Term of Agreement - Commencing from 21 July 2015 and ongoing unless terminated in accordance with its terms
• Base Remuneration - $800,000 inclusive of statutory superannuation per annum, subject to increases at the discretion of the Board of Directors
• Termination - By twelve months' notice from either side
• Bonus - At the discretion of the Board of Directors
• Equity - The Director shall be entitled to participate in the LTI scheme of the Company

Todd Barlow, Non-Executive Director
• Term of Agreement - Commencing from 18 June 2015
• Director's Fees - $70,000 plus statutory superannuation per annum to be reviewed independently and annually by the Board of Directors
• Termination - No terms have been agreed
• Bonus - Nil
• Equity - Nil

Stuart Black, Non-Executive Director
• Term of Agreement - Commencing from 7 June 2016
• Director's Fees - $80,000 plus statutory superannuation per annum to be reviewed independently and annually by the Board of Directors
• Termination - No terms have been agreed
• Bonus - Nil
• Equity - Nil

Sue MacLeman, Non-Executive Director
• Term of Agreement - Commencing from 27 November 2018
• Director's Fees - $70,000 plus statutory superannuation per annum to be reviewed independently and annually by the Board of Directors
• Termination - No terms have been agreed
• Bonus - Nil
• Equity - Nil

Iain Ross, Non-Executive Director
• Term of Agreement - Commencing from 23 December 2020
• Base Remuneration - GBP43,800 per annum to be reviewed independently and annually by the Board of Directors
• Termination - No terms have been agreed
• Bonus - Nil
• Equity - Nil

Brendan Middleton, Interim Chief Executive Officer (from 22 December 2020) and Chief Financial Officer
• Term of Agreement - Commencing from 5 June 2017
• Base Remuneration - $300,000 inclusive of statutory superannuation per annum, subject to increases at the discretion of the Board of Directors
• Temporary Higher Duties Allowance - $100,000 inclusive of statutory superannuation per annum from 22 December 2020 until the date on which the appointment as Interim Chief Executive Officer concludes
• Termination - By three months' notice from either side
• Bonus - At the discretion of the Board of Directors
• Equity - The Executive shall be entitled to participate in the LTI scheme of the Company

Remuneration report (continued)

(f) Equity instruments granted

Details of equity instruments granted as remuneration to each KMP is set out below.

	Number of equity instruments issued	Grant Opening Price	Fair value of equity instruments per share	Total value of equity instruments issued	Start of performance period	End of performance period	Included in 2020 remuneration
*Jarrod Ritchie, Managing Director and Chief Executive Officer **							
2020 Share Appreciation Rights - Tranche 1 ***	150,523	$0.70	$0.165	$24,836	27 March 2020	27 March 2023	6,210
2020 Share Appreciation Rights - Tranche 2 ***	415,077	$3.00	$0.001	$415	27 March 2020	27 March 2023	-
2019 Share Appreciation Rights - Tranche 1 ***	150,523	$1.05	$0.250	$37,631	28 March 2019	28 March 2022	(6,542)
2019 Share Appreciation Rights - Tranche 2 ***	222,773	$4.75	$0.001	$223	28 March 2019	28 March 2022	-
2017 Share Appreciation Rights **	451,613	$2.62	$0.620	$280,000	27 March 2017	27 March 2020	22,079
Brendan Middleton, Chief Financial Officer							
2020 Share Appreciation Rights - Tranche 1	120,968	$0.70	$0.165	$19,960	27 March 2020	27 March 2023	4,990
2020 Share Appreciation Rights - Tranche 2	333,578	$3.00	$0.001	$334	27 March 2020	27 March 2023	-
2020 Share Appreciation Rights - Tranche 3	755,725	$0.81	$0.131	$99,000	22 December 2020	21 June 2022	1,774
2019 Share Appreciation Rights - Tranche 1	120,968	$1.05	$0.250	$30,242	28 March 2019	28 March 2022	10,081
2019 Share Appreciation Rights - Tranche 2	179,032	$4.75	$0.001	$179	28 March 2019	28 March 2022	-
2018 Share Appreciation Rights	120,968	$1.39	$0.330	$39,919	28 March 2018	28 March 2021	13,306
2017 Share Appreciation Rights **	120,968	$2.62	$0.620	$75,000	5 June 2017	27 March 2020	5,914

* Ceased to be a KMP on 22 December 2020.

** The 2017 Share Appreciation Rights lapsed on 27 March 2020 as the vesting conditions were not met.

*** At the Board's discretion, two-thirds of the 2019 and 2020 Share Appreciation Rights were forfeited, and one-third of the entitlements were retained due to the resignation of the KMP.

Total share appreciation rights issued are disclosed in note 32.

Remuneration report (continued)

(g) Movement in shares held

The movement during the year in the number of ordinary shares of the Company, held directly, indirectly or beneficially, by each KMP is as follows:

Name	Held at 1 January 2020	Purchased	Sold	Other changes during the year	Held at 31 December 2020
Non-executive directors					
Todd Barlow	-	-	-	-	-
Simon Moore	3,025,951	-	-	-	3,025,951
Stuart Black	23,772	-	-	-	23,772
Sue MacLeman	-	-	-	-	-
Iain Ross	-	-	-	-	-
Executive directors					
Jarrod Ritchie *	2,137,786	-	-	2,137,786	-
Other key management personnel					
Brendan Middleton	-	-	-	-	-

* Ceased to be a KMP on 22 December 2020 and "Other changes" reflects removal of holding from this table.

(h) Loans given to related parties

Details of loans made to directors of Palla Pharma Limited and other key management personnel of the Group, including their close family members and entities related to them, are set out below.

Consolidated entity

Name	Balance at the start of the year $	Interest paid and payable for the year $	Interest not charged $	Balance at the end of the year $	Highest indebtedness during the year $
Jarrod Ritchie *	**425,277**	**20,650**	**-**	**415,215**	**431,439**

* Ceased to be a KMP on 22 December 2020

Loans to related parties outstanding at the end of the current year include a secured loan to a former director of Palla Pharma Limited of $410,103 which was made for a period of 25 years and was repayable on a quarterly amortising reducing balance basis, maturing on 31 December 2044. The terms of the loan have been varied following the resignation of the director, with the loan now repayable on a monthly amortising reducing balance basis with the balance of $338,997 due for repayment on 21 December 2021. Interest is payable on this loan at a rate of 5% per annum, payable monthly. This loan enabled the director to fully participate in the pro-rata Entitlement Offer completed by the Group in 2019 and is secured against the new shares subscribed to under the offer.

The amounts shown for interest not charged in the table above represents the difference between the amount paid and payable for the year and the amount of interest that would have been charged on an arm's-length basis.

No write-downs or allowances for doubtful receivables have been recognised in relation to any loans made to key management personnel.

Remuneration report (continued)

(i) Other transactions with key management personnel

A number of key management personnel (KMP), or their related parties, hold positions in other entities that result in them having control, or joint control, over the financial or operating policies of those entities.

During 2020 company secretarial services and financial reporting services amounting to $3,750 (2019: $4,500) were provided by Corporate and Administrative Services Pty Ltd, a subsidiary of Washington H. Soul Pattinson and Company Limited. Interest and finance expenses during the year attributable to Washington H. Soul Pattinson and Company Limited amounted to $1,143,623 (2019: $2,741,896).

End of the Remuneration Report (Audited)

Non-audit services

During the year KPMG, the Group's auditor, has performed certain other services in addition to the audit and review of the financial statements.

The board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, KPMG, and its network firms for audit and non-audit services provided during the year are set out below:

	Consolidated entity	
	2020	2019
	$	$
(i) Audit and review services		
Audit and review of financial statements - Group	**145,000**	167,214
Audit and review of financial statements - controlled entities	**11,639**	12,156
Total remuneration for audit and review services	**156,639**	179,370
(ii) Assurance services		
Due diligence services	**-**	28,463
Total remuneration for assurance services *	**-**	28,463
(iii) Other services		
Taxation advice and tax compliance services	**11,639**	12,156
Technical assistance for subsidiary financial statements	**5,432**	4,052
Total remuneration for other services	**17,071**	16,208
Total remuneration of KPMG	**173,710**	224,041

* There were no regulatory assurance services provided during the year.

No officers were previously partners of the audit firm KPMG.

The comparatives include amounts billed in the current period relating to the prior year.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23.

Auditor

KPMG continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors.

Simon Moore

Mr. Simon Moore
Chairman

Melbourne
19 March 2021

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Palla Pharma Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Palla Pharma Limited for the financial year ended 31 December 2020 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Tony Batsakis
Partner
Melbourne

19 March 2021

Corporate governance statement

The Board of Directors of Palla Pharma Limited (Board) is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Board supports the core corporate governance principles published by the ASX Corporate Governance Council (Council). The Company's corporate governance framework is designed to comply with the Council's principles whilst being relevant, efficient and cost effective for the current stage of the Company's development.

The Corporate Governance Statement contains certain specific information and discloses the extent to which the Company has followed the Council's principles during the 2020 financial year.

The Company's Corporate Governance Statement and Appendix 4G is structured with reference to the ASX Corporate Governance Principles and Recommendations and can be found on the "Corporate Governance" section of the Company's website at: http://pallapharma.com/investors.

The Board will continue its ongoing review process to ensure that the model is relevant, efficient and cost effective to the Company and its shareholders.

Palla Pharma Limited ACN 107 872 453
Financial statements - 31 December 2020

Contents

These financial statements are the consolidated financial statements of the consolidated entity consisting of Palla Pharma Limited and its subsidiaries. A list of subsidiaries is included in note 28. These financial statements are presented in Australian dollars ($), which is the Group's functional currency.

Palla Pharma Limited is a Company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Palla Pharma Limited
c/- Mertons Corporate Services
Level 7
330 Collins Street
Melbourne VIC 3000

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on page 2, which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 19 March 2021. The directors have the power to amend and reissue the financial statements.

	Notes	**Consolidated entity** **31 December 2020** **$**	31 December 2019 $
Revenue			
Sales from contracts with customers		**21,905,325**	54,685,394
Profit on disposal of property, plant and equipment		**1,631,741**	14,400
Other income		**200,663**	158,089
	6	**23,737,729**	54,857,883
Expenses			
Raw materials, consumables and other production expenses		**(16,209,293)**	(29,169,271)
Employee benefits (production) expenses	7	**(6,950,996)**	(8,214,073)
Employee benefits (non-production) expenses	7	**(9,235,958)**	(11,076,501)
Legal and listing compliance expenses		**(348,682)**	(874,225)
Market development expenses		**(284,155)**	(1,033,829)
Occupancy expenses		**(2,252,564)**	(1,585,590)
Acquisition related expenses - legal and other expenses		**(293,976)**	(122,001)
Litigation settlement expenses		**(851,165)**	(1,913,409)
Consulting expenses		**(264,383)**	(487,120)
Outsourced quality consulting expenses		**(117,334)**	(461,740)
Impairment of goodwill	17	**(13,955,503)**	-
Impairment loss on trade receivables		**(1,050,000)**	-
Other expenses		**(1,983,466)**	(2,094,796)
Total expenses		**(53,797,475)**	(57,032,555)
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)		**(30,059,746)**	(2,174,672)
Depreciation and amortisation expense	7	**(2,660,265)**	(2,513,886)
Earnings Before Interest and Tax (EBIT)		**(32,720,011)**	(4,688,558)
Finance income		**27,055**	23,028
Finance expenses		**(2,063,100)**	(3,112,106)
Net finance expenses	7	**(2,036,045)**	(3,089,078)
(Loss) before income tax		**(34,756,056)**	(7,777,636)
Income tax expense	8	**-**	138,193
(Loss) for the year		**(34,756,056)**	(7,639,443)
Other comprehensive (loss)			
Item that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**(704,234)**	(111,877)
Total comprehensive (loss) for the year		**(35,460,290)**	(7,751,320)

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

	Notes	Consolidated entity **31 December 2020 $**	 31 December 2019 $
(Loss) is attributable to:			
Owners of Palla Pharma Limited		**(34,756,056)**	(7,639,443)
Total comprehensive (loss) for the year is attributable to:			
Owners of Palla Pharma Limited		**(35,460,290)**	(7,751,320)
		Cents	Cents
Earnings per share for the (loss) from continuing operations attributable to the ordinary equity holders of the Company:			
Basic (loss) per share	31	**(27.60)**	(8.66)
Diluted (loss) per share	31	**(27.60)**	(8.66)

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

	Notes	Consolidated entity 31 December 2020 $	31 December 2019 $
ASSETS			
Current assets			
Cash and cash equivalents	9	**609,665**	2,019,087
Trade and other receivables	10	**6,683,578**	11,507,068
Inventories	11	**26,890,559**	22,149,374
Contract assets	6	**816,701**	5,995,039
Prepayments		**1,584,247**	1,481,425
Total current assets		**36,584,750**	43,151,993
Non-current assets			
Other receivables	12	**-**	405,875
Investments	14	**-**	103,272
Property, plant and equipment	15	**23,517,976**	26,693,955
Right-of-use assets	16	**750,407**	-
Intangible assets	17	**4,310,976**	16,967,608
Inventories	13	**2,255,455**	2,250,585
Total non-current assets		**30,834,814**	46,421,295
Total assets		**67,419,564**	89,573,288
LIABILITIES			
Current liabilities			
Trade and other payables	18	**9,213,517**	8,907,120
Borrowings	19	**5,002,840**	467,424
Lease liabilities	16	**39,404**	-
Provisions	20	**1,793,791**	1,847,235
Total current liabilities		**16,049,552**	11,221,779
Non-current liabilities			
Trade and other payables	21	**1,063,352**	1,563,462
Borrowings	22	**13,000,000**	5,000,000
Lease liabilities	16	**493,937**	-
Provisions	23	**689,155**	378,044
Total non-current liabilities		**15,246,444**	6,941,506
Total liabilities		**31,295,996**	18,163,285
Net assets		**36,123,568**	71,410,003
EQUITY			
Contributed equity	24	**210,994,087**	210,997,191
Reserves	25	**3,067,948**	3,595,223
(Accumulated losses)		**(177,938,467)**	(143,182,411)
Total equity		**36,123,568**	71,410,003

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

		Attributable to owners of Palla Pharma Limited				
Consolidated entity	Notes	**Contributed equity $**	**Foreign currency translation reserve $**	**Other reserves $**	**(Accumulated losses) $**	**Total equity $**
Balance at 1 January 2019		181,482,260	915,308	2,448,159	(135,542,968)	49,302,759
(Loss) for the year		-	-	-	(7,639,443)	(7,639,443)
Other comprehensive (loss)		-	(111,877)	-	-	(111,877)
Total comprehensive (loss) for the year		**-**	**(111,877)**	**-**	**(7,639,443)**	**(7,751,320)**
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs and tax	24	29,514,931	-	-	-	29,514,931
Share-based payments	32	-	-	343,633	-	343,633
Total transactions with owners in their capacity as owners		29,514,931	-	343,633	-	29,858,564
Balance at 31 December 2019		**210,997,191**	**803,431**	**2,791,792**	**(143,182,411)**	**71,410,003**
Balance at 1 January 2020		210,997,191	803,431	2,791,792	(143,182,411)	71,410,003
(Loss) for the year		-	-	-	(34,756,056)	(34,756,056)
Other comprehensive loss		-	(704,234)	-	-	(704,234)
Total comprehensive (loss) for the year		**-**	**(704,234)**	**-**	**(34,756,056)**	**(35,460,290)**
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs and tax	24	(3,104)	-	-	-	(3,104)
Share-based payments	32	-	-	176,959	-	176,959
Total transactions with owners in their capacity as owners		(3,104)	-	176,959	-	173,855
Balance at 31 December 2020		**210,994,087**	**99,197**	**2,968,751**	**(177,938,467)**	**36,123,568**

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

	Notes	Consolidated entity 31 December 2020 $	31 December 2019 $
Cash flows from operating activities			
Receipts from customers (inclusive of VAT)		**32,851,432**	58,308,188
Payments to suppliers and employees (inclusive of GST and VAT)		**(45,718,650)**	(64,688,378)
		(12,867,218)	(6,380,190)
Interest received		**27,055**	23,028
Interest and finance costs paid		**(1,938,641)**	(3,112,106)
Net cash (outflow) from operating activities	29	**(14,778,804)**	(9,469,268)
Cash flows from investing activities			
Payments for property, plant and equipment	15	**(789,471)**	(1,879,368)
Payments for capitalised development costs and patents	17	**(1,435,955)**	(611,339)
Proceeds from sale of non-current assets		**2,887,168**	14,400
Proceeds from sale of investments		**104,065**	-
Net cash inflow (outflow) from investing activities		**765,807**	(2,476,307)
Cash flows from financing activities			
Share issuance transaction costs	24	**(3,104)**	(1,888,738)
Proceeds from issues of shares	24	**-**	30,980,882
Proceeds from borrowings	22	**16,991,982**	9,147,040
Repayment of borrowings	22	**(4,456,566)**	(26,548,650)
Net cash inflow from financing activities		**12,532,312**	11,690,534
Net (decrease) in cash and cash equivalents		**(1,480,685)**	(255,041)
Cash and cash equivalents at the beginning of the financial year		**2,019,087**	1,904,583
Effects of exchange rate changes on the balance of assets held in foreign currencies		**71,263**	369,545
Cash and cash equivalents at end of year	9	**609,665**	2,019,087

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

Contents of the notes to the consolidated financial statements

1 Reporting entity

Palla Pharma Limited (the 'Company') is domiciled in Australia. The Company's registered office is at c/- Mertons Corporate Services, Level 7, 330 Collins Street, Melbourne VIC 3000. These consolidated financial statements comprise the Company and the entities it controlled at the end of or during the financial year (together referred to as the 'Group'). These financial statements were approved on 19 March 2021.

The Group is a for-profit entity and is primarily involved in the production and distribution of Narcotic Raw Material, Active Pharmaceutical Ingredients and Finished Dosage Formulations for supply to global pharmaceutical markets, and the production and distribution of poppy seed for supply to global culinary markets..

2 Summary of significant accounting policies

This note provides a list of significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to the years presented, unless otherwise stated. The financial statements are for the Group consisting of Palla Pharma Limited and its subsidiaries.

(a) Basis of preparation

(i) Compliance with IFRS

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

The consolidated financial statements have been prepared on the historical cost basis unless stated otherwise.

(iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time in their annual reporting period commencing 1 January 2020:

- AASB 2018-7 *Amendments to Australian Accounting Standards - Definition of Material [AASB 101 and AASB 108]*
- AASB 2018-6 *Amendments to Australian Accounting Standards - Definition of a Business [AASB 3]*

The adoption of these amendments did not have any impact on the amounts recognised in the current and prior years.

(b) Principles of consolidation

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

2 Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Palla Pharma Limited as at 31 December 2020 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those companies over which the Group has the power to govern the financial and operating policies and is exposed to, or has rights to, variable returns from its involvement with those companies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control eases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

(c) Segment reporting

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

(d) Foreign currency translation

(i) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

(ii) Transactions and balances

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in the consolidated statement of profit or loss and other comprehensive income as either finance income or finance expenses (see 2(p)).

(iii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the functional currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the functional currency at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in the consolidated statement of profit or loss and other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interests.

2 Summary of significant accounting policies (continued)

(e) Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to continue trading, realise its assets and discharge its liabilities in the ordinary course of business for a period of at least 12 months from the date that these financial statements are approved.

The Directors note the following events and conditions which have been considered in assessing the appropriateness of the going concern assumption:

- For the year ended 31 December 2020 the Group generated a loss after income tax of $34,756,056 (2019: $7,639,443) and had cash outflows from operations of $14,778,804 (2019: $9,469,268).

- As at 31 December 2020 the Group's current assets exceeded its current liabilities by $20,535,198 (31 December 2020: $31,930,214), with cash and cash equivalents of $609,665 (31 December 2019: $2,019,087).

- On 26 February 2021 the Group announced a fully underwritten capital raising to raise approximately $18 million. The capital raising is comprised of a placement to institutional investors to raise approximately $4 million and an accelerated pro rata non-renounceable entitlement offer to raise approximately $14 million. As at the date of this report, the placement and institutional component of the entitlement offer has been completed raising $12.2 million with the retail component of the offer expected to raise approximately $5.8 million closing on 22 March 2021.

- The Group has a standby debt facility in place with Washington H. Soul Pattinson and Company Limited to meet the Group's short-term working capital requirements. As at 31 December 2020 the facility had a limit of $20,000,000 and the Group had drawn down $17,400,000 of the Facility.

- On 26 February 2021 the Group extended the maturity date of its standby debt facility with Washington H. Soul Pattinson and Company Limited from 28 February 2022 to 1 April 2022 and the limit of the facility was reduced to $15,000,000. The Directors acknowledge that prima facie a refinancing risk exists when the facility expires on 1 April 2022 if the facility is not renewed in line with past practice, repaid out of funds secured from an alternative source of debt or raised from the issue of additional equity.

- The standby debt facility available for utilisation combined with proceeds from the fully underwritten capital raising provides adequate funding to meet the Group's immediate needs.

- The Directors have confidence in the continuing support from existing shareholders and ability to attract new investors and debt providers to fund the Group's future financing requirements, if required, as demonstrated by previous capital and debt raisings.

- The Directors have confidence in the basis of preparation and achievability of the business plans, cash flow and profit and loss forecasts prepared by management which project positive EBITDA and positive operating cash flows. The cashflow forecasts have considered the potential impact that may arise as a result of the COVID-19 pandemic which has been assessed to have a minimal impact on these forecasts.

After considering the above factors, the Directors have concluded that the use of the going concern assumptions is appropriate.

In the event that the forecast financial performance of the Group is not met as anticipated, and the Group is unable to attract new debt or equity funding, a material uncertainty exists as to whether the Group may be able to continue as a going concern, and therefore it may be required to realise its assets and extinguish its liabilities other than in the normal course of business, and at amounts different to those stated in the financial report.

2 Summary of significant accounting policies (continued)

(f) Financial instruments

Non-derivative financial assets

Financial instruments

The Group initially recognises trade receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; or fair value through profit and loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss (see note 2(j)). Any gain or loss on derecognition is recognised in profit or loss.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

Share capital - Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(g) Revenue recognition

(i) Sale of goods

Under AASB 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control - at a point in time or over time - requires judgement.

Sale of goods - contract manufacturing revenue recognised over time

The Group has determined that for certain goods that are manufactured and supplied under contract manufacturing and supply arrangements, the customer controls the goods once the goods are duly finished, approved for distribution and packaged in accordance with the relevant agreement. This is because under those agreements, goods are manufactured to a customer’s specification, packaged with the customer’s branding, and if a firm order that is placed by the customer in accordance with the agreement is terminated, the Group is entitled to reimbursement of the costs incurred in manufacturing the goods, including a reasonable margin. Therefore, revenue from these agreements and the associated costs are recognised over time - i.e. before the goods are delivered to the customer’s premises. Invoices are issued according to contractual terms and amounts not yet invoiced are presented as contract assets in the consolidated statement of financial position.

Sale of goods - other revenue recognised at a point in time

Revenue from the sale of goods that are not subject to contract manufacturing arrangements is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when a customer obtains control of the promised goods and the Group has satisfied its performance obligation in relation to the promised goods. In determining when control of promised goods passes to the customer, the Group considers the transfer of significant risks and rewards of ownership of the goods to the customer to indicate that the customer has obtained the ability to direct the use of and obtain substantially all of the remaining benefits from the goods. The timing of the transfer of risks and rewards to the customer for the sale of goods occurs either:

- When the goods are despatched or delivered in line with the International Chamber of Commerce’s International Commercial Terms (Incoterms®) as detailed in the relevant contract of sale or purchase order for the goods;

2 Summary of significant accounting policies (continued)

(g) Revenue recognition (continued)

- When they are made available to the customer and ownership transfers prior to despatch as detailed in the relevant contract of sale or purchase order for the goods; or

- On notification that the product has been used when the goods are consignment products located at customers' premises.

Where cash consideration has been received but the revenue recognition criteria has not been met, such amounts have been recorded on the consolidated statement of financial position as a contract liability.

(ii) Government grants

Government grants are recognised initially as deferred income at fair value and when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant, they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognised in profit or loss or other income on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for expenditure capitalised are recognised as a reduction in the carrying value of the asset and grants that compensate the Group for expenditure recognised in profit or loss is recognised as government grant income or deducted from the related expenses.

(h) Income tax

Tax expense comprises current and deferred tax. Current and deferred taxes are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss,
- temporary differences related to investments in subsidiaries and associates and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future, and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

2 Summary of significant accounting policies (continued)

(h) Income tax (continued)

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income tax expenses that arise from the distribution of cash dividends are recognised at the same time that the liability to pay the related dividend is recognised. The Group does not distribute non-cash assets as dividends to its shareholders.

(i) Leases

The Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in AASB 16.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

2 Summary of significant accounting policies (continued)

(i) Leases (continued)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'right-of-use assets' and lease liabilities in 'lease liabilities' in the consolidated statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(j) Impairment

Non-derivative financial assets

Financial instruments and contract assets

The Group recognises loss allowances for Expected Credit Losses on:

- financial assets measured at amortised cost; and
- contract assets.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime Expected Credit Losses.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating Expected Credit Losses, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due

2 Summary of significant accounting policies (continued)

(j) Impairment (continued)

Measurement of Expected Credit Losses

Expected Credit Losses are a probability-weighted estimate of credit losses. The Group uses an allowance matrix to measure the expected credit losses of trade receivables from individual customers.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics - geographic region, age of customer relationship and type of product purchased.

Expected Credit Losses are discounted at the effective interest rate of the financial asset.

Presentation of allowance for Expected Credit Loss in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. The amounts written off are recognised as an impairment loss of trade receivables in the consolidated statement of profit or loss and other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Indefinite life intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (or group of CGUs) on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2 Summary of significant accounting policies (continued)

(j) Impairment (continued)

Goodwill

Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

(k) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(l) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposals group, are generally measured at lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill and then the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, employee benefit assets or investment property, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for- distribution and subsequent gains and losses on re-measurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

(m) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour,
- any other costs directly attributable to bringing the assets to a working condition for their intended use,
- when the Group has an obligation to remove the assets or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located, and
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Any gains and losses on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

2 Summary of significant accounting policies (continued)

(m) Property, plant and equipment (continued)

Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

• Buildings	40 years
• Contract plant and equipment	5 - 20 years
• Manufacturing plant and equipment	3 - 25 years
• Motor vehicles	8 years
• Office equipment	2 - 7 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(n) Investments

Details of shares in controlled entities are disclosed at note 28(a). Controlled entities are accounted for in the consolidated accounts as set out in the note 2(b).

(o) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs and external costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred. Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Patents and trademarks

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

2 Summary of significant accounting policies (continued)

(o) Intangible assets (continued)

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(v) Amortisation

Identifiable intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use. Goodwill is not amortised.

The estimated useful lives for the current and comparative years are as follows:

- Patents and trademarks 3 - 10 years
- Capitalised development costs 2 - 5 years

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(p) Finance income and finance expenses

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance expense depending on whether foreign currency movements are in a net gain or net loss position.

(q) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

(r) Employee benefits

(i) Short-term obligations

Short-term employee benefit obligations including salaries and wages, annual leave and long service leave expected to be settled within 12 months of the reporting date are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Other long-term employee benefit obligations

The Group’s obligation in respect of long service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That liability is measured as the present value of expected future payments to be made in respect of the services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

2 Summary of significant accounting policies (continued)

(r) Employee benefits (continued)

The obligations are presented as a current liability in the consolidated statement of financial position if the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Share-based payment arrangements

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(s) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company, 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 year. Refer to note 31 for further details.

(ii) Diluted earnings per share

Diluted earnings 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 additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. Refer to note 31 for further details.

(t) Goods and Services Tax (GST) and Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of associated GST or VAT, unless the GST or VAT incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST or VAT receivable or payable. The net amount of GST or VAT recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST or VAT components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(u) Parent entity financial information

The financial information for the parent entity, Palla Pharma Limited, disclosed in note 33, has been prepared on the same basis as the consolidated financial statements, except for investments in subsidiaries. Investments in subsidiaries are accounted for at cost in the financial statements of Palla Pharma Limited.

3 Financial risk management

Overview

The Group's activities expose it to the following risks arising from their use of financial instruments:
• credit risk;
• liquidity risk; and
• market risk (including currency and interest rate risks).

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the Group's management of capital.

Risk management framework

The Directors have overall responsibility for the establishment and oversight of the risk management framework.

The Board of Directors seek to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Capital requirements have been principally funded by equity in the form of share capital from investors and debt in the form of shareholder loans. It is anticipated any further expansion will be funded predominantly through debt in the form of bank loans, and equity in the form of placements and rights issues.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date for recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets.

Exposure to credit risk

The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period three months for corporate customers.

The carrying amount of the Group's financial assets represents the maximum credit exposure. The maximum exposure to credit risk at reporting date was:

		Consolidated entity	
		31 December 2020	31 December 2019
	Notes	**$**	$
Trade receivables	10	**6,048,902**	11,269,118
Other receivables and loans - current	10	**634,676**	237,950
Cash and cash equivalents	9	**609,665**	2,019,087
Contract assets		**816,701**	5,995,039
Other receivables and loans - non-current	12	**-**	405,875
		8,109,944	19,927,069

3 Financial risk management (continued)

(a) Credit risk (continued)

The maximum exposure to credit risk for loans and receivables at the reporting date by geographic region was:

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Europe	**5,732,076**	11,052,052
Other regions	**316,826**	217,066
	6,048,902	11,269,118

The maximum exposure to credit risk for receivables at the reporting date by type of counter party was:

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
End-user customers	**6,048,902**	11,269,118

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. In monitoring customer credit risk, customers are grouped by their ageing profile. Monitoring of receivable balances on an ongoing basis minimises the exposure of bad debts. A provision for impairment is recognised when there is objective evidence that an individual trade receivable in impaired.

The aging of the Group's trade receivables at the reporting date was:

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Not past due	**3,545,493**	7,642,862
1 - 30 days	**151,232**	1,098,684
61 - 90 days	**-**	282,053
90 days and over	**2,352,177**	2,245,519
	6,048,902	11,269,118

The trade receivable balances are reviewed monthly and an allowance is raised where an indication of impairment exists such as customer insolvency or slow payment record without due cause. Where the Group considers that recovery of the amount owing is not possible, the amounts considered irrecoverable are written off against the financial asset directly and recognised in impairment loss on trade receivables in the consolidated statement of profit or loss and other comprehensive income. As at 31 December 2020, there was a provision for impairment in relation to trade receivable balances of $1,044,835 (2019: nil).

The credit risk of contract assets amounting to $816,701 (2019: $5,995,039) and other receivables and loans of $219,461 (2019: $218,548) were primarily in respect of the European geographic region, owing from end-user customers and aging that was not past due at 31 December 2020. In addition, $nil (2019: $425,277) was owing from key management personnel and $415,215 (2019: $nil) was owing from related parties that was not past due.

3 Financial risk management (continued)

(a) Credit risk (continued)

Expected credit loss assessment for individual customers

The following table provides information about the exposure to credit risk and expected credit losses for trade receivables and contract assets from individual customers as at 31 December 2020.

31 December 2020	**Weighted-average loss rate**	**Gross carrying amount**	**Loss allowance**	**Credit impaired**
	%	$		
Current (not past due)	0.00%	3,545,493	-	No
1 - 30 days past due	0.00%	151,232	-	No
31 - 60 days past due	0.00%	-	-	No
61 - 90 days past due	0.00%	-	-	No
90 days and over	44.42%	2,352,177	1,044,835	Yes
		6,048,902	1,044,835	

Loss rates are based on actual credit loss experience over a period of 48 months. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Cash and cash equivalents

The Group held cash and cash equivalents, including other assets, of $609,665 at 31 December 2020 (2019: $2,019,087), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparts, which are rated AA-, based on S&P ratings

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group monitors the level of expected cash outflows on trade and other payables. In addition, details of lines of credit maintained by the Group are set out in note 22.

3 Financial risk management (continued)

(b) Liquidity risk (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

Contractual maturities of financial liabilities	**Less than 6 months**	**6 - 12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total contractual cash flows**	**Carrying amount of liabilities**
At 31 December 2020	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Non-derivatives							
Shareholder loan facility	**(4,961,168)**	**-**	**(13,893,750)**	**-**	**-**	**(18,854,918)**	**17,400,000**
Trade and other payables	**(9,213,517)**	**-**	**(559,394)**	**(503,958)**	**-**	**(10,276,869)**	**10,276,869**
Insurance premium funding	**(626,509)**	**-**	**-**	**-**	**-**	**(626,509)**	**603,313**
Lease liabilities	**(55,830)**	**(21,427)**	**(77,257)**	**(231,771)**	**(382,714)**	**(768,999)**	**533,341**
Other	**473**	**-**	**-**	**-**	**-**	**473**	**(473)**
Total non-derivatives	**(14,856,551)**	**(21,427)**	**(14,530,401)**	**(735,729)**	**(382,714)**	**(30,526,822)**	**28,813,050**
At 31 December 2019							
Non-derivatives							
Shareholder loan facility	-	-	(5,962,500)	-	-	(5,962,500)	5,000,000
Trade and other payables	(8,349,055)	(558,065)	-	(1,563,462)	-	(10,470,582)	10,470,582
Insurance premium funding	(194,035)	(281,646)	-	-	-	(475,681)	455,256
Other	(12,168)	-	-	-	-	(12,168)	12,168
Total non-derivatives	(8,555,258)	(839,711)	(5,962,500)	(1,563,462)	-	(16,920,931)	15,938,006

(c) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuation arise. Exchange rate exposures are managed within approved policy parameters. The Group manages the currency risk by monitoring the trend of the US dollar, Euro, Norwegian Krone, Swedish Krona, Danish Krone, British Pound and Swiss Franc. The Group maintains US dollar, Euro and Norwegian Krone bank accounts to cover a portion of its anticipated expenditures in the respective foreign currencies.

3 Financial risk management (continued)

(c) Market risk (continued)

The Group's foreign currency risk denominated financial assets and financial liabilities at the reporting date are as follows:

Consolidated entity	**31 December 2020**						
	USD	**EUR**	**NOK**	**SEK**	**DKK**	**GBP**	**CHF**
Financial assets							
Cash and cash equivalents	**314**	**1,951**	**3,308,050**	**-**	**-**	**-**	**-**
Trade and other receivables	**1,326,547**	**1,245,159**	**56,110**	**-**	**-**	**1,325,474**	**-**
Financial liabilities							
Trade and other payables	**(2,815,824)**	**(72,089)**	**(5,096,741)**	**(1,170,529)**	**(50,001)**	**(405,282)**	**-**
Net exposure	**(1,488,963)**	**1,175,021**	**(1,732,581)**	**(1,170,529)**	**(50,001)**	**920,192**	**-**

Consolidated entity	31 December 2019						
	USD	EUR	NOK	SEK	DKK	GBP	CHF
Financial assets							
Cash and cash equivalents	291,271	439,180	2,707,954	-	-	-	-
Trade and other receivables	1,180,804	1,588,833	19,611,341	-	-	1,917,500	-
Financial liabilities							
Trade and other payables	(2,951,297)	(200,080)	(11,147,183)	(1,525,534)	-	(5,377)	(1,963)
Net exposure	(1,479,222)	1,827,933	11,172,112	(1,525,534)	-	1,912,123	(1,963)

3 Financial risk management (continued)

(c) Market risk (continued)

Sensitivity

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the statement of financial position date. A 10 percent increase or decrease in the foreign exchange rate is used and represents management's assessment of the possible change in foreign exchange rates and historically is within a range of rate movements. A positive number indicates an increase in profit and equity. A negative number indicates a decrease in profit and equity. At 31 December 2020, if foreign exchange rates had moved, as illustrated in the table below, with all other variables held constant, pre-tax profit and equity would have been affected as follows:

	-10% in AUD		**+10% in AUD**	
31 December 2020				
Consolidated entity	**Profit $**	**Equity $**	**Profit $**	**Equity $**
Financial assets				
Cash and cash equivalents	**55,985**	**55,985**	**(45,807)**	**(45,807)**
Trade and other receivables	**675,951**	**675,951**	**(553,050)**	**(553,050)**
Financial liabilities				
Trade and other payables	**(582,127)**	**(582,127)**	**476,286**	**476,286**
	149,809	**149,809**	**(122,571)**	**(122,571)**

	-10% in AUD		**+10% in AUD**	
31 December 2019				
Consolidated entity	**Profit** $	**Equity** $	**Profit** $	**Equity** $
Financial assets				
Cash and cash equivalents	172,956	172,956	(141,510)	(141,510)
Trade and other receivables	1,221,479	1,221,479	(999,392)	(999,392)
Financial liabilities				
Trade and other payables	(814,856)	(814,856)	666,701	666,701
	579,579	579,579	(474,201)	(474,201)

(ii) Interest rate risk

The Group is exposed to interest rate risk arising from changes in market interest rate on its variable rate investments. The Group's policy is to manage its finance costs using a mix of fixed and variable rate debt. Management periodically reviews its interest rate exposure and consideration is given to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

3 Financial risk management (continued)

(c) Market risk (continued)

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amounts	
	31 December 2020 $	31 December 2019 $
Fixed rate instruments		
Financial assets	**415,215**	425,277
Financial liabilities	**18,003,313**	5,455,256
Variable rate instruments		
Financial assets	**95,014**	457,573
Financial liabilities	**-**	-

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore a change in interest rate at the reporting date would not affect the profit and loss or equity.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would have increased or decreased the Group's equity by $950 (2019: $4,576). This analysis assumes that all other variables, in particular foreign currency rates remain constant.

(d) Capital management

The Board's policy is to maintain a strong capital base to ensure the Group continues as a going concern, and to sustain future development of the business while maximising returns to stakeholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. With the Group still in its early stages, capital requirements have been principally funded by equity in the form of share capital from investors, shareholder loans and surplus operating cash flows. As the Group consolidates its operating position, it is anticipated that further expansion will be funded predominantly through debt in the form of bank loans and equity in the form of placements and right issues.

(e) Fair values

None of the Group's financial assets or financial liabilities are readily traded on an organised market in standardised form, and all are classified as Level 3 in the fair value hierarchy. As such, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique for each asset or liability is listed below, and where relevant incorporate all of the factors that market participants would take into account in pricing a transaction.

Financial instrument	***Valuation technique***
Unlisted investments	Group's share in the net asset value of the investee at balance date
All other financial assets and liabilities	Fair value approximates their carrying value

3 Financial risk management (continued)

(e) Fair values (continued)

Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amounts			
31 December 2020	**Fair value through profit and loss $**	**Financial assets at amortised cost $**	**Other financial liabilities $**	**Total $**
Financial assets not measured at fair value				
Cash and cash equivalents	**-**	**609,665**	**-**	**609,665**
Trade and other receivables	**-**	**6,683,578**	**-**	**6,683,578**
	-	**7,293,243**	**-**	**7,293,243**
Financial liabilities not measured at fair value				
Shareholder loan facility	**-**	**-**	**17,400,000**	**17,400,000**
Insurance premium funding	**-**	**-**	**603,313**	**603,313**
Other borrowings	**-**	**-**	**(473)**	**(473)**
Trade and other payables	**-**	**-**	**10,276,869**	**10,276,869**
Lease liabilities	**-**	**-**	**533,341**	**533,341**
	-	**-**	**28,813,050**	**28,813,050**
31 December 2019	**$**	**$**	**$**	**$**
Financial assets measured at fair value				
Unlisted investments	103,272	-	-	103,272
Financial assets not measured at fair value				
Cash and cash equivalents	-	2,019,087	-	2,019,087
Trade and other receivables	-	11,912,943	-	11,912,943
	103,272	13,932,030	-	14,035,302
Financial liabilities not measured at fair value				
Shareholder loan facility	-	-	5,000,000	5,000,000
Insurance premium funding	-	-	455,256	455,256
Other borrowings	-	-	12,168	12,168
Trade and other payables	-	-	10,470,582	10,470,582
	-	-	15,938,006	15,938,006

Unlisted investments represents the Group's interest in the Macquarie River Pipeline Partnership and its fair value categorised as level 3 in the fair value hierarchy based on inputs that are not based on observable market data. The interest in the Macquarie River Pipeline Partnership was disposed of in December 2020.

4 Use of estimates and judgements

The preparation of consolidated financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Assumptions and estimation uncertainties
Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2020 is included in the following notes:

Notes 15 and 17 - impairment test: key assumptions underlying recoverable amounts of property, plant and equipment and intangible assets.

Measurement of fair values
A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market date (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

5 Segment information

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Maker ('CODM') of the Group. The CODM is responsible for the allocation of resources to operating segments and assessing their performance. The CODM has been identified as the CEO. Segment information is presented to the CEO comprising two segments: Australia and Norway.

Australia
Segment activities: Narcotic Raw Material and Poppy Seed production and distribution.

Norway
Segment activities: Active Pharmaceutical Ingredient and Finished Dosage production and distribution.

	Australia		**Norway**		**Eliminations**		**Consolidated**	
Consolidated entity	**31 December 2020 $**	**31 December 2019 $**	**31 December 2020 $**	**31 December 2019 $**	**31 December 2020 $**	**31 December 2019 $**	**31 December 2020 $**	**31 December 2019 $**
External revenue	**5,368,955**	**8,207,969**	**18,368,774**	**46,649,914**	**-**	**-**	**23,737,729**	**54,857,883**
Inter-segment revenue	**19,973,673**	**21,226,183**	**-**	**-**	**(19,973,673)**	**(21,226,183)**	**-**	**-**
Total segment revenue	**25,342,628**	**29,434,152**	**18,368,774**	**46,649,914**	**(19,973,673)**	**(21,226,183)**	**23,737,729**	**54,857,883**
Reportable segment (loss)/profit before tax	**(3,500,224)**	**(2,304,283)**	**(14,941,144)**	**(2,089,880)**	**(323,140)**	**(156,202)**	**(18,764,508)**	**(4,550,365)**
Unallocated amounts								
Net financing costs	**-**	**-**	**-**	**-**	**-**	**-**	**(2,036,045)**	**(3,089,078)**
Impairment of goodwill	**-**	**-**	**-**	**-**	**-**	**-**	**(13,955,503)**	**-**
Consolidated (loss) before tax	**-**	**-**	**-**	**-**	**-**	**-**	**(34,756,056)**	**(7,639,443)**

5 Segment information (continued)

Consolidated entity	Australia 31 December 2020 $	Australia 31 December 2019 $	Norway 31 December 2020 $	Norway 31 December 2019 $	Eliminations 31 December 2020 $	Eliminations 31 December 2019 $	Consolidated 31 December 2020 $	Consolidated 31 December 2019 $
Timing of External revenue recognition:								
Narcotic Raw Material & Poppy Seed - at a point in time	**3,768,200**	**8,043,325**	**-**	**-**	**-**	**-**	**3,768,200**	**8,043,325**
Active Pharmaceutical Ingredient - at a point in time	**-**	**-**	**12,349,363**	**18,860,079**	**-**	**-**	**12,349,363**	**18,860,079**
Finish Dosage Formulation - over time	**-**	**-**	**5,787,762**	**27,781,990**	**-**	**-**	**5,787,762**	**27,781,990**
Other revenue - at a point in time	**1,600,755**	**164,644**	**231,649**	**7,845**	**-**	**-**	**1,832,404**	**172,489**
	5,368,955	**8,207,969**	**18,368,774**	**46,649,914**	**-**	**-**	**23,737,729**	**54,857,883**

5 Segment information (continued)

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Non-current assets		
Australia	**28,210,686**	29,706,630
Europe	**2,624,128**	16,714,665
	30,834,814	46,421,295

6 Revenue

(a) Revenue streams

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
From continuing operations		
Sale of goods		
Sales from contracts with customers	**21,905,325**	54,685,394
Other income		
Rental income	**90,015**	158,366
Macquarie Pipeline Partnership	**793**	(277)
Government grants - Cash flow boost	**4,573**	-
Other items	**105,282**	-
	200,663	158,089
Profit on disposal of property, plant and equipment	**1,631,741**	14,400
	23,737,729	54,857,883

(b) Contract balances

The following table provides information about receivables and contract assets from contracts with customers.

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Receivables, which are included in 'trade and other receivables'	**7,093,737**	11,269,118
Contract assets - refer to note 2(g)(i)	**816,701**	5,995,039
	7,910,438	17,264,157

7 Expenses

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
(Loss) before income tax includes the following specific expenses:		
Employee benefits expenses		
Salaries and wages	**15,144,138**	16,613,290
Other associated personnel expenses	**230,994**	1,565,539
Defined contribution superannuation expenses	**604,210**	567,384
Increase in liability for long service leave	**84,097**	63,495
(Decrease)/increase in liability for annual leave	**(53,444)**	137,233
Share-based payments	**176,959**	343,633
Total employee benefits expenses	**16,186,954**	19,290,574

In the six months April to September 2020 the Group recognised $1,059,000 in government assistance in the form of the JobKeeper wage subsidy in Australia. This has been recognised as an offset to the salaries and wages expense line.

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Depreciation		
Buildings	**373,946**	429,713
Contract equipment	**158,271**	171,866
Manufacturing plant and equipment	**1,752,034**	1,624,393
Office equipment	**213,881**	226,230
Motor vehicles	**22,816**	18,277
Right-of-use assets	**6,306**	-
Total depreciation	**2,527,254**	2,470,479
Amortisation		
Patents	**133,011**	43,407
Total amortisation	**133,011**	43,407
Total depreciation and amortisation	**2,660,265**	2,513,886

7 Expenses (continued)

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Finance income		
Interest income	**(27,055)**	(23,028)
	(27,055)	(23,028)
Finance costs		
Interest and finance expenses on financial liabilities measured at amortised cost	**1,274,769**	2,801,015
Unwind of discount on trade payable	**120,817**	-
Net exchange losses on foreign currency	**667,514**	311,091
	2,063,100	3,112,106
Net finance expenses recognised in profit or loss	**2,036,045**	3,089,078

8 Income tax expense

(a) Numerical reconciliation of income tax expense to prima facie tax payable

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
(Loss) from continuing operations before income tax expense	**(34,756,056)**	(7,777,636)
Tax at the Australian tax rate of 30.0% (2019 - 30.0%)	**(10,426,817)**	(2,333,291)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible impairment expense	**4,186,651**	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	**952,801**	99,534
Deferred tax assets not brought to account and other adjustments	**5,287,365**	2,095,564
Income tax expense	**-**	(138,193)

(b) Unrecognised deferred tax assets

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
The following deferred tax assets have not been brought to account as assets:		
Deductible temporary differences	**1,079,737**	3,319,155
Tax losses – revenue	**40,628,995**	35,130,520
	41,708,732	38,449,675

8 Income tax expense (continued)

(b) Unrecognised deferred tax assets (continued)

These deductible temporary differences and tax losses can be carried forward indefinitely, and the tax losses are subject to the company loss recoupment rules under current tax legislation in Australia. Deferred tax assets have not been recognised in respect of these items because, given the stage of business, the Group cannot currently satisfy the necessary standard of probability that future taxable profits will be available against which the Group can utilise the benefits therefrom.

9 Current assets - Cash and cash equivalents

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Cash at bank	**609,665**	2,019,087

10 Current assets - Trade and other receivables

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Trade receivables	**7,093,737**	11,269,118
Expected credit loss allowance	**(1,044,835)**	-
	6,048,902	11,269,118
Loans to related parties	**415,215**	-
Loans to key management personnel	**-**	19,402
Other receivables	**219,461**	218,548
	6,683,578	11,507,068

The balance of trade and other receivables of $6,683,578 (2019: $11,507,068) are not considered impaired. Refer to note 3 for details of the credit risk exposure analysis.

11 Current assets - Inventories

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Raw materials and consumables	**3,904,701**	6,607,925
Work in progress	**20,275,119**	15,194,810
Finished goods	**2,710,739**	346,639
	26,890,559	22,149,374

During the year a provision for inventory write down decreased from $2,143,926 in 2019 to $2,057,134 in 2020. In addition, inventories have been reduced by $1,000,000 as a result of a write-down to net realisable value. The write-down is recognised as an expense during 2020. The write-down and reversal of provision is included in raw materials, consumables and other production expenses.

The work in progress balance recorded above is recorded net of this provision.

12 Non-current assets - Other receivables

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Loans to key management personnel	**-**	405,875

13 Non-current assets - Inventories

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Raw materials and consumables	**1,982,363**	1,977,493
Work in progress	**250,901**	250,901
Finished goods	**22,191**	22,191
	2,255,455	2,250,585

14 Non-current assets - Investments

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Macquarie River Pipeline Partnership - at fair value	**-**	103,272

The unlisted interest in the Macquarie River Pipeline Partnership has been designated at fair value through profit or loss because it is managed on a fair value basis (refer note 4). The Group recognised its share of profits generated by the Partnership during the year.

The interest in the Macquarie River Pipeline Partnership was disposed of in December 2020.

15 Non-current assets - Property, plant and equipment

Consolidated entity	**Land and buildings $**	**Manufacturing plant and equipment $**	**Office equipment $**	**Motor vehicles $**	**Contract plant and equipment $**	**Total $**
At 1 January 2019						
Cost	17,994,157	27,616,556	1,931,659	252,975	2,233,071	50,028,418
Accumulated depreciation	(7,810,246)	(12,820,530)	(597,530)	(167,184)	(870,656)	(22,266,146)
Net book amount	10,183,911	14,796,026	1,334,129	85,791	1,362,415	27,762,272
Year ended 31 December 2019						
Opening net book amount	10,183,911	14,796,026	1,334,129	85,791	1,362,415	27,762,272
Exchange differences	(4,983)	(391,278)	(80,923)	(22)	-	(477,206)
Additions	65,410	1,545,431	267,906	-	621	1,879,368
Depreciation charge	(429,713)	(1,624,393)	(226,230)	(18,277)	(171,866)	(2,470,479)
Closing net book amount	9,814,625	14,325,786	1,294,882	67,492	1,191,170	26,693,955
At 31 December 2019						
Cost	18,192,282	29,124,070	2,149,354	258,748	2,233,692	51,958,146
Accumulated depreciation	(8,377,657)	(14,798,284)	(854,472)	(191,256)	(1,042,522)	(25,264,191)
Net book amount	9,814,625	14,325,786	1,294,882	67,492	1,191,170	26,693,955

15 Non-current assets - Property, plant and equipment (continued)

Consolidated entity	**Land and buildings** $	**Manufacturing plant and equipment** $	**Office equipment** $	**Motor vehicles** $	**Contract plant and equipment** $	**Total** $
Year ended 31 December 2020						
Opening net book amount	9,814,625	14,325,786	1,294,882	67,492	1,191,170	26,693,955
Exchange differences	(22,837)	(137,957)	(28,254)	(28)	-	(189,076)
Additions	-	618,288	62,155	111,201	-	791,644
Disposals	(929,623)	(123,511)	(30,433)	(31,857)	(142,175)	(1,257,599)
Depreciation charge	(373,946)	(1,752,034)	(213,881)	(22,816)	(158,271)	(2,520,948)
Closing net book amount	8,488,219	12,930,572	1,084,469	123,992	890,724	23,517,976
At 31 December 2020						
Cost	9,403,975	27,754,209	1,897,218	249,801	1,595,517	40,900,720
Accumulated depreciation	(915,756)	(14,823,637)	(812,749)	(125,809)	(704,793)	(17,382,744)
Net book amount	8,488,219	12,930,572	1,084,469	123,992	890,724	23,517,976

Impairment testing

During the year ended 31 December 2020, the Group continued to record operating losses and accordingly has performed impairment testing to assess whether the recoverable amount of its property, plant and equipment and intangible assets is in excess of carrying value.

For the purpose of impairment testing the Group has defined two Cash Generating Units (CGU) the Australia CGU and the Norway CGU.

The recoverable amount for the CGU's was determined based on value-in-use calculations which require the use of assumptions.

Value in use as at 31 December 2020 was determined for the Australia CGU, based on the following key assumptions:

- Cash flows were forecast based on the Group’s five-year business plan and risk adjusted to reflect uncertainty created by possible COVID-19 impacts, with the terminal value based on the fifth-year cash flow and a long-term growth rate of 2.5%, which is consistent with the long-term inflation and growth targets for Australia of between 2% and 3%.

- Forecast sales volumes are based on past performance and management’s expectations of market development.

- Forecast foreign currency rates are set based on a range of external market commentator forecasts.

- Sales prices are based on current industry trends for each sales territory and contracted pricing where applicable.

- Forecast gross margins are based on past performance and management’s expectations for the future.

15 Non-current assets - Property, plant and equipment (continued)

- Other operating costs of the CGU, which do not vary significantly with sales volumes or prices, have been forecast by management based on the current structure of the business, but not reflecting any future restructurings or cost saving measures.

- Poppy straw harvesting yields were considered based on historical yield performance, climate-induced variations such as severe weather events, past plant losses and new growing areas coming into production.

- Annual capital expenditure is based on the historical experience of management. No incremental cost savings are assumed in the value-in-use model as a result of this expenditure.

- An after-tax discount rate of 8.5% and 8.6% for the Australian and Norway CGU's respectively was applied in determining the recoverable amount of the CGU's based on an industry average weighted-average cost of capital and applying a premium to the industry average due to the Group's size and stage of lifecycle.

Significant assumptions used in the impairment testing referred to above are inherently subjective, and in times of economic uncertainty the degree of subjectivity is higher than it might otherwise be. Accordingly, it should be noted that the risks and uncertainties associated with the possible impacts of the COVID-19 pandemic and the economic environment could cause the actual results to differ from management’s projections used in the assessment, which could lead to significant changes in the recoverable amount of the Australia CGU.

The carrying amount of the Australian CGU was determined to be higher than its recoverable amount and an impairment loss of $13,955,503 at 31 December 2020 was recognised. The impairment loss was fully allocated to goodwill and is included in the impairment of goodwill expense in the consolidated statement of profit or loss and other comprehensive income.

16 Leases

The Group has leased facilities for seasonal poppy straw storage for an initial five year term with extension options of an additional five years at the conclusion of the initial term. In determining the right-of-use asset and lease liability at the lease commencement date, the Group has assessed that it is reasonably certain that it will exercise the extension options.

(a) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Right-of-use assets		
Buildings - Cost	**756,713**	-
Buildings - Accumulated Depreciation	**(6,306)**	-
	750,407	-
Lease liabilities		
Current	**39,404**	-
Non-current	**493,937**	-
	533,341	-
Provisions		
Non-current	**227,014**	-
	227,014	-

Additions to right-of-use assets during the 2020 financial year were $756,713.

(b) Amounts recognised in the consolidated statement of profit or loss and other comprehensive income

The consolidated statement of profit or loss and other comprehensive income shows the following amounts relating to leases:

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Depreciation charge of right-of-use assets		
Buildings	**6,306**	-
	6,306	-
Interest expense (included in finance costs)	**3,642**	-

The total cash outflow for leases in 2020 was $nil.

17 Non-current assets - Intangible assets

Consolidated entity	**Goodwill** **$**	**Patents, trademarks and other rights** **$**	**Capitalised development costs** **$**	**Total** **$**
At 1 January 2019				
Cost	13,955,503	128,571	764,296	14,848,370
Accumulated amortisation and impairment	-	(32,143)	-	(32,143)
Net book amount	13,955,503	96,428	764,296	14,816,227
Year ended 31 December 2019				
Opening net book amount	13,955,503	96,428	764,296	14,816,227
Exchange differences	-	(917)	-	(917)
Additions	-	2,160,520	35,185	2,195,705
Amortisation charge	-	(43,407)	-	(43,407)
Closing net book amount	13,955,503	2,212,624	799,481	16,967,608
At 31 December 2019				
Cost	13,955,503	2,287,492	799,481	17,042,476
Accumulated amortisation and impairment	-	(74,868)	-	(74,868)
Net book amount	13,955,503	2,212,624	799,481	16,967,608
Consolidated entity				
Year ended 31 December 2020				
Opening net book amount	13,955,503	2,212,624	799,481	16,967,608
Exchange differences	-	(4,073)	-	(4,073)
Additions	-	13,102	1,422,853	1,435,955
Transfers between asset classes	-	799,481	(799,481)	-
Amortisation charge	-	(133,011)	-	(133,011)
Impairment charge	(13,955,503)	-	-	(13,955,503)
Closing net book amount	-	2,888,123	1,422,853	4,310,976
At 31 December 2020				
Cost	13,955,503	3,091,664	1,422,853	18,470,020
Accumulated amortisation and impairment	(13,955,503)	(203,541)	-	(14,159,044)
Net book amount	-	2,888,123	1,422,853	4,310,976

Impairment testing

The Group reviewed the carrying value of development costs at 31 December 2020 and determined that no additional impairments were required in respect of these assets.

The goodwill, intangible assets, development costs were tested as part of the CGU testing performed.

Refer to note 15 for further details of the Group's impairment testing for the year ended 31 December 2020.

18 Current liabilities - Trade and other payables

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Trade payables	**7,373,171**	7,039,444
Net GST and VAT payable	**403,981**	976,780
Other payables	**1,436,365**	890,896
	9,213,517	8,907,120

19 Current liabilities - Borrowings

This note provides information about the Group's current interest-bearing loans and borrowings, which are measured at amortised cost.

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Shareholder loan facility	**4,400,000**	-
Other loans	**602,840**	467,424
Total current borrowings	**5,002,840**	467,424

Refer to note 22 for movements during the year, and the contractual terms of the Group's current borrowings.

Refer to note 22 for reconciliation of movements of liabilities to cash flows arising from financing activities.

20 Current liabilities - Provisions

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Employee benefits - annual leave	**1,793,791**	1,847,235

21 Non-current liabilities - Trade and other payables

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Trade payables	**1,063,352**	1,563,462

22 Non-current liabilities - Borrowings

This note provides information about the Group's non-current interest-bearing loans and borrowings, which are measured at amortised cost.

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Shareholder loan facility	**13,000,000**	5,000,000
Total non-current borrowings	**13,000,000**	5,000,000

Washington H. Soul Pattinson and Company Limited, a substantial shareholder has provided the Group with a standby debt facility with a limit of up to $20,000,000 (2019: $16,000,000) to meet the Group's short term working capital needs. As at 31 December 2020 the Group had drawn down $17,400,000 of the facility (2019: $5,000,000), and the maturity date of this facility was 28 February 2022 with the limit reducing to $13,000,000 on 30 April 2021.

Subsequent to balance date, the Group extended the maturity date of its standby debt facility with Washington H. Soul Pattinson and Company Limited from 28 February 2022 to 1 April 2022. The limit of the facility was reduced to $15,000,000 and the interest rate on drawn funds was amended to 12% per annum.

This facility is secured by a General Security Deed in favour of Washington H. Soul Pattinson and Company Limited over all present and after-acquired assets of the Group, and mortgage over the Group's Melbourne based property where its Australian manufacturing operations are located.

(a) Movements during the year

	Currency	**Nominal interest rate**	**Year of maturity**	**Movement**	**Carrying amount ($)**
At 1 January 2020					**5,467,424**
(Repayments)/drawings					
Shareholder loan facility - Tranche A	AUD	8.25%	2022	8,000,000	13,000,000
Shareholder loan facility - Tranche B	AUD	13.00%	2021	4,400,000	4,400,000
Insurance premium funding	AUD	5.31%	2021	228,905	228,905
Insurance premium funding	AUD	3.44%	2021	77,804	77,804
Insurance premium funding	AUD	2.82%	2021	296,604	296,604
Insurance premium funding	AUD	5.57%	2020	(183,797)	-
Insurance premium funding	AUD	3.75%	2020	(271,459)	-
Other	AUD	-	2020	(12,641)	(473)
Carrying amount at 31 December 2020				12,535,416	**18,002,840**

22 Non-current liabilities - Borrowings (continued)

(b) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	31 December 2020 Carrying amount ($)	31 December 2019 Carrying amount ($)
Shareholder loan facility - Tranche A	AUD	8.25%	2022	13,000,000	5,000,000
Shareholder loan facility - Tranche B	AUD	13.00%	2021	4,400,000	
Insurance premium funding	AUD	5.31%	2021	228,905	-
Insurance premium funding	AUD	3.44%	2021	77,804	-
Insurance premium funding	AUD	2.82%	2021	296,604	
Insurance premium funding	AUD	5.57%	2020	-	183,797
Insurance premium funding	AUD	3.75%	2020	-	271,459
Other	AUD	-	2020	(473)	12,168
Total interest bearing liabilities				**18,002,840**	**5,467,424**

(c) Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities	Equity	
	Loans $	**Share capital $**	**Total $**
Balance 1 January 2020	**5,467,424**	**210,997,191**	**216,464,615**
Changes from financing cash flows			
Proceeds from issue of share capital	**-**	**(3,104)**	**(3,104)**
Proceeds from loans and borrowings	**16,991,982**	**-**	**16,991,982**
Repayment of borrowings	**(4,456,566)**	**-**	**(4,456,566)**
Total changes from financing cash flows	**12,535,416**	**(3,104)**	**12,532,312**
Balance at 31 December 2020	**18,002,840**	**210,994,087**	**228,996,927**
Liability - related			
Interest expense	**1,271,127**	**-**	**1,271,127**
Interest paid	**(1,271,127)**	**-**	**(1,271,127)**
Total liability-related other changes	**-**	**-**	**-**

22 Non-current liabilities - Borrowings (continued)

(c) Reconciliation of movements of liabilities to cash flows arising from financing activities (continued)

	Liabilities	Equity	
Consolidated entity	**Loans $**	**Share capital $**	**Total $**
Balance 1 January 2019	**22,869,034**	**181,482,260**	**204,351,294**
Changes from financing cash flows			
Proceeds from issue of share capital	**-**	**29,514,931**	**29,514,931**
Proceeds from loans and borrowings	**9,147,040**	**-**	**9,147,040**
Repayment of borrowings	**(26,548,650)**	**-**	**(26,548,650)**
Total changes from financing cash flows	**(17,401,610)**	**29,514,931**	**12,113,321**
Balance at 31 December 2019	**5,467,424**	**210,997,191**	**216,464,615**
Liability - related			
Interest expense	**(2,801,015)**	**-**	**(2,801,015)**
Interest paid	**2,801,015**	**-**	**2,801,015**
Total liability-related other changes	**-**	**-**	**-**

23 Non-current liabilities - Provisions

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Employee benefits - long service leave	**462,141**	378,044
Other provisions - lease make good	**227,014**	-
	689,155	378,044

24 Contributed equity

(a) Share capital

	31 December 2020 Shares	31 December 2019 Shares	**31 December 2020 $**	31 December 2019 $
Ordinary shares				
Fully paid	**125,947,977**	125,947,977	**210,994,087**	210,997,191

24 Contributed equity (continued)

(b) Movements in ordinary shares:

Details	Number of shares	Total $
Opening balance 1 January 2019	81,085,594	181,482,260
Shares issued for cash	44,258,402	30,980,882
Shares issued for secured directors loan	603,981	422,787
Less: Transaction costs arising on share issues	-	(1,888,738)
Balance 31 December 2019	125,947,977	210,997,191
Opening balance 1 January 2020	125,947,977	210,997,191
Less: Transaction costs arising on share issues	-	(3,104)
Balance 31 December 2020	125,947,977	210,994,087

(c) Ordinary shares

The Company does not have authorised capital or par values in respect of its issued shares. All issued shares are fully paid. All shares rank equally.

Ordinary shares participate in dividends and the proceeds on winding up of the Company in equal proportion to the number of shares held. At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands. In respect of the Company's shares that are held by the Company, all rights are suspended until those shares are reissued.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

25 Reserves

Foreign currency translation reserve

Exchange differences relating to translation from functional currencies of the Group’s foreign controlled entities into Australian Dollars are brought to account by entries made directly to the foreign currency translation reserve.

Other reserves

Other reserves comprise a share-based payment reserve.

26 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, Palla Pharma Limited, its related practices and non-related audit firms:

KPMG

(i) Audit and review services

	Consolidated entity	
	2020	2019
	$	$
Audit and review of financial statements - Group	**145,000**	167,214
Audit and review of financial statements - controlled entities	**11,639**	12,156
Total remuneration for audit and review services	**156,639**	179,370

(ii) Assurance services

Due diligence services	**-**	28,463
Total remuneration for assurance services	**-**	28,463

(iii) Other services

Taxation advice and tax compliance services	**11,639**	12,156
Technical assistance for subsidiary financial statements	**5,432**	4,052
Total remuneration for other services	**17,071**	16,208

Total remuneration of KPMG	**173,710**	224,041

* There were no regulatory assurance services provided during the year.

The comparatives include amounts billed in the current period relating to the prior year.

27 Commitments

Capital commitments

As at 31 December 2020 the Group had capital commitments for equipment of $nil (2019: $nil).

28 Related party transactions

(a) Controlled subsidiary entities

	Country of incorporation	Class of shares	Equity holding 2020 %	2019 %
Parent Entity:				
Palla Pharma Limited	Australia			
Controlled Entities:				
Purplebay Pty Limited	Australia	Ordinary	**100**	100
Palla Pharma Norway Holding AS	Norway	Ordinary	**100**	100
Palla Pharma Norway AS	Norway	Ordinary	**100**	100
Palla Pharma (UK) Holding Limited	United Kingdom	Ordinary	**100**	-

The consolidated financial statements incorporate the assets, liabilities and results of these subsidiaries in accordance with the accounting policy described in note 2(b).

(b) Key management personnel compensation

The aggregate compensation made to Directors and other members of key management personnel of the Company is set out below:

	Consolidated entity 31 December 2020 $	31 December 2019 $
Short-term employee benefits	**1,380,947**	1,450,051
Post-employment benefits	**82,390**	84,545
Other long term benefits	**53,282**	22,795
Share-based payments	**57,811**	167,981
Total key management personnel compensation	**1,574,430**	1,725,372

Further disclosures regarding key management personnel compensation are contained within the Remuneration Report.

(c) Amounts owing to related parties

Refer to note 22 for details of loans from shareholders.

(d) Other related party transactions

During 2020 company secretarial and financial reporting services amounting to $3,750 (2019: $4,500) were provided by Corporate and Administrative Services Pty Ltd, a subsidiary of Washington H. Soul Pattinson and Company Limited. Interest and finance expenses during the year attributable to Washington H. Soul Pattinson and Company Limited amounted to $1,143,623 (2019: $2,741,896).

28 Related party transactions (continued)

(d) Other related party transactions (continued)

The following balances were outstanding at the end of the reporting period in relation to these transactions:

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Corporate and Administrative Services Pty Ltd	**-**	825

(e) Loans to/from related parties

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Loans to key management personnel		
Beginning of the year	**-**	-
Loans advanced	**-**	422,787
Interest charged	**-**	2,490
End of year	**-**	425,277
Loans to related parties		
Beginning of the year	**-**	-
Loans reclassified from key management personnel to related parties	**425,277**	-
Loan payments received	**(12,684)**	-
Interest charged	**20,650**	-
Interest received	**(18,028)**	-
End of year	**415,215**	-

(f) Terms and conditions

Other related party transactions were made on normal commercial terms and conditions and at market rates.

Loans to related parties outstanding at the end of the current year include a secured loan to a former director of Palla Pharma Limited of $410,103 which was made for a period of 25 years and was repayable on a quarterly amortising reducing balance basis, maturing on 31 December 2044. The terms of the loan have been varied following the resignation of the director, with the loan now repayable on a monthly amortising reducing balance basis with the balance of $338,997 due for repayment on 21 December 2021. Interest is payable on this loan at a rate of 5% per annum, payable monthly. This loan enabled the director to fully participate in the pro-rata Entitlement Offer completed by the Group in 2019 and is secured against the new shares subscribed to under the offer.

In the prior year the loan was classified as a loan to key management personnel.

Outstanding balances other than loans to key management personnel are unsecured and are repayable in cash.

29 Cash flow information

Reconciliation of (loss) after income tax to net cash (outflow) from operating activities

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
(Loss) for the year	**(34,756,056)**	(7,639,443)
Adjustment for:		
Depreciation expense	**2,527,254**	2,470,479
Impairment of goodwill	**13,955,503**	-
Amortisation expense	**133,011**	43,407
Net (gain) on sale of non-current assets	**(1,631,741)**	(14,400)
Litigation settlement expense	**-**	1,161,365
Unwind of discount on trade payable	**120,817**	-
Partnership distribution	**(793)**	277
Income tax benefit	**-**	(138,193)
Interest income	**(27,055)**	(23,028)
Interest expense	**1,938,641**	3,112,106
Equity-settled share-based payment transactions	**176,959**	343,633
Change in operating assets and liabilities:		
Decrease/(increase) in trade, other receivables and contract assets	**10,407,703**	(2,025,329)
(Increase) in inventories	**(4,746,055)**	(3,411,722)
(Increase)/decrease in prepayments	**(102,822)**	1,241,615
(Decrease) in trade and other payables	**(893,237)**	(1,701,685)
Increase in employee benefits provisions	**30,653**	200,728
Interest received	**27,055**	23,028
Interest paid	**(1,938,641)**	(3,112,106)
Net cash (outflow) from operating activities	**(14,778,804)**	(9,469,268)

30 Events occurring after the reporting period

On 26 February 2021 the Group announced a fully underwritten capital raising to raise approximately $18 million. The capital raising is comprised of a placement to institutional investors to raise approximately $4 million and an accelerated pro rata non-renounceable entitlement offer to raise approximately $14 million. As at the date of this report, the placement and institutional component of the entitlement offer has been completed raising $12.2 million with the retail component of the offer expected to raise approximately $5.8 million closing on 22 March 2021.

On 26 February 2021 the Group extended the maturity date of its standby debt facility with Washington H. Soul Pattinson and Company Limited from 28 February 2022 to 1 April 2022. The limit of the facility was reduced to $15,000,000 and the interest rate on drawn funds was amended to 12% per annum.

No other matters or circumstances have occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

31 Earnings per share

(a) Reconciliation of earnings used in calculating earnings per share

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Net loss used in calculating basic earnings per share:	**34,756,056**	7,639,443
Net loss used in calculating diluted earnings per share:	**34,756,056**	7,639,443

(b) Weighted average number of shares used as the denominator

	Consolidated entity	
	2020 Number	2019 Number
Adjustments for calculation of diluted earnings per share:		
Weighted average number of ordinary shares used in calculating basic earnings per share	**125,947,977**	88,214,983
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	**125,947,977**	88,214,983

(c) Information concerning the classification of securities

Fully paid ordinary shares carry the right to participate in dividends and the proceeds on winding up of the Company in equal proportion to the number of shares held. At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands. Fully paid ordinary shares are included as ordinary shares in the determination of basic earnings per share.

No other securities are currently on issue.

32 Share-based payments

At 31 December 2020, the Group had the following share-based payment arrangement:

Share appreciation rights (equity settled)

The establishment of the Group's Share Appreciation Rights Plan was approved by shareholders at the 2017 annual general meeting.

Each Share Appreciation Right ("SAR") is an equity security that confers on the participant a right to be issued a specified number of the Company's shares, calculated by reference to the increase in market price of the Company's shares over a three year period. Share Appreciation Rights are granted under the plan for no consideration and carry no dividend or voting rights.

Vesting conditions of the Share Appreciation Rights are as follows: Tranche 1 Share Appreciation Rights are based on employment tenure, Tranche 2 Share Appreciation Rights are based on employment tenure and market prices of the Company's shares, and Tranche 3 Share Appreciation Rights are based on employment tenure and individual performance.

The fair value of the Share Appreciation Rights at grant date is determined using the Black-Scholes model.

32 Share-based payments (continued)

Share appreciation rights (equity settled) (continued)

Measurement of grant date fair values

The following inputs were used in the measurement of the fair values at grant date of the Share Appreciation Rights granted:

	SAR's Granted						
	2020	**2020**	**2020**	**2019**	**2019**	**2018**	**2017**
	Tranche 3	**Tranche 2**	**Tranche 1**	**Tranche 2**	**Tranche 1**	**Tranche 1**	**Tranche 1 (Lapsed)**
Number of SAR's granted	4,239,928	2,537,818	810,136	1,362,955	739,571	589,034	1,259,597
Fair value at grant date	$0.131	$0.001	$0.165	$0.001	$0.250	$0.330	$0.620
Grant date	22 December 2020	27 March 2020	27 March 2020	28 March 2019	28 March 2019	28 March 2018	27 March 2017
Expiry date	21 June 2022	27 March 2023	27 March 2023	28 March 2022	28 March 2022	28 March 2021	27 March 2020
Share price at grant date	$0.81	$0.70	$0.70	$1.05	$1.05	$1.39	$2.62
Expected volatility	30%	30%	30%	30%	30%	30%	30%
Risk-free interest rate	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Expected dividends	nil	nil	nil	nil	nil	nil	nil

None of the Share Appreciation Rights had vested at 31 December 2020. Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expenses was $176,959 (2019: $343,633).

Total number of Share Appreciation Rights granted as at 31 December 2020 are 10,279,442; the number of rights granted at balance date has been adjusted for historical lapses.

Expected volatility has been based on an evaluation of the historical volatility of the Company’s share price, particularly over the historical period commensurate with the expected term. The expected term of the instruments has been based on historical experience and general option holder behaviour.

33 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity, Palla Pharma Limited, show the following aggregate amounts:

	31 December 2020 $	31 December 2019 $
Balance sheet		
Current assets	**37,610,474**	54,608,209
Total assets	**70,777,495**	87,185,292
Current liabilities	**13,117,324**	11,727,407
Total liabilities	**28,136,754**	12,105,451
Shareholders' equity		
Issued capital	**210,994,087**	210,997,191
Reserves	**1,788,190**	3,711,447
(Accumulated losses)	**(170,141,536)**	(139,628,797)
Total shareholder's equity	**42,640,741**	75,079,841
(Loss) for the year of the parent entity	**(30,512,739)**	(3,875,880)
Total comprehensive (loss) of the parent entity	**(32,439,100)**	(3,875,880)

(b) Guarantees entered into by the parent entity

The parent entity did not enter any guarantees in relation to the debts of its subsidiaries as at 31 December 2020 or 31 December 2019.

(c) Contractual commitments for the acquisition of property, plant or equipment

Refer to note 27.

In the directors' opinion:

(a) the consolidated financial statements and notes set out on pages 25 to 77 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.

Simon Moore

Mr. Simon Moore
Chairman

Melbourne
19 March 2021

Independent Auditor's Report

To the shareholders of Palla Pharma Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Palla Pharma Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 31 December 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2020;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Palla Pharma Limited (the Company) and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 2 (e), "Going Concern" in the financial report. The conditions disclosed in Note 2 (e), indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.

In concluding there is a material uncertainty related to going concern we evaluated the extent of uncertainty regarding events or conditions casting significant doubt in the Group's assessment of going concern. This included:

- Analysing the cash flow projections by:
  - Evaluating the underlying data used to generate the projections for consistency with other information tested by us, our understanding of the Group's intentions, and past results and practices;
  - Assessing the planned levels of operating and capital expenditures for consistency of relationships and trends to the Group's historical results, particularly in light of loss making operations, results since year end, and our understanding of the business, industry and economic conditions of the Group;
- Assessing significant assumptions underpinning the forecast cash inflows and outflows for feasibility, quantum and timing. We used our knowledge of the client, its industry and current status of those initiatives to assess the level of associated uncertainty.
- Reading correspondence with existing financiers to understand the financing options available to the Group, and assess the level of associated uncertainty resulting from renegotiation of existing debt facilities.
- Reading Directors' minutes and relevant correspondence with the Group's advisors to understand the Group's ability to raise additional shareholder funds, and assess the level of associated uncertainty.
- Checking additional shareholder funds raised subsequent to year end to underlying bank records.
- Evaluating the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the Group's plans to address those events or conditions, and accounting standard requirements. We specifically focused on the principle matters giving rise to the material uncertainty.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matter described below to be the Key Audit Matter

Recoverable amount of Property, plant and equipment and intangibles

Refer to Note 15 Property, plant and equipment ($23,517,976) and Note 17 Intangible assets ($4,310,976) to the financial report.

The key audit matter	**How the matter was addressed in our audit**
A key audit matter for us was the Group's annual testing of intangible assets and property, plant and equipment for impairment, given the size of the balance being 41% of total assets. The Group has incurred a loss during the year and has a history of operating losses, which increased the judgement applied by us when	Our procedures included: • We considered the appropriateness of the value in use method applied by the Group to perform its annual impairment test of intangible assets and property, plant and equipment against the requirements of the

evaluating the evidence available. We focused on the significant forward-looking assumptions the Group applied, in their value in use model for the Australian Cash Generating Unit (CGU), including: • discount rate - these are complicated in nature and vary according to the conditions and environment the specific CGU is subject to, from time to time, and the model's approach to incorporating risks into the cash flows or discount rates. The Group's modelling is sensitive to changes in the discount rate. We involved our valuations specialists with the assessment. • forecast growth rate and terminal growth rate – the Group's model is sensitive to changes in these assumptions. This drives additional audit effort specific to their feasibility and consistency of application to the Group's strategy. • forecast cash outflows - in particular, cost of purchases which is influenced by supplier volumes and poppy straw harvesting yields. These underpin the forecast sales volume and margins which directly impact on the forecast profitability of the CGU. Additional audit effort is required to assess risk of inaccurate forecasts and the range of possible outcomes. • forecast operating cash inflows - which is influenced by forecast customer demand, expected production volumes, sales prices and foreign exchange rates. The Group's sales volumes are impacted by timing of certain licensing approvals. This drives additional audit effort specific to their feasibility, range of outcomes and consistency of application to the Group's strategy. • foreign exchange rates - the Group's model is highly sensitive to changes in exchange rates which increases the possibility of property plant and equipment and intangible assets being impaired and the risk of inaccurate forecasts. This drives additional audit effort specific to their feasibility and consistency of application to the Group's strategy. We involve our valuation specialists with the assessment	accounting standards. • We assessed the integrity of the value in use models used, including the accuracy of the underlying calculation formulas. • We compared the forecast cash flows contained in the value in use model to Board approved forecasts. We applied increased scepticism to forecasts in the areas where previous forecasts were not achieved. • We considered the sensitivity of the Group's model by varying key assumptions, such as the foreign exchange rates and the discount rate, within a reasonably possible range. We did this to identify those CGUs at higher risk of impairment and to focus our further procedures. • We assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the model. • We checked the key judgements and estimates for evidence of detailed review and approval by the Directors. • We challenged the significant forecast cash flows and growth assumptions given the operating losses. We compared key events to the Board approved plan and strategy. In addition: — We compared the forecast cash outflows to the previous year's achieved poppy straw harvesting yields and supplier volumes. — We compared the forecast cash inflows, which is influenced by expected production volumes to the Group's production plans. We compared the sales prices and volumes to historically achieved prices and volumes as per underlying accounting records and assessed industry trends for each sales territory and contracted pricing where applicable. We inspected relevant correspondence on the status of licensing approvals that underpin forecast sales. — Working with our valuation specialists we compared the forecast foreign exchange rates to published views of market commentators on future trends.

of forecast exchange rates. The model uses adjusted historical performance, and a range of internal and external sources as inputs to the assumptions. The Group has not met prior forecasts, raising our concern for reliability of current forecasts. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter. In addition to the above, the Group recorded an impairment charge of $13,955,503 against goodwill, resulting from a combination of factors which resulted in the carrying amount of the Australian CGU to be higher than its recoverable amount. This further increased our audit effort in this key audit area.	• Working with our valuation specialists, we independently developed an acceptable range for the discount rate based on market data for comparable entities, adjusted by risk factors specific to the Group. • We recalculated the impairment charge against the recorded amount disclosed. • We assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Palla Pharma Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or 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. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either

intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Palla Pharma Limited for the year ended 31 December 2020, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' 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 responsibilities

We have audited the Remuneration Report included in pages 12 to 20 of the Directors' report for the year ended 31 December 2020.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Tony Batsakis

Partner

Melbourne
19 March 2021

The shareholder information set out below was applicable as at 2 March 2021.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Holding	Class of equity security Ordinary shares
1 - 1000	366
1,001 - 5,000	579
5,001 - 10,000	257
10,001 - 100,000	468
100,001 and over	88
	1,758

There were 260 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Ordinary shares	
	Number held	Percentage of issued shares
Washington H. Soul Pattinson and Company Limited	25,040,465	19.90
UBS Nominees Pty Ltd	23,807,796	18.90
National Nominees Limited	11,587,496	9.20
Sandhurst Trustees Ltd	10,219,291	8.10
Skylights Pty Ltd	5,079,738	4.00
BNP Paribas Nominees Pty Ltd SIX SIS Ltd	3,950,546	3.10
Colinton Investments Pty Ltd	2,963,895	2.40
Sico Holdings Pty Ltd	2,740,741	2.20
Bond Street Custodians Limited	1,792,913	1.40
Gaspard Boot	1,498,000	1.20
Jarrod Ritchie & Catrina Ritchie	1,381,177	1.10
Gowing Bros Limited	1,064,914	0.80
HSBC Custody Nominees (Australia) Limited	1,032,464	0.80
JP Morgan Nominees Australia Pty Limited	801,521	0.60
Mr Jarrod David Ritchie	731,587	0.60
Langburgh Pty Ltd	723,173	0.60
Radiata Super Pty Ltd	701,060	0.60
Cowoso Capital Pty Ltd	675,000	0.50
Beebee Holdings Pty Ltd	556,715	0.40
Mr Joris Arjen Lugtenburg & Mrs Adriane Lugtenburg	500,000	0.40
Australian Philanthropic Services Foundation Pty Ltd	500,000	0.40
	97,348,492	77.20

C. Substantial shareholders

The Company's Holders of Relevant Interests as notified by ASX Substantial Shareholders and the number of shares in which they have an interest as disclosed by notices received under Part 6.7 of the *Corporations Act 2001* as at 2 March 2021 are listed below:

Name	Ordinary Shares	Percentage
Washington H. Soul Pattinson and Company Limited & Brickworks Limited	25,040,465	19.90%
Thorney Opportunities Limited & TIGA Trading Pty Limited	23,807,796	18.90%
Wentworth Williamson Management Pty Ltd	11,587,496	9.20%
Sico Holdings Pty Ltd ATF Oranje Trust and associates	8,361,889	6.60%
National Nominees Ltd ACF Australian Ethical Investment Limited	7,987,076	6.30%

D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares: on a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.