



P A L L A P H A R M A

Palla Pharma Limited

ABN 26 107 872 453

Interim report for the half-year ended 30 June 2019

Appendix 4D

The following information is presented in accordance with ASX listing rule 4.2A.3.

1. Details of the reporting period and previous corresponding period

Reporting period: half-year ended 30 June 2019
Previous corresponding period: half-year ended 30 June 2018

2. Results for announcement to the market

	Consolidated entity		
	30 June 2019 \$	30 June 2018 \$	Change %
2.1 Revenue from ordinary activities	27,357,107	22,756,666	+20.2%
2.2 Loss from ordinary activities after tax attributable to members	(4,083,709)	(3,947,725)	-3.4%
2.3 Net loss for the period attributable to members	(4,083,709)	(2,828,722)	-44.4%
2.4 There were no dividends paid, recommended or declared during the current or previous reporting period.			
2.5 The record date for determining entitlements to dividends – not applicable.			
2.6 Supplementary commentary on figures presented in 2.1 to 2.4 above – please refer to the Interim report for the half-year ended 30 June 2019 attached and Results Presentation issued 29 August 2019.			

3. Net tangible assets

	Consolidated entity		
	30 June 2019 \$	30 June 2018 \$	Change %
Net tangible assets per security	0.36	0.41	-12.6%

4. Details of entities over which control has been gained or lost during the period

Not applicable.

5. Dividend payments

Not applicable.

6. Dividend reinvestment plans

Not applicable.

7. Associate or joint venture entities

Not applicable.

8. Foreign entities

Not applicable.

9. Independent review

The interim financial report contains an unqualified independent review report.



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Palla Pharma Limited

(Formerly TPI Enterprises Limited)

ABN 26 107 872 453

Interim report for the half-year ended 30 June 2019

Palla Pharma Limited ABN 26 107 872 453
Interim report for the half-year ended 30 June 2019

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2018 and any public announcements made by Palla Pharma Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Palla Pharma Limited is a company limited by shares, incorporated and domiciled in Australia. The shares of Palla Pharma Limited are publicly traded on the Australian Securities Exchange under the ASX issuer code PAL.

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 half-year ended 30 June 2019.

Directors

The following persons were directors of Palla Pharma Limited for the half-year ended 30 June 2019 and up to the date of this report:

Mr. Simon Moore (Non-Executive Chairman)
 Mr. Jarrod Ritchie (Managing Director and CEO)
 Mr. Todd Barlow (Non-Executive Director)
 Ms. Sue MacLeman (Non-Executive Director)
 Mr. Stuart Black (Non-Executive Director)

Review of operations

Financial Results Summary

	Consolidated entity	
	30 June	30 June
	2019	2018
	\$	\$
Sales of Narcotic Raw Material ("NRM"), Active Pharmaceutical Ingredients ("API"), Finished Dosage Formulations ("FDF") and Poppy Seed	27,281,537	22,705,907
Statutory Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	(1,382,642)	(1,916,973)
Statutory Earnings Before Interest and Tax (EBIT)	(2,611,069)	(3,179,937)
Statutory (Loss) for the year after tax	(4,083,709)	(2,828,722)
Net cash (outflow) from operating activities	(6,620,846)	(6,512,244)
Operating EBITDA	270,931	(1,793,107)

The Group reported a statutory loss after income tax for the half-year period ended 30 June 2019 of \$4.1 million (2018: \$2.8 million) and a statutory Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") loss of \$1.4 million (2018: \$1.9 million).

Operating EBITDA, a non-GAAP financial measure used internally within the Group has been determined by adding back significant items (adding litigation settlement and acquisition expenses, and deducting other income) of \$1.7 million (2018: \$0.1 million). Operating EBITDA continues to improve along with gross profit margins. A \$2.1 million turnaround in the reported Operating EBITDA loss from \$1.8 million for the 2018 half-year period to an Operating EBITDA profit of \$0.3 million for the 2019 half-year period predominantly reflects the operating leverage associated with the continued increase in production volumes experienced during the period.

Sales revenue increased to \$27.3 million representing a 20.3% increase over the corresponding half-year period primarily driven by the growth of API, opiate based FDF and Poppy Seed sales. Reported Gross Margin for the Group increased to \$9.4 million, a 23.7% increase from 2018 due to the continued benefit of volume growth through greater plant utilisation. Indirect overhead costs of \$9.2 million for the 2019 half-year period (2018: \$9.4 million) continued to reduce despite further investment in new product development and one-off costs associated with improvements in Norway quality processes.

Net finance expenses increased for the half-year period to \$1.5 million (2018: \$1.0 million) due to higher levels of working capital debt facility utilisation driven by increased net working capital employed in inventories as a result of the high codeine patent litigation and inability to process harvested high codeine poppy straw until the dispute was resolved in June 2019.

Review of operations (continued)

Raw Material Straw Supply and Poppy Seed

A positive 2018/19 growing season in Australia saw the Group harvest record poppy straw volumes at the lowest growing cost achieved for a domestic harvest for the Group. Northern Hemisphere straw supply improved further during the half-year period, with the securing of additional aggregator supply agreements and a strong rebound in plantings after the previous season's drought.

With the high codeine patent dispute having been settled in June 2019, the Group had in excess of 100 tonne of NRM equivalent inventory on hand at 30 June 2019, underpinning raw material supply for the next 12 months.

Poppy seed sales prices held at record levels during the half-year reporting period at over €4 per kilogram for premium grade product, and the Group took advantage of this strong pricing by realising most of its seed inventory during the half-year period.

NRM production in Australia

NRM production continued to improve with more reliable straw supply seeing daily extraction rates increasing further compared to 2018. The majority of the Group's NRM volume is transferred to Norway for conversion to 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 an important 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 is delivering a competitive cost advantage for the Group combined with reliable straw supply, which has enabled increased sales volumes and long-term supply agreements to be secured.

API production in Norway

During the half-year period the Group experienced significant growth in API production and sales volumes, and expects volumes to continue to grow strongly throughout the second half of 2019 with nearly full capacity utilisation expected by the final quarter of 2019. Further market share gains and customer diversification have continued to be realised in both Codeine Phosphate and Pholcodine API markets, along with sales into new regions not previously supplied including first sales into developing markets in south-east Asia.

While pricing across the industry is at cyclical lows, the Group continues to attract new API volumes and grow market share at commercially attractive margins, demonstrating the Group's competitive cost advantage in API production. This was further underlined by the securing of a new multi-year supply agreement in July 2019 for 24 tonnes of Codeine Phosphate per annum with a minimum term of 3 years and total contracted revenue of not less than US\$25m.

FDF production in Norway

FDF production provides contract manufacturing ("CMO") services for third parties under long term manufacture and supply agreements. These services include granulating, tableting, packaging and warehousing, all of which requires high levels of labour, working capital and generates lower margins than the core businesses of the Group; NRM production and downstream conversion of NRM into API.

During the half-year period further improvement in both tableting and packaging production uptime was achieved. However, non-opiate based production remained a challenge due to the bespoke nature of the contracts and range of products needing to be produced, requiring short production runs and thereby resulting in significant production downtime for product changeover and line cleaning. There was a marginal decrease in tablets packed during the half-year period due to a scheduled production shutdown in January 2019 to enable the Group to commission a serialisation labelling system for CMO production as per a new EU Directive.

The CMO operation is focussed in the medium term on becoming a primarily opiate based CMO manufacturer, which will bring greater margin opportunities for the Group.

Review of operations (continued)

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, losses from discontinued operations, 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	
	30 June	30 June
	2019	2018
	\$	\$
Statutory (Loss) after income tax	(4,083,709)	(2,828,722)
(Profit)/loss from discontinued operation	-	(1,119,003)
Less: Income tax benefit	(85,502)	(198,675)
Add: Net finance expenses	1,558,142	966,463
Statutory Earnings Before Interest and Tax (EBIT)	(2,611,069)	(3,179,937)
Add: Depreciation and amortisation expense	1,228,427	1,262,964
Statutory Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	(1,382,642)	(1,916,973)
Add:		
Acquisition related expenses - legal and other expenses	122,000	174,625
Litigation settlement expenses	1,607,143	-
Deduct:		
Other income	(75,570)	(50,759)
Operating EBITDA	270,931	(1,793,107)

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 6.

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

A handwritten signature in blue ink that reads "Simon Moore". The signature is written in a cursive, flowing style.

Mr. Simon Moore
Chairman

Melbourne
29 August 2019



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 review of Palla Pharma Limited for the half-year ended 30 June 2019 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Tony Batsakis
Partner

Melbourne

29 August 2019

Palla Pharma Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2019

	Consolidated entity	
	30 June 2019	30 June 2018 *
Notes	\$	\$
Revenue		
Sale of goods	27,281,537	22,705,907
Other income	75,570	50,759
	<u>27,357,107</u>	<u>22,756,666</u>
Expenses		
Raw materials, consumables and other production expenses	(13,624,635)	(10,775,364)
Employee benefits (production) expenses	3 (4,224,819)	(4,365,648)
Employee benefits (non-production) expenses	3 (5,517,048)	(6,382,052)
Legal and listing compliance expenses	(542,428)	(366,079)
Market development expenses	(542,104)	(548,937)
Occupancy expenses	(1,016,064)	(785,462)
Research expenses	(74,051)	(136,148)
Acquisition related expenses - legal and other expenses	(122,000)	(174,625)
Litigation settlement expenses	(1,607,143)	-
Other expenses	(1,469,457)	(1,139,324)
Total expenses	<u>(28,739,749)</u>	<u>(24,673,639)</u>
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	<u>(1,382,642)</u>	<u>(1,916,973)</u>
Depreciation and amortisation expense	3 (1,228,427)	(1,262,964)
Earnings Before Interest and Tax (EBIT)	<u>(2,611,069)</u>	<u>(3,179,937)</u>
Finance income	2,770	11,808
Finance expenses	(1,560,912)	(978,271)
Net finance expenses	3 <u>(1,558,142)</u>	<u>(966,463)</u>
(Loss) before income tax	(4,169,211)	(4,146,400)
Income tax benefit	85,502	198,675
(Loss) from continuing operations	<u>(4,083,709)</u>	<u>(3,947,725)</u>
Profit from discontinued operation, net of tax	-	1,119,003
(Loss) for the period	<u>(4,083,709)</u>	<u>(2,828,722)</u>
Other comprehensive income		
<i>Item that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	196,540	1,295,959
Total comprehensive (loss) for the period	<u>(3,887,169)</u>	<u>(1,532,763)</u>

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

Palla Pharma Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2019
(continued)

	Consolidated entity	
Notes	30 June 2019	30 June 2018 *
	\$	\$
(Loss) is attributable to:		
Owners of Palla Pharma Limited	(4,083,709)	(2,828,722)
Total comprehensive (loss) for the period is attributable to:		
Owners of Palla Pharma Limited	(3,887,169)	(1,532,763)
	Cents	Cents
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:		
Basic loss per share	(5.04)	(4.87)
Diluted loss per share	(5.04)	(4.87)
Earnings per share for profit from discontinued operations attributable to the ordinary equity holders of the Company:		
Basic profit per share	0.00	1.38
Diluted profit per share	0.00	1.38

* Restated: Refer to note 14.

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

Palla Pharma Limited
Consolidated statement of financial position
As at 30 June 2019

		Consolidated entity	
		30 June	31 December
		2019	2018
Notes		\$	\$
ASSETS			
Current assets			
	Cash and cash equivalents	4 2,460,095	1,904,583
	Trade and other receivables	12,763,849	11,932,039
	Contract assets	3,720,904	3,527,827
	Inventories	5 28,093,745	19,166,364
	Prepayments	684,022	2,723,041
	Total current assets	47,722,615	39,253,854
Non-current assets			
	Investments	103,549	103,549
	Property, plant and equipment	7 27,449,542	27,762,272
	Deferred tax assets	20,392	-
	Intangible assets	8 16,758,102	14,816,227
	Inventories	6 1,533,830	1,821,873
	Total non-current assets	45,865,415	44,503,921
	Total assets	93,588,030	83,757,775
LIABILITIES			
Current liabilities			
	Trade and other payables	12,922,585	9,426,538
	Borrowings	9 89,363	166,074
	Current tax liabilities	-	134,893
	Provisions	1,515,293	1,710,002
	Total current liabilities	14,527,241	11,437,507
Non-current liabilities			
	Trade and other payables	2,125,962	-
	Borrowings	10 31,000,000	22,702,960
	Provisions	345,076	314,549
	Total non-current liabilities	33,471,038	23,017,509
	Total liabilities	47,998,279	34,455,016
	Net assets	45,589,751	49,302,759
EQUITY			
	Contributed equity	11 181,482,260	181,482,260
	Reserves	12 3,734,168	3,363,467
	(Accumulated losses)	(139,626,677)	(135,542,968)
	Total equity	45,589,751	49,302,759

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

Palla Pharma Limited
Consolidated statement of changes in equity
For the half-year ended 30 June 2019

	Notes	Attributable to owners of Palla Pharma Limited				Total equity \$
		Contributed equity \$	Foreign currency translation reserve \$	Other reserves \$	(Accumulated losses) \$	
Consolidated entity						
Balance at 1 January 2018		181,482,260	(264,593)	2,120,662	(130,086,117)	53,252,212
Opening balance adjustment on application of AASB 15		-	-	-	331,558	331,558
Restated total equity at the beginning of the financial period		181,482,260	(264,593)	2,120,662	(129,754,559)	53,583,770
(Loss) for the half-year *		-	-	-	(2,828,722)	(2,828,722)
Other comprehensive income		-	1,295,959	-	-	1,295,959
Total comprehensive income/(loss) for the period		-	1,295,959	-	(2,828,722)	(1,532,763)
Transactions with owners in their capacity as owners:						
Share-based payments		-	-	130,158	-	130,158
Balance at 30 June 2018 *		181,482,260	1,031,366	2,250,820	(132,583,281)	52,181,165
Balance at 1 January 2019		181,482,260	915,308	2,448,159	(135,542,968)	49,302,759
(Loss) for the half-year		-	-	-	(4,083,709)	(4,083,709)
Other comprehensive income		-	196,540	-	-	196,540
Total comprehensive income/(loss) for the period		-	196,540	-	(4,083,709)	(3,887,169)
Transactions with owners in their capacity as owners:						
Share-based payments		-	-	174,161	-	174,161
Balance at 30 June 2019		181,482,260	1,111,848	2,622,320	(139,626,677)	45,589,751

* Restated: Refer to note 14.

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

Palla Pharma Limited
Consolidated statement of cash flows
For the half-year ended 30 June 2019

		Consolidated entity	
		30 June	30 June
		2019	2018
Notes		\$	\$
Cash flows from operating activities			
	Receipts from customers (inclusive of VAT)	28,665,032	27,368,129
	Payments to suppliers and employees (inclusive of GST and VAT)	(33,727,736)	(32,913,910)
		(5,062,704)	(5,545,781)
	Interest received	2,770	11,808
	Interest and finance costs paid	(1,560,912)	(978,271)
	Net cash (outflow) from operating activities	(6,620,846)	(6,512,244)
13			
Cash flows from investing activities			
	Payments for property, plant and equipment	(851,880)	(558,842)
	Payments for capitalised development costs and patents	(339,790)	(237,225)
	Proceeds from sale of non-current assets	-	54,750
	Proceeds from sale of held-for-sale assets	-	4,291,522
	Net cash (outflow) inflow from investing activities	(1,191,670)	3,550,205
Cash flows from financing activities			
	Proceeds from borrowings	8,297,040	-
	Repayment of borrowings	(76,711)	(76,292)
	Net cash inflow (outflow) from financing activities	8,220,329	(76,292)
10			
Net increase (decrease) in cash and cash equivalents			
		407,813	(3,038,331)
	Cash and cash equivalents at the beginning of the financial year	1,904,583	3,644,547
	Effects of exchange rate changes on the balance of assets held in foreign currencies	147,699	793,727
	Cash and cash equivalents at end of period	2,460,095	1,399,943
4			

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

1 Basis of preparation of half-year report

This consolidated interim report for the half-year reporting period ended 30 June 2019 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

This condensed interim report does not include all of the notes of the type normally included in an annual financial report, however selected explanatory notes are included to explain events and transactions that are significant to understanding the changes to the Group's financial position and performance since 31 December 2018. Accordingly, it should be read in conjunction with the Annual Report for the year ended 31 December 2018 and any public announcements made by Palla Pharma Limited, since 31 December 2018, in accordance with continuous disclosure requirements of the *Corporations Act 2001*. This interim report has been prepared in accordance with the measurement and recognition requirements of Australian Accounting Standards, Accounting Interpretations and the *Corporations Act 2001*.

This interim report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for the assets. All amounts are presented in Australian dollars, unless otherwise noted. All values are rounded to the nearest dollar.

Except as described below the accounting policies and methods of computation adopted in the preparation of the interim report are consistent with those adopted and disclosed in the Group's annual financial report for the year ended 31 December 2018.

This is the first set of the Group's Financial Statements where AASB16 *Leases* has been applied. There has been no material impact on the Group's financial statements on adoption of AASB16.

This interim report was authorised for issue by the Group's Board of Directors on 29 August 2019.

(a) Significant accounting policies

The accounting policies applied in this interim report are the same as those applied in the Group's consolidated financial report as at and for the year ended 31 December 2018, except as stated in note below.

(b) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with Australian Accounting Standards 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.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the half-year ended ending 30 June 2019 is included in the following notes:

Notes 7 and 8 - impairment test: key assumptions underlying recoverable amounts of property, plant and equipment and intangible assets.

1 Basis of preparation of half-year report (continued)

(c) 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 half-year ended 30 June 2019 the Group generated a loss after income tax of \$4,083,709 (2018: \$2,828,722) and had cash outflows from operations of \$6,620,846 (2018: \$6,512,244).
- As at 30 June 2019 the Group's current assets exceeded its current liabilities by \$33,195,374 (31 December 2018: \$27,816,347), with cash and cash equivalents of \$2,460,095 (31 December 2018: \$1,904,583).
- 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 the date of this report the facility has a limit of \$31,000,000 and at 30 June 2019 the Group has fully drawn down the facility.
- The standby debt facility in place with Washington H. Soul Pattinson expires on 31 August 2020. The Directors acknowledge that prima facie a refinancing risk exists at 31 August 2020 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 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 Group's revenue continues to grow strongly with an increase of 20.3% compared to the prior corresponding half-year period at improved margins, and the Group reported a positive Operating EBITDA for the half-year ended 30 June 2019 with this trend expected to continue.
- 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.

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, 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 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	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018	30 June 2019	30 June 2018	30 June 2019	30 June 2018
	\$	\$	\$	\$	\$	\$	\$	\$
Consolidated entity								
External revenue	6,963,668	2,408,454	20,393,439	20,348,212	-	-	27,357,107	22,756,666
Inter-segment revenue	12,835,005	5,532,408	-	-	(12,835,005)	(5,532,408)	-	-
Total segment revenue	<u>19,798,673</u>	<u>7,940,862</u>	<u>20,393,439</u>	<u>20,348,212</u>	<u>(12,835,005)</u>	<u>(5,532,408)</u>	<u>27,357,107</u>	<u>22,756,666</u>
Reportable segment profit/(loss) after tax *	<u>886,955</u>	<u>(2,664,816)</u>	<u>(2,702,810)</u>	<u>(540,584)</u>	<u>(709,712)</u>	<u>224,138</u>	<u>(2,525,567)</u>	<u>(2,981,262)</u>
<i>Unallocated amounts</i>								
Net financing costs							(1,558,142)	(966,463)
Profit from discontinued operation							-	1,119,003
Consolidated (loss) after tax *							<u>(4,083,709)</u>	<u>(2,828,722)</u>

* Restated: Refer to note 14.

2 Segment information (continued)

	Australia		Norway		Eliminations		Consolidated	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Consolidated entity	\$	\$	\$	\$	\$	\$	\$	\$
Timing of External revenue recognition:								
At a point in time	6,963,668	2,408,454	8,189,392	6,840,520	-	-	15,153,060	9,248,974
Over time	-	-	12,204,047	13,507,692	-	-	12,204,047	13,507,692
	6,963,668	2,408,454	20,393,439	20,348,212	-	-	27,357,107	22,756,666

2 Segment information (continued)

	Consolidated entity	
	30 June 2019 \$	31 December 2018 \$
Non-current assets		
Australia	28,460,200	27,366,538
Europe	17,405,215	17,137,383
	45,865,415	44,503,921

3 Expenses

	Consolidated entity	
	30 June 2019 \$	30 June 2018 \$
(Loss) before income tax includes the following specific expenses:		
<i>Employee benefits expenses</i>		
Salaries and wages	8,647,563	9,039,665
Other associated personnel expenses	1,084,325	1,818,648
Increase in liability for long service leave	30,527	13,814
Decrease in liability for annual leave	(194,709)	(254,585)
Share-based payments	174,161	130,158
Total employee benefits expenses	9,741,867	10,747,700
 <i>Depreciation</i>		
Buildings	215,049	208,275
Contract equipment	85,933	94,738
Manufacturing plant and equipment	791,129	891,296
Office equipment	114,244	51,367
Motor vehicles	9,145	17,288
Total depreciation	1,215,500	1,262,964
 <i>Amortisation</i>		
Patents	12,927	-
Total amortisation	12,927	-
Total depreciation and amortisation	1,228,427	1,262,964

3 Expenses (continued)

	Consolidated entity	
	30 June 2019	30 June 2018
	\$	\$
<i>Finance income</i>		
Interest income	(2,770)	(11,808)
	(2,770)	(11,808)
<i>Finance costs</i>		
Interest and finance expenses on financial liabilities measured at amortised cost	1,478,856	775,928
Net exchange losses on foreign currency	82,056	202,343
	1,560,912	978,271
Net finance expenses recognised in profit or loss	1,558,142	966,463

4 Current assets - Cash and cash equivalents

	Consolidated entity	
	30 June 2019	31 December 2018
	\$	\$
Cash at bank	2,460,095	1,904,583

5 Current assets - Inventories

	Consolidated entity	
	30 June 2019	31 December 2018
	\$	\$
Raw materials and consumables	10,430,083	5,830,836
Work in progress	16,649,434	12,751,135
Finished goods	1,014,228	584,393
	28,093,745	19,166,364

6 Non-current assets - Inventories

	Consolidated entity	
	30 June 2019	31 December 2018
	\$	\$
Raw materials and consumables	1,200,529	1,200,529
Work in progress	311,110	599,095
Finished goods	22,191	22,249
	1,533,830	1,821,873

7 Non-current assets - Property, plant and equipment

	Land and buildings \$	Manufacturing plant and equipment \$	Office equipment \$	Motor vehicles \$	Contract plant and equipment \$	Total \$
At 31 December 2018						
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
Period ended 30 June 2019						
Opening net book amount	10,183,911	14,796,026	1,334,129	85,791	1,362,415	27,762,272
Exchange differences	7,646	33,901	9,299	44	-	50,890
Additions	54,458	738,779	58,022	-	621	851,880
Depreciation charge	(215,049)	(791,129)	(114,244)	(9,145)	(85,933)	(1,215,500)
Closing net book amount	10,030,966	14,777,577	1,287,206	76,690	1,277,103	27,449,542
At 30 June 2019						
Cost	18,203,491	28,768,524	2,035,447	259,132	2,233,692	51,500,286
Accumulated depreciation	(8,172,525)	(13,990,947)	(748,241)	(182,442)	(956,589)	(24,050,744)
Net book amount	10,030,966	14,777,577	1,287,206	76,690	1,277,103	27,449,542

Impairment testing

During the half-year ended 30 June 2019, 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.

Whilst there are no impairment indicators for the Norway CGU, impairment testing was performed based on value-in-use calculations.

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

Value in use as at 30 June 2019 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 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.

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

Impairment testing (continued)

- 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.
- 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.
- 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 9.45% (pre-tax amount of 12.47%) was applied in determining the recoverable amount of the CGU 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.

The recoverable amount of the Australia CGU was determined to be higher than its carrying amount, indicating that no impairment is evident. In addition, reasonably possible changes in key assumptions were considered, such as changes in the forecast sales volumes, foreign exchange rates and the discount rate; sufficient headroom exists and no impairment was noted.

8 Non-current assets - Intangible assets

	Goodwill \$	Patents \$	Capitalised development costs \$	Total \$
At 31 December 2018				
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
Period ended 30 June 2019				
Opening net book amount	13,955,503	96,428	764,296	14,816,227
Exchange differences	-	1,550	-	1,550
Additions	-	1,918,067	35,185	1,953,252
Amortisation charge	-	(12,927)	-	(12,927)
Closing net book amount	13,955,503	2,003,118	799,481	16,758,102
At 30 June 2019				
Cost	13,955,503	2,048,915	799,481	16,803,899
Accumulated amortisation and impairment	-	(45,797)	-	(45,797)
Net book amount	13,955,503	2,003,118	799,481	16,758,102

Impairment testing

The Group reviewed the carrying value of its intangible assets at the reporting date and determined that the carrying value of these assets was appropriate. Refer to note 7 for further details of the Group's impairment testing for the half-year ended 30 June 2019.

9 Current liabilities - Borrowings

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

	Consolidated entity	
	30 June 2019	31 December 2018
	\$	\$
Other loans	89,363	166,074
Total current borrowings	89,363	166,074

Refer to note 10 for movements during the half-year, and the contractual terms of the Group's current borrowings.

10 Non-current liabilities - Borrowings

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

	Consolidated entity	
	30 June 2019	31 December 2018
	\$	\$
Shareholder loan facility	31,000,000	22,702,960

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 \$31,000,000 (2018: \$25,000,000) to meet the Group's short term working capital needs. At 30 June 2019 the Group had drawn down \$31,000,000 of the facility (2018: \$22,702,960). The maturity date of this facility is August 2020.

Movement in total borrowings (current and non-current) during the half year

	Currency	Nominal interest rate	Year of maturity	Movement	Carrying amount (\$)
At 1 January 2019					22,869,034
<i>Repayments</i>					
Shareholder loan facility - Tranche A	AUD	11.00%	2020	-	16,400,000
Shareholder loan facility - Tranche B	AUD	9.00%	2020	2,297,040	8,600,000
Shareholder loan facility - Tranche C	AUD	15.00%	2020	6,000,000	6,000,000
Insurance premium funding	AUD	6.22%	2019	(88,646)	-
Insurance premium funding	AUD	5.20%	2019	(71,227)	14,774
Other	AUD		2019	83,162	74,589
Carrying amount at 30 June 2019				8,220,329	31,089,363

11 Contributed equity

(a) Share capital

	30 June 2019	31 December 2018	30 June 2019	31 December 2018
	Shares	Shares	\$	\$
Ordinary shares				
Fully paid	81,085,594	81,085,594	181,482,260	181,482,260

(b) Ordinary shares

The Group does not have authorised capital or par values in respect of its issued shares. All issued shares are fully paid. All shares rank equally with regard to the Group's residual assets.

Ordinary shares participate in dividends and the proceeds on winding up of the Group 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 Group's shares that are held by the Group, 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 Group.

12 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.

13 Cash flow information

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

	Consolidated entity	
	30 June 2019 \$	30 June 2018 \$
(Loss) for the period	(4,083,709)	(2,828,722)
Depreciation expense	1,215,500	1,262,964
Amortisation expense	12,927	-
Net loss on sale of non-current assets	-	27,559
Gain on sale of discontinued operation, net of income tax	-	(1,119,003)
Income tax benefit	(85,502)	(198,675)
Equity-settled share-based payment transactions	174,161	130,158
Unrealised foreign exchange loss and other items	-	202,343
Interest income	(2,770)	(11,808)
Interest expense	1,560,912	775,928
Change in operating assets and liabilities:		
(Increase)/decrease in trade, other receivables and contract assets	(1,024,887)	1,563,300
(Increase) in inventories	(8,639,338)	(3,745,709)
Decrease in prepayments	2,039,019	247,299
Increase/(decrease) in trade and other payables	3,935,165	(1,610,644)
(Decrease) in other provisions	(164,182)	(240,771)
Interest received	2,770	11,808
Interest paid	(1,560,912)	(978,271)
Net cash (outflow) from operating activities	(6,620,846)	(6,512,244)

14 Acquisition of subsidiary

On 2 October 2017 the Group acquired 100% of the issued share capital of TPI Norway AS, the demerged entity holding the assets of the opiate and tableting business unit of Vistin Pharma ASA, a Norwegian pharmaceutical company.

As disclosed in note 27 of the 31 December 2018 financial statements, during the 2018 financial year, the Group commissioned an independent valuation of the identifiable assets acquired and liabilities assumed as part of the acquisition. Having obtained new information about facts and circumstances that existed at the date of acquisition, the valuation determined that the net identifiable assets acquired were \$7,549,643 lower than were previously reported, having been reported on a provisional basis. Consequently, the goodwill acquired as part of the acquisition has increased by this amount resulting in the previously reported goodwill of \$6,772,206 increasing to \$13,795,140.

As at 30 June 2018 the Group had disclosed an amortisation expense of \$827,812 in relation to the intangible asset: customer relationships. As part of the restatement of the 30 June 2018 balances, depreciation and amortisation expense was adjusted to reflect the impact of the acquisition accounting adjustment. The comparative information shown in the financial statements has been shown to include the restatement which impacted the comparative profit or loss and accumulated losses in the statement of changes in equity.

Details of the identified adjustments are as follows:

Consolidated statement of profit or loss and other comprehensive income (extract)

	Provisional amount disclosed at 30 June 2018 \$	Acquisition adjustments \$	Restated balance at 30 June 2018 * \$
Total revenue	22,756,666	-	22,756,666
Total expenses	(24,673,639)	-	(24,673,639)
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	(1,916,973)	-	(1,916,973)
Depreciation and amortisation expense	(2,090,776)	827,812	(1,262,964)
Earnings Before Interest and Tax (EBIT)	(4,007,749)	827,812	(3,179,937)
Net finance expenses	(966,463)	-	(966,463)
(Loss) before income tax	(4,974,212)	827,812	(4,146,400)
Income tax benefit	198,675	-	198,675
(Loss) from continuing operations	(4,775,537)	827,812	(3,947,725)
Profit from discontinued operations, net of tax	1,119,003	-	1,119,003
(Loss) for the period	(3,656,534)	827,812	(2,828,722)

14 Acquisition of subsidiary (continued)

Consolidated statement of changes in equity (extract)

	Accumulated losses						Total equity \$
	Contributed equity \$	Foreign currency translation reserve \$	Other reserves \$	Provisional amount disclosed at 30 June 2018 \$	Acquisition adjustments \$	Restated balance at 30 June 2018 * \$	
Balance at 1 January 2018	181,482,260	(264,593)	2,120,662	(130,086,117)	-	(130,086,117)	53,252,212
Opening balance adjustment on application of AASB 15	-	-	-	331,558	-	331,558	331,558
Restated total equity at the beginning of the financial period	181,482,260	(264,593)	2,120,662	(129,754,559)	-	(129,754,559)	53,583,770
(Loss) for the half year	-	-	-	(3,656,534)	827,812	(2,828,722)	(2,828,722)
Other comprehensive income	-	1,295,959	-	-	-	-	1,295,959
Total comprehensive income/(loss) for the period	-	(1,295,959)	-	3,656,534	(827,812)	2,828,722	1,532,763
Transactions with owners in their capacity as owners:							
Share-based payments	-	-	130,158	-	-	-	130,158
Restated balance at 30 June 2018	181,482,260	1,031,366	2,250,820	(133,411,093)	827,812	(132,583,281)	52,181,165

*June 2018 balances were restated to reflect the impact of the acquisition accounting adjustment on the comparative profit or loss and accumulated losses in the statement of change in equity.

In the directors' opinion:

- (a) the interim financial statements and notes set out on pages 7 to 24 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting and 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 30 June 2019 and of its performance for the half-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.

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



Mr. Simon Moore
Chairman

Melbourne
29 August 2019



Independent Auditor's Review Report

To the shareholders of Palla Pharma Ltd

Conclusion

We have reviewed the accompanying **Interim Financial Report** of Palla Pharma Ltd.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Palla Pharma Ltd is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 June 2019 and of its performance for the **Interim Period** ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2019.
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Interim Period ended on that date.
- Notes 1 to 14 comprising a summary of significant accounting policies and other explanatory information.
- The Directors' Declaration.

The **Group** comprises Palla Pharma Ltd (the Company) and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

The **Interim Period** is the 6 months ended on 30 June 2019.

Material uncertainty related to going concern – emphasis of matter

We draw attention to Note 1(c), "Going Concern" in the Interim Financial Report. The conditions disclosed in Note 1(c), 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 Interim Financial Report. Our conclusion is not modified in respect of this matter.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2019 and its performance for the interim period ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Palla Pharma Ltd, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



KPMG



Tony Batsakis
Partner

Melbourne

29 August 2019