

Friday, 21 February 2020

Manager, Company Announcements  
ASX Limited  
Level 4  
20 Bridge Street  
SYDNEY NSW 2000

**Via E-Lodgement**

Dear Sir/Madam

**Mayne Pharma Group Limited  
Interim Results**

Please find attached the Appendix 4D Half Year Report, Directors' Report, the Financial Report and Auditor's Independent Review Report relating to the results for the half-year ended 31 December 2019.

This information should be read in conjunction with Mayne Pharma Group Limited's 2019 Annual Report.

This announcement comprises the information required by ASX Listing Rule 4.2A and the statement required by Rule 4.2C.2.

Yours faithfully,  
Mayne Pharma Group Limited



Nick Freeman  
Group CFO & Company Secretary



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## RESULTS FOR ANNOUNCEMENT TO THE MARKET

### APPENDIX 4D – HALF YEAR REPORT

	% Change	Dec 2019 \$'000	Dec 2018 \$'000
Revenue from ordinary activities	(17.2%)	227,152	274,371
Profit / (loss) from ordinary activities before income tax expense	(310%)	(24,960)	11,880
Profit / (loss) from ordinary activities after income tax expense		(18,608)	1,001
<u>Attributable to:</u>			
Equity holders of the parent		(17,543)	2,580
Non-controlling interests	(32.6%)	(1,065)	(1,579)
		(18,608)	1,001
Other comprehensive income after income tax expense		(1,433)	49,844
Total comprehensive income after income tax expense		(20,041)	50,845
<u>Attributable to:</u>			
Equity holders of the parent		(18,988)	51,967
Non-controlling interests		(1,053)	(1,122)
		(20,041)	50,845
Net tangible assets per ordinary share <sup>(1)</sup>		\$0.031	\$0.080

	2019 Cents	2018 Cents
Basic earnings per share	(1.2)	0.2
Diluted earnings per share	(1.2)	0.2
Final dividend in respect of the financial year ended 30 June per share	Nil	Nil
Interim dividend in respect of the period ended 31 December per share	Nil	Nil

(1) Net tangible assets include Right-of-use lease assets

No dividend has been declared in relation to the period ended 31 December 2019.

Refer to the Directors' Report and the accompanying ASX announcement dated 21 February 2020 for a brief commentary on the results.

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# Half Year Financial Report

FOR THE HALF YEAR ENDED 31 DECEMBER 2019  
(PRIOR CORRESPONDING PERIOD: HALF YEAR ENDED 31 DECEMBER 2018)

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**MAYNE PHARMA GROUP LIMITED**  
ABN 76 115 832 963



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## CORPORATE INFORMATION

<b>DIRECTORS:</b>	Mr Roger Corbett, AO (Chairman) Mr Scott Richards (Managing Director and CEO) Mr Patrick Blake Mr Frank Condella Ms Nancy Dolan Mr Bruce Mathieson Prof Bruce Robinson, AC Mr Ian Scholes
<b>COMPANY SECRETARY:</b>	Mr Nick Freeman
<b>REGISTERED OFFICE</b>	1538 Main North Road Salisbury South South Australia 5106
<b>PRINCIPAL PLACES OF BUSINESS:</b>	1538 Main North Road Salisbury South South Australia 5106  1240 Sugg Parkway Greenville North Carolina 27834 USA
<b>AUDITORS:</b>	Ernst & Young 8 Exhibition Street Melbourne VIC 3000
<b>SOLICITORS:</b>	Minter Ellison Lawyers Rialto Towers 525 Collins Street Melbourne VIC 3000
<b>SHARE REGISTRY:</b>	Computershare Investor Services Pty Ltd Yarra Falls 452 Johnston Street Abbotsford VIC 3067 Telephone: (03) 9415 4184 Facsimile: (03) 9473 2500
<b>BANKER:</b>	Westpac 150 Collins Street Melbourne VIC 3000
<b>ABN:</b>	76 115 832 963
<b>DOMICILE AND COUNTRY OF INCORPORATION:</b>	Australia
<b>LEGAL FORM OF ENTITY:</b>	Public company listed on the Australian Securities Exchange (MYX)

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## DIRECTORS' REPORT

The Directors of Mayne Pharma Group Limited ("the Company" or "Mayne Pharma") submit their report for the half-year ended 31 December 2019.

### DIRECTORS

The names of the Company's Directors in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise noted.

Mr Roger Corbett, AO, Chairman  
Mr Scott Richards, Managing Director and CEO  
The Hon Ron Best (resigned 22 November 2019)  
Mr Patrick Blake  
Mr Frank Condella  
Ms Nancy Dolan  
Mr Bruce Mathieson  
Prof Bruce Robinson, AC  
Mr Ian Scholes

### REVIEW OF RESULTS

The Consolidated Entity's net loss attributable to members of the Company for the half-year ended 31 December 2019 was \$17.5m (half-year ended 31 December 2018: profit \$2.6m).

Set out below is a summary of the financial performance attributable to Mayne Pharma shareholders for the six months ended 31 December 2019. The summary includes Mayne Pharma's share of Inhibitor Therapeutics Inc (INTI, formerly Hedgepath Pharmaceuticals Inc). This summary includes non-IFRS financial information that is stated excluding certain non-operating income and expense items. The results are set out this way as the Directors consider them to be a meaningful comparison from period to period. Earnings before interest tax, impairment, depreciation and amortisation (EBITDA) is used as a key measure of the earnings considered by management in operating the business and assessing performance.

The new accounting standard for leases (AASB16) was adopted effective 1 July 2019 using the modified retrospective approach which means that the comparatives continue to be presented in accordance with the previous lease standard (AASB117) and have not been restated.

The reconciliation of reported results and underlying results is as follows:

	REPORTED ATTRIBUTABLE TO MEMBERS DEC 2019 <sup>(1)</sup>	EARN-OUT REASSESSMENT <sup>(2)</sup>	RESTRUCTURING <sup>(3)</sup>	IMPAIRMENTS <sup>(4)</sup>	DOJ <sup>(5)</sup>	INTI – MAYNE PHARMA'S SHARE <sup>(6)</sup>	INTI WARRANTS FAIR VALUE ADJUST <sup>(7)</sup>	GROSS-TO- NET ADJUST <sup>(8)</sup>	E4/DRSP RELATED COSTS <sup>(9)</sup>	UNDERLYING DEC 2019
SALES AND PROFIT	\$M	\$M	\$M	\$M <sup>1</sup>	\$M	\$M	\$M	\$M	\$M	\$M
Revenue	227.2							5.5		232.7
Gross profit	105.7		5.5					5.5		116.7
Gross profit %	47%									50%
EBITDA	34.6	(6.4)	10.8		1.2	1.0	0.4	5.5	0.3	47.4
Depreciation / Amortisation	(41.0)					0.2				(40.8)
Impairments	(5.9)			5.9						-
PBIT	(12.3)	(6.4)	10.8	5.9	1.2	1.2	0.4	5.5	0.3	6.6
Net Interest	(11.5)	-	-	-	-	-	-		1.8	(9.7)
PBT	(23.8)	(6.4)	10.8	5.9	1.2	1.2	0.4	5.5	2.1	(3.1)

(1) The values in the above table are values attributable to members of Mayne Pharma and hence include only Mayne Pharma's share of INTI. The Consolidated Statement of Profit or Loss and Other Comprehensive Income and supporting notes such as note 5 for income tax include 100% of INTI and hence differ from the above values.

(2) Earn-out and deferred consideration liabilities reassessment.

(3) Restructuring costs principally related to discontinued products and severance costs

(4) Impairments relate to intangibles and Property, Plant & Equipment

(5) Drug pricing investigations and related litigation costs.

(6) INTI – Mayne Pharma's share of INTI's EBITDA loss.

(7) Reassessment of INTI warrants to fair value.

(8) Abnormal level of gross-to-net charges (eg returns and govt rebates).

(9) The E4/DRSP related costs relate to expensed transaction costs (\$0.3m) and discount unwind (\$1.8m).

The non IFRS financial information is unaudited.

A more detailed analysis of the operating performance is included in the ASX Announcement and Results Presentation dated 21 February 2020.

## REVIEW OF OPERATIONS

The following information is provided on a total group basis, rather than that attributable to Mayne Pharma's members and hence includes 100% of the revenues (INTI revenue 2019: nil; 2018: nil) and expenses incurred by Inhibitor Therapeutics Inc (INTI) where applicable.

The Group recorded revenue of \$227.2m, down 17% on prior comparative period ("pcp") and gross profit was \$105.7m, down 34% on pcp.

Gross profit reported as a percentage of sales revenue was 47% versus 58% in the pcp. The weaker gross profit and margin reflects changing product sales mix in generics and stock write-downs due to the discontinuation of unprofitable generic products.

Foreign currency has been a benefit over the period for revenue, gross profit and EBITDA with the average AUD to USD FX rate weakening 4 cents to 0.6846 versus 0.7241 in the pcp. At the underlying EBITDA level, the FX impact was favourable versus the pcp by A\$2.5m.

The Consolidated Entity operates in four operating segments being Generic Products (GPD), Specialty Brands (SBD), Metrics Contract Services (MCS), and Mayne Pharma International (MPI).

### **Generic Products Division (GPD)**

The Generic Products Division distributes generic pharmaceutical products in the United States (US).

Revenue decreased by 29% to \$124.5m (\$175.9m pcp) and gross profit decreased by 55% to \$45.5m (\$100.3m pcp) for the period.

In US dollar terms, sales were down 33% to US\$85.3m (US\$127.4m pcp) and gross profit was US\$31m down 57%. GPD performance was impacted by competition on key products including liothyronine, dofetilide and butalbital along with \$5.5m of stock write-downs due to the discontinuation of unprofitable generic products and \$5.5m of abnormal gross-to-net charges for returns and government fees. Adjusting gross margin for the A\$5.5m of one-off stock write-downs and the abnormal gross-to-net charges of \$5.5m, the generic gross margin would have been 44%, instead of 37%.

### **Specialty Brands Division (SBD)**

The Specialty Brands Division distributes specialty pharmaceutical products in the US.

Revenue increased by 4% to \$44.9m (\$43.3m pcp) and gross profit increased by 1% to \$38.4m (\$37.8m pcp) for the period.

In US dollar terms, SBD's revenue was down 2% to US\$30.8m and gross profit was US\$26.3m, down 4%. SORILUX® and DORYX® sales were down on the prior period impacted by new competitor launches in the topical psoriasis and oral acne market, offset by growth in FABIOR®, LEXETTE® and TOLSURA®. SBD performance strengthened in the 2Q FY20 with sales up 50% on 1Q FY20 benefiting from a rebound in DORYX and SORILUX and continued growth in LEXETTE. During the period, the Company restructured the sales team and other areas which is expected to deliver US\$6m of annualised savings.

### **Metrics Contract Services (MCS)**

The Metrics Contract Services segment provides contract analytical, pharmaceutical development and manufacturing services to third party customers principally in the US.

Revenue increased by 13% to \$38.4m (\$33.9m pcp) and gross profit increased by 6% to \$17.5m (\$16.5m pcp) for the period.

In US dollar terms, MCS sales were up 7% to US\$26.3m (pcp US\$24.5m). MCS benefited from additional analytical services and formulation development revenues. Metrics has now signed global commercial manufacturing supply agreements with two top 10 pharma companies to manufacture FDA approved oncology medications. MCS supported both companies with drug product formulation, method development and testing, clinical trial manufacturing and now commercial manufacturing. Over time, MCS is expected to transition from a predominantly project-based revenue stream to include a mix of ongoing recurring revenue

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from commercial manufacturing.

**Mayne Pharma International (MPI)**

The MPI operating segment's revenues and gross profit are derived principally from the Australian manufacture and sale of branded and generic pharmaceutical products globally and the provision of contract manufacturing services to third party customers within Australia.

Revenue decreased by 9% to \$19.3m (\$21.3m pcp) and gross profit decreased by 26% to \$4.3m (\$5.8m pcp) for the period. The softer sales and gross profit performance reflect reduced KAPANOL® royalty income in Japan and lower margin commercial manufacturing revenues. MPI added two further contract service projects leveraging Salisbury's topical development capability and grew its portfolio of specialty products marketed in Australia, including MONUROL®, UROREC® and LOZANOC®.

**Expenses**

Net research and development expense after qualifying capitalisation (of \$7.5m) was \$12.7m, a decrease in the expense of \$1.9m (13%) on the pcp. Additional spend in the Speciality Brands area (R&D in this area is generally not capitalised) this period has resulted in the level of R&D capitalisation declining from 44% in the pcp to 37% this half. This category includes INTI research and development expense of \$1.0m (\$1.6m pcp).

	Dec 2019 \$M	Dec 2018 \$M
Total R&D costs incurred	20.2	26.0
Development costs capitalised	7.5	11.4
R&D expensed	12.7	14.6

Marketing and distribution expense was \$37.0m, an increase of \$1.2m (3%) on the pcp. The major increase was due to the investment in a new specialised field team to market TOLSURA (SUBA®-itraconazole), offset by other sales force restructuring.

Administration and other expenses were \$63.7m, a decrease of \$27.3m (30%) on the pcp. This includes amortisation of intangible assets which was \$30.6m (\$37.3m pcp). Also included in administration and other expenses in the current period is the fair value reassessment of INTI warrants \$0.4m (pcp \$8.4m) and the gain on reassessment of earn-out liabilities of (\$6.4m) (pcp \$4.2m expense).

Asset impairments were \$5.9m and related to property, plant and equipment (\$2.6m) which is currently surplus to requirements and specific intangibles (\$3.3m) relating to discontinued products and one R&D project.

Finance expenses were \$12.0m, an increase of \$4.4m (56%) on the pcp. The increase is mainly attributable a gain on interest rate swap cancelations in the pcp and non-cash discount unwind impacts on earnout and deferred consideration in the current period. Interest expense declined by \$1.1m on the pcp. These impacts are detailed in Note 3 of the accounts.

The tax benefit of \$6.4m comprised:

- Current period income tax expense for the six months to 31 December 2019 of \$0.4m;
- Prior year under provision of \$0.1m; and
- Benefit of \$6.8m relating to the movement in net tax deferred tax assets and liabilities.

**REVIEW OF BALANCE SHEET**

During the period, Mayne Pharma acquired the US distribution rights to a novel oral contraceptive comprising Estetrol (E4) and drospirenone (DRSP) via a 20-year licence agreement. The total intangible asset value including cash, equity grants and the present value of contingent milestone payments at balance date was US\$187.5m. included in Other financial liabilities at balance date is the present value of contingent milestone payments for this transaction of US\$111.9m.

**Cash**

Cash increased by \$9.5m compared to 30 June 2019. Refer below for further commentary.

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*Inventory, receivables and trade payables*

Receivables decreased by \$37.3m, inventory decreased by \$7.0m and trade and other payables decreased by \$16.6m compared to 30 June 2019.

*Intangible assets and goodwill*

Intangible assets increased by \$250.3m compared to the balance at 30 June 2019. The movement comprised of:

- An increase of \$7.5m for capitalised development costs;
- An increase of \$273.9m for the acquisition of the Mithra-E4/DRSP licence agreement;
- An increase of \$6.1m for other intangible asset additions;
- A decrease of \$3.3m for impairments;
- A decrease of \$30.6m for amortisation; and
- A decrease of \$3.2m due to foreign currency translation with the AUD / USD exchange rate decreasing from 0.7022 at 30 June 2019 to 0.7013 at 31 December 2019.

*Property, plant & equipment*

Property, plant and equipment decreased by \$6.5m compared to the balance at 30 June 2019. The movement comprised of:

- An increase of \$4.3m for additions which includes the capital works programs and general site maintenance capital expenditure;
- A decrease of \$8.4m for depreciation;
- A decrease of \$2.6m for impairments; and
- An increase of \$0.3m due to foreign currency translation.

*Interest bearing liabilities.*

Interest bearing liabilities includes lease liabilities recognised for the first time with the introduction of the new accounting standard (comparative not restated). Lease liabilities recognised at balance date were \$13.5m. Excluding lease liabilities interest bearing liabilities increased to \$375.5m from \$369.4m at 30 June 2019. The net proceeds from borrowings during the period was \$4.3m.

*Other financial liabilities*

Other financial liabilities increased by \$150.0m from 30 June 2019 as a result of:

- An increase of \$3.2m due to the non-cash unwinding of the discount for the various earn-out liabilities and deferred consideration liabilities;
- An increase of \$161.6m due to the E4/DRSP asset acquisition;
- An increase of \$4.3m due to other asset acquisitions;
- A decrease of \$6.4m due to re-assessments of various earn-out liabilities;
- A decrease of \$7.9m due to payments made for earn-outs and deferred settlements; and
- A decrease relating to foreign currency translation of \$3.7m.

**REVIEW OF CASH FLOWS**

Cash at 31 December 2019 was \$98.5m, representing an increase of \$9.5m from 30 June 2019.

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A summary of operating cash flows is as follows:

	Dec 2019 \$M	Dec 2018 \$M
Operating cash flow before working capital movements	34.0	88.6
Working capital (investment) / release	12.2	(35.1)
Net Operating cash flows	46.2	53.5

	Dec 2019 \$M	Dec 2018 \$M
Investing cash flows	(38.7)	(63.3)

Notable cash flows during the period included:

- \$4.2m payments for capital expenditure;
- \$14.4m cash payments and costs for the acquisition of product rights for E4/DRSP;
- \$4.8m payments for other intangibles;
- \$7.5m in capitalised development expenditure; and
- Earn-out and deferred settlement payments totalling \$7.9m.

	Dec 2019 \$M	Dec 2018 \$M
Financing cash flows	2.3	16.0

Notable cash flows during the period included:

- Net proceeds from borrowings of \$4.3m (net of fees); and
- Lease payments (right-of-use) assets \$2.1m.

#### DIVIDEND

The Directors have not declared an interim dividend in relation to the period ended 31 December 2019.

#### ROUNDING

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191 issued by the Australian Securities and Investments Commission, relating to the “rounding off” of amounts in this report and in the financial report. Amounts in this report and in the financial report have been rounded off in accordance with that Legislative Instrument to the nearest hundred thousand dollars or, in certain cases, to the nearest dollar.

#### AUDITOR’S INDEPENDENCE DECLARATION

The Auditor’s independence declaration is included on page 12 of the Financial Report.


#### EVENTS SUBSEQUENT TO REPORTING DATE

No other matter or circumstance has arisen since the reporting date which is not otherwise reflected in this report that significantly affected or may significantly affect the operations of the consolidated entity.



Signed in accordance with a resolution of the Directors.

Dated at Melbourne, this 21st day of February 2020.



**Scott Richards**  
Director

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## AUDITOR'S INDEPENDENCE DECLARATION



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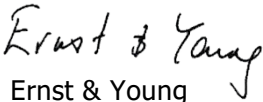
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### Auditor's Independence Declaration to the Directors of Mayne Pharma Group Limited

As lead auditor for the review of the half-year financial report of Mayne Pharma Group Limited for the half-year ended 31 December 2019, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Mayne Pharma Group Limited and the entities it controlled during the financial period.

  
Ernst & Young



David Petersen  
Partner  
Melbourne  
21 February 2020

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## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Notes	31 December 2019 \$'000	31 December 2018 \$'000
Sale of goods		183,868	234,279
Services revenue		42,644	38,656
License fee revenue		508	490
Royalties revenue		132	946
<b>Revenue</b>		<b>227,152</b>	<b>274,371</b>
Cost of sales	3	(121,457)	(113,957)
<b>Gross profit</b>		<b>105,695</b>	<b>160,414</b>
Interest income		586	445
Other income		158	131
Research and development expenses		(12,657)	(14,584)
Marketing and distribution expenses		(37,016)	(35,781)
Administrative and other expenses	3	(63,736)	(91,056)
Asset impairments	9	(5,949)	-
Finance expenses	3	(12,041)	(7,689)
<b>Net (loss) / profit before income tax</b>		<b>(24,960)</b>	<b>11,880</b>
Income tax credit / (expense)	4	6,352	(10,879)
<b>Net (loss) / profit for the period</b>		<b>(18,608)</b>	<b>1,001</b>
Attributable to:			
Equity holders of the Parent		(17,543)	2,580
Non-controlling interests		(1,065)	(1,579)
		(18,608)	1,001
<b>Other comprehensive income for the period, net of tax</b>			
<u>Items which may be reclassified to profit/loss</u>			
Unrealised (loss) / gain on cash flow hedges		(571)	(3,500)
Income tax effect		-	-
Exchange differences on translation		(781)	58,529
Income tax effect		(93)	(5,643)
<u>Items that will not be reclassified to profit or loss in future periods</u>			
Exchange differences on translation		12	457
Income tax effect		-	-
<b>Total comprehensive income for the period</b>		<b>(20,041)</b>	<b>50,845</b>
Attributable to:			
Equity holders of the Parent		(18,988)	51,967
Non-controlling interests		(1,053)	(1,122)
		(20,041)	50,845
Basic earnings per share		(1.2) cents	0.2 cents
Diluted earnings per share		(1.2) cents	0.2 cents

This statement should be read in conjunction with the accompanying notes to the financial statements

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	31 December 2019 \$'000	30 June 2019 \$'000
<b>Current assets</b>			
Cash and cash equivalents	5	98,529	89,004
Trade and other receivables	6	219,279	256,580
Inventories	7	93,341	100,348
Income tax receivable		543	525
Other financial assets		734	962
Other current assets		28,023	24,530
<b>Total current assets</b>		<b>440,449</b>	<b>471,946</b>
<b>Non-current assets</b>			
Property, plant and equipment	8	229,523	236,034
Right-of-use assets		13,371	-
Deferred tax assets	4	137,676	130,721
Intangible assets and goodwill	9	1,047,925	797,632
<b>Total non-current assets</b>		<b>1,428,496</b>	<b>1,164,387</b>
<b>Total assets</b>		<b>1,868,944</b>	<b>1,636,333</b>
<b>Current liabilities</b>			
Trade and other payables	10	113,312	129,942
Interest-bearing loans and borrowings	11	45,304	50,881
Other financial liabilities	12	27,123	13,922
Provisions	13	13,357	16,585
<b>Total current liabilities</b>		<b>199,096</b>	<b>211,329</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	11	343,388	318,501
Other financial liabilities	12	197,328	59,953
Deferred tax liabilities	4	32,067	31,360
Provisions	13	1,195	1,116
<b>Total non-current liabilities</b>		<b>573,978</b>	<b>410,929</b>
<b>Total liabilities</b>		<b>773,074</b>	<b>622,258</b>
<b>Net assets</b>		<b>1,095,870</b>	<b>1,014,075</b>
<b>Equity</b>			
Contributed equity	14	1,238,081	1,140,008
Reserves		127,417	125,099
Retained Earnings		(274,884)	(257,341)
<b>Equity attributable to equity holders of the Parent</b>		<b>1,090,614</b>	<b>1,007,766</b>
Non-controlling interests		5,256	6,309
<b>Total equity</b>		<b>1,095,870</b>	<b>1,014,075</b>

This statement should be read in conjunction with the accompanying notes to the financial statements.

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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Contributed Equity \$'000	Share- Based Payment Reserve \$'000	Foreign Currency Translation Reserve \$'000	Cash Flow Hedge Reserve \$'000	Other Reserve \$'000	Retained Earnings \$'000	Total \$000	Non- Controlling Interests \$000	Total Equity \$'000
Balance at 1 July 2019	1,140,008	28,644	100,035	(437)	(3,143)	(257,341)	1,007,766	6,309	1,014,075
Profit for the period	-	-	-	-	-	(17,543)	(17,543)	(1,065)	(18,608)
Other comprehensive income									
Foreign exchange translation (net of tax)	-	-	(874)	-	-	-	(874)	12	(862)
Cash flow hedge	-	-	-	(571)	-	-	(571)	-	(571)
Total comprehensive income	-	-	(874)	(571)	-	(17,543)	(18,988)	(1,053)	(20,041)
<i>Transactions with owners in capacity as owners</i>									
Shares issued (net of issue costs)	98,017	-	-	-	-	-	98,017	-	98,017
Share options exercised	52	(52)	-	-	-	-	-	-	-
Tax effect of employee share options	4	-	-	-	-	-	4	-	4
Share-based payments	-	3,815	-	-	-	-	3,815	-	3,815
INTI equity changes	-	-	-	-	-	-	-	-	-
Balance at 31 December 2019	1,238,081	32,407	99,161	(1,008)	(3,143)	(274,884)	1,090,614	5,256	1,095,870
Balance at 1 July 2018	1,131,761	20,813	47,339	6,747	(3,721)	23,525	1,226,464	8,693	1,235,157
Profit for the period	-	-	-	-	-	2,580	2,580	(1,579)	1,001
Other comprehensive income									
Foreign exchange translation (net of tax)	-	-	52,867	-	-	-	52,867	457	53,323
Cash flow hedge	-	-	-	(3,500)	-	-	(3,500)	-	(3,500)
Total comprehensive income	-	-	52,867	(3,500)	-	2,580	51,967	(1,122)	50,845
<i>Transactions with owners in capacity as owners</i>									
Shares issued (net of issue costs)	7,050	-	-	-	-	-	7,050	-	7,050
Share options exercised	1,173	(1,173)	-	-	-	-	-	-	-
Tax effect of employee share options	(369)	-	-	-	-	-	(369)	-	(369)
Share-based payments	-	4,146	-	-	-	-	4,146	-	4,146
INTI equity changes	-	-	-	-	578	-	578	-	578
Balance at 31 December 2018	1,139,615	23,786	100,226	3,247	(3,143)	26,105	1,289,835	7,571	1,297,406

This statement should be read in conjunction with the accompanying notes to the financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Notes	31 December 2019 \$'000	31 December 2018 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		336,519	369,182
Payments to suppliers and employees		(269,547)	(311,607)
Interest received		586	445
Interest paid		(7,523)	(6,594)
Tax paid		(20)	-
Tax received		30	16,926
		60,046	68,352
Payments for research and non-capitalised development expenditure		(11,180)	(13,310)
Restructuring, transaction and DOJ costs		(2,651)	(1,538)
<b>Net cash flows from operating activities</b>	5	46,215	53,504
<b>Cash flows from investing activities</b>			
Payments for plant and equipment		(4,177)	(6,645)
Payments for intangible assets		(19,213)	(44,281)
Payments for capitalised development costs		(7,450)	(11,352)
Payments for warrants		-	(475)
Earn-out and deferred settlement payments		(7,904)	(577)
<b>Net cash flows used in investing activities</b>		(38,745)	(63,330)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		72	7,085
Equity raising costs		-	(35)
Repayment of borrowings		-	(34,562)
Proceeds from borrowings (receivables finance facility – net of fees)		76,637	34,665
Repayment of borrowings (receivables finance facility)		(71,762)	-
Proceeds from borrowings (syndicated facility - net of fees)		14,059	8,807
Repayment of borrowings (syndicated facility)		(14,607)	-
Payment of lease liabilities (right-of-use assets)		(2,082)	-
<b>Net cash flows from financing activities</b>		2,318	15,960
<b>Net increase/(decrease) in cash and cash equivalents</b>		9,788	6,134
Cash and cash equivalents at beginning of period		89,004	87,312
Effect of foreign exchange changes on cash held in foreign currencies		(263)	2,727
<b>Cash and cash equivalents at end of period</b>	5	98,529	96,173

This statement should be read in conjunction with the accompanying notes to the financial statements.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

#### Basis of preparation

The financial report for the half-year ended 31 December 2019 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the annual financial report.

Under AASB 134 Interim Financial Reporting, measurement is generally made on an annual reporting period to date basis. However, it is recognised that the interim period is part of a larger annual reporting period not an independent reporting period.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2019 and considered together with any public announcements made by Mayne Pharma Group Limited during the half-year ended 31 December 2019 in accordance with the continuous disclosure obligations of the *ASX Listing Rules*.

Where required, items in the June 2019 and December 2018 comparatives have been reclassified to reflect the current presentation and enable better comparison between periods.

#### Changes in accounting policy and adoption of new accounting standards

From 1 July 2019 the Group has adopted the relevant standards and interpretations mandatory for annual reports beginning on or after 1 July 2019.

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report except for the following:

#### Leases

AASB 16 requires lessees to account for all leases (including operating leases) in a similar way to finance leases. At commencement of a lease, the Company will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Under AASB 16, the present value of these commitments would potentially be shown as a liability on the balance sheet together with an asset representing the right to use the underlying asset during the lease term. Depreciation of the lease asset and interest on the lease liability (recognised at amortised cost) will be recognised over the lease term.

Mayne Pharma adopted AASB 16 applying the modified retrospective approach with the date of initial application of 1 July 2019. This method requires the recognition of the cumulative effect of initially applying AASB 16 to retained earnings and not to restate prior years. The Group elected to use the transition practical expedient approach allowing the standard to be applied only to contracts that previously identified as leases applying AASB 117 and IFRIC 4 at the date of the initial application. The Group also applied the available practical expedient wherein it relied on its assessment of whether leases are onerous immediately before the date of initial application.

The Group has lease contracts for offices, vehicles and other equipment. Before the adoption of AASB 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the statement of profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments and Trade and other payables, respectively.

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Upon adoption of AASB 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. In accordance with the modified retrospective method of adoption, the Group applied AASB 16 at the date of initial application. Accordingly, the comparative information in these interim consolidated financial statements has not been restated.

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases including short-term leases. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The effect of adopting AASB 16 is as follows:

Impact on the statement of financial position increase/(decrease) as at 1 July 2019

	\$'000
<b>Assets</b>	
Right-of-use assets	14,938
<b>Liabilities</b>	
Interest-bearing loans	14,938

There was no impact on the Statement of Comprehensive income, basic and diluted EPS, Statement of Financial Position or the Statement of Cash Flows for the prior period as the Group elected to adopt the modified retrospective approach.

The amount capitalised as at 1 July 2019 varies from the operating lease commitments disclosed at 30 June 2019 due to the following:

- Right-of-use assets and liabilities have been discounted at the lessee's incremental borrowing cost whereas lease commitments at 30 June 2019 were undiscounted. The weighted average incremental borrowing rate used to discount the lease payments was 3.535%;
- Additional lease commitments were identified as part of the process of implementing the new standard;
- An option to extend one of the property leases has been included as it considered reasonably certain the option will be exercised; and
- Lease commitments at 30 June 2019 included certain variable commitments (such as building lease outgoings) which are not capitalised as right-of-use assets or liabilities in accordance with the standard.

#### AASB Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of AASB 112 Income Taxes. It does not apply to taxes or levies outside the scope of AASB 112, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed. The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. Upon adoption of the Interpretation, the Group considered whether it had any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax

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filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group.

#### Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of AASB 16:

##### Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease or the initial application date (whichever is the later). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

##### Lease liabilities

At the commencement date of the lease (or the initial application date), the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease if the lease term reflects the Group exercising the option to terminate. The variable lease payments that depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

##### Leases of low-value assets

The Group has not applied the low value exemption for leases.

#### New accounting standards and interpretations

At the date of authorisation of the financial report, no Standards and Interpretations relevant to the Group were issued but not yet effective.

## 2. SEGMENT REPORTING

The Group has identified its operating segments based on the internal reports that are reviewed and used by the CEO (as the chief operating decision maker) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the nature of revenue flows and responsibility for those revenues. Discrete financial information about each of these operating segments is reported to the chief operating decision maker on at least a monthly basis.

The Consolidated Entity operates in four operating segments being, Generic Products (GPD), Specialty Brands (SBD), Metrics Contract Services (MCS) and Mayne Pharma International (MPI).

### Generic Products Division

The Generic Products operating segment's revenues and gross profit are derived principally from the distribution of generic pharmaceutical products in the US.

### Specialty Brands Division

The Specialty Brands operating segment's revenues and gross profit are derived principally from the distribution of specialty branded pharmaceutical products in the US.

### Metrics Contract Services

The Metrics Contract Services segment's revenue and gross profit are derived from providing analytical, contract pharmaceutical development and manufacturing services to third-party customers principally in the US.

### MPI

The MPI operating segment's revenues and gross profit are derived principally from the Australian manufacture and sale of branded and generic pharmaceutical product globally (ex-US) and provision of contract development and manufacturing services to third party customers within Australia.

	Generic Products \$'000	Specialty Brands \$'000	Metrics Contract Services \$'000	MPI \$'000	Total Consolidated \$'000
<b>Half Year ended 31 December 2019</b>					
Sale of goods	124,544	44,947	-	14,377	183,868
Services income	-	-	38,378	4,266	42,644
Royalty income	-	-	-	132	132
Licence fee income	-	-	-	508	508
Revenue	124,544	44,947	38,378	19,283	227,152
Cost of sales	(79,013)	(6,589)	(20,878)	(14,978)	(121,457)
Gross profit	45,531	38,358	17,500	4,305	105,695
Other income					744
Asset impairments					(5,949)
Amortisation of intangible assets					(30,630)
Other expenses (refer Statement of Profit or Loss and Other Comprehensive Income)					(94,820)
Profit / (loss) before income tax					(24,960)
Income tax (expense) / benefit					6,352
Net profit / (loss) for the period					(18,608)

	Generic Products \$'000	Specialty Brands \$'000	Metrics Contract Services \$'000	MPI \$'000	Total Consolidated \$'000
<b>Half Year ended 31 December 2018</b>					
Sale of goods	175,897	43,292	-	15,090	234,279
Services income	-	-	33,896	4,760	38,656
Royalty income	-	-	-	946	946
Licence fee income	-	-	-	490	490
Revenue	175,897	43,292	33,896	21,286	274,371
Cost of sales	(75,590)	(5,476)	(17,440)	(15,451)	(113,957)
Gross profit	100,307	37,816	16,456	5,835	160,414
Other income					576
Asset impairments					-
Amortisation of intangible assets					(37,282)
Other expenses (refer Statement of Profit or Loss and Other Comprehensive Income)					(111,828)
Profit before income tax					11,880
Income tax expense					(10,879)
Net profit for the period					1,001

#### Geographical segment information

	31 December 2019 \$'000	31 December 2018 \$'000
<i>Revenue from external customers</i>		
Australia	12,781	13,891
United States	207,870	253,085
Korea	1,922	1,714
Other	4,579	5,681
<b>Total external revenue</b>	<b>227,152</b>	<b>274,371</b>

	31 December 2019 \$'000	31 December 2018 \$'000
<i>Revenue from customers contracts</i>		
Recognised at a point in time	184,508	235,715
Recognised over time	42,644	38,656
<b>Total external revenue from customer contracts</b>	<b>227,152</b>	<b>274,371</b>

	31 December 2019 \$'000	31 December 2018 \$'000
<i>Revenue by product group / service</i>		
Third party contract services and manufacturing	42,644	38,656
Generic and branded products	183,868	234,279
Other revenue	640	1,436
<b>Total external revenue</b>	<b>227,152</b>	<b>274,371</b>

### 3. EXPENSES

	31 December 2019 \$'000	31 December 2018 \$'000
<b>Finance expenses</b>		
Interest expense	6,422	7,541
Unused line fees	868	895
Amortisation of borrowing costs	1,060	735
Loss / (Gain) on modification of syndicated loan facility	251	(516)
(Gain) on cancellation of interest rate swaps contracts reclassified	-	(1,840)
Change in fair value attributable to the unwinding of the discounting of earn-out and deferred consideration liabilities	3,207	874
Interest expense – right-of-use asset lease liabilities	233	-
<b>Total finance expense</b>	<b>12,041</b>	<b>7,689</b>
<b>Depreciation (owned assets) <sup>(1)</sup></b>	<b>8,418</b>	<b>7,598</b>
<b>Depreciation (right-of-use assets) <sup>(2)</sup></b>	<b>2,179</b>	<b>-</b>
<b>Cost of sales include the following:</b>		
Inventory write-offs	4,069	8,616
Provision for inventory obsolescence	3,227	(1,774)
Net realisable value inventory adjustments <sup>(3)</sup>	5,544	-
<b>Employee benefits expense <sup>(4)</sup></b>		
Wages and salaries	60,290	56,934
Superannuation expense	2,788	2,185
Share-based payments expense	3,815	4,146
Other employee benefits expense	3,694	4,075
<b>Total employee benefits expense</b>	<b>70,587</b>	<b>67,340</b>
<b>Administration and other expenses include the following:</b>		
Foreign exchange loss	59	663
Fair value restatement of INTI warrants	435	8,446
Drug pricing investigations and related litigation costs	1,189	1,538
Share-based payments expense	3,815	4,146
Amortisation of intangible assets	30,630	37,282
Mithra E4/DRSP – non capitalised transaction costs	335	-
Restructuring expenses <sup>(5)</sup>	5,228	-
Movement in undiscounted fair value of earn-out and deferred consideration liabilities	(6,407)	4,197
All other administration and other expenses	28,452	34,784
<b>Total Administration and other expenses</b>	<b>63,736</b>	<b>91,056</b>

- Notes:
- (1) Depreciation owned assets expense is included in cost of sales (\$6,638,000), research and development expenses (\$1,477,000) and administration and other expenses (\$303,000).
  - (2) Depreciation right-of-use assets expense is included in marketing expenses (\$978,000) and administration and other expenses (\$1,201,000).
  - (3) Net realisable adjustments relate to discontinued products.
  - (4) Employee benefit expense is included in various expense categories and cost of sales.
  - (5) Restructuring expense mainly relates to employee severance related costs.

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4. INCOME TAX

(a) The major components of income tax expense are:

	31 December 2019 \$'000	31 December 2018 \$'000
<i>Current income tax</i>		
Current income tax	(377)	(694)
Adjustment in respect of current income tax of previous years	(61)	(756)
<i>Deferred income tax</i>		
Relating to movement in net tax deferred tax assets and liabilities	6,790	(9,429)
Income tax credit / (expense) in the consolidated statement of profit or loss and other comprehensive income	6,352	(10,879)

(b) Numerical reconciliation between aggregate tax expense recognised in the consolidated statement of profit or loss and other comprehensive income and tax expense calculated per the statutory income tax rate

	31 December 2019 \$'000	31 December 2018 \$'000
The prima facie tax on operating (loss) / profit differs from the income tax provided in the accounts as follows:		
Profit / (loss) before income tax	(24,960)	11,880
Prima facie tax credit / (expense) at 30%	7,488	(3,556)
Effect of R&D concessions	1,162	359
Under provision in respect of prior years	(61)	(756)
Non-assessable items	-	2,636
Adjustments to DTAs & DTLs	-	(1,220)
Non-deductible expenses for tax purposes		
Amortisation	(812)	(812)
Share-based payments	(1,119)	(535)
Earn-out reassessments and discount unwind	960	(1,522)
Other non-deductible expenses	(140)	(4,010)
Effect of different tax rate in US	(2,503)	3,004
US State taxes	371	(775)
Tax losses not recognised	(576)	(914)
Restatement of DTA re changes to US state tax rates	1,582	(2,777)
Income tax credit / (expense)	6,352	(10,879)

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**C. Recognised deferred tax assets and liabilities**

	31 December 2019 \$'000	30 June 2019 \$'000
<b>Deferred tax assets</b>		
Intangible assets	85,428	88,053
Provisions	8,995	9,300
Payables	22,738	23,548
Inventory	7,313	6,281
Carry forward tax losses and R&D credits	19,473	13,474
US state taxes	11,393	9,357
Other	516	446
	<b>155,856</b>	<b>150,459</b>
<b>Reconciliation to the Statement of Financial Position</b>		
Total Deferred Tax Assets	155,856	150,459
Set off against Deferred Tax Liabilities	(18,180)	(19,738)
<b>Net Deferred Tax Assets<sup>(1)</sup></b>	<b>137,676</b>	<b>130,721</b>
<b>Deferred tax liabilities</b>		
Property, plant and equipment	14,937	14,822
Intangible assets	23,367	22,686
US State taxes	2,537	2,390
Other receivables and prepayments	1,048	2,907
Unrealised foreign exchange gains	8,250	8,274
Other	108	19
	<b>50,247</b>	<b>51,098</b>
<b>Reconciliation to the Statement of Financial Position</b>		
Total Deferred Tax Liabilities	50,247	51,098
Set off against Deferred Tax Assets	(18,180)	(19,738)
<b>Net Deferred Tax Liabilities<sup>(2)</sup></b>	<b>32,067</b>	<b>31,360</b>

Notes: (1) Represents Australian and US Deferred Tax Assets that cannot be offset against US Deferred Tax Liabilities.  
(2) Represents US Deferred Tax Liabilities that cannot be offset against Australian Deferred Tax Assets.

Deferred tax assets and deferred tax liabilities are presented based on their respective tax jurisdictions.

**5. CASH AND CASH EQUIVALENTS**

(a) For the consolidated statement of cash flows, cash and cash equivalents are comprised of the following:

	31 December 2019 \$'000	30 June 2019 \$'000
Cash at bank and in hand	98,529	89,004

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**(b) Reconciliation of net profit after income tax to net cash flow from operating activities**

	31 December 2019 \$'000	31 December 2018 \$'000
Net profit / (loss) after income tax	(18,608)	1,001
Adjustments for:		
Depreciation and amortisation	42,288	45,615
Share-based payments	3,815	4,146
Earn-out and deferred consideration liability reassessments	(6,407)	4,197
Discount unwind earn-out and deferred consideration liabilities	3,207	874
Fair value movement INTI warrants	435	8,446
Asset impairments	5,949	-
Net unrealised foreign exchange differences	22	(1,235)
Loss / (gain) on modification of syndicated loan facility	251	(516)
Non-cash provisions – inventory and restructuring	9,401	(1,775)
Changes in tax balances:		
Decrease / (Increase) in deferred tax assets	(5,375)	1,004
(Decrease) / Increase in current and deferred tax liabilities	(967)	26,881
Operating cash flows before working capital movements	34,011	88,638
Changes in working capital:		
Decrease / (Increase) in receivables	38,523	(34,837)
Decrease / (Increase) in inventories	(1,334)	(12,564)
(Increase) in other assets	(3,752)	(3,583)
(Decrease) / Increase in creditors	(17,177)	17,571
Increase / (Decrease) in provisions	(4,056)	(1,721)
Total working capital movements	12,204	(35,134)
Net cash flow from operating activities	46,215	53,504

**6. TRADE AND OTHER RECEIVABLES**

	31 December 2019 \$'000	30 June 2019 \$'000
Trade receivables (net of charge-backs)	212,665	251,460
Trade receivables – profit share	2,999	219
Provision for impairment	(570)	(696)
Other receivables	4,185	5,597
	219,279	256,580

Some of the Group's receivables are sold under the receivables financing program (refer note 11). The Group considers the economic substance rather than the legal form of the transactions in assessing the business model of the underlying receivables, accordingly, transactions that fail AASB 9 derecognition criteria are not considered true sales and thus, the business model of the underlying receivables continues to be holding to collect contractual cash flows and therefore are measured at amortised cost.

Receivables sold on a non-recourse basis total US\$29.1m at balance date. The book value of the receivables approximates the value the finance provided. Receivables are sold with no recourse to Mayne Pharma in relation to credit risk, although the receivables continue to be recognised on the Group's balance sheet as accounting derecognition criteria has not been met as Mayne Pharma retains certain risks in relation to the variability of charge-backs, rebates, returns and loyalty programs. Also refer note 12.

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## 7. INVENTORIES

	31 December 2019 \$'000	30 June 2019 \$'000
Raw materials and stores at cost	34,733	34,191
Work in progress at cost	6,890	18,996
Finished goods at lower of cost and net realisable value	51,718	47,161
	93,341	100,348

## 8. PROPERTY, PLANT AND EQUIPMENT

	LAND \$'000	BUILDINGS \$'000	PLANT AND EQUIPMENT \$'000	CAPITAL UNDER CONSTRUCTION \$'000	TOTAL \$'000
<b>Six months ended 31 December 2019</b>					
Balance at beginning of period net of accumulated depreciation	9,567	108,048	104,602	13,817	236,034
Additions	-	-	3,825	427	4,252
Transfers from capital under construction	-	-	2,213	(2,213)	-
Depreciation charge for year	-	(1,816)	(6,602)	-	(8,418)
Impairments	-	-	-	(2,637)	(2,637)
Disposals	(75)	-	-	-	(75)
Foreign currency restatement	6	154	77	130	367
Balance at end of year net of accumulated depreciation	9,498	106,386	104,115	9,524	229,523
<b>As at 31 December 2019</b>					
At cost	9,498	119,048	162,033	12,098	302,677
Accumulated depreciation	-	(12,662)	(57,918)	-	(70,580)
Accumulated impairments	-	-	-	(2,574)	(2,574)
Net carrying amount	9,498	106,386	104,115	9,524	229,523

During the period, a specific impairment was recorded relating to plant and equipment located at a supplier's premises which is currently surplus to requirements.

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9. INTANGIBLE ASSETS AND GOODWILL

	Goodwill \$'000	Customer Contracts, Customer Relationships Product Rights & Intellectual Property \$'000	Development Expenditure \$'000	Marketing & Distribution Rights \$'000	Trade Names \$'000	Total \$'000
<b>Six months ended 31 December 2019</b>						
Balance at beginning of the period net of accumulated amortisation and accumulated impairments	21,725	647,768	53,373	30,908	43,858	797,632
Additions	-	280,001	7,449	-	-	287,450
Amortisation	-	(25,105)	(1,758)	(1,610)	(2,157)	(30,630)
Impairments	-	(1,989)	(1,232)	(91)	-	(3,312)
Exchange differences	27	(3,252)	(44)	47	7	(3,215)
Balance at end of period net of accumulated amortisation and accumulated impairments	21,752	897,423	57,788	29,254	41,708	1,047,925
<b>As at 31 December 2019</b>						
Cost	63,765	1,576,278	175,329	64,444	69,165	1,948,981
Accumulated amortisation	-	(256,693)	(16,051)	(10,965)	(27,400)	(311,109)
Accumulated impairments	(42,013)	(422,162)	(101,490)	(24,225)	(57)	(589,947)
Net carrying amount	21,752	897,423	57,788	29,254	41,708	1,047,925

During the period, Mayne Pharma acquired the E4/DRSP US distribution rights via a 20-year licence agreement for a total asset value of US\$187.5m which includes cash and transaction costs paid (US\$9.9m), equity grants (US\$67.0m) and the present value of contingent milestone payments (US\$110.6m).

The fair value of shares issued and due on NDA approval was based on the share price at contract settlement and assumed FDA approval would be achieved. The net present value of milestone payments was calculated assuming that FDA approval would be achieved and estimating future net sales. Refer to Note 12 and 17 for additional information regarding assumptions and sensitivity of changes in assumptions.

During the period, specific impairments were recorded (totalling \$3.3m) which related to discontinued products and one R&D project.

**Goodwill and intangibles**

Goodwill arises in a business combination and is the excess of the consideration transferred to acquire a business over the underlying fair value of the net identified assets acquired. It is allocated to groups of cash generating units (CGUs) which are usually represented by reported segments. Goodwill is tested for impairment periodically at the CGU level and any impairment charges are recorded in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

The aggregate carrying amounts of goodwill are allocated to the Group's cash-generating units as follows:

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	31 Dec 2019 \$'000	30 June 2019 \$'000
MCS	21,361	21,334
MPI	391	391
Total Goodwill	21,752	21,725

### **Intangible Assets**

Intangible assets acquired separately, or in a business combination, are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

Indefinite life intangible assets are reviewed for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Certain intangible assets other than goodwill (i.e. customer contracts, relationships, intellectual property and trade marks) have been assessed as having finite useful lives and, as such, are amortised over their useful lives. The useful lives range from five to fifteen years and are tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in an accounting estimate.

### **Significant accounting estimates and assumptions**

#### **Impairment of goodwill and intangible assets**

No impairments to either goodwill or at a CGU level occurred during the period. Given historical impairments, additional information has been provided below.

An asset is considered impaired when its balance sheet carrying amount exceeds its estimated recoverable amount, which is defined as the higher of its fair value less cost of disposal and its value in use. The Group applies the value in use method which utilises net present value techniques using pre-tax cash flows and discount rates.

Fair value reflects estimates of assumptions that market participants would be expected to use when pricing the asset or CGUs and, for this purpose, management considers the range of economic conditions that are expected to exist over the remaining useful life of the asset.

The estimates used in calculating net present value are highly sensitive, and depend on assumptions specific to the nature of the Group's activities with regard to;

- amount and timing of projected future cash flows;
- long-term sales forecasts;
- sales erosion rates after the end of patent or other intellectual property rights protection and timing of entry of generic competition;
- applicable tax rates;
- behaviour of competitors (launch of competing products, marketing initiatives, etc);
- selected discount and terminal growth rates; and
- in the case of unlaunched products:
  - the outcome of R&D activities (compound efficacy, results of clinical trials, etc);
  - amount and timing of projected costs to develop in process research and development into commercially viable products; and
  - probability of obtaining regulatory approvals.

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Due to the above factors, actual cash flows and values could vary significantly from forecasted future cash flows and related values derived from discounting techniques.

**Goodwill and Intangible Impairment Testing Methodology**

For impairment testing, Intangible Assets are allocated to individual CGUs (which are the Therapeutic Groups or ‘TG’) which are then combined into the overall reporting segment CGUs of GPD, SBD, MCS and MPI for Goodwill testing which is performed at the segment level.

Each CGU represents the lowest level within the Group at which the asset is monitored for internal management purposes and separately identifiable cash flows are present and is not larger than a reporting segment.

The following CGU structure has been determined for impairment testing.

- GPD Other
- Women’s Health
- SBD with one Therapeutic Group being ‘Dermatology’
- MCS
- MPI with two Therapeutic Groups being ‘Dermatology’ (MPI Dermatology) and ‘Other’ (MPI Other)

The E4/DSRSP US distribution rights have been included in the Women’s Health CGU.

Impairment testing is conducted at firstly the TG CGU level and then the Segment CGU level (where relevant for goodwill impairment testing).

The testing methodology for the recoverable value of each asset is as follows:

- Allocate the asset value to the relevant CGU including an allocation of corporate assets and costs;
- Estimate cash flows generated over the life of the CGU;
- Calculate the Weighted Average Cost of Capital (WACC) of the CGU; and
- Discount the cash flows using WACC and compare to the CGU allocated asset carrying value.

Purchased assets not yet launched and R&D in process represent products in development but not yet launched. These assets, and related cashflows, are included in the relevant CGU for testing purposes and are also tested individually and on an annual basis.

The INTI/BCCNS intangible asset represents the estimated value of the use of SUBA-itraconazole in patients with Basal Cell Carcinoma Nevus Syndrome (BCCNS, commonly known as Gorlin Syndrome) development program at the time Mayne Pharma took a controlling interest in INTI in May 2015. During the period, a revision of the Supply and Licence Agreement with INTI occurred and the US rights for SUBA-itraconazole in patients with BCCNS have returned to the Company. INTI/BCCNS represents a similar asset to R&D in process. This asset is tested individually and on an annual basis.

The allocation of intangible assets to CGUs is shown in the table below.

A\$m	GPD Other	Women’s Health	SBD	MCS	MPI Derm	MPI Other	Total
Intangible Assets	325.4	453.8	111.5	5.0	86.7	12.4	994.8
INTI/BCCNS Development	-	-	-	-	31.3	-	31.3
Goodwill	-	-	-	21.4	-	0.4	21.8
<b>Total Intangible Assets including Goodwill</b>	<b>325.4</b>	<b>453.8</b>	<b>111.5</b>	<b>26.4</b>	<b>118.0</b>	<b>12.8</b>	<b>1,047.9</b>

**Key Assumptions**

Key assumptions in impairment testing methodology include:

- Cash flow forecasts for the on-market portfolio are based on FY20 forecast results as well as specific cash flows which have been forecast out to FY24. A terminal growth rate is then applied;

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- Risk weighted pipeline cash flows are included in each of the relevant TG/Segment CGU
- Corporate overhead has been allocated to the relevant TG/Segment CGU based on their respective cash flow contributions;
- Other net assets have been allocated to the relevant TG/Segment CGU; and
- Individual CGU discount rates have been used.

Discount rates reflect Management's estimate of time value of money and the risks specific to the CGU and have been determined using the WACC. The pre and post-tax discount rates used are shown below.

- GPD Other: Pre-Tax – 12.8% / Post Tax – 9.6%
- Women's Health: Pre-Tax – 13.3% / Post Tax – 10.0% <sup>(1)</sup>
- SBD Derm: Pre-Tax – 13.6% / Post Tax – 10.2%
- MCS: Pre-Tax – 13.6% / Post Tax – 10.2%
- MPI: Pre-Tax – 13.7% / Post Tax – 9.6%

Notes: (1) As Women's Health is now a combination of Generic and Branded assets, the CGU uses a weighted average WACC

Forecast net sales growth rates including pipeline products (simple average across the periods) are shown in the table below. These average growth rates are assumptions determined to satisfy applicable accounting standards but should not be used for guidance.

	Forecast net sales growth rate FY20 to FY24	Terminal Value Growth Rate
GPD Other CGU	-7% <sup>(1)</sup>	-1%
Women's Health CGU	46%	-1%
SBD Derm CGU	6%	-3%
MCS CGU	12%	2%
MPI CGU	5%	0%
<i>MPI - Derm TG</i>	8%	0%
<i>MPI - Other TG</i>	4%	0%

Notes: (1) Beyond the FY20 year, the average forecast net sales growth for GPD Other CGU for FY21 to FY24 inclusive of pipeline products is -3% whilst the average forecast net sales growth for FY21 to FY24 exclusive of pipeline products is -7%.

Recoverable values and carrying values are shown in the table below.

	Carrying Value <sup>(1)</sup>	Recoverable Value	Difference
GPD Other CGU	507.9	542.4	34.6
Women's Health CGU	485.9	623.8	137.9
SBD Derm CGU	139.1	197.2	58.1
MCS CGU	177.7	249.9	72.3
MPI CGU	192.7	366.6	173.9
<i>MPI - Derm TG</i>	160.3	309.3	149.0
<i>MPI - Other TG</i>	32.4	57.3	24.9

Notes: (1) Includes intangible assets, working capital and property, plant and equipment.

### Sensitivity to changes in assumptions

The tables below show the sensitivity of the changes in key variables on recoverable values.

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A\$m	+/-1% Change in Net Sales Growth	+/-1% Change in Terminal Growth Rate	+/-1% Change in WACC <sup>(1)</sup>
GPD Other CGU	+19.9/-19.4	+40.0/-33.0	-43.6/+52.4
Women's Health CGU	+30.2/-29.7	+57.3/-47.8	-64.3/+77.7
SBD Derm CGU	+11.7/-11.3	+11.5/-9.8	-15.2/+17.8
MCS CGU	+8.6/-8.6	+28.6/-22.4	-28.5/+36.5
MPI CGU	+12.0/-11.8	+15.0/-12.1	-16.2/+20.0
<i>MPI - Derm TG</i>	<i>+11.1/-10.8</i>	<i>+9.9/-8.0</i>	<i>-10.7/+13.2</i>
<i>MPI - Other TG</i>	<i>+0.9/-1.0</i>	<i>+5.1/-4.1</i>	<i>-5.5/+6.8</i>

Notes: (1) Change refers to the movement in the post-tax WACC.

#### Estimation of useful lives of assets

During the period various intangible assets were reassessed from an indefinite life asset to a 10-year definite life. The impact of this change for the half was to increase amortisation expense by \$1.0m.

#### 10. TRADE AND OTHER PAYABLES

	31 December 2019 \$'000	30 June 2019 \$'000
Trade payables	40,826	50,443
Accrued rebates, returns and loyalty programs	52,079	53,282
Other payables	20,407	26,216
	<b>113,312</b>	<b>129,942</b>

#### 11. INTEREST-BEARING LOANS AND BORROWINGS

	31 December 2019 \$'000	30 June 2019 \$'000
<b>Current</b>		
Syndicated loan (working capital facility)	-	14,241
Receivables financing	41,446	36,620
Lease liabilities – right-of-use assets	3,858	-
Lease liabilities – finance leases	-	20
	<b>45,304</b>	<b>50,881</b>
<b>Non-current</b>		
Syndicated loan	333,780	318,501
Lease liabilities – right-of-use assets	9,608	-
	<b>343,388</b>	<b>318,501</b>

#### Syndicated loan and working capital facilities

The loan facility is supported by a syndicate of seven banks and was extended in December 2018. The loan facility limit was revised in December 2019 to US\$350m consisting of a 3-year US\$150m term loan and a 5-year US\$200m revolving facility. The facility can be drawn in either USD or AUD.

Working capital facilities of A\$10m and US\$20m are also available. The working capital facilities were for a two-year period and were due to mature 28 July 2019. In July 2019, these facilities were extended to 30 November 2021 (any

amounts outstanding at 30 June 2019 were therefore disclosed as current).

The total amount drawn, across all facilities, at 31 December 2019 was US\$160m and A\$110m (December 2018: US\$180m and A\$110m).

The facility is unsecured and incurs interest based on either LIBOR (for USD) with no floor, or BBSY (for AUD) plus a margin based on a net debt leverage ratio. The loan is subject to certain covenants and has an unused line fee payable based on the undrawn amount.

The Group complies with the covenants at reporting date.

At 31 December 2019, the variable interest rate was 2.95% (2018: 4.05%). The Group has entered into interest rate swap contracts to hedge the interest rate risk exposure with 61% of the outstanding US dollar loan amount and 55% of the AUD loan amounts hedged at 31 December 2019 (30 June 2019: US dollar loans 61%, AUD loans 55%). The interest rate risk is managed using interest rate swaps in which the Group agrees to exchange, at specific intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

During the prior comparative period, Mayne Pharma cancelled several US LIBOR interest rate swaps as part of the USD borrowings were converted to AUD borrowings. The cancellation of the interest rate swaps resulted in a gain of \$1.8m which was transferred to the profit loss account from the cash flow hedge reserve.

Mayne Pharma renegotiated the syndicated facility during the prior period with a gain of \$0.5m on the modification of the loan recognised in the profit loss account. The facility was modified again in the current period with a loss on modification of \$0.3m recognised in the profit loss account.

#### Receivables financing facility

The receivables facility was established in December 2018 and renewed in December 2019, has a limit of US\$50m and was drawn to US\$29.1m at reporting date. Receivables are sold with no recourse to Mayne Pharma in relation to credit risk and generally roll each 90 days as each debtor pays amounts outstanding. The receivables continue to be recognised on the Group's balance sheet as accounting derecognition criteria has not been met as Mayne Pharma retains certain risks in relation to the variability of charge-backs, rebates, returns and loyalty programs.

## 12. OTHER FINANCIAL LIABILITIES

	31 December 2019 \$'000	30 June 2019 \$'000
<b>Current</b>		
Mark to market value of interest rate swap contracts	1,008	437
Earn-out liabilities – various products/distribution rights	5,948	5,118
Deferred consideration – various products/distribution rights	19,741	7,655
Completion of clinical studies obligation relating to acquired asset	426	712
	27,123	13,922
<b>Non-current</b>		
Earn-out liabilities – various products/distribution rights	23,033	26,779
Deferred consideration – various products/distribution rights	174,292	32,634
Completion of clinical studies obligation relating to acquired asset	-	540
	197,328	59,953

The major increase in deferred consideration liabilities relates to the Mithra E4/DRSP US rights acquisition.

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The Consolidated Entity has recognised various earn-out liabilities relating to various asset purchases. Most earn-outs are based on a percentage of net sales or gross margin and typically payable on a quarterly basis for a period of between two and ten years.

Deferred consideration recognised includes amounts which have contingent conditions such as FDA approvals, sales milestones and on market conditions (e.g. timing of commercial launches, no entry of a new competitor into the relevant market). At balance date the Group has assessed the amount expected to be paid for contingent amounts outlined in the asset purchase agreements, using best estimates as to timing and likelihood of payments.

#### Significant accounting estimates and assumptions

##### Earn-out and deferred consideration liabilities

The earn-out liabilities are based on expected future cash flows determined as a percentage of net sales or gross margin. Deferred consideration liabilities represent the net present value of future predetermined payments. The estimation of the cash flows over a significant period, combined with the impact of currency movements and interest rates may result in substantial movements in the value of the liabilities recognised between reporting periods. The cash flows assumed discount rate and forecast exchange rates are reviewed every six months to ensure the most accurate fair value of the liabilities is reported. Movements in the liabilities from changes in these assumptions and forecasts are reported in the consolidated statement of profit or loss and other comprehensive income.

Earn-out liabilities represent the net present value of estimated future payments. Any changes in fair value for changes in the net present value of estimated future payments are recognised in the statement of profit or loss and other comprehensive income. The earn-out liabilities at reporting date include a charge representing the unwinding of the discounting of the earn-out liabilities of \$3,207,000 (pcp: \$874,000) for the period.

At 31 December 2019 the deferred consideration amounts consist mainly of amounts which are subject to FDA approvals, no new competitors entering the market or sales milestone requirements.

### 13. PROVISIONS

	31 December 2019 \$'000	30 June 2019 \$'000
<b>Current</b>		
Employee entitlements	11,137	15,161
Restructuring	2,220	1,424
	<b>13,357</b>	<b>16,585</b>
<b>Non-current</b>		
Employee entitlements	845	766
Restoration	350	350
	<b>1,195</b>	<b>1,116</b>

### 14. CONTRIBUTED EQUITY

#### (a) Issued capital

	31 December 2019 \$'000	30 June 2019 \$'000
Ordinary shares, fully paid	1,238,081	1,140,008

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**(b) Movements in share capital**

	Number	\$'000
Balance at beginning of period	1,582,936,521	1,140,008
Shares issued as part settlement for asset acquisition <sup>(1)</sup>	83,100,000	97,946
Equity raising costs	-	
Exercise of employee options	120,000	123
Tax effect of employee LTI shares and employee options	-	4
Shares issued to employees under the LTI non-recourse loan funded arrangement (subject to risk of forfeiture) (net of forfeitures)	12,911,610	-
<b>Balance at end of period</b>	<b>1,679,068,131</b>	<b>1,238,081</b>

(1) The number of shares issued to Mithra relating to the asset purchase are for the 1<sup>st</sup> tranche only (number due on financial close) whereas the value of the shares granted relate to both tranches (shares due on financial close plus shares due on FDA approval).

**15. DIVIDENDS**

The Board has decided to preserve the Company's capital and no interim dividend has been declared.

**16. COMMITMENTS AND CONTINGENCIES**

The partly owned subsidiary Inhibitor Therapeutics Inc will require new funding within the next twelve months. In the event Inhibitor raises external funding of US\$3m, Inhibitor has the right to request Mayne Pharma also provide additional funding of up to US\$2m which would be secured against future royalty streams payable by Mayne Pharma to Inhibitor. Mayne Pharma has previously prepaid US\$3m in royalties to Inhibitor. There is potential that, if Inhibitor's external fund-raising activities are successful, it could result in loss of control for Mayne Pharma.

There were no material changes in commitments.

Some Mayne Pharma companies are, and will likely continue to be, subject to various legal proceedings and investigations that arise from time to time, including proceedings regarding product liability, sales and marketing practices, commercial disputes, antitrust and intellectual property matters. As a result, the Group may become subject to substantial liabilities that may not be covered by insurance and that could affect our business, financial position and reputation. Litigation is inherently unpredictable and large judgements sometimes occur. Consequently, Mayne Pharma may in the future incur judgements or enter into settlements of claims that could have a material adverse effect on its operating results and/or cash flow.

Mayne Pharma has not made provisions for potential damage or other remedies for legal claims against it or its subsidiaries where Mayne Pharma currently believes that a payment is either not probable or cannot be reliably estimated.

**Summary of significant investigations and legal proceedings currently brought against the Company seeking damages or other remedies**

All these legal claims and allegations are being vigorously contested. No outcome or possible related amounts can be reliably estimated and as such no amounts have been provided at reporting date.

*Drug pricing matters – investigations*

In FY16, Mayne Pharma Inc received a subpoena from the Antitrust Division of the US Department of Justice and the Office of the Attorney General in the State of Connecticut seeking information relating to the marketing, pricing and sales of select generic products.

In May 2018, Mayne Pharma Inc received a Civil Investigative Demand from the Civil Division of the US Department of Justice, seeking similar information in connection with a False Claims Act investigation stemming from alleged anticompetitive conduct.

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Mayne Pharma is fully cooperating with these investigations, which appear to be focused on the generic doxycycline hyclate delayed-release market, and to be part of a broader inquiry into industry practices.

*Drug pricing matters - litigation*

In the last few years, Mayne Pharma Inc has been sued alongside other generic pharmaceutical companies in civil complaints alleging anticompetitive conduct in the sale of generic drugs with claims related to drugs sold by Mayne Pharma as well as allegations that all defendants were part of an overarching, industry wide conspiracy to allocate markets and fix prices generally. Additional cases brought in the last six months have expanded the overarching conspiracy allegations to include additional products. These cases include a complaint by the attorneys general of 45 US states, the District of Columbia and the Commonwealth of Puerto Rico, and class action lawsuits filed by direct purchasers, indirect purchasers and indirect resellers, as well as lawsuits filed by opt out private plaintiffs. These cases have been, or are expected to be, consolidated into multidistrict litigation pending in the Eastern District of Pennsylvania. Mayne Pharma is strongly defending the allegations made in these civil complaints.

*Product liability - amiodarone*

In the last few years, Mayne Pharma Inc and other pharmaceutical companies have been sued in class action complaints in California and one in Texas involving allegations relating to amiodarone. The issues involved include allegations of failure to adequately warn about risks associated with amiodarone, failure to provide the FDA-required medication guide, off-label promotion, and conspiring with the other defendants to downplay the risks of the drug. Mayne Pharma is vigorously defending these allegations.

*Other matters*

In July 2019, HedgePath LLC (HP LLC) brought a derivative action on behalf of Inhibitor Therapeutics Inc (INTI) suing Mayne Pharma Ventures Pty Ltd and certain INTI directors and officers, alleging self-dealing, breaches of fiduciary duty and other wrongdoing including in connection with (i) the issuance of certain INTI equity securities to Mayne Pharma in early 2018, (ii) Mayne Pharma's alleged influence over the timing and conduct of INTI's clinical trials of SUBA-itraconazole for the treatment of BCCNS, and (iii) amendments to a supply and license agreement between INTI and Mayne Pharma and related transactions. Mayne Pharma Ventures is a majority shareholder of INTI and HP LLC is a minority shareholder. Mayne Pharma Ventures is strongly defending the allegations.

**17. FINANCIAL INSTRUMENTS**

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the Group as at 31 December 2019.

	31 December 2019 \$'000	30 June 2019 \$'000
<b>Financial assets</b>		
<b>Current</b>		
Warrants (options) - INTI	128	563
	128	563
<b>Financial liabilities</b>		
<b>Current</b>		
Mark to market valuation – interest rate swaps	1,008	437
Earn-out and deferred consideration liabilities	26,115	13,485
Syndicate loan and receivables financing	41,446	50,861
	68,569	64,783
<b>Non-current</b>		
Earn-out and deferred consideration liabilities	197,328	59,953
Syndicated loan	333,780	318,501
	531,108	378,454

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Trade and other receivables, trade and other payables, other financial assets and other liabilities are considered short term and their fair values approximates the carrying values.

**Fair Value**

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

	Carrying Amount		Fair Value	
	31 Dec 2019 \$'000	30 June 2019 \$'000	31 Dec 2019 \$'000	30 June 2019 \$'000
<b>Assets</b>				
Warrants (options) – INTI	128	563	128	563
<b>Liabilities</b>				
Mark to market valuation – interest rate swaps	1,008	437	1,008	437
Earn-out and deferred consideration liabilities	223,443	73,438	223,443	73,438

Warrants, as at reporting date, represent options to purchase an additional 32,199,890 shares (30 June 2019 32,199,890) in INTI.

Interest rate swaps represent the Mark to Market value of open contracts at reporting date.

The Consolidated Entity has recognised various earn-out liabilities relating to various asset purchases. Most earn-outs are based on a percentage of net sales or gross margin and typically payable on a quarterly basis for a period of between two and ten years.

Deferred consideration recognised includes amounts which have contingent conditions such as FDA approvals and on market conditions (e.g. timing of commercial launches, no entry of a new competitor into the relevant market, achievement of cumulative net sales milestones). At balance date the Group has assessed the amount expected to be paid for contingent amounts outlined in the asset purchase agreements, using best estimates as to timing and likelihood of payments.

Set out below are the significant unobservable inputs to valuation as at 31 December 2019:

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<b>Earn-out deferred consideration /</b>	<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Input used</b>	<b>Sensitivity of the input to fair value</b>
Mithra-E4/DRSP – deferred consideration liability	DCF	Forecast net sales  WACC  Delay in obtaining FDA approval	10.2%	5% increase (decrease) in net sales would change the expected timing of milestone payments resulting in an increase (decrease) in fair value by \$3.2m. 1% increase / (decrease) in the WACC would result in decrease / (increase) in fair value by \$7.4m / (\$8.0m). One-year delay in obtaining FDA approval would decrease the fair value by \$8.1m.
Lexette earn-out and deferred consideration liability	DCF	Forecast net sales  WACC	10.2%	5% increase (decrease) in net sales would result in an increase (decrease) in fair value by \$1.0m. 1% increase (decrease) in the WACC would result in decrease (increase) in fair value by \$1.1m.
Mithra – gNuvaring – deferred consideration liability	DCF	Timing of ANDA approval  WACC	9.6%	A delay of 1 year for the ANDA approval would decrease the fair value by \$1.0m 1% increase (decrease) in the WACC would result in decrease (increase) in fair value by \$0.1m.
Efudex-deferred consideration liability	DCF	Entry of new generic competitor		Entry of a new generic competitor by 20 July 2020 would decrease the deferred consideration by \$5.4m. Entry of a new generic competitor after 20 July 2020 and before 20 July 2021 would decrease the deferred consideration by \$2.5m.

**Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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**Assets and liabilities measured at fair value**

As at 31 December 2019, the Group held the following financial instruments carried at fair value in the Statement of Financial Position:

	Level 2		Level 3	
	31 December 2019 \$'000	30 June 2019 \$'000	31 December 2019 \$'000	30 June 2019 \$'000
<b>Financial Assets</b>				
Warrants (options) – INTI	-	-	128	563
<b>Financial Liabilities</b>				
Mark to market valuation – interest rate swaps	1,008	437	-	-
Earn-out and deferred consideration liabilities	-	-	223,443	73,438

**Reconciliation of fair value measurements of Level 3 financial instruments**

The Group carries Warrants (options) – INTI and Earn-out and deferred consideration liabilities classified as Level 3 within the fair value hierarchy.

A reconciliation of the beginning and closing balances including movements is summarised below:

	2019 Warrants \$'000	2019 Earn-out & deferred consideration liabilities \$'000
Opening balance	563	73,438
Acquisitions	-	164,877
Fair value (decrement) / increment	(435)	(3,200)
Foreign currency restatement	-	(3,767)
Payments	-	(7,904)
Closing Balance	128	223,443

During the six-month period ended 31 December 2019, there were no transfers between Level 1 and Level 2 fair value measurements. The fair value increments and decrements were recorded in determining profit before tax.

**18. EVENTS SUBSEQUENT TO REPORTING DATE**

No matter or circumstance has arisen since the reporting date which is not otherwise reflected in this report that significantly affected or may significantly affect the operations of the consolidated entity.

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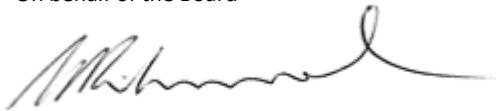
## DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Mayne Pharma Group Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position as at 31 December 2019 and the performance for the half-year ended on that date of the consolidated entity; and
  - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001;
- (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.

On behalf of the Board

A handwritten signature in black ink, appearing to read "Scott Richards".

Scott Richards  
Director

Melbourne, 21 February 2020

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## AUDITOR'S INDEPENDENT REVIEW REPORT



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### Independent Auditor's Review Report to the Members of Mayne Pharma Group Limited

#### Report on the Half-Year Financial Report

##### Conclusion

We have reviewed the accompanying half-year financial report of Mayne Pharma Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

##### Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

##### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year 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, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year 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.

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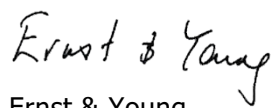




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## Independence

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



Ernst & Young



David Petersen  
Partner  
Melbourne  
21 February 2020

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