



PALLA PHARMA

ASX ANNOUNCEMENT

Thursday 28 May 2020

2020 AGM Chairman's Address

Palla Pharma Limited (ASX:PAL) advises that the following address will be delivered at the AGM today by the Chairman Mr Simon Moore:

Good afternoon ladies and gentlemen, my name is Simon Moore and I am the Chairman of Palla Pharma Limited. It is my pleasure to welcome you to the 2020 Annual General Meeting. It is now 2:00pm which is the time appointed for the meeting.

Due to COVID-19 restrictions, this AGM is being held via Teleconference.

Before opening the formal Meeting I will make an address which will be followed by a presentation and update on the operations of the Company by our CEO and Managing Director Mr Jarrod Ritchie.

COVID Impact

At the outset of my address, I would like to acknowledge the extraordinary efforts of our management and employees who have continued to work throughout the COVID Crisis period to ensure that our customers have been able to access the essential medicines we produce. The business has taken a number of steps to ensure the health and safety of our employees over this period and I am happy to report that no employees have tested positive.

The COVID Crisis has negatively impacted our operations in the First Half of the 2020 Financial Year as a number of our Codeine Phosphate API customers have been unable to access other key inputs for their final dosage formulations (such as Paracetamol) thereby disrupting their production operations (and demand for our product). These supply constraints are now starting to lift and customer demand is starting to return to pre COVID Crisis period levels. Mr Ritchie will address the likely extent of this impact on First Half revenue results later in the meeting.

On the positive side, the COVID Crisis has highlighted to governments and their pharmaceutical regulatory bodies around the world, the need to both broaden their sources of supply for key medicines and increase the level of national stockpiles for use in medical emergencies. The result has been that for certain essential medicines, such as the Company's opiate based pain management medicines, the regulatory approval process for Product Marketing Authorisations has been significantly shortened and this has assisted your Company in its efforts to push further into Finished Dose Formulation (FDF) forms of its products.

2019 Results

The 2019 Full Year Financial Results were disclosed to the market at the end of February, which feels like a lifetime ago given what has happened in the world since then but is just 3 months ago. Mr Ritchie will go into greater detail with respect to the results but, at a very high level, the Company reported its first Full Year underlying EBITDA positive result, an important moment in the development of all businesses, while continuing with the migration of the business further downstream from its origins as a Narcotic Raw Material producer into Active Pharmaceutical Ingredient and Contract Manufacturing Organisation operations.

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It is important to note that while finishing the year EBITDA profitable for the first time; the business achieved this result despite continuing to operate on an inconsistent basis related to straw supply disruption, specialist employee shortages and regulatory uncertainty. The challenge for both management and the Board is to develop the appropriate management team skills and processes to allow the business to operate consistently. If we can successfully do so, the Company will realise the benefits of its manufacturing cost advantages and generate significant economic returns to shareholders.

2020 Update and Outlook

Mr Ritchie will speak to year to date trading and other operational matters of significance in his address. I will limit myself to highlighting three matters I think are of key importance to shareholders.

First, for the first time since the Company started its Northern Hemisphere poppy straw sourcing strategy three years ago, the volume and quality of the straw delivered by growers has been such that it has not negatively impacted the operating efficiency of the core Narcotic Raw Material manufacturing process. This result is an important milestone and will allow management greater flexibility in its sourcing plans as it looks to mitigate the risk of inconsistent straw supply.

Second, the acquisition of the Vistin API and CMO businesses in Norway was driven by the desire to better leverage the Company's low cost Narcotic Raw Material production capability by further value-adding the NRM on the journey to the ultimate customer. Two plus years post purchase and the Company has made significant progress in turning the Vistin API operations into low cost efficient manufacturers and with termination of the major non opiate based product CMO contract the FDF operations are well on their way to industry leading efficiency.

Third, the Company has taken an important step towards its ultimate goal of being an industry leader in the Finished Dose Formulations segment of the opiate-based pain management medicines market with its recent acquisition of seven Marketing Authorisations. These MAs will form the initial basis for the Company's direct to wholesaler/retailer FDF operations and should allow us to be selling product into the UK market in Q4.

Combine these developments with your Company's own internal Research & Development activities and the addition of another very experienced pharmaceutical executive by the name of Dr David Hartley to the senior management team (David joins us from a senior management role at CSL), and I feel the outlook for the business is extremely positive despite all the current health and economic uncertainty facing the world.

Acknowledgements

It would be remiss of me not to thank management for their continued efforts in these extremely challenging times. Everyone from the senior management group led well by Mr Ritchie and Mr Middleton to the operations teams in Coolaroo and Kragero have been dedicated to executing their respective pieces of the business plan. To my Board colleagues, a large thank you for your efforts. Being a non-executive director of an ASX listed Small Cap company is not a lucrative endeavour but it is time consuming and requiring sound judgement and I can assure shareholders your NEDs are going above and beyond for you in the exercise of their duties.

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Finally, I would like to thank you, the shareholders, for your continued support of the Company through its development phase. In November 2019, the Company successfully raised \$30 million of equity to repay debt and provide additional capital for growth (both capex and working capital). Management and the Board are working hard ensure that your faith was well placed and that the promise of the Company is realised in the near future.

This announcement has been approved for release by the Board of Directors of Palla Pharma Limited.

About Palla Pharma Limited:

Palla Pharma Limited (ASX:PAL) is a vertically integrated opiate manufacturer from poppy straw growing through to tableting production. Palla Pharma has developed an innovative, efficient, and environmentally sustainable opiate manufacturing process based on a unique water-based extraction technology. The company is one of six licensed opiate producers globally, and one of three fully integrated suppliers from opiate extraction through to tableting production delivering on its strategy to secure access to regulated downstream narcotics markets by leveraging its production cost advantage.

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