TPI Enterprises Limited

ACN 107 872 453

Annual report
for the year ended 31 December 2018

TPI Enterprises Limited ACN 107 872 453
Annual report - 31 December 2018

Contents

Directors	Mr. Simon Moore (Non-Executive Chairman)
	Mr. Jarrod Ritchie (Managing Director and CEO)
	Mr. Todd Barlow (Non-Executive Director)
	Mr. Stuart Black (Non-Executive Director)
	Ms. Sue MacLeman (Non-Executive Director)
Secretary	Mr. Jaime Pinto
Principal registered office in Australia	c/- Link Market Services Limited Tower 4 727 Collins Street Docklands VIC 3008 Tel: +61 3 9301 0800 Fax: +61 3 9301 0899
Share registry	Link Market Services Limited Tower 4 727 Collins Street Docklands VIC 3008
Auditor	KPMG Tower 2 727 Collins Street Docklands VIC 3008
Australian company number	107 872 453
Mailing address	PO Box 2139 Melbourne VIC 3001
Stock exchange listing	Australian Securities Exchange (ASX Code: TPE)
Website	www.tpienterprises.com

Directors' report

The directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of TPI Enterprises Limited (“the Company”) and the entities it controlled at the end of, or during, the year ended 31 December 2018.

Directors

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

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

Mr. Peter Robinson was a Non-Executive Director from the beginning of the financial period until his resignation on 1 May 2018.

Ms. Sue MacLeman was appointed as a Non-Executive Director on 27 November 2018 and continues in office at the date of this report.

Principal activities

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

Review of operations

Financial Results Summary

	Consolidated entity	
	31 December 2018	31 December 2017
	$	$
Sales of Narcotic Raw Material (“NRM”), Active Pharmaceutical Ingredients (“API”), Finished Dosage Formulations (“FDF”) and Poppy Seed	**46,170,998**	21,666,095
Statutory Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	**(2,567,893)**	(11,880,005)
Statutory Earnings Before Interest and Tax (EBIT)	**(5,119,188)**	(14,642,784)
Statutory (Loss) for the year after tax	**(5,788,409)**	(16,692,689)
Net cash (outflow) from operating activities	**(14,645,705)**	(13,144,906)
Operating EBITDA	**(2,431,650)**	(7,745,027)

The Group reported a statutory loss after income tax for 2018 of $5.8 million (2017: $16.7 million) and reported a statutory Earnings Before Interest, Tax, Depreciation and Amortisation (“EBITDA”) loss of $2.6 million (2017: $11.9 million).

Operating EBITDA, a non-GAAP financial measure used internally within the Group, continues to improve along with gross profit margins. A decrease in the Operating EBITDA loss from $7.7 million in 2017 to an Operating EBITDA loss of $2.4 million for 2018 predominantly reflects the operating leverage associated with the increased production and sales volumes experienced over the period.

Reported sales revenue of $46.2 million represented a 113.1% increase over the corresponding period, primarily driven by the growth of Poppy Seed, NRM and API sales. The period includes the first full year contribution of the acquired Norway business. Reported Gross Margin for the Group increased to $16.0 million, a 257% increase from 2017 due to a significant increase in manufacturing plant utilisation.

Review of operations (continued)

Raw Material Straw Supply

Reliability of poppy straw supply continued to improve in 2018, with continued growth in the number of alternative straw suppliers in both the Northern and Southern Hemisphere reducing stock-out risk of poppy straw and diversifying agricultural supply risk. The Group is the only licenced narcotic manufacturer globally with both Northern and Southern Hemisphere supply sources.

Expansion of mainland growing in Australia continues to be a high priority for the Group with key benefits including scale and logistics. The first large scale commercial growing of crops in New South Wales occurred in 2018 with pleasing results.

NRM production in Australia

NRM production continued to improve with more reliable straw supply. The majority of the Group's NRM volume is transferred to Norway for conversion to both Codeine Phosphate or Pholcodine API's. As the capacity of NRM production for the Group is currently greater than that of API production, external NRM sales were an important sales contributor in 2018 and will continue to be in the short to medium term. The Group undertook minimal volumes of toll processing in 2018 and no longer plans to conduct toll processing unless commercial circumstances change significantly.

Poppy seed sales were significantly higher than expected in 2018 due to the ongoing global shortage of seed supply resulting from generally poor Northern Hemisphere crops and a decrease in growing area in Australia, France and Spain in recent years.

API production in Norway

The principal strategic benefit of acquiring the Group's Norway operations was to enable the fast tracking of the Group's entry into API markets for Codeine Phosphate and Pholcodine as the primary input material is morphine NRM. Given approximately 80% of the cost to produce these products resides in the NRM, the Group expects that its NRM production cost advantage will enable it to become the lowest cost supplier of codeine phosphate globally.

During 2018 the Group experienced double digit growth in API volumes and expects volumes to grow strongly in 2019 with nearly full capacity utilisation expected by the final quarter of 2019. While pricing across the industry is at cyclical lows, the Group continues to attract new API volumes at commercially attractive margins, demonstrating the Group's competitive cost advantage in API production.

FDF production in Norway

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

During 2018 the Group continued supply to its two main CMO customers in Europe. One of the contracts for Codeine Phosphate tablets was renegotiated for increased volumes at higher prices resulting in a 15 tonne Codeine Phosphate customer over 18 months.

In 2018 the Group made a significant investment to upgrade its labelling of CMO product to include a new serialisation labelling system as per EU Directive 2011/62/EU (Falsified Medicines). The implementation of serialisation capability also provides the opportunity for the Group to acquire additional manufacturing volumes.

Review of operations (continued)

Cost Reduction Activities in Norway

During 2018 the Group undertook an overhead cost reduction program in Norway that focused on a reduction of costs in the key areas of production and non-production labour, production overtime, external advisory services, and external site services such as cleaning and clothing maintenance. For the full year the Group realised overhead cost savings of $3.6 million, ahead of a target of $3.0 million.

Reconciliation of Operating EBITDA to Statutory EBITDA and Loss After Tax

The consolidated financial statements comply with International Financial Reporting Standards (IFRS's) adopted by the International Accounting Standards Board (IASB). In the presentation of its financial results the Group uses a non-GAAP financial measure which is not prepared in accordance with IFRS being:

- Operating EBITDA: calculated by adding back (or deducting) finance expense/(income), taxation expense, depreciation, amortisation, acquisition related expenses, transaction integration services, agricultural area trialling expenses, inventory impairments, losses from discontinued operations, losses on disposal of non-core plant and equipment, and deducting other income and depreciation expense from discontinued operations, to net profit/(loss) after tax.

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

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

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Statutory (Loss) after income tax	**(5,788,409)**	(16,692,689)
Less: Profit from discontinued operation	**(1,119,003)**	-
Add: Income tax expense	**134,893**	-
Add: Net finance expenses	**1,653,331**	2,049,905
Statutory Earnings Before Interest and Tax (EBIT)	**(5,119,188)**	(14,642,784)
Add: Depreciation and amortisation expense	**2,551,295**	2,762,779
Statutory Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	**(2,567,893)**	(11,880,005)
Add:		
Impairment of inventory to net realisable value	**-**	1,958,963
Agricultural area trialling expenses	**-**	432,318
Acquisition related expenses - legal and other expenses	**295,851**	1,873,056
Transaction integration and change management advisory services	**-**	170,192
Loss from discontinued operation	**-**	646,587
Loss on disposal of property, plant and equipment	**232,775**	-
Deduct:		
Other income	**(392,383)**	(597,079)
Depreciation and amortisation expense - discontinued operation	**-**	(349,059)
Operating EBITDA	**(2,431,650)**	(7,745,027)

Review of operations (continued)

Summary of key business risks

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

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

Significant changes in the state of affairs

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

Events since the end of the financial year

On 7 March 2019 the Group increased the limit of its standby debt facility with Washington H. Soul Pattinson and Company Ltd from $25,000,000 to $31,000,000.

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

Likely developments and expected results of operations

The Group continues to pursue its previously stated production volume target of 200 tonnes of NRM by 2021.

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

Dividends

No dividends have been paid during the financial year. The directors do not recommend that a dividend be paid in respect of the financial year (2017: $nil).

Environmental regulation

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

Indemnification and insurance of officers and auditors

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

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

Meetings of directors

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 31 December 2018, and the numbers of meetings attended by each director were:

	Board of Directors		**Human Capital Committee**		**Audit & Risk Committee**	
	Held and Eligible to Attend	**Attended**	**Held and Eligible to Attend**	**Attended**	**Held and Eligible to Attend**	**Attended**
Mr. Simon Moore (Non-Executive Chairman)	13#	13	1	1	3	3
Mr. Jarrod Ritchie (Managing Director and CEO)	13#	13	-	-	3*	3*
Mr. Todd Barlow (Non-Executive Director)	12	11	1	1	3	3
Mr. Stuart Black (Non-Executive Director)	13#	13	1	1	3	3
Ms. Sue MacLeman (Non-Executive Director)	2	2	-	-	-	-
Mr. Peter Robinson (Non-Executive Director)	6#	6	-	-	2*	2*

* Attended by invitation
# Includes special purpose board sub-committee meetings

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

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

Information on directors

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

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

Qualifications and Experience

Simon Moore is currently a Non-Executive Director of Coates Hire, a Non-Executive Director of ASX-listed Megaport, a Non-Executive Director of ASX-listed Firstwave Cloud Technology Limited, a Non-Executive Director of Mexican fast casual restaurant chain Guzman Y Gomez and a Non-Executive Director of venture capital firm, OneVentures.

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

Former listed company directorships within past three years:
• Non-Executive Director of Healthscope Limited (appointed 2010, resigned 2015)
• alternate Non-Executive Director of Qube Holdings Limited (appointed 2011, resigned 2016)

Director of TPI Enterprises Limited since 1 June 2016. Simon is Chair of the Human Capital Committee and a member of the Audit & Risk Committee.

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

Qualifications and Experience

Jarrod Ritchie has over 20 years' experience in the opiates industry. He has led TPI from its inception as a start-up to its current position as Australia's third licensed poppy processor with a strong international reputation. Jarrod has led new research in the opiates industry including TPI's unique, environmentally-sustainable, solvent-free manufacturing process. He has also led the successful trialling of a new thebaine-rich variety of poppy; the introduction of commercial crops to Victoria and New South Wales; the trialling of poppy crops in the Northern Territory; and the expansion of TPI's global operations.

Director of TPI Enterprises Limited since 5 February 2004.

Information on directors (continued)

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

Qualifications and Experience

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

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

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

Director of TPI Enterprises Limited since 18 June 2015. Todd is a member of the Human Capital Committee and the Audit & Risk Committee.

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

Qualifications and Experience

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

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

Former listed company directorships within past three years:
• None

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

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

Qualifications and Experience

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

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

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

Information on secretary

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

Mr. Jaime Pinto, BComm, CA, Company Secretary

Qualifications and Experience

Mr. Pinto is a Chartered Accountant with extensive experience in both professional practice and in senior commercial roles across a broad range of industries. Jaime is currently Company Secretary of Quickstep Holdings Limited, BKI Investment Company Limited, URB Investments Limited, and is Company Secretary and CFO of a number of unlisted investment and industrial companies.

Company Secretary of TPI Enterprises since 28 October 2016.

Remuneration report - Audited

The directors present the TPI Enterprises Limited 2018 remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year.

The report is structured as follows:

(a) Key management personnel (KMP) disclosed in this report
(b) Remuneration governance
(c) Principals used to determine the nature and amount of remuneration
(d) Details of remuneration
(e) Service agreements
(f) Equity instruments granted
(g) Movement in shares held

(a) Key management personnel disclosed in this report

Non-executive and executive directors

(i) Non-Executive Chairman

Mr. Simon Moore

(ii) Managing Director and Chief Executive Officer

Mr. Jarrod Ritchie

(iii) Non-Executive Directors

Mr. Todd Barlow
Mr. Stuart Black
Mr. Peter Robinson (until 1 May 2018)
Ms. Sue MacLeman (from 27 November 2018)

Other key management personnel

(i) Chief Financial Officer

Mr. Brendan Middleton

(b) Remuneration governance

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

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

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

Remuneration report - Audited (continued)

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

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

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

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

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

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

The LTI scheme assists in the motivation, retention and reward of executives and employees and aligns the interests of employees with the interests of shareholders. Full time or part time employees, contractors, and Executive Directors of TPI or any of its subsidiaries will be eligible to participate in the LTI scheme. The Executive Directors of TPI will require approval from TPI's shareholders prior to being permitted to participate in the LTI scheme.

Non-Executive Directors' fees

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

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

Executive pay

The executive pay and reward framework has three components:

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

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

Remuneration report - Audited (continued)

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

(i) Base pay and benefits

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

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

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

(ii) Short term incentives (STI's)

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

(iii) Long term incentives (LTI's)

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

(iv) Relationship between remuneration policy and company performance

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

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

Statutory performance indicators

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

Remuneration report - Audited (continued)

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

	2018	2017	2016	2015	2014
Revenue	46,563,381	22,263,174	10,556,449	3,679,063	8,390,395
Net profit/(loss) after tax	(5,788,409)	(16,692,689)	(14,020,835)	(25,899,838)	(14,443,973)
Closing share price	$1.15	$2.20	$2.91	$3.90	N/A
Price increase/(decrease) $	($1.05)	($0.71)	($0.99)	N/A	N/A
Price increase/(decrease) %	(47.7%)	(24.4%)	(25.4%)	N/A	N/A
Earnings per share (cents)	(8.52)	(23.38)	(26.96)	(52.07)	(33.30)

(d) Details of remuneration

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

2018	Short-term employee benefits		Post-employment benefits		Equity-based payments	
Name	Cash salary and fees $	Non-monetary benefits $	Super-annuation $	Other long term benefits $	Share Appreciation Rights $	Total $
Non-executive directors						
Peter Robinson *	43,231	-	4,107	-	-	47,338
Todd Barlow	70,000	-	6,650	-	-	76,650
Simon Moore	101,410	-	9,634	-	-	111,044
Stuart Black	80,000	-	7,600	-	-	87,600
Sue MacLeman **	4,846	-	460	-	-	5,306
Sub-total non-executive directors	**299,487**	**-**	**28,451**	**-**	**-**	**327,938**
Executive directors						
Jarrod Ritchie	775,417	-	24,583	11,142	93,333	904,475
Sub-total executive directors	**775,417**	**-**	**24,583**	**11,142**	**93,333**	**904,475**
Other key management personnel						
Brendan Middleton	275,000	-	25,000	14,122	35,158	349,280
Sub-total other key management personnel	**275,000**	**-**	**25,000**	**14,122**	**35,158**	**349,280**
Total key management personnel compensation	**1,349,904**	**-**	**78,034**	**25,264**	**128,491**	**1,581,693**

* Non-Executive Director until 1 May 2018
** Non-Executive Director from 27 November 2018

Remuneration report - Audited (continued)

(d) Details of remuneration (continued)

2017	Short-term employee benefits		Post-employment benefits		Equity-based payments	
Name	Cash salary and fees	Non-monetary benefits	Super-annuation	Other long term benefits	Share Appreciation Rights	Total
	$	$	$	$	$	$
Non-executive directors						
Peter Robinson	120,000	-	11,400	-	-	131,400
Todd Barlow	70,000	-	6,650	-	-	76,650
Simon Moore	70,000	-	6,650	-	-	76,650
Stuart Black	80,000	-	7,600	-	-	87,600
Sub-total non-executive directors	**340,000**	**-**	**32,300**	**-**	**-**	**372,300**
Executive directors						
Jarrod Ritchie	773,333	-	26,667	27,404	71,254	898,658
Sub-total executive directors	**773,333**	**-**	**26,667**	**27,404**	**71,254**	**898,658**
Other key management personnel						
Brendan Middleton *	142,842	-	14,274	658	19,086	176,860
Sub-total other key management personnel	**142,842**	**-**	**14,274**	**658**	**19,086**	**176,860**
Total key management personnel compensation	**1,256,175**	**-**	**73,241**	**28,062**	**90,340**	**1,447,818**

* KMP from 5 June 2017

(e) Service agreements

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

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

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

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

Remuneration report - Audited (continued)

(e) Service agreements (continued)

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

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

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

Brendan Middleton, Chief Financial Officer
• Term of Agreement - Commencing from 5 June 2017
• Base Remuneration - $300,000 inclusive of statutory superannuation per annum, subject to increases at the discretion of the Board of Directors
• Termination - By three months’ notice from either side
• Bonus - At the discretion of the Board of Directors
• Equity - The Executive shall be entitled to participate in the LTI scheme of the Company

(f) Equity instruments granted

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

	Number of equity instruments issued	Fair value of equity instruments per share	Total value of equity instruments issued	Start of performance period	End of performance period	Included in 2018 remuneration
Jarrod Ritchie, Managing Director and Chief Executive Officer						
2017 Share Appreciation Rights	451,613	$0.62	$280,000	27 March 2017	27 March 2020	$93,333
Brendan Middleton, Chief Financial Officer						
2018 Share Appreciation Rights	120,968	$0.33	$39,919	28 March 2018	28 March 2021	$10,158
2017 Share Appreciation Rights	120,968	$0.62	$75,000	5 June 2017	27 March 2020	$25,000

Remuneration report - Audited (continued)

Total share appreciation rights issued are disclosed in note 32.

(g) Movement in shares held

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

Name	Held at 1 January 2018	Purchased	Sold	Other changes during the year	Held at 31 December 2018
Non-executive directors					
Peter Robinson *	84,900	41,980	-	126,880	-
Todd Barlow	-	-	-	-	-
Simon Moore	2,154,067	-	-	-	2,154,067
Stuart Black	15,000	-	-	-	15,000
Sue MacLeman	-	-	-	-	-
Executive directors					
Jarrod Ritchie	1,533,805	-	-	-	1,533,805
Other key management personnel					
Brendan Middleton	-	-	-	-	-

* Ceased to be a KMP during the year and “Other changes” reflects removal of holding from this table.

End of the Remuneration Report (Audited)

Non-audit services

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

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

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

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

	Consolidated entity	
	2018	2017
	$	$
(i) Audit and other assurance services		
Audit and review of financial reports and other audit work under the Corporations Act 2001 – KPMG Australia	**173,756**	136,650
Audit and review of financial reports and other audit work for subsidiaries – KPMG International	**14,127**	86,444
Total remuneration for audit and other assurance services	**187,883**	223,094
(ii) Taxation services		
Statutory taxation services - KPMG International	**3,300**	-
Total remuneration for taxation services	**3,300**	-
(iii) Other services		
Transaction due diligence services – KPMG Australia	**-**	25,670
Transaction integration and change management advisory services – KPMG International	**-**	170,192
Total remuneration for other services	**-**	195,862
Total remuneration of KPMG	**191,183**	418,956

No officers were previously partners of the audit firm KPMG.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 19.

Auditor

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

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

Mr. Simon Moore
Director

Melbourne
8 March 2019

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

To the Directors of TPI Enterprises Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of TPI Enterprises Limited for the financial year ended 31 December 2018 there have been:

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

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

KPMG

KPMG

Tony Batsakis

Partner

Melbourne

8 March 2019

Corporate Governance Statement

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

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

The Corporate Governance Statement contains certain specific information and discloses the extent to which the Company has followed the Council's principles during the 2018 financial year.

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

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

TPI Enterprises Limited ACN 107 872 453
Financial statements - 31 December 2018

Contents

These financial statements are the consolidated financial statements of the consolidated entity consisting of TPI Enterprises Limited and its subsidiaries. A list of subsidiaries is included in note 26. These financial statements are presented in Australian dollars ($), which is the Group's functional currency.

TPI Enterprises Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

TPI Enterprises Limited
c/- Link Market Services Limited
Tower 4
727 Collins Street
Docklands VIC 3008

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

The financial statements were authorised for issue by the directors on 8 March 2019. The directors have the power to amend and reissue the financial statements.

	Notes	Consolidated entity **31 December 2018 $**	31 December 2017 $
Revenue			
Sale of goods		**46,170,998**	21,666,095
Other income		**392,383**	597,079
	6	**46,563,381**	22,263,174
Expenses			
Raw materials, consumables and other production expenses		**(23,277,108)**	(14,055,378)
Employee benefits (production) expenses	7	**(6,909,702)**	(3,133,052)
Employee benefits (non-production) expenses	7	**(11,610,865)**	(8,251,127)
Legal and listing compliance expenses		**(703,312)**	(430,381)
Market development expenses		**(1,018,036)**	(382,785)
Occupancy expenses		**(2,070,232)**	(1,621,115)
Research expenses		**(268,863)**	(374,975)
Acquisition related expenses - legal and other expenses		**(295,851)**	(1,873,056)
Agricultural area trialling expenses		**-**	(432,318)
Impairment of inventory to net realisable value		**-**	(1,958,963)
Loss on disposal of property, plant and equipment		**(232,775)**	-
Other expenses		**(2,744,530)**	(1,630,029)
Total expenses		**(49,131,274)**	(34,143,179)
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)		**(2,567,893)**	(11,880,005)
Depreciation and amortisation expense	7	**(2,551,295)**	(2,762,779)
Earnings Before Interest and Tax (EBIT)		**(5,119,188)**	(14,642,784)
Finance income		**21,418**	190,914
Finance expenses		**(1,674,749)**	(2,240,819)
Net finance expenses	7	**(1,653,331)**	(2,049,905)
(Loss) before income tax		**(6,772,519)**	(16,692,689)
Income tax expense	8	**(134,893)**	-
Loss from continuing operations		**(6,907,412)**	(16,692,689)
Profit from discontinued operation, net of tax	28(c)	**1,119,003**	-
(Loss) for the year		**(5,788,409)**	(16,692,689)
Other comprehensive income			
Item that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**1,179,901**	(277,420)
Total comprehensive (loss) for the year		**(4,608,508)**	(16,970,109)

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

	Notes	**Consolidated entity 31 December 2018 $**	31 December 2017 $
(Loss) is attributable to:			
Owners of TPI Enterprises Limited		**(5,788,409)**	(16,692,689)
Total comprehensive (loss) for the year is attributable to:			
Owners of TPI Enterprises Limited		**(4,608,508)**	(16,970,109)
		Cents	Cents
Earnings per share for the (loss) from continuing operations attributable to the ordinary equity holders of the Company:			
Basic (loss) per share	31	**(8.52)**	(23.38)
Diluted (loss) per share	31	**(8.52)**	(23.38)
Earnings per share for the profit from discontinued operations attributable to the ordinary equity holders of the Company:			
Basic profit per share		**1.38**	-
Diluted profit per share		**1.38**	-

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

	Notes	Consolidated entity **31 December 2018** **$**	 31 December 2017 * $
ASSETS			
Current assets			
Cash and cash equivalents	9	**1,904,583**	3,644,547
Trade and other receivables	10	**11,932,039**	9,333,756
Inventories	11	**19,166,364**	16,499,470
Contract assets	2(g)	**3,527,827**	-
Prepayments		**2,723,041**	1,202,288
Assets classified as held for sale	28	**-**	2,961,845
Total current assets		**39,253,854**	33,641,906
Non-current assets			
Investments	13	**103,549**	101,766
Property, plant and equipment	14	**27,762,272**	27,387,040
Intangible assets	15	**14,816,227**	15,451,616
Inventories	12	**1,821,873**	-
Other non-current assets		**-**	256,945
Total non-current assets		**44,503,921**	43,197,367
Total assets		**83,757,775**	76,839,273
LIABILITIES			
Current liabilities			
Trade and other payables	16	**9,426,538**	8,826,539
Borrowings	17	**166,074**	13,226,838
Current tax liabilities		**134,893**	-
Provisions	18	**1,710,002**	1,219,118
Total current liabilities		**11,437,507**	23,272,495
Non-current liabilities			
Borrowings	19	**22,702,960**	-
Provisions	20	**314,549**	314,566
Total non-current liabilities		**23,017,509**	314,566
Total liabilities		**34,455,016**	23,587,061
Net assets		**49,302,759**	53,252,212
EQUITY			
Share capital	21	**181,482,260**	181,482,260
Reserves	22	**3,363,467**	1,856,069
(Accumulated losses)		**(135,542,968)**	(130,086,117)
Total equity		**49,302,759**	53,252,212

* Restated: refer to note 27

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

		Attributable to owners of TPI Enterprises Limited				
Consolidated entity	Notes	**Contributed equity $**	**Foreign currency translation reserve $**	**Other reserves $**	**(Accumulated losses) $**	**Total equity $**
Balance at 1 January 2017		122,178,914	12,827	1,921,929	(113,393,428)	10,720,242
(Loss) for the year		-	-	-	(16,692,689)	(16,692,689)
Other comprehensive (loss)		-	(277,420)	-	-	(277,420)
Total comprehensive (loss) for the year		**-**	**(277,420)**	**-**	**(16,692,689)**	**(16,970,109)**
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs and tax	21	59,303,346	-	-	-	59,303,346
Share-based payments	32	-	-	198,733	-	198,733
		59,303,346	-	198,733	-	59,502,079
Balance at 31 December 2017		**181,482,260**	**(264,593)**	**2,120,662**	**(130,086,117)**	**53,252,212**
Balance at 1 January 2018		181,482,260	(264,593)	2,120,662	(130,086,117)	53,252,212
Opening balance adjustment on application of AASB 15		-	-	-	331,558	331,558
Restated total equity at the beginning of the financial year		**181,482,260**	**(264,593)**	**2,120,662**	**(129,754,559)**	**53,583,770**
(Loss) for the year		-	-	-	(5,788,409)	(5,788,409)
Other comprehensive income		-	1,179,901	-	-	1,179,901
Total comprehensive income/(loss) for the year		**-**	**1,179,901**	**-**	**(5,788,409)**	**(4,608,508)**
Transactions with owners in their capacity as owners:						
Share-based payments	32	-	-	327,497	-	327,497
Balance at 31 December 2018		**181,482,260**	**915,308**	**2,448,159**	**(135,542,968)**	**49,302,759**

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

	Notes	Consolidated entity **31 December 2018 $**	31 December 2017 $
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**40,767,047**	15,531,077
Payments to suppliers and employees (inclusive of goods and services tax)		**(54,016,366)**	(28,290,799)
		(13,249,319)	(12,759,722)
Cash receipts from government grants		**-**	1,526,588
Other cash receipts		**256,945**	-
Interest received		**21,418**	190,914
Interest and finance costs paid		**(1,674,749)**	(2,102,686)
Net cash (outflow) from operating activities	29	**(14,645,705)**	(13,144,906)
Cash flows from investing activities			
Proceeds/(payments) for acquisition of subsidiary, net of cash acquired	27	**761,935**	(25,557,114)
Payments for property, plant and equipment	14	**(2,781,687)**	(1,872,495)
Payments for capitalised development costs and patents	15	**(454,541)**	(524,957)
Proceeds from sale of non-current assets		**979,799**	3,193
Proceeds from sale of held-for-sale assets		**4,291,522**	-
Net cash inflow (outflow) from investing activities		**2,797,028**	(27,951,373)
Cash flows from financing activities			
Proceeds from issues of shares	21	**-**	53,834,526
Share issuance transaction costs	21	**-**	(2,861,711)
Proceeds from borrowings	19	**25,669,130**	10,375,000
Repayment of borrowings	19	**(16,026,934)**	(16,890,760)
Net cash inflow from financing activities		**9,642,196**	44,457,055
Net (decrease) increase in cash and cash equivalents		**(2,206,481)**	3,360,776
Cash and cash equivalents at the beginning of the financial year		**3,644,547**	622,548
Effects of exchange rate changes on the balance of assets held in foreign currencies		**466,517**	(338,777)
Cash and cash equivalents at end of year	9	**1,904,583**	3,644,547

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

Contents of the notes to the consolidated financial statements

1 Reporting entity

TPI Enterprises Limited (the 'Company') is domiciled in Australia. The Company's registered office is at c/- Link Market Services Limited, Tower 4, 727 Collins Street, Docklands VIC 3008. These consolidated financial statements comprise the Company and the entities it controlled at the end of or during the financial year (together referred to as the 'Group'). These financial statements were approved on 8 March 2019.

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

(i) Compliance with IFRS

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

(ii) Historical cost convention

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

(iii) Changes in significant accounting policies

A number of new or amended accounting standards became applicable for the current reporting period. As a result of adopting AASB 15 *Revenue from Contracts with Customers* the Group had to change its accounting policy related to revenue recognition and make cumulative adjustments which are set out below. The other standards that became applicable for the current reporting period did not have an impact on the Group's accounting policies and did not require any retrospective adjustments.

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 *Revenue*, AASB 111 *Construction Contracts and related interpretations.*

(iv) New accounting standards for application in future periods

IFRS 16 *Leases* introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16 from 1 January 2019.

2 Summary of significant accounting policies (continued)

(b) Principles of consolidation

Business combinations

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

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

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

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

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of TPI Enterprises Limited as at 31 December 2018 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those companies over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control eases.

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

(c) Segment reporting

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

2 Summary of significant accounting policies (continued)

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

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

(iii) Foreign operations

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

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

(e) Going concern

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

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

- For the year ended 31 December 2018 the Group generated a loss after income tax of $5,788,409 (2017: $16,692,689) and had cash outflows from operations of $14,645,705 (2017: $13,144,906).
- As at 31 December 2018 the Group's current assets exceeded its current liabilities by $27,816,347 (31 December 2017: $10,369,411), with cash and cash equivalents of $1,904,583 (31 December 2017: $3,644,547).
- The Group has a standby debt facility in place with Washington H. Soul Pattinson and Company Limited to meet the Group's short-term working capital requirements. As at the date of this report the facility has a limit of $31,000,000 and at 31 December 2018 the Group had drawn down $22,702,960 of the Facility. The remaining facility available for utilisation of $8,297,040 combined with cash and cash equivalents of $1,904,583 provides adequate funding to meet the Group's immediate needs.

2 Summary of significant accounting policies (continued)

(e) Going concern (continued)

- The standby debt facility in place with Washington H. Soul Pattinson expires on 31 August 2020. The Directors acknowledge that prima facie a refinancing risk exists at 31 August 2020 if the facility is not renewed in line with past practice, repaid out of funds secured from an alternative source of debt or raised from the issue of additional equity.

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

- The Group's revenue continues to grow strongly with an increase of 109.1% on 2017 at improved margins, and the Group reported a positive statutory EBITDA during the fourth quarter of FY18 with this trend expected to continue in the 2019 financial year.

- The Directors' confidence in the business plans, cash flow and profit and loss forecasts prepared by management, and resources in place to achieve these forecasts for the 2019 financial year. The forecasts continue to project positive EBITDA and positive operating cash flows.

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

(f) Financial instruments

Non-derivative financial assets

New accounting policy - financial instruments

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

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

Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; or FVTPL.

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

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

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

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial assets at amortised cost

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

Financial assets at fair value through profit or loss

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

Cash and cash equivalents

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

Non-derivative financial liabilities

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

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

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

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

Share capital - Ordinary shares

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

Impact on the financial statements

The Group has applied AASB 9 cumulatively, the comparative figures are therefore not restated. The effect of initially applying the standard is the reclassification of trade receivables from the category of 'loans and receivables' to 'Amortised cost'. The adoption of an Expected Credit Loss ('ECL') model did not result in any material adjustments.

2 Summary of significant accounting policies (continued)

(g) Revenue recognition

(i) New accounting policy – revenue recognition

Under AASB 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control - at a point in time or over time - requires judgement. The following amended revenue recognition accounting policies have been applied from 1 January 2018:

Sale of goods - contract manufacturing revenue recognised over time

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

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

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

- When the goods are despatched or delivered in line with the International Chamber of Commerce's International Commercial Terms (Incoterms®) as detailed in the relevant contract of sale or purchase order for the goods;
- When they are made available to the customer and ownership transfers prior to despatch as detailed in the relevant contract of sale or purchase order for the goods; or
- On notification that the product has been used when the goods are consignment products located at customers' premises.

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

Impact on the financial statements

The Group has applied AASB 15 cumulatively, with the effect of initial adoption adjusted to the opening balance of equity, the comparative figures are therefore not restated. The effect of initially applying the standard is attributed to the earlier recognition of revenue from the sale of goods manufactured and supplied under contract manufacturing and supply arrangements. The following tables show the adjustments recognised for each individual financial statement line item. Line items that were not affected by the changes have not been included.

2 Summary of significant accounting policies (continued)

(g) Revenue recognition (continued)

The opening equity adjustment due to the application of AASB 15 is illustrated by financial statement line item below at the date of initial application (1 January 2018):

Consolidated statement of financial position (extract)	31 December 2017 $	AASB 15 adjustment $	1 January 2018 $
Current assets			
Contract assets	-	922,829	922,829
Inventories	16,499,470	(591,271)	15,908,199
Total current assets	33,641,906	331,558	33,973,464
Total assets	79,750,080	331,558	80,081,638
Net assets	53,252,212	331,558	53,583,770
Equity			
(Accumulated losses)	(130,086,117)	331,558	(129,754,559)
Total equity	53,252,212	331,558	53,583,770

The following tables summarise the impact of adoption of AASB15 on the Group's consolidated statement of profit or loss and consolidated statement of financial position for the current reporting period in comparison to the results that would have been reported if AASB15 had not been applied.

Consolidated statement of profit or loss (extract) For the year ended 31 December 2018	As reported $	AASB15 Adjustments $	Amounts without adoption of AASB15 $
Revenue			
Sale of goods	46,170,998	(2,604,998)	43,566,000
Expenses			
Raw materials, consumables and other production expenses	(23,277,108)	776,957	(22,500,151)
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	(2,567,893)	(1,828,041)	(4,395,934)
Income tax expense	(134,893)	518,304	383,411
(Loss) for the year	(5,788,409)	(1,309,737)	(7,098,146)

2 Summary of significant accounting policies (continued)

(g) Revenue recognition (continued)

Consolidated statement of financial position (extract) As at 31 December 2018	As reported $	AASB15 Adjustments $	Amounts without adoption of AASB15 $
Current assets			
Contract assets	3,527,827	(3,527,827)	-
Inventories	19,166,364	1,368,228	20,534,592
Deferred tax assets	-	383,411	383,411
Total assets	83,757,775	(1,776,188)	81,981,587
Current liabilities			
Current tax liabilities	134,893	(134,893)	-
Net assets	49,302,759	(1,641,295)	47,661,464
Equity			
(Accumulated losses)	(135,542,968)	(1,641,295)	(137,184,263)
Total equity	49,302,759	(1,641,295)	47,661,464

There has been no material impact on other comprehensive income and the consolidated statement of cash flows on transition to AASB15.

(ii) Government grants

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

(h) Income tax

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

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

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

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

2 Summary of significant accounting policies (continued)

(h) Income tax (continued)

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

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

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

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

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

(i) Leases

Leased assets

Leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are initially measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, these leased assets are accounted for in accordance with the accounting policy applicable to each asset.

Other leases are classified as operating leases, and the underlying assets are not recognised in the Group's consolidated statement of financial position.

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

2 Summary of significant accounting policies (continued)

(i) Leases (continued)

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception and on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If an arrangement contains a finance lease and the Group concludes that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. The liability is subsequently reduced as payments are made, and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

(j) Impairment

Non-derivative financial assets

<u>Financial instruments and contract assets</u>

The Group recognises loss allowances for Expected Credit Losses on:

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

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

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

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

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

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

<u>Measurement of Expected Credit Losses</u>

Expected Credit Losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

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

2 Summary of significant accounting policies (continued)

(j) Impairment (continued)

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

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

Write-off

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

Non-financial assets

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

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

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

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

Goodwill

Goodwill is tested annually for impairment.

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

2 Summary of significant accounting policies (continued)

(k) Inventories

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

(l) Assets held for sale

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

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

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

(m) Property, plant and equipment

Recognition and measurement

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

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

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

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

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

Subsequent costs

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

2 Summary of significant accounting policies (continued)

(m) Property, plant and equipment (continued)

Depreciation

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

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

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

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

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

(n) Investments

Details of shares in controlled entities are disclosed at note 26(a). Controlled entities are accounted for in the consolidated accounts as set out in the note 2(b).

(o) Intangible assets

(i) Research and development

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

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

(ii) Patents and trademarks

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

(iii) Irrigation rights

Irrigation rights and payments for similar entitlements to draw on natural resources are initially recorded at cost. Where the rights are granted in perpetuity, it is deemed that the asset has an indefinite life, and accordingly, no amortisation is recorded against the asset.

Intangible assets not amortised are subject to annual impairment testing.

(iv) Goodwill

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

2 Summary of significant accounting policies (continued)

(o) Intangible assets (continued)

(v) Subsequent expenditure

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

(vi) Amortisation

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

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

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

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

(p) Finance income and finance expenses

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

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

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

(q) Provisions

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

(r) Employee benefits

(i) Short-term obligations

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

(ii) Other long-term employee benefit obligations

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

2 Summary of significant accounting policies (continued)

(r) Employee benefits (continued)

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

(iii) Share-based payment arrangements

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

(s) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year. Refer to note 31 for further details.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. Refer to note 31 for further details.

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

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

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

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

(u) Parent entity financial information

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

3 Financial risk management

Overview

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

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

Risk management framework

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

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

(a) Credit risk

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

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

Exposure to credit risk

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

		Consolidated entity	
	Notes	**31 December 2018 $**	31 December 2017 $
Trade receivables	10	**10,171,554**	8,602,451
Other receivables	10	**1,760,485**	731,305
Cash and cash equivalents	9	**1,904,583**	3,644,547
Other assets		**-**	256,945
Contract assets		**3,527,827**	-
		17,364,449	13,235,248

3 Financial risk management (continued)

(a) Credit risk (continued)

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

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Europe	**14,187,111**	7,942,700
Other regions	**3,177,338**	659,751
	17,364,449	8,602,451

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

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
End-user customers	**10,171,554**	8,602,451

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

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

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Not past due	**7,279,521**	4,788,525
1 - 30 days	**2,410,254**	1,294,277
31 - 60 days	**225,179**	2,001,143
60 days and over	**256,600**	518,506
	10,171,554	8,602,451

The trade receivable balances are reviewed monthly and an allowance is raised where an indication of impairment exists such as customer insolvency or slow payment record without due cause. Where the Group considers that recovery of the amount owing is not possible, the amounts considered irrecoverable are written off against the financial asset directly. As at 31 December 2018, there was no provision for impairment in relation to trade receivable balances (2017: nil).

The credit risk of contract assets amounting to $3,527,827 and other receivables of $1,760,485 were in respect of the European geographic region, owing from end-user customers and aging that was not past due at 31 December 2018. Other receivables of $731,305 in the 2017 financial period were predominately owing from statutory authorities.

3 Financial risk management (continued)

(a) Credit risk (continued)

Cash and cash equivalents

The Group held cash and cash equivalents, including other assets, of $1,904,583 at 31 December 2018 (2017: $3,644,547), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with a reputable bank and financial institution counterparts.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

Contractual maturities of financial liabilities	**Less than 6 months**	**6 - 12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total contractual cash flows**	**Carrying amount of liabilities**
At 31 December 2018	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Non-derivatives							
Shareholder loan facility	**-**	**-**	**(26,659,402)**	**-**	**-**	**(26,659,402)**	**22,702,960**
Trade and other payables	**(9,420,538)**	**-**	**-**	**-**	**-**	**(9,420,538)**	**9,420,538**
Insurance premium funding	**(184,148)**	**-**	**-**	**-**	**-**	**(184,148)**	**174,648**
Other	**8,573**	**-**	**-**	**-**	**-**	**8,573**	**(8,573)**
Total non-derivatives	**(9,596,113)**	**-**	**(26,659,402)**	**-**	**-**	**(36,255,515)**	**32,289,573**
At 31 December 2017							
Non-derivatives							
Shareholder loan facility	-	(5,366,666)	-	-	-	(5,366,666)	5,000,000
Irrigation rights fixed repayment plan	(79,172)	-	-	-	-	(79,172)	76,831
Financial lease liabilities	(388,472)	(8,473,726)	-	-	-	(8,862,198)	8,150,000
Trade and other payables	(7,424,482)	-	-	-	-	(7,424,482)	7,424,482
Deferred consideration payable	(1,487,680)	-	-	-	-	(1,487,680)	1,487,680
Other	(7)	-	-	-	-	(7)	7
Total non-derivatives	(9,379,813)	(13,840,392)	-	-	-	(23,220,205)	22,139,000

3 Financial risk management (continued)

(c) Market risk

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

(i) Currency risk

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

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

Consolidated entity	**31 December 2018**					31 December 2017				
	USD	**EUR**	**NOK**	**SEK**	**DKK**	USD	EUR	NOK	SEK	DKK
Financial assets										
Cash and cash equivalents	**11,955**	**243,408**	**7,676,105**	**-**	**15,000**	210,145	398,647	16,818,651	-	15,000
Trade and other receivables	**4,387,777**	**893,640**	**11,247,740**	**-**	**-**	4,469,030	1,953,977	7,044,081	-	-
Financial liabilities										
Trade and other payables	**(108,970)**	**(254,565)**	**(10,198,010)**	**(3,399,938)**	**(19,430)**	(913,402)	(395,786)	(6,913,086)	(2,740,805)	(170,000)
Net exposure	**4,290,762**	**882,483**	**8,725,835**	**(3,399,938)**	**(4,430)**	3,765,773	1,956,838	16,949,646	(2,740,805)	(155,000)

3 Financial risk management (continued)

(c) Market risk (continued)

Sensitivity

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the statement of financial position date. A 10 percent increase or decrease in the foreign exchange rate is used and represents management's assessment of the possible change in foreign exchange rates and historically is within a range of rate movements. A positive number indicates an increase in profit and equity. A negative number indicates a decrease in profit and equity. At 31 December 2018, if foreign exchange rates had moved, as illustrated in the table below, with all other variables held constant, pre-tax profit and equity would have been affected as follows:

	-10% in AUD		**+10% in AUD**	
31 December 2018				
Consolidated entity	**Profit $**	**Equity $**	**Profit $**	**Equity $**
Financial assets				
Cash and cash equivalents	**184,521**	**184,521**	**(152,839)**	**(152,839)**
Trade and other receivables	**1,056,448**	**1,056,448**	**(864,367)**	**(864,367)**
Financial liabilities				
Trade and other payables	**(546,063)**	**(546,063)**	**446,780**	**446,780**
	694,906	**694,906**	**(570,426)**	**(570,426)**

	-10% in AUD		**+10% in AUD**	
31 December 2017				
Consolidated entity	**Profit** $	**Equity** $	**Profit** $	**Equity** $
Financial assets				
Cash and cash equivalents	389,543	389,543	(318,717)	(318,717)
Trade and other receivables	1,091,186	1,091,186	(892,790)	(892,790)
Financial liabilities				
Trade and other payables	(501,458)	(501,458)	410,283	410,283
	979,271	979,271	(801,224)	(801,224)

(ii) Interest rate risk

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

3 Financial risk management (continued)

(c) Market risk (continued)

Profile

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

	Carrying amounts	
	31 December 2018 $	31 December 2017 $
Fixed rate instruments		
Financial assets	**-**	256,945
Financial liabilities	**22,877,608**	13,226,831
Variable rate instruments		
Financial assets	**221,892**	112,186
Financial liabilities	**-**	-

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would have increased or decreased the Group's equity by $2,219 (2017: $1,122). This analysis assumes that all other variables, in particular foreign currency rates remain constant.

(d) Capital management

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

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

(e) Fair values

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

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

3 Financial risk management (continued)

(e) Fair values (continued)

Accounting classifications and fair values

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

	Carrying amounts			
31 December 2018	**Fair value through profit and loss $**	**Financial assets at amortised cost $**	**Other financial liabilities $**	**Total $**
Financial assets measured at fair value				
Unlisted investments	**103,549**	**-**	**-**	**103,549**
Financial assets not measured at fair value				
Cash and cash equivalents	**-**	**1,904,583**	**-**	**1,904,583**
Trade and other receivables	**-**	**11,932,039**	**-**	**11,932,039**
	103,549	**13,836,622**	**-**	**13,940,171**
Financial liabilities not measured at fair value				
Shareholder loan facility	**-**	**-**	**22,702,960**	**22,702,960**
Insurance premium funding	**-**	**-**	**174,648**	**174,648**
Other borrowings	**-**	**-**	**(8,573)**	**(8,573)**
Trade and other payables	**-**	**-**	**9,426,536**	**9,426,536**
	-	**-**	**32,295,571**	**32,295,571**
31 December 2017	**$**	**$**	**$**	**$**
Financial assets measured at fair value				
Unlisted investments	101,766	-	-	101,766
Financial assets not measured at fair value				
Cash and cash equivalents	-	3,644,547	-	3,644,547
Trade and other receivables	-	9,333,756	-	9,333,756
	101,766	12,978,303	-	13,080,069
Financial liabilities not measured at fair value				
Shareholder loan facility	-	-	5,000,000	5,000,000
Irrigation rights fixed repayment plan	-	-	76,831	76,831
Finance lease liabilities	-	-	8,150,000	8,150,000
Other borrowings	-	-	7	7
Trade and other payables	-	-	7,424,482	7,424,482
	-	-	20,651,320	20,651,320

Unlisted investments represents the Group's interest in the Macquarie River Pipeline Partnership.

4 Critical estimates, judgements and errors

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

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

Assumptions and estimation uncertainties
Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2018 is included in the following notes:

Note 27 - Acquisition of subsidiary - TPI Norway AS: Key assumptions used to derive inputs into the valuation of identifiable assets acquired and liabilities assumed as part of a business combination, principally forecast sales, gross profit margins and the implied internal rate of return used in the discounted cashflow analysis, based on the consideration paid.

Notes 14 and 15 - impairment test: key assumptions underlying recoverable amounts of property, plant and equipment and intangible assets.

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

(i) Financial instruments

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

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

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

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

(ii) Assets acquired in a business combination

Refer to note 27.

5 Segment information

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

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

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

	Australia		Norway		Eliminations		Consolidated	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Consolidated entity	$	$	$	$	$	$	$	$
External revenue	8,792,653	13,035,189	37,378,345	9,227,985	-	-	46,170,998	22,263,174
Inter-segment revenue	10,500,690	979,893	-	-	(10,500,690)	(979,893)	-	-
Total segment revenue	19,293,343	14,015,082	37,378,345	9,227,985	(10,500,690)	(979,893)	46,170,998	22,263,174
Reportable segment profit/(loss)	(6,218,549)	(14,019,206)	678,511	92,148	285,957	(294,378)	(5,254,081)	(14,221,436)
Unallocated amounts								
Net financing costs	-	-	-	-	-	-	(1,653,331)	(1,824,666)
Profit/(loss) from discontinued operation	-	-	-	-	-	-	1,119,003	(646,587)
Consolidated (loss) before tax	-	-	-	-	-	-	(5,788,409)	(16,692,689)

5 Segment information (continued)

Consolidated entity	Australia 31 December 2018 $	Australia 31 December 2017 $	Norway 31 December 2018 $	Norway 31 December 2017 $	Eliminations 31 December 2018 $	Eliminations 31 December 2017 $	Consolidated 31 December 2018 $	Consolidated 31 December 2017 $
Timing of External revenue recognition:								
At a point in time	8,792,653	13,035,189	10,684,300	9,227,985	-	-	19,476,953	22,263,174
Over time	-	-	26,694,045	-	-	-	26,694,045	-
	8,792,653	13,035,189	37,378,345	9,227,985	-	-	46,170,998	22,263,174

5 Segment information (continued)

	Consolidated entity 31 December 2018 $	31 December 2017 $
Non-current assets		
Australia	**27,366,538**	27,290,561
Europe	**17,137,383**	18,817,613
	44,503,921	46,108,174

6 Revenue

	Consolidated entity 31 December 2018 $	31 December 2017 $
From continuing operations		
Sales revenue		
Sale of goods	**46,170,998**	21,666,095
Other income		
Rental income	**101,446**	-
Research and development tax incentive	**-**	597,079
Other items	**290,937**	-
	392,383	597,079
	46,563,381	22,263,174

7 Expenses

	Notes	Consolidated entity 31 December 2018 $	31 December 2017 $
(Loss) before income tax includes the following specific expenses:			
Employee benefits expenses			
Salaries and wages		**15,581,094**	9,008,370
Other associated personnel expenses		**1,660,743**	1,117,185
Defined contribution superannuation expenses		**460,366**	571,342
Increase/(decrease) in liability for long service leave		**(17)**	39,566
Increase in liability for annual leave		**490,884**	448,983
Share-based payments	32	**327,497**	198,733
Total employee benefits expenses		**18,520,567**	11,384,179

7 Expenses (continued)

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Depreciation		
Buildings	**419,564**	441,938
Contract equipment	**185,654**	147,553
Manufacturing plant and equipment	**1,722,681**	1,686,043
Office equipment	**162,204**	91,070
Motor vehicles	**28,961**	50,249
Total depreciation	**2,519,064**	2,416,853
Amortisation		
Patents	**32,231**	5,477
Capitalised development costs	**-**	340,449
Total amortisation	**32,231**	345,926
Total depreciation and amortisation	**2,551,295**	2,762,779
Finance income		
Interest income	**(21,418)**	(190,914)
	(21,418)	(190,914)
Finance costs		
Interest and finance expenses on financial liabilities measured at amortised cost	**1,657,773**	2,015,583
Net exchange losses on foreign currency	**16,976**	225,236
	1,674,749	2,240,819
Net finance expenses recognised in profit or loss	**1,653,331**	2,049,905

8 Income tax expense

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

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
(Loss) from continuing operations before income tax expense	**(6,772,519)**	(16,692,689)
Tax at the Australian tax rate of 30.0% (2017 - 30.0%)	**(2,031,756)**	(5,007,807)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(41,054)**	11,131
Deferred tax assets not brought into account	**2,207,703**	4,996,676
Income tax expense	**134,893**	-

8 Income tax expense (continued)

(b) Unrecognised deferred tax assets

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
The following deferred tax assets have not been brought to account as assets:		
Deductible temporary differences	**3,284,749**	3,282,637
Tax losses – revenue	**34,889,098**	32,683,507
	38,173,847	35,966,144

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

9 Current assets - Cash and cash equivalents

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Cash at bank	**1,904,583**	3,644,547

10 Current assets - Trade and other receivables

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Trade receivables	**10,171,554**	8,602,451
Other receivables	**1,760,485**	731,305
	11,932,039	9,333,756

The balance of trade and other receivables of $11,932,039 (2017: $9,333,756) are not considered impaired. Refer to note 3 for details of the credit risk exposure analysis.

11 Current assets - Inventories

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Raw materials and consumables	**5,830,836**	6,544,865
Work in progress	**12,751,135**	9,157,516
Finished goods	**584,393**	797,089
	19,166,364	16,499,470

12 Non-current assets - Inventories

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Raw materials and stores	**1,200,529**	-
Work in progress	**599,095**	-
Finished goods	**22,249**	-
	1,821,873	-

13 Non-current assets - Investments

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Macquarie River Pipeline Partnership - at fair value	**103,549**	101,766

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

14 Non-current assets - Property, plant and equipment

Consolidated entity	Land and buildings $	Manufacturing plant and equipment $	Office equipment $	Motor vehicles $	Contract plant and equipment $	Total $
At 1 January 2017						
Cost	19,353,277	23,735,179	896,582	678,357	1,645,136	46,308,531
Accumulated depreciation	(7,228,252)	(9,407,598)	(350,144)	(496,636)	(590,929)	(18,073,559)
Net book amount	12,125,025	14,327,581	546,438	181,721	1,054,207	28,234,972
Year ended 31 December 2017						
Opening net book amount	12,125,025	14,327,581	546,438	181,721	1,054,207	28,234,972
Exchange rate movements	102,639	(37,251)	(979)	260	-	64,669
Acquisition of subsidiary	483,012	1,412,462	37,396	6,623	-	1,939,493
Additions	23,010	926,405	216,916	3,007	703,157	1,872,495
Assets held for sale	(2,297,375)	-	-	(7,168)	-	(2,304,543)
Disposals	-	-	-	-	(3,193)	(3,193)
Depreciation charge	(441,938)	(1,686,043)	(91,070)	(50,249)	(147,553)	(2,416,853)
Closing net book amount	9,994,373	14,943,154	708,701	134,194	1,606,618	27,387,040
At 31 December 2017						
Cost	17,383,499	26,036,796	1,148,017	660,324	2,345,907	47,574,543
Accumulated depreciation	(7,389,126)	(11,093,642)	(439,316)	(526,130)	(739,289)	(20,187,503)
Net book amount	9,994,373	14,943,154	708,701	134,194	1,606,618	27,387,040

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

Consolidated entity	Land and buildings $	Manufacturing plant and equipment $	Office equipment $	Motor vehicles $	Contract plant and equipment $	Total $
Year ended 31 December 2018						
Opening net book amount	9,994,373	14,943,154	708,701	134,194	1,606,618	27,387,040
Exchange rate movements	23,802	68,523	1,735	290	-	94,350
Additions	585,300	1,507,030	655,478	21,818	12,061	2,781,687
Disposals	-	-	(415)	(41,550)	(70,610)	(112,575)
Transfers between asset classes	-	-	130,834	-	-	130,834
Depreciation charge	(419,564)	(1,722,681)	(162,204)	(28,961)	(185,654)	(2,519,064)
Closing net book amount	10,183,911	14,796,026	1,334,129	85,791	1,362,415	27,762,272
At 31 December 2018						
Cost	17,994,157	27,616,556	1,931,659	252,975	2,233,071	50,028,418
Accumulated depreciation	(7,810,246)	(12,820,530)	(597,530)	(167,184)	(870,656)	(22,266,146)
Net book amount	10,183,911	14,796,026	1,334,129	85,791	1,362,415	27,762,272

Impairment testing

During the year ended 31 December 2018, the Group continued to record operating losses and accordingly has performed impairment testing to assess whether the recoverable amount of its property, plant and equipment and intangible assets is in excess of carrying value.

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

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

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

Value in use as at 31 December 2018 was determined for the Australia CGU, based on the following key assumptions:

- Cash flows were forecast based on the Group’s five-year business plan with the terminal value based on the fifth-year cash flow and a long-term growth rate of 2.5%, which is consistent with the long-term inflation and growth targets for Australia of between 2% and 3%.
- Forecast sales volumes are based on past performance and management’s expectations of market development.
- Forecast foreign currency rates are set based on a range of external market commentator forecasts, with one of the assumptions being a USD/AUD exchange rate of 73 cents.

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

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

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

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

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

- An after-tax discount rate of 9.45% (pre tax amount of 12.47%) was applied in determining the recoverable amount of the CGU based on an industry average weighted-average cost of capital and applying a premium to the industry average due to the Group's size and stage of lifecyle.

The recoverable amount of the Australian CGU was determined to be higher than its carrying amount, indicating that no impairment is evident. Management has identified that a reasonably possible change in the key assumption shown below could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which the assumption would need to change individually for the estimated and recoverable amount to be equal to the carrying amount. The 2017 change is higher due to the re-allocation of goodwill to the Australian CGU arising from the adjustment from the completion of the business combination provisional fair values.

	Change required for carrying amount to equal recoverable amount	
In percent	**2018**	**2017**
Discount rate	0.5	2.4

In addition, a reasonably possible change in the USD/AUD foreign exchange rate would increase/(decrease) the headroom between the recoverable amount based on the value in use calculations and the carrying amount of the Australian CGU as follows:

In cents	**Change to headroom (increase/(decrease))**
USD/AUD exchange rate – 1 cent movement	**2018**
73 cents to 72 cents	$6.1m
73 cents to 74 cents	($5.9m)

15 Non-current assets - Intangible assets

Consolidated entity	**Goodwill *** **$**	**Patents** **$**	**Capitalised development costs** **$**	**Irrigation rights** **$**	**Total** **$**
At 1 January 2017					
Cost	-	608,351	3,970,561	1,100,000	5,678,912
Accumulated amortisation and impairment	-	(602,873)	(3,151,405)	-	(3,754,278)
Net book amount	-	5,478	819,156	1,100,000	1,924,634
Year ended 31 December 2017					
Opening net book amount	-	5,478	819,156	1,100,000	1,924,634
Exchange differences	-	(3,313)	-	-	(3,313)
Additions	-	124,436	400,521	-	524,957
Acquisition of subsidiary	13,795,140	125,597	-	-	13,920,737
Assets held for sale	-	-	(569,473)	-	(569,473)
Amortisation charge	-	(5,477)	(340,449)	-	(345,926)
Closing net book amount	13,795,140	246,721	309,755	1,100,000	15,451,616
At 31 December 2017					
Cost	13,795,140	607,450	1,070,646	1,100,000	16,573,236
Accumulated amortisation and impairment	-	(360,729)	(760,891)	-	(1,121,620)
Net book amount	13,795,140	246,721	309,755	1,100,000	15,451,616

* Restated: refer to note 27

15 Non-current assets - Intangible assets (continued)

Consolidated entity	**Goodwill** $	**Patents** $	**Capitalised development costs** $	**Irrigation rights** $	**Total** $
Year ended 31 December 2018					
Opening net book amount	13,795,140	246,721	309,755	1,100,000	15,451,616
Exchange differences	160,363	12,772	-	-	173,135
Additions	-	-	454,541	-	454,541
Disposals	-	-	-	(1,100,000)	(1,100,000)
Transfers between assets classes	-	(130,834)	-	-	(130,834)
Amortisation charge	-	(32,231)	-	-	(32,231)
Closing net book amount	13,955,503	96,428	764,296	-	14,816,227
At 31 December 2018					
Cost	13,955,503	128,571	764,296	-	14,848,370
Accumulated amortisation and impairment	-	(32,143)	-	-	(32,143)
Net book amount	13,955,503	96,428	764,296	-	14,816,227

Impairment testing

The Group reviewed the carrying value of development costs at 31 December 2018 and determined that no impairments were required in respect of these assets.

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

Refer to note 14 for further details of the Group's impairment testing for the year ended 31 December 2018.

16 Current liabilities - Trade and other payables

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Trade payables	**8,053,892**	6,688,155
GST and VAT	**455,896**	441,090
Deferred consideration payable *	**-**	960,971
Other payables	**916,750**	736,323
	9,426,538	8,826,539

* Restated: refer to note 27

17 Current liabilities - Borrowings

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

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Finance lease liabilities	**-**	8,150,000
Irrigation rights fixed repayment plan	**-**	76,831
Shareholder loan facility	**-**	5,000,000
Other loans	**166,074**	7
Total current borrowings	**166,074**	13,226,838

Refer to note 19 for movements during the year, and the contractual terms of the Group's current borrowings.

Refer to note 19 for reconciliation of movements of liabilities to cash flows arising from financing activities.

18 Current liabilities - Provisions

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Employee benefits - annual leave	**1,710,002**	1,219,118

19 Non-current liabilities - Borrowings

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

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Shareholder loan facility	**22,702,960**	-
Total non-current borrowings	**22,702,960**	-

(a) Movements during the year, including movements of liabilities to cash flows arising from financing activities

	Currency	Nominal interest rate	Year of maturity	Movement	Carrying amount ($)
At 1 January 2018					**13,226,838**
Repayments					
Shareholder loan facility - Tranche A	AUD	11.00%	2020	11,400,000	16,400,000
Shareholder loan facility - Tranche B	AUD	9.00%	2020	6,302,960	6,302,960
Finance lease liabilities	AUD	9.04%	2018	(8,150,000)	-
Irrigation rights fixed repayment plan	AUD	8.10%	2018	(76,831)	-
Insurance premium funding	AUD	6.22%	2019	88,646	88,646
Insurance premium funding	AUD	5.20%	2019	86,001	86,001
Other	AUD		2019	(8,580)	(8,573)
Carrying amount at 31 December 2018				9,642,196	**22,869,034**

Washington H. Soul Pattinson and Company Limited, a substantial shareholder has provided the Group with a standby debt facility with a limit of up to $25,000,000 (2017: $12,500,000) to meet the Group's short term working capital needs. At 31 December 2018 the Group had drawn down $22,702,960 of the Facility (2017: $5,000,000). The maturity date of this facility is August 2020.

19 Non-current liabilities - Borrowings (continued)

(b) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2018		31 December 2017	
	Currency	**Nominal interest rate**	**Year of maturity**	**Face value ($)**	**Carrying amount ($)**	**Face value ($)**	**Carrying amount ($)**
Shareholder loan facility - Tranche A	AUD	11.00%	2020	16,400,000	16,400,000	5,000,000	5,000,000
Shareholder loan facility - Tranche B	AUD	9.00%	2020	6,302,960	6,302,960		
Finance lease liabilities	AUD	9.04%	2018	-	-	8,862,198	8,150,000
Irrigation rights fixed repayment plan	AUD	8.10%	2018	-	-	79,172	76,831
Insurance premium funding	AUD	6.22%	2019	88,646	88,646	-	-
Insurance premium funding	AUD	5.20%	2019	86,001	86,001		
Other	AUD		2019	(8,573)	(8,573)	7	7
Total interest bearing liabilities				**22,869,034**	**22,869,034**	**13,941,377**	**13,226,838**

(c) Finance lease liabilities

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Commitments in relation to finance leases are payable as follows:		
Within one year	**-**	8,862,198
Later than one year but not later than five years	**-**	-
Later than five years	**-**	-
Minimum lease payments	**-**	8,862,198
Future finance charges	**-**	(712,198)
Total lease liabilities	**-**	8,150,000
Representing lease liabilities:		
Current	**-**	8,150,000
Non-current	**-**	-
	-	8,150,000

19 Non-current liabilities - Borrowings (continued)

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

	Liabilities		Equity	
	Loans **$**	**Finance lease liabilities** **$**	**Share capital** **$**	**Total** **$**
Balance 1 January 2018	**5,076,838**	**8,150,000**	**181,482,260**	**194,709,098**
Changes from financing cash flows				
Proceeds from loans and borrowings	**25,669,130**	**-**	**-**	**25,669,130**
Repayment of borrowings	**(7,876,934)**	**-**	**-**	**(7,876,934)**
Payment of finance lease liabilities	**-**	**(8,150,000)**	**-**	**(8,150,000)**
Total changes from financing cash flows	**17,792,196**	**(8,150,000)**	**-**	**9,642,196**
Balance at 31 December 2018	**22,869,034**	**-**	**181,482,260**	**204,351,294**
Liability - related				
Interest expense	**(935,575)**	**(722,198)**	**-**	**(1,657,773)**
Interest paid	**935,575**	**722,198**	**-**	**1,657,773**
Total liability-related other changes	**-**	**-**	**-**	**-**

	Liabilities		Equity	
Consolidated entity	**Loans** **$**	**Finance lease liabilities** **$**	**Share capital** **$**	**Total** **$**
Balance 1 January 2017	**19,923,129**	**8,150,000**	**122,178,914**	**150,252,043**
Changes from financing cash flows				
Proceeds from issue of share capital	**(8,330,531)**	**-**	**59,303,346**	**50,972,815**
Proceeds from loans and borrowings	**10,375,000**	**-**	**-**	**10,375,000**
Repayment of borrowings	**(16,890,760)**	**-**	**-**	**(16,890,760)**
Total changes from financing cash flows	**(14,846,291)**	**-**	**59,303,346**	**44,457,055**
Balance at 31 December 2017	**5,076,838**	**8,150,000**	**181,482,260**	**194,709,098**
Liability - related				
Interest expense	**(1,252,724)**	**(762,859)**	**-**	**(2,015,583)**
Interest paid	**1,339,827**	**762,859**	**-**	**2,102,686**
Total liability-related other changes	**87,103**	**-**	**-**	**87,103**

20 Non-current liabilities - Provisions

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Employee benefits - long service leave	**314,549**	314,566

21 Contributed equity

(a) Share capital

	31 December 2018 Shares	31 December 2017 Shares	**31 December 2018 $**	31 December 2017 $
Ordinary shares				
Fully paid	**81,085,594**	81,085,594	**181,482,260**	181,482,260

(b) Movements in ordinary shares:

Details	**Number of shares**	**Total $**
Opening balance 1 January 2017	52,828,750	122,178,914
Shares issued for cash	24,470,239	53,834,526
Conversion of shareholder loan to equity	3,786,605	8,330,531
Less: Transaction costs arising on share issue	-	(2,861,711)
Balance 31 December 2017	81,085,594	181,482,260
Opening balance 1 January 2018	81,085,594	181,482,260
Balance 31 December 2018	81,085,594	181,482,260

(c) Ordinary shares

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

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

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

22 Reserves

Foreign currency translation reserve

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

Other reserves

Other reserves comprise a share-based payment reserve.

23 Remuneration of auditors

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

KPMG

(i) Audit and other assurance services

	Consolidated entity	
	2018	2017
	$	$
Audit and review of financial reports and other audit work under the Corporations Act 2001 – KPMG Australia	**173,756**	136,650
Audit and review of financial reports and other audit work for subsidiaries – KPMG International	**14,127**	86,444
Total remuneration for audit and other assurance services	**187,883**	223,094

(ii) Taxation services

Statutory taxation services - KPMG International	**3,300**	-
Total remuneration for taxation services	**3,300**	-

(iii) Other services

Transaction due diligence services – KPMG Australia	**-**	25,670
Transaction integration and change management advisory services – KPMG International	**-**	170,192
Total remuneration for other services	**-**	195,862

Total remuneration of KPMG	**191,183**	418,956

24 Contingencies

The Group is disputing the validity of patents over high codeine poppies granted to a competitor in an infringement action being brought against the Group for use of the high codeine poppies. The Group will strongly pursue its claim for invalidity of the patents and defend the infringement claim against it.

To avoid unnecessary costs, the Group has provided undertakings imposing conditions on the Group's sale of seed from high codeine poppies until the resolution of the infringement and invalidity proceedings and restricting the Group's use of straw from high codeine poppies until 30 April 2019. In return, the competitor has provided undertakings to pay compensation to the Group, in respect of the conditions and restrictions imposed on the Group by the undertakings, if the competitor's infringement claim is unsuccessful.

The Group is required to inform the competitor by 8 April 2019 if it is willing to extend the undertakings in respect of straw beyond 30 April 2019. If the undertakings are not extended, the competitor may seek an injunction to prevent the Group's use of the high codeine poppies after that date. The Group may oppose any application for such an injunction.

The Group is confident that it will have available to it sufficient quantities of straw from non-high codeine poppies to meet its current customer supply obligations. However, the inability to process existing inventory of straw from high codeine poppies pending the expiration of the undertakings and resolution of the infringement and invalidity proceedings will adversely affect the Group's working capital position. The approximate carrying value of high codeine poppy straw in inventory as at the date of this report is $4,500,000.

The information usually required by AASB 137 Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to seriously prejudice the outcome of the litigation. The Directors are of the opinion that the infringement claim will be successfully resisted.

25 Commitments

Capital commitments

As at 31 December 2018 the Group had capital commitments for equipment of $nil (2017: $141,750).

26 Related party transactions

(a) Controlled subsidiary entities

	Country of incorporation	Class of shares	Equity holding 2018 %	2017 %
Parent Entity:				
TPI Enterprises Ltd	Australia			
Controlled Entities:				
TPIH Holding Portugal, Serviços de Agricultura Lda	Portugal	Ordinary	**-**	100
TPIH – API Portugal, S.A	Portugal	Ordinary	**-**	100
TPIH – Poppygrowing (Portugal) S.A.	Portugal	Ordinary	**-**	100
Purplebay Pty Limited	Australia	Ordinary	**100**	100
TPI Norway Holding AS	Norway	Ordinary	**100**	100
TPI Norway AS	Norway	Ordinary	**100**	100

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

26 Related party transactions (continued)

(b) Key management personnel compensation

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

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Short-term employee benefits	**1,349,904**	1,256,175
Post-employment benefits	**78,034**	73,241
Other long term benefits	**25,264**	28,062
Share-based payments	**128,491**	90,340
	1,581,693	1,447,818

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

(c) Amounts owing to related parties

Refer to note 19 for details of loans from shareholders.

(d) Other related party transactions

During 2018 company secretarial and financial reporting services amounting to $9,096 (2017: $31,900) were provided by Corporate and Administrative Services Pty Ltd, and financial advisory services amounting to $nil (2017: $1,451,830) were provided by Pitt Capital Partners Limited, both being subsidiaries of Washington H. Soul Pattinson and Company Limited. Interest and finance expenses during the year attributable to Washington H. Soul Pattinson and Company Limited amounted to $917,174 (2017: $1,184,855).

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

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Pitt Capital Partners Limited	**-**	953,513
Corporate and Administrative Services Pty Ltd	**-**	3,300

27 Acquisition of subsidiary

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

During the 2018 financial year, the Group commissioned an independent valuation of the identifiable assets acquired and liabilities assumed as part of the acquisition. The valuation technique was a discounted cashflow model used to determine an implied internal rate of return for comparison against a market participant discount rate. Having obtained new information about facts and circumstances that existed at the date of acquisition, the valuation determined that the net identifiable assets acquired were $7,549,643 lower than were previously reported, having been reported on a provisional basis.

Consequently, the goodwill acquired as part of the acquisition has increased by this amount resulting in the previously reported goodwill of $6,772,206 increasing to $13,795,140 and attributable to the Australian CGU due to purchase synergies and new market opportunities. The comparative information shown in the financial statements has been restated to include the adjusted fair values. There has been no impact to the comparative profit or loss as a result of these restatements.

Details of the identified adjustments are as follows:

	Provisional amount disclosed at 31 December 2017 $	Acquisition adjustments $	Restated balance at 31 December 2017 * $
Cash	**2,403**	**-**	**2,403**
Inventories	**10,657,855**	**-**	**10,657,855**
Plant and equipment	**1,939,493**	**-**	**1,939,493**
Intangible assets: patents	**125,597**	**-**	**125,597**
Intangible assets: customer relationships	**9,933,741**	**(9,933,741)**	**-**
Deferred tax liabilities	**(2,384,098)**	**2,384,098**	**-**
Net identifiable assets acquired	**20,274,991**	**(7,549,643)**	**12,725,348**
Add: goodwill	**6,772,206**	**7,022,934**	**13,795,140**
Net assets acquired	**27,047,197**	**(526,709)**	**26,520,488**

* December 2017 balances were restated to reflect the impact of acquisition accounting adjustments made during the period on opening balances.

28 Discontinued operation

(a) Description of discontinued operation

On 3 November 2017 the Group entered into a binding share sale agreement to sell its Portugal domiciled subsidiary entities for €2.85m with the sale completing on 2 February 2018. The Group's Portugal operation had been established to manufacture opiate based Active Pharmaceutical Ingredients ("API's"). After the completion of the acquisition of the Group's Norwegian API and finished dosage production facility, it was determined that the additional potential capacity provided by the Portugal operations was no longer needed to meet customer demand.

The associated assets and liabilities of the Portugal operations were consequently presented as held for sale and are reported in the current period as a discontinued operation. Financial information relating to the discontinued operation for the period is set out below.

(b) Financial performance and cash flow information

The financial performance and cash flow information presented are for the year ended 31 December:

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Revenue	**-**	-
Expenses	**-**	(646,587)
(Loss) before income tax and depreciation and amortisation	**-**	(646,587)
Income tax expense	**-**	-
Depreciation and amortisation expense	**-**	(349,059)
Gain on sale of the subsidiary after income tax (see (d) below)	**1,119,003**	-
(Loss) from discontinued operation	**1,119,003**	(995,646)
Net cash (outflow) from operating activities	**-**	(409,060)
Net cash (outflow) from investing activities	**-**	(206,585)
Net increase/(decrease) in cash generated from discontinued operations	**-**	(615,645)

28 Discontinued operation (continued)

(c) Assets and liabilities of disposal group classified as held for sale

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at the year ended 31 December:

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Assets classified as held for sale		
Property, plant and equipment	**-**	2,304,543
Other assets	**-**	743,517
Total assets of disposal group held for sale	**-**	3,048,060
Liabilities classified as held for sale		
Trade creditors	**-**	(86,215)
Total liabilities classified as held for sale	**-**	(86,215)
Net assets of discontinued operation classified as held for sale	**-**	2,961,845

(d) Details of the sale of the subsidiary entities

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Consideration received:		
Cash	**4,291,522**	-
Foreign currency translation reserve	**(210,674)**	-
Carrying amount of net assets sold	**(2,961,845)**	-
Gain on sale	**1,119,003**	-

29 Cash flow information

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

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
(Loss) for the period	**(5,788,409)**	(16,692,689)
Adjustment for		
Depreciation expense	**2,519,064**	2,416,853
Amortisation expense	**32,231**	345,926
Net loss on sale of non-current assets	**232,775**	-
Partnership distribution	**(1,783)**	-
Gain on sale of discontinued operation, net of income tax	**(1,119,003)**	-
Income tax expense	**134,893**	-
Equity-settled share-based payment transactions	**327,497**	198,733
Change in operating assets and liabilities:		
(Increase) in trade, other receivables and contract assets	**(5,537,606)**	(5,205,509)
(Increase)/decrease in inventories	**(4,488,767)**	966,376
Decrease in other assets	**-**	1,453
(Increase) in prepayments	**(1,520,753)**	(45,265)
Increase in trade and other payables	**73,289**	4,380,665
Increase in other provisions	**490,867**	488,551
Net cash (outflow) from operating activities	**(14,645,705)**	(13,144,906)

Non-cash investing activities

The deferred consideration payable of $1,725,309 in the prior year was non-cash settled against amounts receivable from Vistin Pharma ASA.

30 Events occurring after the reporting period

On 7 March 2019 the Group increased the limit of its standby debt facility with Washington H. Soul Pattinson and Company Ltd from $25,000,000 to $31,000,000.

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

31 Earnings per share

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

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Net loss used in calculating basic earnings per share:	**6,907,412**	16,692,689
Net loss used in calculating diluted earnings per share:	**6,907,412**	16,692,689

31 Earnings per share (continued)

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

	Consolidated entity	
	2018 Number	2017 Number
Weighted average number of ordinary shares used in calculating basic earnings per share	**81,085,594**	71,392,897
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	**81,085,594**	71,392,897

(c) Information concerning the classification of securities

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

No other securities are currently on issue.

32 Share-based payments

At 31 December 2018, the Group had the following share-based payment arrangement:

Share appreciation rights (equity settled)

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

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

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

32 Share-based payments (continued)

Share appreciation rights (equity settled) (continued)

Measurement of grant date fair values

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

	SAR's Granted	
	2018	**2017**
Number of SAR's granted	800,000	1,259,597
Fair value at grant date	$0.33	$0.62
Grant date	28 March 2018	27 March 2017
Expiry and vesting date	28 March 2021	27 March 2020
Share price at grant date	$1.39	$2.62
Expected volatility	30%	30%
Risk-free interest rate	2.5%	2.5%
Expected dividends	nil	nil

None of the Share Appreciation Rights had vested at 31 December 2018. Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expenses was $327,497 (2017: $198,733).

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

33 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	31 December 2018 $	31 December 2017 $
Balance sheet		
Current assets	**24,473,323**	16,275,267
Total assets	**50,027,830**	72,899,343
Current liabilities	**4,233,266**	13,544,873
Total liabilities	**4,547,815**	18,859,439
Shareholders' equity		
Issued capital	**181,482,260**	181,482,260
Reserves	**3,771,092**	2,120,662
(Accumulated losses)	**(139,773,337)**	(129,563,018)
Total shareholders' equity	**45,480,015**	54,039,904
(Loss) for the year of the parent entity	**(10,210,319)**	(16,812,417)
Total comprehensive (loss) of the parent entity	**(10,210,319)**	(16,812,417)

(b) Guarantees entered into by the parent entity

The parent entity did not enter any guarantees in relation to the debts of its subsidiaries as at 31 December 2018 or 31 December 2017.

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

Refer to note 25.

(d) Contingencies

Refer to note 24.

In the directors' opinion:

(a) the financial statements and notes set out on pages 21 to 76 are in accordance with the *Corporations Act 2001*, including:

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

  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the financial year ended on that date, and

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

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

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

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

Simon Moore

Mr. Simon Moore
Director

Melbourne
8 March 2019

Independent Auditor's Report

To the shareholders of TPI Enterprises Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of TPI Enterprises Limited (the Company).

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

- giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- *Consolidated statement of financial position* as at 31 December 2018
- *Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows* for the year then ended
- Notes including a summary of significant accounting policies
- *Directors' Declaration.*

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

Basis for opinion

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

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

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

Key Audit Matters

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

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

<table>
<tr><th colspan="2">Recoverable value of plant and equipment and intangibles</th></tr>
<tr><td colspan="2">Refer to property, plant and equipment ($27,762,272 Note 14) and intangible assets ($14,816,227 Note 15) to the Financial Report</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>This is a key audit matter due to our need to consider the recoverable value of property, plant and equipment and intangibles in light of the continued loss making operations of the Australian segment during the year. This principally arose due to low production volumes in the Australian segment and the increase in goodwill attributed to the Australian CGU upon completion of the provisional acquisition accounting adjustments. The Group's strategy to address supplier input volumes is in progress, though untested as it will take some time to build up to full production capacity. The value of these assets is significant at balance date.

Our audit attention focused on assessing the significant management judgements in the value in use model with particular focus on the Australian segment. This model uses forward looking estimations, which can be inherently difficult to determine with precision, and to audit. This is particularly challenging as the Group is planning to further significantly increase production output from current levels. The increased production is dependent on securing additional supply of raw narcotic input material from a number of new suppliers in different geographical regions. Key judgements and estimates included the:

• discount rate applied to the cash flows,

• forecast cash outflows, in particular influenced by key supplier input volumes, such as poppy straw, not contracted or planted, raw material input costs, manufacturing production costs,

• forecast cash inflows, in particular</td><td>Our procedures included:

• We compared the previous year's forecast production volumes and poppy straw supplier input volumes to the actual amounts achieved in the current year, to assess the accuracy of management's forecasting. We used this information to inform our areas of focus in the current year.
• We compared the five year forecast used in the value in use model for consistency with the Board approved plan for the business. We checked the key judgements and estimates for evidence of detailed review and approval by the Directors.
• We assessed the key judgements and estimates used in the forecast included in the value in use model, in particular, those relating to the discount rate and EBITDA growth rates. To do this we:
– evaluated the EBITDA forecast amounts with reference to current year results, and by assessing management's assumptions regarding the key factors that drive forecast EBITDA. We assessed expected supplier input volumes and raw material input costs to the previous year's achieved harvests. We checked forecast production volumes and manufacturing production costs to the current year's production results, and assessed the increased forecast compared to management's planned actions. We assessed the forecast narcotic sales prices to historical sales data, and the forecast exchange rates to current forward exchange rates. These factors were compared to historical market evidence and the Group's historical results and planned actions.
– considered the sensitivity of the value in use model by varying key judgements and estimates and applying other values within a reasonably possible range to test the headroom available in the value in use model. We did this by increasing the discount rate and changing the foreign exchange rate.
• We evaluated the discount rate adopted. Assisted by our valuation specialists, we independently</td></tr>
</table>

influenced by forecast customer demand, new sales channels for example the Norway segment, expected production volumes, narcotic sales prices, and foreign exchange rates, and • EBITDA growth rates, as forecast in the value in use model and developed from the cash flow assessments.	developed an acceptable range of discount rates based on market data for comparable entities, adjusted by risk factors specific to the Group. • We assessed the disclosures in the financial report using our understanding of the issue obtained from our testing and against the requirements of the accounting standards.

Emphasis of matter

Contingent liabilities

We draw attention to note 24 to the financial statements, which highlights TPI Enterprises Limited is subject to a legal matter involving an infringement claim formally lodged by an external party that is being defended. TPI Enterprises Limited has assessed that any further disclosures of the matter could prejudice TPI Enterprises Ltd's position. Our opinion is not modified in respect of this matter.

Other Information

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

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

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

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of TPI Enterprises Limited for the year ended 31 December 2018, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in *pages 10 to 16* of the Directors' report for the year ended 31 December 2018.

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

KPMG

KPMG

Tony Batsakis

Partner

Melbourne

8 March 2019

The shareholder information set out below was applicable as at 15 February 2019.

A. Distribution of equity securities

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

Holding	Class of equity security Ordinary shares
1 - 1000	334
1,001 - 5,000	543
5,001 - 10,000	240
10,001 - 100,000	342
100,001 and over	76
	1,535

There were 51 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

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

Name	Ordinary shares	
	Number held	Percentage of issued shares
Washington H. Soul Pattinson and Company Limited	16,176,097	19.95
UBS Nominees Pty Ltd	11,412,001	14.07
Sandhurst Trustees Ltd	4,892,614	6.03
National Nominees Limited	3,495,524	4.31
JP Morgan Nominees Australia Limited	3,267,133	4.03
HSBC Custody Nominees (Australia) Limited	2,422,273	2.99
Skylights Pty Ltd	2,076,224	2.56
Sico Holdings Pty Ltd	1,957,672	2.41
Colinton Investments Pty Ltd	1,903,448	2.35
Sky Lights Pty Ltd	1,552,160	1.91
BNP Paribas Noms Pty Ltd	1,260,050	1.55
HSBC Custody Nominees (Australia) Limited - A/C 2	1,191,746	1.47
Ian Lindeman Pty Ltd	1,075,001	1.33
Gaspard Boot	1,070,000	1.32
Gowing Bros Limited	1,064,914	1.31
Jarrod Ritchie & Catrina Ritchie	986,555	1.22
Langburgh Pty Ltd	723,173	0.89
Bond Street Custodians Limited	628,620	0.78
Mr Jarrod David Ritchie	502,562	0.62
Radiata Investments Pty Ltd	417,996	0.52
	58,075,763	71.62

C. Substantial shareholders

The Company's Holders of Relevant Interests as notified by ASX Substantial Shareholders and the number of shares in which they have an interest as disclosed by notices received under Part 6.7 of the *Corporations Act 2001* as at 15 February 2019 are listed below:

Name	Ordinary Shares	Percentage
Washington H. Soul Pattinson and Company Limited & Brickworks Limited	16,176,097	19.95%
Thorney Opportunities Limited & TIGA Trading Pty Limited	11,349,996	14.00%
Wentworth Williamson Management Pty Ltd	4,872,614	6.01%

D. Voting rights

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

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