



## Commentary on Half-Year Report

**Melbourne, Australia; 29 August, 2016:** TPI Enterprises Ltd (**ASX: TPE**) announces its financial results for the six months ended 30 June 2016 and provides an overview of operations for the period.

During the half-year, and up to the date of this report, the Group:

1. Received 100% success with Customer audits undertaken on the new Victorian facility
2. Qualified under the European Directorate for the Quality of Medicines (EDQM) as an approved manufacturer
3. Signed a supply agreement with a major Active Pharmaceutical Ingredient (API) manufacturer for the supply of Narcotic Raw Materials (NRM), this is in addition to the agreement signed late last year with another major API manufacturer
4. Continued to work on approval for the importation of poppy straw from Europe
5. Broadened the composition of the Board of Directors
6. Extended its funding facility to 30 September 2017 and announced a placement of \$4 million

### Operations:

Following successful relocation of its factory from Tasmania to Victoria and the commissioning of the new state of art facility, the Group underwent a number of customer audits to validate the new facility. These audits by both existing and potential customers had a 100% success rate. The level of demand indicated is such that TPE remains confident that it will deliver on its target of supplying 100 tonnes of NRM by 2019.

TPE's Victorian site has qualified in accordance with ICH Q7 "Good Manufacturing Practice Guide for Active Pharmaceutical Ingredients", making TPE an approved supplier of NRM under the EDQM requirements. This qualification allows TPE to supply Morphine NRM into Europe under the new tightened regulatory regime. Historically the supply of Morphine NRM was not subject to Good Manufacturing Practice (GMP) as NRM was not considered an intermediate in the manufacture of API's. Earlier this year EDQM adopted a different view on quality requirements for the supply of Morphine NRM for the manufacture of Codeine Phosphate API and now considers NRM to be classed as an intermediate, requiring manufacture under GMP conditions. This change delayed the placement of orders by customers. Orders have now been placed by a number of customers for the second half.

In October last year TPE applied to import poppy straw from European countries, specifically; Portugal, Turkey and Hungary. The importation of this northern hemisphere straw will assist in supplementing the straw derived from the locally grown crops, while the Company is establishing sufficient domestic supply sources, to assist in ensuring that the processing facility is kept fully operational throughout the year. On March 31 2016 the Commonwealth Department of Biosecurity issued proposed biosecurity conditions (BICON listing) for stakeholder consultation with the consultation period ending on 30 of April 2016. TPE's application is consistent with previously approved import applications for poppy straw and NRM. A final decision is expected from the Government shortly.

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In June 2016, the Company announced that it had appointed Messrs. Simon Moore and Stuart Black to the Board as Non-Executive Directors. These appointments strengthen the Board of TPE as it implements its strategies to become a leading producer of NRM and API's.

Financial Performance:

The Group produced a loss from ordinary activities before income tax of \$7.3 million for the half-year, a 15.4% reduction over the previous corresponding period. This loss was predominantly due to the delay in sales resulting from the decision of the EDQM to adopt additional quality requirements for the supply of Morphine NRM for the manufacture of Codeine Phosphate API. While this delay had a negative impact on the results for the first half, the Company is now producing and selling product again at commercial scale and aims to be EBITDA positive for the NRM business in the second half, subject to market conditions, seed pricing and foreign exchange rates.

The Group extended its funding facility with Washington H. Soul Pattinson Company Limited from 31 March 2017 to 30 September 2017. This extension will allow the Group sufficient time to ramp up production and sales and then properly investigate alternative funding sources.

TPI also recently received the subscription of \$4 million from an entity related to Non-Executive Director, Mr. Simon Moore which was approved by shareholders at the EGM held 2 August 2016.

Further highlights and full financial results are contained in the attached Appendix 4D.

**-Ends-**

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**About TPI Enterprises Limited**

TPI Enterprises Limited (TPI) is one of three licensed poppy processors in Australia, and the only Australian-owned company. It is one of eight processors worldwide producing Narcotic Raw Material for the international pharmaceutical industry. TPI has developed an innovative, efficient and environmentally-sustainable extraction and purification manufacturing process which allows TPI to deliver a highly competitive pricing platform.

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## APPENDIX 4D

**TPI ENTERPRISES LTD**  
**ABN 26 107 872 453**

### HALF YEAR REPORT

**Current reporting period**  
*Previous corresponding period*

**Half year ended 30 June 2016**  
*Half year ended 30 June 2015*

#### Results for announcement to the market

A\$'000

Revenues from ordinary activities	Up	45.9%	to	1,907
Loss from ordinary activities after tax attributable to members	Down	15.4%	to	(7,271)
Net loss for the period attributable to members	Down	15.4%	to	(7,271)

<b>Explanation</b>		
Dividends (distributions)	Amount per security	Franked amount per security
Interim dividend	NIL	NIL
Previous corresponding period	NIL	NIL
Record date for determining entitlements to the dividend	N/A	
	30 June 2016	30 June 2015
Net tangible asset per security	22¢	69¢
Control gained over entities having material effect	N/A	
Loss of control of entities having material effect	N/A	
Details of aggregate share of profit (loss) of associated and joint venture entities	N/A	
This report is based on:	accounts which have been subject to review	

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# **TPI ENTERPRISES LTD**

(ABN 26 107 872 453)

## **HALF-YEAR REPORT**

**FOR THE SIX MONTHS ENDED 30 JUNE 2016**

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## DIRECTORS' REPORT

The Board of Directors of TPI Enterprises Ltd ("TPI" or the "Company") has resolved to submit the following report together with the financial statements of the Company and its wholly owned subsidiaries ("the Group") for the half-year ended 30 June 2016.

### Directors

The names of the Directors of the Company in office at any time during or since the end of the half year are:

Mr. Peter Robinson (Non-Executive Chairman)  
Mr. Jarrod Ritchie (Managing Director and CEO)  
Mr. Todd Barlow (Non-Executive Director)  
Mr. Simon Moore (Non-Executive Director appointed 1 June 2016)  
Mr. Stuart Black (Non-Executive Director appointed 7 June 2016)

The Directors have been in office since the start of the financial period to the date of this report unless otherwise stated.

### Review of operations

The Group generated a loss after income tax for the half-year of \$7,271,227 (2015: \$8,598,435), predominantly due to the delay in sales resulting from the decision of the European Directorate for the Quality of Medicines (EDQM) to adopt additional quality requirements for the supply of Morphine Narcotic Raw Material (NRM) for the manufacture of Codeine Phosphate Active Pharmaceutical Ingredient (API), as outlined later in the Directors' Report. While this delay had a negative impact on the results for the first half the Company is now producing and selling product again at commercial scale.

Following relocation of its factory from Tasmania to Victoria in 2015, TPI has focussed during the first half of 2016 on obtaining validation from its existing and potential customers, ensuring sufficient straw is available to meet demand, improved efficiencies in the new factory following initial commissioning in late 2015 and continued to advance its API strategy.

In addition, the Company broadened the composition of its Board with the appointment of Messrs. Simon Moore and Stuart Black as Non-Executive Directors in June 2016.

The company also extended its funding facility and raised \$4m from an entity related to Non-Executive Director, Mr. Simon Moore.

Although sales have been delayed due to the validation process, TPI is on track to deliver a positive EBITDA for its NRM business for the second half of 2016, subject to market conditions, seed pricing and foreign exchange rates. Ramp up to the full capacity of its new manufacturing facility within 3-4 years is on schedule.

Further details of these achievements are outlined below:

#### *1. Customer audits 100% successful*

During the first half of 2016, TPI continued to receive strong interest from existing and new NRM customers. Several customer audits of TPI's Victorian site have been completed with positive outcomes in all cases. The level of demand is such that TPI remains confident that it will deliver on its target of supplying 100 tonnes of NRM by 2019. The Company now has two long term supply agreements in place with major API manufacturers for the supply of NRM which demonstrates their confidence in the ability of TPI to meet their raw material requirements and the quality of the product produced at the new facility.

#### *2. European Directorate for the Quality of Medicines (EDQM) qualification granted*

Historically the supply of Morphine NRM was not subject to Good Manufacturing Practice (GMP) as NRM was not considered an intermediate in the manufacture of API's. However earlier this year EDQM adopted a different view on quality requirements for the supply of Morphine NRM for the manufacture of Codeine Phosphate API and now considers NRM to be classed as an intermediate requiring manufacture under GMP conditions. TPI's new Victorian site has now been qualified in accordance with ICH Q7 "Good Manufacturing Practice Guide for Active Pharmaceutical Ingredients", making TPI an approved supplier of NRM under the EDQM requirements. The qualification means TPI is now able to supply Morphine NRM into Europe under the new tightened regulatory regime.

#### *3. Importation approvals on track*

In October 2015 TPI applied for the ability to import poppy straw from European countries, specifically; Portugal, Turkey and Hungary, which will enable it to commercially benefit from northern hemisphere growing seasons and import material from the above stated countries. The importation of this northern hemisphere straw will assist in supplementing the straw derived from the locally grown crops, while the Company is establishing sufficient domestic supply sources, to assist in ensuring that the processing facility is kept fully operational throughout the year. On 31 March 2016 the Commonwealth Department of Biosecurity issued proposed biosecurity conditions (BICON listing) for stakeholder consultation with the consultation period ending on 30 April 2016. TPI's application is consistent with previously approved import applications for poppy straw and NRM. A final decision is expected from the Government shortly.

## DIRECTORS' REPORT

### 4. *More mainland states expected to approve poppy growing*

In November 2015 the South Australian government passed legislation to allow the growing of poppies. It is expected that the regulations will be in place before the end of Q3 2016 which will allow for growing in 2017. TPI has already invested in a field officer in South Australia to take advantage of the significant area under irrigation around the Mt Gambier/Naracoorte area. In August 2016 the New South Wales government passed legislation to allow the growing of poppies. It is expected that the regulations will be in place before the end of Q4 2016. As a result of this TPI expects to be growing in Victoria, Tasmania, New South Wales, South Australia and the Northern Territory in 2017 which will dramatically increase the opportunities for, and security of supply of, raw material across different climatic regions and different harvesting timelines.

### 5. *Increased Tasmanian growing quota approved*

TPI has seen a significant increase in demand for contracts to grow in Tasmania and has sought permission to grow nearly double the quantity of poppies originally anticipated. This request for additional area has been approved by the Poppy Advisory Control Board which regulates Tasmanian poppy growing. The increased demand for contracts from TPI comes after the significant cutbacks in growing area made by TPI's Australian competitors. As has been reported publicly, TPI's Tasmanian competitors have accumulated significant stockpiles of poppy straw and have been reducing the area grown in Tasmania from a peak of approximately 27,000 hectares in 2014, to less than 7,000 hectares expected this year. By contrast TPI is growing market share and expects to grow its biggest crop ever in the 2016/17 growing season.

### 6. *Agricultural yields improving*

In the 2015/16 growing season TPI crops improved 30% in terms of yield/ha compared to the previous year. TPI expects this level of improvement to continue with the 2016/17 growing season off to a good start after well timed rain in Victoria and Tasmania. At this stage TPI is on track to contract sufficient area, which when supplemented by its access to northern hemisphere straw, to supply its expected needs for the 2017 production season.

### 7. *New process to increase manufacturing yield*

TPI used the time available while it awaited approval from the EDQM to further improve the general efficiencies of the new factory. TPI has developed at its Victorian processing facility a novel column extraction process for the recovery of previously unrecoverable trace quantities of NRM in waste streams. A full plant scale unit is currently being commissioned. The new process will further enhance TPI's significant competitive manufacturing advantage. The relocation of the processing facility to Victoria resulted in a number of benefits including a reduction in FTEs required due to increased automation, reduction in raw material usage and an increase in overall plant efficiency.

### 8. *Broadened Board composition*

In June 2016 the Company appointed Messrs. Simon Moore and Stuart Black as Non-Executive Directors. Mr. Moore has significant experience in investment banking and Mr. Black is a chartered accountant. Both Messrs. Moore and Black have extensive experience as Non-Executive Directors in a number of industries including agribusiness and professional services. These appointments strengthen the Board of TPI as it continues to progress the commercialisation and development of its innovative, efficient and environmentally-sustainable extraction and purification manufacturing process for the supply of NRM.

## Financial summary

The financial results of the Group for the half-year ended 30 June 2016 are summarised as follows:

### 1. *Operating results:*

The Group generated a loss after income tax of \$7,271,227 (2015: \$8,598,435) predominantly due to the delay in sales resulting from the decision of the EDQM to adopt additional quality requirements for the supply of Morphine NRM for the manufacture of Codeine Phosphate API as outlined earlier in the Directors' Report.

Consolidated revenue including other income during the period was \$1,906,787 (2015: \$1,306,526). This revenue included sale of goods (narcotic raw materials and poppy seed) of \$1,482,491 (2015: \$1,068,818) and government grants of \$255,500 (2015: \$122,034).

Total consolidated operating expenses for the period were \$7,933,408 (2015: \$9,297,564).

Basic and diluted net loss per share decreased to 14.13¢ (2015: 18.00¢) due to a decrease in the loss.

As at 30 June 2016 the Group's current assets exceeded its current liabilities by \$8,302,939 (2015: \$3,992,627).

### 2. *Statement of cash flows:*

The Group's cash outflow from operations over the period was of \$8,339,891 (2015: \$7,332,431). The increase is mainly due to the timing of expenditure and the increase in interest payments.

The Group has a standby debt facility in place with Washington H. Soul Pattinson Company Ltd, a substantial shareholder. The facility has a limit of \$20,000,000 and expires on 30 September 2017. In addition, the Group received the proceeds of a placement of \$4,000,000 from an entity related to Non-Executive Director Simon Moore in August 2016.

## Significant changes in state of affairs

There were no significant changes to the state of affairs of TPI Enterprises Ltd and its controlled entities during the financial period.

## DIRECTORS' REPORT

### Events since the end of the half-year year

Material events subsequent to the end of the half-year that have not been recognised in the financial statements:

At the EGM held on 2 August 2016, shareholders approved the issue of 1,379,310 shares at \$2.90 to an entity related to a Non-executive director, Simon Moore. These shares were subsequently issued on 5 August 2016 following the receipt of the subscription monies of \$4 million.

No other matter or circumstance has arisen since 30 June 2016 that has significantly affected or may significantly affect: -

- TPI Enterprises Ltd's operations in future financial years, or
- the results of those operations in future financial years, or
- TPI Enterprises Ltd's state of affairs in future years.

### Auditor's Independence Declaration

The Lead auditor's independence declaration is set out on page 9 and forms part of the Directors' Report for the half-year ended 30 June 2016.

### 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 the Directors.



Peter Robinson  
Director

Melbourne

Date: 29 August 2016



**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 review for the half-year ended 30 June 2016 there have been:

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

KPMG

Tony Batsakis  
Partner  
Melbourne  
29 August 2016

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**TPI ENTERPRISES LTD**  
**ABN 26 107 872 453**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE HALF-YEAR ENDED 30 JUNE 2016**

	Note	Consolidated 30 June 2016 \$	30 June 2015 \$
<b>Revenue</b>			
Sale of goods		1,482,491	1,068,818
Other income		424,296	237,708
	2(a)	1,906,787	1,306,526
<b>Expenses</b>			
Raw materials, consumables and other production expenses		(199,592)	(486,446)
Changes in inventory of finished goods		(893,422)	108,856
Impairment of inventory to net realisable value		-	(690,590)
Impairment of other assets		-	(270,242)
Employee benefits expenses		(3,047,803)	(3,290,183)
Depreciation and amortisation expense		(1,450,486)	(1,647,800)
Legal and listing expenses		(137,317)	(631,255)
Travel expenses		(336,292)	(659,844)
Bad debts		-	(186,699)
Occupancy expenses		(635,950)	(615,674)
Other expenses		(1,232,546)	(927,687)
	2(b)	(7,933,408)	(9,297,564)
<b>Loss from operating activities</b>		<b>(6,026,621)</b>	<b>(7,991,038)</b>
Finance income		17,240	108,184
Finance expenses		(1,261,846)	(715,581)
Net finance expenses	2(c)	(1,244,606)	(607,397)
<b>Loss before tax</b>		<b>(7,271,227)</b>	<b>(8,598,435)</b>
Income tax benefit		-	-
<b>Loss for the period</b>		<b>(7,271,227)</b>	<b>(8,598,435)</b>
<b>Other comprehensive income</b>			
Exchange differences on translating foreign operations		11,118	-
<b>Total comprehensive loss for the period</b>		<b>(7,260,109)</b>	<b>(8,598,435)</b>
<b>Earnings per share:</b>			
Basic loss per share - from continuing operations		(14.13¢)	(18.00¢)
Diluted loss per share - from continuing operations		(14.13¢)	(18.00¢)

The above consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

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**TPI ENTERPRISES LTD**  
**ABN 26 107 872 453**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2016**

	Note	Consolidated	
		30 June 2016	31 December 2015
		\$	\$
<b>Current assets</b>			
Cash and cash equivalents	4	1,164,555	568,002
Trade and other receivables		329,465	1,368,435
Inventories		10,269,522	7,722,656
Biological assets		730,166	932,958
Prepayments		259,564	204,481
<b>Total current assets</b>		<b>12,753,272</b>	<b>10,796,532</b>
<b>Non-current assets</b>			
Property, plant and equipment	5	28,296,652	28,628,592
Intangible assets	6	2,013,838	2,003,745
Investments		100,673	100,673
Other assets		256,945	-
<b>Total non-current assets</b>		<b>30,668,108</b>	<b>30,733,010</b>
<b>Total assets</b>		<b>43,421,380</b>	<b>41,529,542</b>
<b>Current liabilities</b>			
Trade and other payables		2,879,505	5,258,406
Loans and borrowings	7	139,034	144,697
Deferred income		778,059	778,059
Employee benefits		653,740	622,743
<b>Total current liabilities</b>		<b>4,450,338</b>	<b>6,803,905</b>
<b>Non-current liabilities</b>			
Loans and borrowings	7	25,350,642	13,871,552
Employee benefits		252,896	226,472
<b>Total non-current liabilities</b>		<b>25,603,538</b>	<b>14,098,024</b>
<b>Total liabilities</b>		<b>30,053,876</b>	<b>20,901,929</b>
<b>Net assets</b>		<b>13,367,504</b>	<b>20,627,613</b>
<b>Equity</b>			
Issued capital	8	118,190,663	118,190,663
Reserves	9	1,820,661	1,809,543
Accumulated losses		(106,643,820)	(99,372,593)
<b>Total equity</b>		<b>13,367,504</b>	<b>20,627,613</b>

The above consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

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**TPI ENTERPRISES LTD**  
**ABN 26 107 872 453**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE HALF-YEAR ENDED 30 JUNE 2016**

<b>Consolidated</b>	<b>Fully paid ordinary shares \$</b>	<b>Foreign currency translation reserve \$</b>	<b>Other reserves \$</b>	<b>Accumulated losses \$</b>	<b>Total \$</b>
<b>2015</b>					
<b>At 1 January 2015</b>	<b>83,151,883</b>	<b>-</b>	<b>1,921,929</b>	<b>(73,472,755)</b>	<b>11,601,057</b>
Loss for the half-year	-	-	-	(8,598,435)	(8,598,435)
Foreign currency translation reserve	-	-	-	-	-
Total comprehensive loss for the half-year	-	-	-	(8,598,435)	(8,598,435)
<i>Transactions with owners in their capacity as owners:</i>					
Conversion of shareholder loan to equity	7,077,500	-	-	-	7,077,500
Issue of share capital	27,961,280	-	-	-	27,961,280
	35,038,780	-	-	-	35,038,780
<b>At 30 June 2015</b>	<b>118,190,663</b>	<b>-</b>	<b>1,921,929</b>	<b>(82,071,190)</b>	<b>38,041,402</b>
<b>2016</b>					
<b>At 1 January 2016</b>	<b>118,190,663</b>	<b>(112,386)</b>	<b>1,921,929</b>	<b>(99,372,593)</b>	<b>20,627,613</b>
Loss for the half-year	-	-	-	(7,271,227)	(7,271,227)
Foreign currency translation reserve	-	11,118	-	-	11,118
Total comprehensive loss for the half-year	-	11,118	-	(7,271,227)	(7,260,109)
<i>Transactions with owners in their capacity as owners:</i>					
Conversion of shareholder loan to equity	-	-	-	-	-
Issue of share capital	-	-	-	-	-
	-	-	-	-	-
<b>At 30 June 2016</b>	<b>118,190,663</b>	<b>(101,268)</b>	<b>1,921,929</b>	<b>(106,643,820)</b>	<b>13,367,504</b>

The above consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

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**TPI ENTERPRISES LTD**  
**ABN 26 107 872 453**  
**STATEMENT OF CASH FLOWS**  
**FOR THE HALF-YEAR ENDED 30 JUNE 2016**

	Note	Consolidated	
		30 June 2016	30 June 2015
		\$	\$
<b>Cash flows from operating activities</b>			
Cash receipts from customers		1,783,357	1,174,914
Cash payments to employees and suppliers		(9,839,181)	(8,165,582)
Cash receipts from government grants		255,500	70,730
Other cash receipts		536,881	106,877
<b>Cash used in operating activities</b>		<b>(7,263,443)</b>	<b>(6,813,061)</b>
Interest received		13,692	108,184
Finance costs paid		(1,090,140)	(627,554)
<b>Net cash used in operating activities</b>	11	<b>(8,339,891)</b>	<b>(7,332,431)</b>
<b>Cash flows from investing activities</b>			
Payment for property, plant and equipment		(1,851,715)	(6,347,954)
Payment for intangible assets		(273,223)	(291,346)
Proceeds from disposal of property, plant and equipment		-	2,291,581
<b>Net cash used in investing activities</b>		<b>(2,124,938)</b>	<b>(4,347,719)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		-	27,961,280
Proceeds from borrowings		11,550,000	5,138,028
Repayment of borrowings		(76,574)	(15,526,945)
<b>Net cash from financing activities</b>		<b>11,473,426</b>	<b>17,572,363</b>
Net increase/(decrease) in cash and cash equivalents		1,008,597	5,892,213
Effects of exchange rate changes on the balance of assets held in foreign currencies		(155,099)	-
Cash and cash equivalent at beginning of the half-year		311,057	565,901
<b>Cash and cash equivalents at end of the half-year</b>	4	<b>1,164,555</b>	<b>6,458,114</b>

The above consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

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**TPI ENTERPRISES LTD**  
**ACN 107 872 453**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 30 JUNE 2016**

## INTRODUCTION

TPI Enterprises Limited (the "Company") is a company domiciled in Australia. This report covers TPI Enterprises Ltd and its controlled entities for the half-year ended 30 June 2016. This report is based on financial statements that have been the subject of an independent review.

The Group is primarily involved in manufacturing and supplying alkaloids to international markets utilising the Group's technology for solvent free extraction of alkaloids from opium poppies.

## NOTE 1: BASIS OF PREPARATION OF HALF-YEAR FINANCIAL REPORT

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

This half-year report does not include all of the notes of the type normally included in an annual financial report, however selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since 31 December 2015. Accordingly, it should be read in conjunction with the Annual Report for the year ended 31 December 2015 and any public announcements made by TPI Enterprises Ltd, since 31 December 2015, in accordance with continuous disclosure requirements of the Corporations Act 2001. This half-year report has been prepared in accordance with the measurement and recognition requirements of Australian Accounting Standards, Accounting Interpretations and the Corporations Act 2001.

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

The accounting policies and methods of computation adopted in the preparation of the half-year report are consistent with those adopted and disclosed in the company's annual financial report for the year ended 31 December 2015.

This half-year financial report was authorised for issue by the Company's Board of Directors on 29 August 2016.

### (a) Significant accounting policies

The accounting policies applied in this half-year financial report are the same as those applied in the Group's consolidated financial report as at and for the year ended 31 December 2015.

### (b) Use of estimates and judgements

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

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

### Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the half-year ending 30 June 2016 is included in the following notes:

Notes 5 and 6 – impairment test: key assumptions underlying recoverable amounts of property, plant and equipment and intangible assets.

### (c) Going concern

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

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

- For the half-year ended 30 June 2016 the Group generated a loss after income tax of \$7,271,227 (2015: \$8,598,435) and had cash outflows from operations of \$8,339,891 (2015: \$7,332,431) predominantly due to the delay in sales resulting from the decision of the EDQM to adopt different quality requirements for the supply of Morphine NRM for the manufacture of Codeine Phosphate API as outlined earlier in the Directors' Report.
- As at 30 June 2016 the Group's current assets exceeded its current liabilities by \$8,302,934 (2015: \$3,992,627).
- Subsequent to balance date, the Group has continued to record operating losses after income tax. Management are also forecasting a working capital deficiency during the 2016 calendar year due to the cyclical nature of the Group's business with increasing farmer payments and further operating expenses being recorded prior to the positive impact of customer receipts.
- To facilitate the Group's immediate working capital requirements, the Group has a standby debt facility in place with Washington H. Soul Pattinson Company Ltd, a substantial shareholder. The Directors expect that this standby debt facility will assist to provide the Group with sufficient funds to be able to meet its obligations for a period of at least 12 months from the date that

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these financial statements are approved. The facility has a limit of \$20,000,000 and expires on 30 September 2017. The Directors acknowledge that the facility expires approximately 12 months after the expected signing date of the financial statements and prima facie that an apparent refinancing risk exists at 30 September 2017.

- The Directors' 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 Directors' confidence over the business plans, cash flow and profit and loss forecasts prepared by management to achieve its 2016 calendar year forecast and ultimately lead to a positive EBITDA position and achieve profitability and positive operating cash flows in the medium-term. These plans, which are advancing, involve:
  - ongoing production at the Victorian facility with sales increasing following its qualification in accordance with ICH Q7 "Good Manufacturing Practice Guide for Active Pharmaceutical Ingredients", making TPI an approved supplier of NRM under the EDQM requirements;
  - access to a more assured supply of raw material through geographic diversification (i.e. the growing of raw material in more Australian states and territories as well as in Portugal with some importation of raw material from other regulated countries) to enable the company to increase raw material volumes and accordingly production volumes in order to achieve profitable operations;
  - the expansion of the Group's product range and customer base; and
  - the realisation of the cost optimisation programs following the commencement of manufacturing and ramp up of operations in Victoria.

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

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

**NOTE 2: REVENUE AND EXPENSES FROM CONTINUING OPERATIONS**

	<b>Consolidated</b>	
	<b>30 June 2016</b>	<b>30 June 2015</b>
	<b>\$</b>	<b>\$</b>
<b>(a) Revenue</b>		
Sale of goods	1,482,491	1,068,818
Government grants	255,500	122,034
Other	168,796	115,674
<b>Total revenue from continuing operations</b>	<b>1,906,787</b>	<b>1,306,526</b>
<b>(b) Expenses</b>		
<i>Employee salary and benefit expenses:</i>		
Salaries and wages	2,650,995	2,925,709
Other associated personnel expenses	144,115	111,282
Defined contribution superannuation expenses	195,272	176,453
Increase in liability for long service leave	26,424	13,630
Increase in liability for annual leave	30,997	63,109
<i>Total employee salary and benefit expenses</i>	<b>3,047,803</b>	<b>3,290,183</b>
In addition, personnel expenses relating to capitalised intangibles during the period were \$298,264 (2015: \$176,364).		
<i>Depreciation expense</i>		
Buildings	211,008	89,112
Farm equipment	59,832	65,566
Manufacturing plant and equipment	869,074	803,923
Office equipment	16,543	(12,389)
Motor vehicles	35,187	49,810
<i>Total depreciation expense</i>	<b>1,191,644</b>	<b>996,022</b>
<i>Amortisation expense</i>		
Patents	13,958	25,076
Development costs	244,884	626,702
<i>Total amortisation expense</i>	<b>258,842</b>	<b>651,778</b>
<i>Total depreciation and amortisation expense</i>	<b>1,450,486</b>	<b>1,647,800</b>

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**NOTE 2: REVENUE AND EXPENSES FROM CONTINUING OPERATIONS (CONT.)**

	Consolidated 30 June 2016 \$	Consolidated 30 June 2015 \$
<b>(b) Expenses (cont.)</b>		
<i>Impairment loss on write down of assets to recoverable amount</i>		
Manufacturing – plant and equipment	-	270,242
<i>Total impairment of other assets</i>	-	<b>270,242</b>
<b>(c) Finance income and costs</b>		
Interest income	17,240	81,186
Net foreign exchange	-	26,998
<i>Finance income</i>	<b>17,240</b>	<b>108,184</b>
Interest expense on financial liabilities measured at amortised cost	(1,090,140)	(715,581)
Net foreign exchange	(171,706)	-
<i>Finance costs</i>	<b>(1,261,846)</b>	<b>(715,581)</b>
<i>Net finance costs recognised in profit or loss</i>	<b>(1,244,606)</b>	<b>(607,397)</b>

**NOTE 3: SEGMENT INFORMATION**

The Group operates through one segment to supply narcotic products (predominately morphine and thebaine) to the pharmaceutical sector. The Group's activities are located in Tasmania, Victoria, Northern Territory and Portugal.

The financial results from this segment are consistent with the financial statements for the Group as a whole.

**NOTE 4: CASH AND CASH EQUIVALENTS**

	Consolidated	
	30 June 2016 \$	31 December 2015 \$
Cash at bank <sup>1</sup>	1,164,555	311,057
Term deposit	-	256,945
<b>Total cash and cash equivalents</b>	<b>1,164,555</b>	<b>568,002</b>

1. The term deposit held at 31 December 2015 was reclassified as an other asset during the period as it is held as collateral for a bank guarantee.

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**NOTE 5: PROPERTY, PLANT AND EQUIPMENT**

	Land and buildings	Farm plant and equipment	Manufacturing plant and equipment	Office equipment	Motor vehicles	Total
Cost	\$	\$	\$	\$	\$	\$
<b>At 1 January 2016</b>	18,582,666	1,838,371	24,883,830	1,066,734	699,666	47,071,267
Additions	-	166,494	663,301	12,151	33,051	874,997
Transfer between asset classes	820,801	-	(371,699)	(449,102)	-	-
Fully depreciated assets removed	(10,855)	(689,611)	(1,765,229)	(213,074)	(54,228)	(2,732,997)
<b>At 30 June 2016</b>	<u>19,392,612</u>	<u>1,315,254</u>	<u>23,410,203</u>	<u>416,709</u>	<u>678,489</u>	<u>45,213,267</u>
<b>Depreciation and impairment losses</b>						
<b>At 1 January 2016</b>	(6,523,764)	(1,090,645)	(9,888,282)	(481,469)	(474,319)	(18,458,479)
Depreciation for the period	(211,008)	(59,832)	(869,074)	(16,543)	(35,187)	(1,191,644)
Disposals	-	-	-	(1,541)	(8,508)	(10,049)
Transfer between asset classes	(295,540)	(64,836)	350,089	10,287	-	-
Fully depreciated assets removed	10,855	689,611	1,765,229	213,074	54,228	2,732,997
<b>At 30 June 2016</b>	<u>(7,019,457)</u>	<u>(525,702)</u>	<u>(8,642,038)</u>	<u>(276,192)</u>	<u>(463,786)</u>	<u>(16,927,175)</u>
Cumulative effect of foreign currency movements at 1 January 2016						15,804
Effect of foreign currency movements for the half-year						(5,244)
<b>Carrying amount at 30 June 2016</b>						<u><u>28,296,652</u></u>

**Impairment testing**

During the half-year ended 30 June 2016, the Group continued to record operating losses and accordingly this triggered a requirement to perform impairment testing in respect of the carrying value of its property, plant and equipment and intangible assets. The recoverable amount of the CGU (being the NRM and the API product) was estimated based on the value in use of the Group as a whole, determined by discounting the future cash flows to be generated from the continuing use of the Group's assets. Value in use as at 30 June 2016 was based on the following key assumptions:

- Cash flows were forecast based on the five-year business plan. The terminal value of the Group was based on the fifth-year cash flow and a long-term growth rate of 3%, which is consistent with the long-term inflation target for Australia of between 2% and 3%.
- Revenue was forecast based on past yield experience and forecast hectares to be sown for the years 2016 to 2020. Revenue forecasts are based on the anticipated ramp up of the Victorian production facility to at least 100 tonnes of narcotic raw materials by 2019.
- The cash flow forecast is based on the strategy to expand into new markets with an initial competitive offering to entice new customers' interest in the products during a time of excess supply in the industry. Once products are accepted by new customers and the excess supply is cleared it is expected that prices will return to more traditional levels. Management has factored in price growth from this time but has made conservative estimates of the time frame that this will occur in.
- An after tax discount rate of 15% was applied in determining the recoverable amount of the Group. The discount rate was estimated based on an industry average weighted-average cost of capital and applying a premium to the industry average due to the Group being in its growth phase and risks inherent in the cash flow forecast.

The recoverable amount of the CGU was determined to be higher than its carrying amount and as such no apparent impairment is evident. In addition, the market capitalisation of the Group also exceeds the net tangible asset backing so this too indicates no impairment.

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**NOTE 6: INTANGIBLE ASSETS**

	Patents	Development Costs	Irrigation Rights	Total
Cost	\$	\$	\$	\$
<b>At 1 January 2016</b>	607,881	3,523,519	1,100,000	5,231,400
Additions	470	272,753	-	273,223
Fully amortised intangibles	(247,622)	(1,983,226)	-	(2,230,848)
<b>At 30 June 2016</b>	360,729	1,813,046	1,100,000	3,273,775
<b>Amortisation</b>				
<b>At 1 January 2016</b>	(574,957)	(2,656,957)	-	(3,231,914)
Amortisation for the period	(13,958)	(244,884)	-	(258,842)
Fully amortised intangibles	247,622	1,983,226	-	2,230,848
<b>At 30 June 2016</b>	(341,293)	(918,615)	-	(1,259,908)
Cumulative effect of foreign currency movements at 1 January 2016				4,259
Effect of foreign currency movements for the half-year				(4,288)
<b>Carrying amount at 30 June 2016</b>				<b>2,013,838</b>

**Impairment testing**

The Group reviewed the carrying value of its intangible assets at the reporting date and determined that the carrying value of these assets was appropriate. Refer to Note 5 for further details of the Group's impairment testing for the half-year ended 30 June 2016.

**Irrigation rights**

In addition to the Group wide impairment testing, management specifically performed impairment testing with respect to its irrigation rights which relate to entitlements to draw on natural resources for the South Esk and Arthur River catchments across Northern Tasmania. These are renewable annually if the Group complies with relevant legislative requirements. The entitlements may be renewed indefinitely and at little cost. The Group intends to renew the entitlements indefinitely and evidence supports its ability to do so. Therefore, the irrigation rights have been treated as having an indefinite useful life because they are expected to contribute to the Group's net cash inflows indefinitely.

The recoverable amount of irrigation rights was based on fair value less costs of disposal, estimated using sale prices for similar irrigation rights in Tasmania. The carrying value of irrigation rights are recognised at cost. The Group has not recorded an impairment charge against the irrigation rights as the fair value less costs of disposal is higher than the carrying value of the irrigation rights.

**NOTE 7: LOANS AND BORROWINGS**

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

	Consolidated	
	30 June 2016	31 December 2015
	\$	\$
<b>Current liabilities</b>		
Irrigation rights fixed repayment plan	139,034	133,570
Other	-	11,127
	<b>139,034</b>	<b>144,697</b>
<b>Non-current liabilities</b>		
Finance lease liabilities	8,150,000	8,150,000
Irrigation rights fixed repayment plan	150,642	221,552
Shareholder loan facility	17,050,000	5,500,000
	<b>25,350,642</b>	<b>13,871,552</b>

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**NOTE 7: LOANS AND BORROWINGS (CONT.)**

**Movements during the half-year**

	Currency	Nominal Interest Rate	Year of Maturity	Movement	Carrying Amount
<b>At 1 January 2016</b>					<u><b>14,016,249</b></u>
<b>New Issues</b>					
Shareholder loan facility	AUD	11%	2017	11,550,000	11,550,000
<b>Repayments</b>					
Irrigation rights fixed repayment plan	AUD	8.1%	2018	(79,142)	(65,446)
Other borrowings	AUD		2016	(11,127)	(11,127)
<b>Carrying amount at 30 June 2016</b>					<u><b>25,489,676</b></u>

Washington H. Soul Pattinson Company Ltd, a substantial shareholder has provided the Group with a standby facility of up to \$20,000,000. The maturity date of the facility was extended in June 2016 to 30 September 2017. At 30 June 2016 the Group had drawn down \$17,050,000 of this facility.

In addition, as at 30 June 2016, external debt included a vendor loan provided by the Meander Valley Water Scheme, secured by the water rights provided by the scheme, and the finance lease (deferred purchase arrangement) for the Melbourne factory site. Both these facilities are within terms.

**Terms and debt repayment schedule**

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal Interest Rate	Year of Maturity	30 June 2016 Carrying Amount	31 December 2015 Carrying Amount
Irrigation rights fixed repayment plan	AUD	8.10%	2018	289,676	355,122
Finance lease liabilities	AUD	9.04%	2018	8,150,000	8,150,000
Shareholder loan facility	AUD	11%	2017	17,050,000	5,500,000
Other	AUD		2016	-	11,127
<b>Total Interest bearing liabilities</b>				<u><b>25,489,676</b></u>	<u><b>14,016,249</b></u>

The carrying value of financial assets and liabilities represents a reasonable approximation of fair value.

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**NOTE 8: ISSUED CAPITAL**

The Company does not have authorised capital nor par values in respect of its issued shares.

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.

Movements in issued capital during the half-year were as follows:

	30 June 2016 No.	30 June 2015 No.	30 June 2016 \$	30 June 2015 \$
<i>Issued shares:</i>				
At the beginning of the reporting period	51,449,440	43,765,229	118,190,663	83,151,883
Shares issued for cash	-	6,194,211	-	29,422,500
Conversion of shareholder loan into equity	-	1,490,000	-	7,077,500
Transaction costs arising on issue of shares	-	-	-	(1,461,220)
<b>At end of the reporting period</b>	<b>51,449,440</b>	<b>51,449,440</b>	<b>118,190,663</b>	<b>118,190,663</b>

**Ordinary shares**

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

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Group. In respect of the Group's shares that are held by the Group, all rights are suspended until those shares are reissued.

**NOTE 9: 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 convertible notes reserve and a share-based payment reserve in respect of prior period transactions.

**NOTE 10: SUBSEQUENT EVENTS**

Material events subsequent to the end of the half-year that have not been recognised in the half-year financial statements:

At the EGM held 2 August 2016, shareholders approved the issue of 1,379,310 shares at \$2.90 to an entity related to a Non-executive director, Simon Moore. These shares were subsequently issued on 5 August 2016 following the receipt of the subscription monies of \$4 million.

Other than the above No other matter or circumstance has arisen since 30 June 2016 that has significantly affected or may significantly affect: -

- TPI Enterprises Ltd's operations in future financial years, or
- the results of those operations in future financial years, or
- TPI Enterprises Ltd's state of affairs in future years.

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**NOTE 11: CASH FLOW INFORMATION**

	Consolidated	
	30 June 2016	30 June 2015
	\$	\$
Loss for the period	(7,271,227)	(8,598,435)
Adjustments for:		
Depreciation expense	1,191,644	996,022
Impairment of other assets	-	270,242
Amortisation of intangible assets	258,842	651,778
Interest income	(17,240)	(108,184)
Interest expense	1,090,140	715,581
Unrealised foreign exchange loss/(gain) and other items	175,745	(88,029)
Profit on sale of assets held for resale	-	(60,101)
	<u>(4,572,096)</u>	<u>(6,221,126)</u>
Change in inventories	(2,546,866)	(2,661,435)
Change in biological assets	202,792	1,078,242
Change in trade and other receivables	1,042,518	106,096
Change in prepayments	(55,083)	(5,423)
Change in trade and other payables	(1,392,130)	813,845
Change in employee provisions	57,422	76,740
	<u>(7,263,443)</u>	<u>(6,813,061)</u>
Cash used in operating activities		
Interest received	13,692	108,184
Interest paid	(1,090,140)	(627,554)
Net cash used in operating activities	<u>(8,339,891)</u>	<u>(7,332,431)</u>

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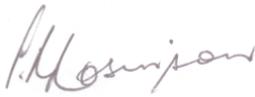
## DECLARATION BY DIRECTORS

The directors declare that the financial statements and notes set out on pages 10 to 21 in accordance with the *Corporations Act 2001* including:

- (a) Complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements; and
- (b) Giving a true and fair view of the financial position of the consolidated entity as at 30 June 2016 and of its performance for the half-year ended on that date.

In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:



Peter Robinson  
*Director*

Melbourne, 29 August 2016

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## INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF TPI ENTERPRISES LIMITED

We have reviewed the accompanying half-year financial report of TPI Enterprises Limited, which comprises the consolidated statement of financial position as at 30 June 2016, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

### *Directors' responsibility for the half-year financial report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2016 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of TPI Enterprises Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### *Independence*

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

### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of TPI Enterprises Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### *Emphasis of Matter – going concern*

Without modifying our conclusion we draw attention to Note 1(c) under the heading "Going Concern" which indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

Tony Batsakis  
Partner  
Melbourne  
29 August 2016

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