



## 2016: A YEAR OF SIGNIFICANT PROGRESS

TPE is well placed to take advantage of its significant manufacturing cost advantage for the production of licit narcotic raw materials (NRM), Morphine, Codeine, Oripavine and Thebaine.

TPE's growth in market share is continuing in line with its stated objective of producing 100 tonnes of NRM by 2019 and 200 tonnes of NRM by 2021. Demand for this tonnage will come from a combination of NRM sales from Australia, Active Pharmaceutical Ingredients (API) sales from TPE's Portugal facility and its toll manufacturing agreement with Sterling Pharma to produce Codeine Phosphate for the UK market.

In 2016 TPE enhanced its position in all three key areas of value creation; market presence, manufacturing advantage and raw material supply chain.

Total NRM production for 2016 increased by 10 fold compared to the previous year with 90% of 2016 production occurring in the 2<sup>nd</sup> half of 2016.

Total Revenue for 2016 was \$10.6 million compared to \$3.7 million for 2015.

Total loss for 2016 was \$14.0 million compared to \$25.9 million for 2015.

### Market Overview

2016 saw significant change in the market place with the two largest NRM producers (Johnson & Johnson and GlaxoSmithKline) selling their NRM operations to S.K Capital and Sun Pharma respectively. The first visible effect of the new ownership has been the significant reduction in their production activities to reduce inventory levels and manage market prices.

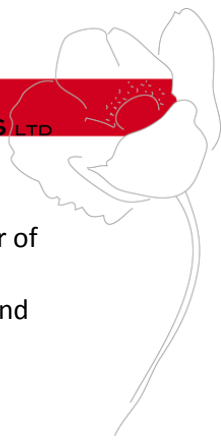
TPE expects further structural change in the market with some of our traditional fully integrated finished dosage competitors expressing interest in TPE becoming a toll producer of their NRM requirements, confirming our position as the lowest cost producer of NRM in the world.

TPE has continued to execute its strategy to grow sales of NRM and NRM derivative products. Importantly, TPE successfully completed negotiations to enter the UK Codeine Phosphate (CPO) market. The UK market is globally the largest at 60 tonnes of CPO with TPE aiming to become a significant supplier over the next three years. Small CPO validation batches will commence in 2017 and larger sales volumes in 2018. In addition to Codeine Phosphate, TPE will also target a suite of API's including but not limited to Morphine Sulphate, Dihydrocodeine and Pholcodine for the UK market.

### Manufacturing advantage

TPE's manufacturing cost advantage is central to its strategy and will enable TPE over time to obtain significant market share with the stated aim of targeting 200 tonne of sales by 2021.

During 2016 TPE continued to increase the efficiency of its production process obtaining a 5% improvement in efficiency compared to 2015.



TPE continues to concentrate on efficiency and cost saving to ensure it is the lowest cost producer of narcotics in the world. In addition to continued focus on operational savings, TPE has identified meaningful savings in administrative overheads due to the maturation of the Melbourne facility and the reduction of Tasmanian expenses.

During 2017 TPE will supply its first commercial batches of Codeine NRM extracted from high Codeine poppy seed varieties. 90% of the world's current Morphine is converted synthetically to Codeine. TPE's Codeine extraction process will be even more efficient than its Morphine extraction process enabling TPE to leverage this manufacturing advantage both through Codeine NRM toll manufacturing in the UK (Sterling Pharma) and its own CPO facility in Portugal.

TPE is also pleased to confirm that straw extracted with the new harvesting technology has translated (as expected) into a higher factory capacity through the greater alkaloid content of the processed straw (results of the de-stemming features of the harvester). This was confirmed by Victorian Straw achieving an alkaloid content over 3%. This increased alkaloid content enables Melbourne manufacturing facility to produce over 140 tonnes based on 24 hrs/day, 7 days a week operation.

### **Supply Chain Expansion**

The fundamental reason for TPE relocation from Tasmania to Victoria was the lack of consistent availability of affordable high quality raw material (Poppy Straw) from Tasmanian sources. After significant investment by TPE, commercial crops were first harvested in Victoria in 2015 with the results validating our decision to relocate. Australian growing capability increased in 2016 to now include NSW & SA. These two additional states will give TPE a significant advantage with regard to sourcing its raw material in terms of volume and price.

Victorian growing is now in its 3<sup>rd</sup> year and after two particularly dry years, Victoria delivered a far more favourable growing season. This, combined with a targeted approach to engaging with experienced farmers, has resulted in a much improved outcome in terms of kg/Ha and alkaloid content. Importantly for our sourcing continuity over 90% of the Victorian farmers that grew with TPE in 2016 -harvested in 2017- obtained a greater Kg/Ha and \$/Ha return than the previous year.

Significant expansion of Australian growing area has occurred at the same time that raw material pricing has started to fall dramatically in Tasmania. Growing area in Tasmania has dropped from approximately 27000 ha in 2013 to approximately 7000 ha in 2016/2017. This reduction in grower demand has seen a decrease in \$/kg paid to the farmer. The continuation of this trend is expected globally.

Our plans to import Poppy Straw made significant progress in 2016. TPE was informed in 2015 that we would be required to obtain Biosecurity approval from the Australian Quarantine and Inspection Service. After applying in 2015 for a BICON listing to be added for the importation of Poppy Straw, TPE is pleased to report that on 21<sup>st</sup> December 2016 a BICON listing was received.

TPE applied for and received an import permit for Poppy Straw from the Department of Agriculture. Significantly, as of the date of filing the 4E, TPE have received all the necessary licences and permits to import up to 2000 tonnes of poppy straw from Hungary during 2017.

A combination of expanded Australian growing area and importation of Poppy Straw sees TPE well placed to source sufficient high quality raw material on attractive terms to satisfy its growth plans in line with its stated objectives.



## Financial

Total production for 2016 was heavily weighted to the 2<sup>nd</sup> half due to delays with European regulators and volume processed was approximately 50% of requirements for breakeven.

Total revenue for 2016 was \$10.6 million up from \$3.7 million in 2015.

The \$10.6 million revenue delivered a gross profit for the full year of \$3.7 million.

Total Expenses (excluding interest) for 2016 totalled \$14.9 million resulting in an operating loss of \$11.2 million compared with an operating loss of \$25.1 million in 2015.

The net result 2016 was a \$14.0 million loss (including Interest, non-recurring items and depreciation and amortisation).

During 2016 TPE renegotiated its main debt facility with WHSP. This extended the term of repayment for a further 6 months and extended the quantum by a further \$3.5 million. The company also raised \$4 million of new equity through a placement of shares to Colinton Investments.

**-Ends-**

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# **TPI ENTERPRISES LTD**

**(ABN 26 107 872 453)**

## **APPENDIX 4E**

### **PRELIMINARY FINAL REPORT**

**YEAR ENDED 31 DECEMBER 2016**

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APPENDIX 4E

TPI ENTERPRISES LTD  
(ABN 26 107 872 453)

PRELIMINARY FINAL REPORT

Current reporting period  
Previous corresponding period

Year ended 31 December 2016  
Year ended 31 December 2015

Results for announcement to the market

	\$	% increase /(decrease) over previous corresponding period
<b>Revenue from continuing activities</b>	10,556,449	186.9
<b>Loss from continuing activities after tax attributable to members</b>	14,020,835	(45.9)
<b>Net loss for the period attributable to members</b>	14,020,835	(45.9)
<b>Dividends (distributions)</b>	<b>Amount per security</b>	<b>Franked amount per security</b>
<b>Final Dividend</b>	N/A	N/A
<b>Interim Dividend</b>	N/A	N/A
<b>Record date for determining entitlements to the dividends (if any)</b>	N/A	
<b>Brief explanation of any of the figures reported above necessary to enable the figures to be understood:</b>		
<p>In 2016 TPE enhanced its position in all three key areas of value creation; market presence, manufacturing advantage and raw material supply chain.</p> <p>TPE has continued to execute its strategy to grow NRM and NRM derivative products supply. Importantly, TPE successfully completed negotiations to enter the UK Codeine Phosphate (CPO) market.</p> <p>Total NRM production for 2016 increased by 10 fold compared to the previous year, with 90% of 2016 production occurring in the 2nd half of 2016 due to delays with European regulators. The volume processed represents approximately 50% of requirements for breakeven.</p> <p>After significant investment by TPE, commercial crops were first harvested in Victoria in 2015. In 2016 TPI increased its Australian growing capability, which now includes NSW &amp; SA, and developed a more targeted approach to engaging with experienced farmers. As a result, TPI is now achieving much improved yield outcomes in terms of kg/ha and alkaloid content.</p> <p>TPE continues to concentrate on efficiency and cost saving to ensure it is the lowest cost producer of narcotics in the world. During 2016 TPE continued to increase the efficiency of its production process, obtaining a 5% improvement in efficiency compared to 2015. In addition to continued focus on operational savings, TPE has identified meaningful savings in administrative overheads due to the maturation of the Melbourne facility and the reduction of Tasmanian expenses.</p> <p>As a result of the above activities:</p> <ul style="list-style-type: none"> <li>- Total revenue for 2016 was \$10.6 million up from \$3.7 million in 2015. The \$10.6 million revenue delivered a gross profit for the full year of \$3.7 million.</li> <li>- Total Expenses (excluding interest) for 2016 totalled \$14.9 million resulting in an operating loss of \$11.2 million compared with an operating loss of \$25.1 million in 2015.</li> <li>- The net result 2016 was a \$14.0 million loss (including Interest, non-recurring items and depreciation and amortisation).</li> </ul> <p>During 2016 TPE renegotiated its main debt facility with WHSP. This extended the term of repayment for a further 6 months and extended the quantum by a further \$3.5 million.</p>		

### Dividends

Date the dividend is payable	N/A
Record date to determine entitlement to the dividend	N/A
Amount per security	N/A
Total dividend	N/A
Amount per security of foreign sourced dividend or distribution	N/A
Details of any dividend reinvestment plans in operation	N/A
The last date for receipt of an election notice for participation in any dividend reinvestment plans	N/A

### NTA Backing

	Current Period	Previous corresponding period
Net tangible asset backing per ordinary security (cents per share)	17 cents	36 cents

### Control Gained Over Entities Having Material Effect

Name of entity (or group of entities)	N/A
Date control gained	N/A
Profit / (loss) from ordinary activities after tax of the controlled entity since the date in the current period on which control was acquired.	N/A
Profit / (loss) from ordinary activities after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period.	N/A

### Loss of Control Gained Over Entities Having Material Effect

Name of entity (or group of entities)	N/A
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### Details of Associates and Joint Venture Entities

Name of Entity (or group of entities)	N/A
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### Foreign Entities Accounting Framework

For foreign entities provide details of which accounting standards have been adopted (e.g. International Accounting Standards) N/A
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### Audit/Review Status

<b>This report is based on accounts to which one of the following applies:</b> (Tick one)			
The accounts have been audited	<input type="checkbox"/>	The accounts are in the process of being audited	<input checked="" type="checkbox"/>
<b>If the accounts are subject to audit dispute or qualification, a description of the dispute or qualification:</b> N/A			

### Attachments Forming Part of Appendix 4E

Attachment #	Details
1	Statement of Profit or Loss and Other Comprehensive Income
2	Statement of Financial Position
3	Statement of Changes in Equity
4	Statement of Cash Flows
5	Notes to the Preliminary Final Report

**Jaime Pinto**  
**Company Secretary**  
28 February 2017

**TPI ENTERPRISES LTD**  
**ABN 26 107 872 453**  
**STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	Consolidated 2016 \$	2015 \$
<b>Revenue</b>			
Sale of goods		7,614,801	2,064,578
Other income		2,941,648	1,614,485
	2(a)	10,556,449	3,679,063
<b>Expenses</b>			
Raw materials, finished goods, consumables and other production expenses		(5,674,184)	(1,074,366)
Employee benefits (production) expenses		(1,265,537)	(508,631)
Impairment of inventory and biological assets to net realisable value		(469,437)	(951,048)
Impairment of other assets	2(b)	-	(7,127,013)
Agricultural area trialling costs		(267,114)	(2,237,456)
Employee benefits (non-production) expenses	2(b)	(5,019,261)	(5,492,256)
Depreciation and amortisation expense	2(b)	(2,858,984)	(3,556,296)
Legal and listing expenses		(338,281)	(1,029,163)
Market development expenses		(847,873)	(1,239,859)
Relocation expenses		(28,673)	(1,662,256)
Occupancy expenses		(1,676,649)	(1,709,844)
Research expenses		(1,287,481)	(45,625)
Other expenses		(2,066,141)	(2,165,826)
		(21,799,615)	(28,799,639)
<b>Loss from operating activities</b>		<b>(11,243,166)</b>	<b>(25,120,576)</b>
Finance income	2(c)	23,812	415,082
Finance expenses	2(c)	(2,801,481)	(1,194,344)
Net finance expenses		(2,777,669)	(779,262)
<b>Loss before tax</b>		<b>(14,020,835)</b>	<b>(25,899,838)</b>
Income tax benefit		-	-
<b>Loss for the year</b>		<b>(14,020,835)</b>	<b>(25,899,838)</b>
<b>Other comprehensive income</b>			
Items that are or may be classified to profit or loss:			
Exchange differences on translating foreign operations		125,213	(112,386)
<b>Total comprehensive loss for the year</b>		<b>(13,895,622)</b>	<b>(26,012,224)</b>
<b>Earnings per share:</b>			
Basic loss per share - from continuing operations		(26.96¢)	(52.07¢)
Diluted loss per share - from continuing operations		(26.96¢)	(52.07¢)

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



**TPI ENTERPRISES LTD**  
**ABN 26 107 872 453**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2016**

	Note	Consolidated	
		2016	2015
		\$	\$
<b>Current assets</b>			
Cash and cash equivalents	4	622,548	568,002
Trade and other receivables		4,128,247	1,368,435
Inventories		6,807,992	7,722,656
Biological assets		877,042	932,958
Prepayments		279,981	204,481
<b>Total current assets</b>		<b>12,715,810</b>	<b>10,796,532</b>
<b>Non-current assets</b>			
Property, plant and equipment	5	28,234,972	28,628,592
Investments		103,219	100,673
Intangible assets	6	1,924,634	2,003,745
Other assets		256,945	-
<b>Total non-current assets</b>		<b>30,519,770</b>	<b>30,733,010</b>
<b>Total assets</b>		<b>43,235,580</b>	<b>41,529,542</b>
<b>Current liabilities</b>			
Trade and other payables		3,397,074	5,258,406
Loans and borrowings	7	821,298	144,697
Deferred income		-	778,059
Employee benefits		770,416	622,743
<b>Total current liabilities</b>		<b>4,988,788</b>	<b>6,803,905</b>
<b>Non-current liabilities</b>			
Loans and borrowings	7	27,251,831	13,871,552
Employee benefits		274,719	226,472
<b>Total non-current liabilities</b>		<b>27,526,550</b>	<b>14,098,024</b>
<b>Total liabilities</b>		<b>32,515,338</b>	<b>20,901,929</b>
<b>Net assets</b>		<b>10,720,242</b>	<b>20,627,613</b>
<b>Equity</b>			
Issued capital	8	122,178,914	118,190,663
Reserves	9	1,934,756	1,809,543
Accumulated losses		(113,393,428)	(99,372,593)
<b>Total equity</b>		<b>10,720,242</b>	<b>20,627,613</b>

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

**TPI ENTERPRISES LTD**  
**ABN 26 107 872 453**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 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>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</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 period	-	-	-	(25,899,838)	(25,899,838)
Other comprehensive income	-	(112,386)	-	-	(112,386)
Total comprehensive income/(loss) for the year	-	(112,386)	-	(25,899,838)	(26,012,224)
<i>Transactions with owners in their capacity as owners:</i>					
Conversion of convertible debt into equity	7,077,500	-	-	-	7,077,500
Issue of share capital	27,961,280	-	-	-	27,961,280
<b>At 31 December 2015</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>
<b>2016</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</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 period	-	-	-	(14,020,835)	(14,020,835)
Other comprehensive income	-	125,213	-	-	125,213
Total comprehensive income/(loss) for the year	-	125,213	-	(14,020,835)	(13,895,622)
<i>Transactions with owners in their capacity as owners:</i>					
Issue of share capital	3,988,251	-	-	-	3,988,251
<b>At 31 December 2016</b>	<b>122,178,914</b>	<b>12,827</b>	<b>1,921,929</b>	<b>(113,393,428)</b>	<b>10,720,242</b>

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

**TPI ENTERPRISES LTD**  
**ABN 26 107 872 453**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	Consolidated	
		2016	2015
		\$	\$
<b>Cash flows from operating activities</b>			
Cash receipts from customers		5,950,581	2,542,650
Cash payments to employees and suppliers		(18,235,514)	(18,156,538)
Cash receipts from government grants		255,500	995,730
Other cash receipts		528,478	383,326
<b>Cash used in operating activities</b>		<b>(11,500,955)</b>	<b>(14,234,832)</b>
Interest received		20,076	101,098
Finance costs paid		(2,334,408)	(1,384,373)
<b>Net cash used in operating activities</b>	<b>10</b>	<b>(13,815,287)</b>	<b>(15,518,107)</b>
<b>Cash flows from investing activities</b>			
Payment for property, plant and equipment		(3,280,880)	(9,909,855)
Payment for intangible assets		(453,207)	(460,747)
Proceeds from disposal of property, plant and equipment		-	2,291,581
Proceeds from disposal of investments		-	250,139
<b>Net cash used in investing activities</b>		<b>(3,734,087)</b>	<b>(7,828,882)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		3,988,251	27,961,280
Proceeds from borrowings		14,205,420	10,638,028
Repayment of borrowings		(148,541)	(15,420,520)
<b>Net cash provided by financing activities</b>		<b>18,045,130</b>	<b>23,178,788</b>
Net increase/(decrease) in cash and cash equivalents		495,756	(168,201)
Effects of exchange rate changes on the balance of assets held in foreign currencies		(184,265)	170,302
Cash and cash equivalent at beginning of year <sup>1</sup>		311,057	565,901
<b>Cash and cash equivalents at end of year</b>	<b>4</b>	<b>622,548</b>	<b>568,002</b>

1. During the current period the term deposit held at 31 December 2015 was reclassified as an "Other asset" as it is held as collateral for a bank guarantee.

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

**TPI ENTERPRISES LTD**  
**ABN 26 107 872 453**  
**NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**INTRODUCTION**

TPI Enterprises Limited (the "Company") is a company domiciled in Australia. The preliminary final report covers TPI Enterprises Ltd and its controlled entities. This report is based on financial statements that are in the process of being audited.

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 PRELIMINARY FINANCIAL REPORT**

This preliminary financial report does not include all of the notes of the type normally included in an annual financial report. Accordingly, it should be read in conjunction with the Annual Report for the year ended 31 December 2015 and the financial report for the six months ended 30 June 2016 and any public announcements made by TPI Enterprises Ltd, since it listed on 13 August 2015, in accordance with continual disclosure requirements of the Corporations Act 2001. This preliminary final report has been prepared in accordance with the measurement and recognition requirements of Australian Accounting Standards, Accounting Interpretations and the Corporations Act 2001.

This preliminary 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 preliminary financial report are consistent with those adopted and disclosed in the Group's annual financial report for the year ended 31 December 2015 and the half year ended 30 June 2016.

This preliminary financial report was authorised for issue by the Company's Board of Directors on 28 February 2017.

*(a) Significant accounting policies*

The accounting policies applied in this preliminary 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 year ending 31 December 2016 is included in the following notes:

Notes 6 and 7 – impairment test: key assumptions underlying recoverable amounts of property, plant and equipment and intangible assets.

*(c) Going concern*

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

For the year ended 31 December 2016 the Group generated a loss after income tax of \$14,020,835 (2015: \$25,899,838) and had cash outflows from operations of \$13,815,289 (2014: \$15,518,107) predominantly due to the cessation of production and sales whilst the Group's manufacturing equipment was being established in Victoria.

To facilitate the Group's working capital requirements, the Group has a standby debt facility in place with Washington H. Soul Pattinson and Company Limited, a substantial shareholder. The facility, which is secured against the Australian assets of the Group, provides access to funds of up to \$23,500,000 and has a maturity date of 31 March 2018.

The Directors are confident 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.

Further details of the going concern basis of accounting will be provided in the Group's annual report for the year ended 31 December 2016 to be issued in March 2017.

**TPI ENTERPRISES LTD**  
**ABN 26 107 872 453**  
**NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

	Consolidated 2016 \$	2015 \$
<b>(a) Revenue</b>		
Sale of goods	7,614,801	2,064,578
Government grants	1,904,748	1,047,034
Other	1,036,900	567,451
<b>Total revenue from continuing operations</b>	<b>10,556,449</b>	<b>3,679,063</b>
<b>(b) Expenses</b>		
<i>Employee benefits (non-production) expenses:</i>		
Salaries and wages	4,160,361	4,465,153
Other associated personnel expenses	364,109	515,211
Defined contribution superannuation expenses	260,362	234,982
Increase in liability for long service leave	67,849	111,561
Increase/(decrease) in liability for annual leave	166,580	165,349
<i>Total employee salary and benefit expenses</i>	<b>5,019,261</b>	<b>5,492,256</b>
Other personnel expenses relating to employees involved in the production process have been included in 'Employee benefits (production) expenses' and 'relocation expenses' in the consolidated statement of profit or loss and comprehensive income		
<i>Depreciation, expense</i>		
Land and buildings	419,703	267,450
Farm equipment	119,743	87,365
Manufacturing plant and equipment	1,685,426	1,679,493
Office equipment	33,691	24,517
Motor vehicles	68,037	93,011
<i>Total depreciation expense</i>	<b>2,326,600</b>	<b>2,151,836</b>
<i>Amortisation expense</i>		
Patents	27,916	298,017
Development costs	504,468	1,106,443
<i>Total amortisation expense</i>	<b>532,384</b>	<b>1,404,460</b>
<i>Total depreciation and amortisation expense</i>	<b>2,858,984</b>	<b>3,556,296</b>
<i>Impairment loss on write down of assets to recoverable amount</i>		
Land and buildings	-	4,088,512
Development costs	-	190,799
Manufacturing – plant and equipment	-	2,847,702
<i>Total impairment of other assets</i>	<b>-</b>	<b>7,127,013</b>
<b>(c) Finance income and expenses</b>		
Interest income	23,812	101,098
Net foreign exchange	-	313,984
<i>Finance income</i>	<b>23,812</b>	<b>415,082</b>
Interest expense on financial liabilities measured at amortised cost	(2,501,086)	(1,194,344)
Net foreign exchange	(300,395)	-
<i>Finance expenses</i>	<b>(2,801,481)</b>	<b>(1,194,344)</b>
<i>Net finance expenses recognised in profit or loss</i>	<b>(2,777,669)</b>	<b>(779,262)</b>

**NOTE 3: SEGMENT INFORMATION**

The Group operates through one segment to supply narcotic raw materials (predominately morphine and thebaine) to the active pharmaceutical ingredient sector. The Group activities are located in Australia and Portugal.

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

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**NOTE 4: CASH AND CASH EQUIVALENTS**

	Consolidated 2016 \$	2015 \$
Cash at bank	622,548	311,057
Term deposits <sup>1</sup>	-	256,945
<b>Total cash and cash equivalents</b>	<b>622,548</b>	<b>568,002</b>

1. During the current period the term deposit held at 31 December 2015 was reclassified as an "Other asset" as it is held as collateral for a bank guarantee.

**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>	<b>18,582,667</b>	<b>1,838,369</b>	<b>24,883,810</b>	<b>1,066,734</b>	<b>699,660</b>	<b>47,071,240</b>
Additions	58,902	496,378	1,437,399	42,925	33,050	2,068,654
Transfer between asset classes	820,801	-	(820,801)	-	-	-
Fully depreciated assets removed	(10,855)	(689,611)	(1,765,229)	(213,074)	(54,228)	(2,732,997)
<b>At 31 December 2016</b>	<b>19,451,515</b>	<b>1,645,136</b>	<b>23,735,179</b>	<b>896,585</b>	<b>678,482</b>	<b>46,406,897</b>

**Depreciation and impairment losses**

<b>At 1 January 2016</b>	<b>(6,523,864)</b>	<b>(1,090,645)</b>	<b>(9,897,272)</b>	<b>(483,807)</b>	<b>(474,319)</b>	<b>(18,469,907)</b>
Depreciation for the year	(419,703)	(119,743)	(1,685,426)	(33,691)	(68,037)	(2,326,600)
Disposals	-	-	-	(1,541)	(8,508)	(10,049)
Transfer between asset classes	(295,540)	(70,152)	409,871	(44,179)	-	-
Fully depreciated assets removed	10,855	689,611	1,765,229	213,074	54,228	2,732,997
<b>At 31 December 2016</b>	<b>(7,228,252)</b>	<b>(590,929)</b>	<b>(9,407,598)</b>	<b>(350,144)</b>	<b>(496,636)</b>	<b>(18,073,559)</b>
Effect of foreign currency movements						(98,366)
<b>Carrying amount at 31 December 2016</b>						<b>28,234,972</b>

**Impairment testing**

During the year ended 31 December 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 Group as a whole at this stage in the Group's lifecycle) 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 31 December 2016 was based on the following key assumptions:

- Cash flows were forecast based on the three-year business plan, including two additional budgeted financial years. 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 and growth 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 2017 to 2020. Average anticipated revenue growth is driven by projected increases in production levels.
- Management has factored in price growth in the cash flow based on a partial return of sales prices to those achieved historically.
- An after tax discount rate of 10.3% 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, indicating that no impairment is evident. The market capitalisation of the group exceeds the net tangible asset backing, which also indicates no impairment. In addition, reasonably possible changes in key assumptions were considered, such as changes in production levels, the discount rate and gross profit margins; sufficient and significant headroom exists and no impairment was noted.

In the prior year the Group recognised an impairment loss of \$2,847,702 with respect to specific plant and equipment that had been integral to the manufacturing process in the former Tasmanian plant, and an impairment loss of \$4,088,512 in respect of the Cressy facility. The Group reviewed the carrying value of these assets at 31 December 2016 and no additional impairment was noted.

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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	462,096	-	462,566
<b>At 31 December 2016</b>	608,351	3,985,615	1,100,000	5,693,966
<b>Amortisation</b>				
<b>At 1 January 2016</b>	(574,957)	(2,656,957)	-	(3,231,914)
Amortisation for the year	(27,916)	(504,468)	-	(532,384)
Adjust prior year amortisation	-	10,029	-	10,020
<b>At 31 December 2016</b>	(602,873)	(3,151,405)	-	(3,754,278)
Effect of foreign currency movements				(15,054)
<b>Carrying amount at 31 December 2016</b>				<b>1,924,634</b>

**Impairment testing**

The Group reviewed the carrying value of development costs at 31 December 2015 and determined it was prudent to write down the value of certain of these assets. As such an impairment loss of \$190,799 was recognised.

The Group reviewed the carrying value of development costs at 31 December 2016 and determined that no additional impairments were required in respect of these assets.

Refer to Note 6 for further details of the Group's impairment testing for the year ended 31 December 2016.

**Irrigation rights**

In addition to the Group wide impairment testing, management specifically performed impairment 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 it is 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. Management 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 2016	2015
	\$	\$
<b>Current liabilities</b>		
Finance lease liabilities	600,000	-
Irrigation rights fixed repayment plan	144,721	133,570
Insurance Premium funding	59,884	-
Other	16,693	11,127
	<b>821,298</b>	<b>144,697</b>
<b>Non-current Liabilities</b>		
Finance lease liabilities	7,550,000	8,150,000
Irrigation rights fixed repayment plan	76,831	221,552
Shareholder loan facility	19,625,000	5,500,000
	<b>27,251,831</b>	<b>13,871,552</b>

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**Movements during the year**

	Currency	Nominal Interest Rate	Year of Maturity	Face Value	Carrying Amount
<b>At 1 January 2016</b>					<u>14,016,249</u>
<b>New Issues:</b>					
Shareholder loan facility	AUD	11%	2018	14,125,000	14,125,000
Insurance Premium Funding	AUD	6.22%	2017	79,569	74,855
Other			2017	5,565	5,565
<b>Repayments:</b>					
Irrigation rights fixed repayment plan	AUD	8.1%	2018	(221,552)	(133,570)
Other			2017	(15,962)	(14,971)
<b>Carrying amount at 31 December 2016</b>					<u>28,073,129</u>

In October 2014 Washington H. Soul Pattinson and Company Limited, a substantial shareholder, provided the Group with a standby facility to meet short term working capital needs. During the year ended 31 December 2016 the terms of the facility were amended. The facility provides access to funds of up to \$23,500,000, has a maturity date of 31 March 2018, and is secured against the Australian assets of the Group. As at 31 December 2016 the Group had drawn down \$19,625,000 of this facility (2015: \$5,500,000).

In addition, as at 31 December 2016, external debt included a vendor loan provided by the Meander Valley Water Scheme, secured by the water rights provided by the scheme, the finance lease (deferred purchase arrangement) for the Melbourne factory site, and an insurance premium funding facility. All of 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	31 December 2016		31 December 2015	
				Face Value	Carrying Amount	Face Value	Carrying Amount
Insurance Premium Funding	AUD	6.22%	2017	63,607	59,884	-	-
Irrigation rights fixed repayment plan	AUD	8.10%	2018	237,517	221,552	395,862	355,122
Finance lease liabilities	AUD	9.04%	2018	9,615,057	8,150,000	10,342,456	8,150,000
Shareholder loan facility	AUD	11%	2018	19,625,000	19,625,000	5,500,000	5,500,000
Other	AUD		2017	16,693	16,693	11,127	11,127
<b>Total Interest bearing liabilities</b>				<u>29,557,874</u>	<u>28,073,129</u>	<u>16,249,445</u>	<u>14,016,249</u>

**NOTE 8: CAPITAL**

Movements in issued capital during the year were as follows:

	2016 No.	2015 No.	2016 \$	2015 \$
<b>Issued shares:</b>				
At the beginning of the reporting period	51,449,440	43,765,229	118,190,663	83,151,883
Shares issued for cash	1,379,310	6,194,211	3,999,999	29,422,500
Conversion of shareholder loan into equity	-	1,490,000	-	7,077,500
Transaction costs arising on issue of shares			(11,748)	(1,461,220)
<b>At end of the reporting period</b>	<u>52,828,750</u>	<u>51,449,440</u>	<u>122,178,914</u>	<u>118,190,663</u>



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**Ordinary shares**

The Company does not have authorised capital or par value 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 AND ACCUMULATED LOSSES**

**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 convertible notes reserve and a share-based payment reserve. The reserve for convertible notes comprises the amounts allocated to the equity component for the convertible notes issued by the Group. Upon conversion of convertible notes, the amounts allocated to the equity component are credited to share capital. The share-based payment reserve comprises the fair value of options recognised as an expense. Upon exercise of options, any proceeds received are credited to share capital. The share-based payment reserve remains as a separate component of equity.

**NOTE 10: CASH FLOW INFORMATION**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Loss for the year</b>	(14,020,835)	(25,899,838)
Adjustments for:		
Depreciation expense	2,326,600	2,151,836
Impairment of other assets	-	7,127,013
Amortisation of intangible assets	532,384	1,404,460
Interest income	(23,812)	(101,098)
Interest expense	2,501,086	1,194,344
Unrealised foreign exchange	319,715	(313,208)
Other	-	(113,442)
	<u>(8,364,862)</u>	<u>(14,549,933)</u>
Change in inventories	914,664	(2,486,719)
Change in biological assets	55,916	264,008
Change in trade and other receivables	(2,756,076)	(179,216)
Change in investments	(2,546)	-
Change in prepayments	(75,499)	(105,663)
Change in trade and other payables	(690,415)	2,545,781
Change in employee provisions	195,922	276,910
Change in deferred income	(778,059)	-
<b>Cash used in operating activities</b>	<u>(11,500,955)</u>	<u>(14,234,832)</u>
Interest received	20,076	101,098
Interest paid	<u>(2,334,408)</u>	<u>(1,384,373)</u>
<b>Net cash used in operating activities</b>	<u>(13,815,287)</u>	<u>(15,518,107)</u>

**NOTE 11 SUBSEQUENT EVENTS**

There have been no significant events that have occurred subsequent to the end of the financial year.

**NOTE 12: CONTINGENCIES**

The Group currently has in place written agreements with its customers for the supply of licit narcotics. The agreements are on commercial terms and contain standard representations and warranties, indemnities and termination provisions. Under one of the agreements, the Group may be subject to penalties for late delivery including discounting the price otherwise payable to it and/or paying pre-agreed liquidated damages. No liability has been recognised at balance date in respect of this agreement.