TPI ENTERPRISES LIMITED

(ACN 107 872 453)

2016 ANNUAL REPORT

CONTENTS

Directors' Report	3
Auditor's Independence Declaration	15
Corporate Governance	16
Consolidated Statement of Profit or Loss and Other Comprehensive Income	17
Consolidated Statement of Financial Position	18
Consolidated Statement of Changes in Equity	19
Consolidated Statement of Cash Flows	20
Notes to the Consolidated Financial Statements	21
Declaration by Directors	44
Independent Auditor's Report	45
Shareholder Information	50
Board of Directors and Company Particulars	51

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 year ended 31 December 2016.

Directors

The following persons were directors of the Company during the financial year and up to the date of this report:

Mr. Peter Robinson (Non-Executive Chairman)
Mr. Jarrod Ritchie (Managing Director and CEO)
Mr. Todd Barlow (Non-Executive Director)

Mr. Simon Moore was appointed as a Non-Executive Director of the Company on 1 June 2016.
Mr. Stuart Black was appointed as a Non-Executive Director of the Company on 7 June 2016.

Details of each director's qualifications and special responsibilities, together with meetings attended, are set forth in other parts of this report.

Company Secretary:
Mr. Roger McPherson was Company Secretary from the beginning of the year until his resignation on 28 October 2016.
Mr. Jaime Pinto was appointed as Company Secretary on 28 October 2016.

Principal activities

The principal activities of the Group during the course of the financial year were the manufacture and supply of alkaloids to international markets utilising TPI's technology for solvent free extraction of alkaloids from opium poppies.

There were no significant changes in the nature of the activities of the Group during the year.

Review of operations

The investment in FY16 has positioned TPI to take advantage of its significant manufacturing cost advantage for the production of licit narcotic raw materials (NRM), Morphine, Codeine, Oripavine and Thebaine.

Total NRM production for 2016 increased by 10 fold compared to the previous year with the majority of 2016 production occurring in the 2nd half of 2016. TPI´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 TPI´s Portugal facility and its toll manufacturing agreement with Sterling Pharma to produce Codeine Phosphate for the UK market.

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

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.

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

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

Manufacturing advantage

TPI's manufacturing cost advantage is central to its strategy and will enable TPI over time to obtain significant market share with the stated aim of targeting 200 tonne of sales by 2021. During 2016 TPI continued to increase the efficiency of its production process, obtaining a 5% improvement compared to 2015.

TPI 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, TPI has identified meaningful savings in administrative overheads due to the maturation of the Melbourne facility and the reduction of Tasmanian expenses.

During 2017 TPI 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. TPI's Codeine extraction process will be even more efficient than its Morphine extraction process, enabling TPI to leverage this manufacturing advantage both through Codeine NRM toll manufacturing in the UK (Sterling Pharma) and the Group's own CPO facility in Portugal.

Review of operations (Cont.)

Manufacturing advantage (Cont.)

During the current harvest, straw extracted with the new harvesting technology is achieving greater alkaloid content as a result of the de-stemming features of the harvester, with Victorian straw achieving an alkaloid content of over 3%. This increased alkaloid content has translated (as expected) into a higher factory capacity, enabling the 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 TPI relocating 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 TPI, commercial crops were first harvested in Victoria in 2015 with the results validating the decision to relocate. Australian growing capability increased in 2016 to now include NSW & SA. These two additional states will give TPI a significant advantage with regard to sourcing its raw material in terms of volume and price.

Victorian growing is now in its 3rd year and after two particularly dry years, Victoria experienced 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 sourcing continuity, over 90% of the Victorian farmers that grew with TPI in 2016 - harvested in 2017- obtained a greater Kg/Ha and $/Ha return than the previous year.

Significant expansion of Australian growing area had occurred at the same time that raw material pricing has started to fall dramatically in Tasmania. Growing area in Tasmania has dropped from approximately 27,000 ha in 2013 to approximately 7,000 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.

TPI's plans to import Poppy Straw made significant progress in 2016. TPI 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, the Company received a BICON listing in December 2016.

TPI applied for and received an import permit for Poppy Straw from the Department of Agriculture. Significantly, as at the date of this report, TPI has received all the necessary licences and permits to import poppy straw from Turkey, Portugal, Hungary and France during 2017.

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

Financial summary

The financial results of the Group for the year ended 31 December 2016 are summarised as follows:

Operating results:

- Total production for 2016 was heavily weighted to the 2nd half due to delays with European regulators.
- In 2016 the Group recorded an increase in revenue to $10,556,449 (2015: $3,679,063). This increase was driven by sale of goods (narcotic raw materials and poppy seed) of $7,614,801 (2015: $2,064,578), government grants of $877,750 (2015: $1,047,034) and a R&D Tax Incentive of $1,026,998 (2015: $368,085).
- Total consolidated operating expenses for the period were $21,799,615 (2015: $28,799,639), including production expenses of $6,939,721 (2015: $1,582,997) as sales of goods increased.
- Non-recurring costs were minimal at $295,787 (2015: $11,436,055), and were made up as follows:
  - Impairment of assets, primarily associated with the Tasmanian facility, $nil (2015:$7,127,013)
  - Trial crops in the Northern Territory $267,114 (2015: $2,237,456)
  - Relocation expenses $28,673 (2015: $1,662,256)
  - Listing expenses $nil (2015: $409,330).
- The Group generated a loss before income tax of $14,020,835 (2015: $25,899,838) with an underlying operational loss of $13,725,048 (2015: $14,463,783).
- Basic and diluted net loss per share decreased to 26.96¢ (2015: 52.07¢).

Statement of cash flows:

- Cash used in operating activities decreased to $11,500,955 (2015: $14,234,832), as higher cash inflow from the increase in sale of raw materials and poppy seed was largely offset by the significant net increase in working capital required to support the ramp up in production.
- The Group's net cash outflow from operations for the financial year was $13,815,287 (2015: $15,518,107), with finance costs increasing as a result of higher debt to fund operations.
- An additional $3,280,880 was invested in property, plant and equipment (2015: $9,909,855) during the financial year, with the majority of funds invested in the Group's new harvesting technology and continued improvement in production capacity at its Victorian facility.

DIRECTORS' REPORT

Business strategies and prospects

The Group is licensed to grow, extract, export and sell licit narcotics. It supplies narcotic raw materials (NRM) to pharmaceutical companies participating in the active pharmaceutical ingredient sector of the market.

TPI's water based, solvent-free extraction process provides a cost of manufacturing advantage and enables TPI to compete with more established producers in the manufacture and sale of NRMs to the global market.

Optimising the raw material sourcing, including geographical diversification, introduction of improved poppy varieties, and implementing a flexible grower business model, continues to be a key strategic strength of the Group. During the 2016 and 2017 harvest seasons TPI sourced opium poppies from crops in Victoria and Tasmania, and expects NSW and South Australian crops to be planted in 2017 for harvest in 2018, increasing irrigated land available to TPI 20 fold. In addition, TPI now has all licenses and permits required to import poppy straw from approved jurisdictions including Turkey, Hungary and Portugal. This combination of multiple Australian state production and northern hemisphere sourcing has multiple benefits for the Group, including:

- availability of year round supply of raw materials at market-based prices
- reduced need to be directly involved in growing poppy, and all its attendant risks
- reduced working capital needs as raw material purchasing is spread more evenly throughout the year

TPI now plans to increase its available market by expanding into the active pharmaceutical ingredient (API) sector and other controlled drugs. This expansion will be made possible as the majority of the cost of the API is the NRM input. TPI´s technology and low administrative cost base will allow the Group to compete in both the NRM and API sectors, with TPI having secured an initial toll manufacturing agreement with Sterling Pharma.

Material business risks:

The Group is subject to a number of risks. The Board regularly reviews the possible impact of these risks and seeks to minimise this impact through a commitment to its corporate governance principles and risk management function. However, not all risks are manageable or within the control of the Group. The key business risks faced by the Group that are likely to have an effect on its future prospects include:

1. Government licences

TPI is required to obtain licences and permits across many jurisdictions. The majority of the licences are renewed either annually or biannually. There is a risk that laws or regulations may be amended in Australia or elsewhere in a manner that restricts TPI´s markets for saleable product and for raw material supply. Any such change may affect the ability of TPI to carry on its business and may have a material impact on TPI´s financial performance and future prospects of the business.

2. Sovereign risk

The narcotics industry in which TPI operates is highly regulated. Changes, whether as a result of changes in government or otherwise, in international, national or state conventions, laws or regulations relating to the growing, manufacture, export or sale of narcotic raw materials could materially impact TPI's ability to operate. This may adversely affect TPI's financial performance and future prospects. The Therapeutic Goods Administration's Advisory Committee on Medicines Scheduling is currently considering making approximately 150 codeine products prescription only medicine. It is unclear whether or to what extent this change will occur and if it does, whether this will have a material effect on the supply of NRM. This would bring Australia in line with the pharmaceutical regimes currently existing in the US and Europe.

3. Change in regulation to limit supply into the US and other markets

The US government has, from time to time, restricted the quota issued for importation of NRMs in response to the abuse of prescription medication. This restriction on quota could limit the opportunities for expansion in the US market. Other countries may take a similar view and/or change the scheduling and/or availability of pain relief medication. Such changes or quota restrictions may have a material impact on TPI's ability to operate and may impact the financial performance and future prospects of the business.

4. Poppy seed purity

Some countries, including the Czech Republic, are lobbying the EU to decrease the residual poppy straw dust (morphine content) in poppy seed. This would restrict the importation of poppy seed from high alkaloid countries, such as Australia and Spain. Should the EU accede to these demands the cost of purifying poppy seed could materially change. This may have a material impact on TPI's ability to compete and may impact the financial performance and future prospects of the business.

5. Subsidisation of competing crops

Some countries (including the European Union) currently grant subsidies for certain crops. Should existing subsidies increase or new subsidies be introduced by relevant countries (including the European Union) for crops that compete with opium poppies for returns, this may have a material impact on TPI's ability to obtain raw material at a commercially viable price. This would impact TPI's ability to compete and may impact the financial performance and future prospects of the business.

6. Agricultural risk

TPI's supply of poppy straw is subject to risks commensurate with any agricultural enterprise. A number of factors may adversely affect both supply volume and alkaloid content. The most common adverse environmental conditions that could affect the poppy crops are flood, frosts, hail, wind, storms, fires and excessive heat and/or rain during critical physiological periods. TPI is seeking to manage agricultural risk through the diversification of supply, however poor poppy crops may have a detrimental impact on TPI's operational and financial performance, including reputational risk associated with failing to deliver on key supply contracts.

7. Competition

TPI competes against both State owned enterprises and large multinationals. Both have a capacity to operate at a loss or compete aggressively for market share for a longer period than TPI. This may place pricing pressure on TPI and may impact TPI's ability to retain existing customers or attract new customers. If TPI cannot compete successfully, TPI's financial performance and the future prospects of the business may be adversely affected.

Material business risks (Cont.):

8. Introduction of competing products
Companies are continually exploring new products which provide pain relief and may not exhibit side effects related to the use of opiate based pain relief (such as respiratory depression and/or addiction). An introduction of a non-narcotic opiate without adverse side effects could have a material impact on TPI's ability to compete and may impact the financial performance and future prospects of the business.

9. Loss of key personnel
The manufacturers in the licit NRM sector and API sector are relatively small in number and, as a consequence, the number of people skilled in the industry is lower than other pharmaceutical sectors. TPI is currently operating as a relatively flat organisation and is reliant on a few key staff.

TPI operates across two countries and has facilities in three jurisdictions. Management of a complex business that operates globally has a higher employee risk/complexity than a business which operates in one jurisdiction. Loss of a few key personnel could have a material impact on TPI´s operations and may impact the financial performance and future prospects of the business.

10. Diversion of material
TPI employs state of the art security and has a highly regulated and monitored security system at its facilities. Despite this, any diversion (theft or illicit use) of material during manufacture, storage or freight could result in a loss of an operating licence or substantial fine and/or reputational damage. This may have a material impact on TPI's ability to compete and may impact the financial performance and future prospects of the business.
.
11. IP protection
TPI´s low cost water based, solvent-free extraction process is not protected by patents but rather by confidentiality agreements. TPI protects its intellectual property based on a trade secret approach. This may result in a competitor developing a similar low cost extraction process which would compete with TPI´s main competitive strengths. Any new competitor with similar intellectual property may have a material impact on TPI's competitive position and may impact TPI's financial performance and future prospects.

12. Foreign exchange
TPI sells NRM in US dollars and poppy seed in Euros. It buys its raw material (opium poppies) predominantly in Australian dollars and Euros. Any adverse change in currency could have a material impact on TPI´s financial performance and future prospects of the business.

13. Poppy seed price volatility
Poppy seed is a commodity based product the price of which varies in response to supply and demand. The revenue derived from poppy seed contributes to a proportion of offset in the cost of the raw material and hence contributes a material amount to TPI's revenue and profit. The poppy seed market can be volatile and pricing can change rapidly. This volatility, in combination with €/AUD foreign exchange changes, could have a material impact on TPI's ability to compete and may impact the financial performance and future prospects of the business.

14. Sensitisation
Licit NRMs are by their nature toxic. If used inappropriately they can lead to death, and excessive exposure can lead to long term sensitisation, which can result in employee or other claims. Any claims may be costly and may impact TPI's ability to manufacture and the financial performance and future prospects of the business.

Significant changes in state of affairs

There were no significant changes to the state of affairs of TPI Enterprises Limited and its controlled entities during the year.

Likely developments and expected results of operations

TPI is targeting annual production of 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 TPI´s Portugal facility and its toll manufacturing agreement with Sterling Pharma to produce Codeine Phosphate for the UK market.

As at the date of this report the Group had received:
- the final licence from the Portuguese authorities (IAPMEI) to start construction of a 150 tonne multi-purpose Active Pharmaceutical Ingredient (API) manufacturing facility at TPI´s facility located at Lisbon, Portugal. The Group can now progress plans for this work, with a target for supply of commercial batches in the second half of 2018.
- an import permit from the UK Home Office to ship Narcotic Raw Material (NRM) to Sterling Pharma for conversion to Codeine Phosphate as part of TPI´s toll processing agreement.

Both of these regulatory achievements are central to TPI´s strategy of API expansion into the UK, Europe and other open markets including Australia.

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

DIRECTORS' REPORT

Events since the end of the financial year

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

- On 23 March 2017 TPI announced a fully underwritten Capital Raising to raise $44.2 million (before costs of the offer). The Capital Raising is being offered at $2.20 per share, and is comprised of an Institutional Placement to raise approximately $20.92 million and an accelerated pro-rata non-renounceable entitlement offer to raise approximately $23.24 million. Refer to Note 27 for more details.

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected or may significantly affect:

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

Dividends

No dividends were paid or declared during the course of the financial year, and no dividends have been recommended in respect to the financial year ended 31 December 2016.

Environmental regulation

The Group's operations are subject to environmental regulation under both Commonwealth and State legislation and the board is not aware of any significant breaches during the period covered by this report.

Indemnification and insurance of officers and auditors

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

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

Meetings of directors

The number of meetings of the Company's Directors (including committee meetings of Directors) held during the year ended 31 December 2016 and the numbers of meetings attended by each Director were:

Director	*Board of Directors*		*Human Capital Committee*		*Audit & Risk Committee*	
	Held and Eligible to Attend	*Attended*	*Held and Eligible to Attend*	*Attended*	*Held and Eligible to Attend*	*Attended*
Peter Robinson[1]	12	12	1	3	1	3
Jarrod Ritchie[2]	12	12	-	3	-	3
Todd Barlow	12	12	3	3	3	3
Simon Moore[3]	7	7	2	2	2	2
Stuart Black[4]	7	7	2	2	2	2

1. Following the appointment of new directors during the year, Peter Robinson resigned from the Human Capital Committee and the Audit & Risk Committee, but attended these meetings on invitation.
2. Jarrod Ritchie was not a member of the Human Capital Committee or the Audit & Risk Committee, but attended these meetings on invitation.
3. Simon Moore was appointed as a director on 1 June 2016.
4. Stuart Black was appointed as a director on 7 June 2016.

Proceedings on behalf of the Company

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

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

DIRECTORS' REPORT

Information on directors and key management personnel in office during or since the end of the financial year and to the date of this report

Name and Position	Qualifications and Experience	Shares held in TPI Enterprises Ltd
Non-Executive Chairman Peter Robinson BCom, FAICD	Peter Robinson joined Washington H Soul Pattinson and Company Limited (WHSP) in 1978 and retired as Executive Director of this diversified investment Company at the end of March 2015. He joined the WHSP board in 1984 and has over 30 years' experience as a public Company director. As the Executive Director of WHSP, Peter had the responsibility of managing a diverse range of investments in various industry segments including pharmaceuticals, coal mining, telecommunications, building supplies, nutraceuticals, copper and gold production and property development. Peter is currently the Non-Executive Chairman of Australian Pharmaceutical Industries Limited and the Non-Executive Chairman of Clover Corporation Limited. Former listed company directorships within past three years: - Non-Executive director of New Hope Corporation Limited (appointed 1997, resigned 2015) Director of TPI Enterprises Limited since 1 February 2013, appointed Chairman 18 June 2015.	84,900
Managing Director and Chief Executive Officer Jarrod Ritchie BSc (Hons)	Jarrod Ritchie has over 20 years' experience in the opiates industry. He has led TPI from its inception as a start-up to its current position as Australia's third licensed poppy processor with a strong international reputation. Jarrod has led new research in the opiates industry including TPI's unique, environmentally-sustainable, solvent-free manufacturing process. He has also led the successful trialling of a new thebaine-rich variety of poppy; the introduction of commercial crops to Victoria; the trialling of poppy crops in the Northern Territory; and the expansion of TPI's global operations to Portugal. Director of TPI Enterprises Limited since 5 February 2004.	3,100,407
Non-Executive Director Todd Barlow B.Bus/LLB (Hons)	Todd Barlow is the Managing Director and CEO of Washington H. Soul Pattinson and Company Limited and a Non-Executive Director of ASX listed New Hope Corporation Limited. Before joining Washington H. Soul Pattinson, he was Managing Director of Pitt Capital Partners Limited, a Sydney based corporate advisory firm. He continues to serve as a non-executive director of Pitt Capital Partners Limited as well as a number of unlisted entities. Between 2005 and 2008 Todd was based in Hong Kong, and provided advice on cross-border transactions between Asia and Australia. He previously practiced as a lawyer, specialising in corporate law and mergers and acquisitions. Former listed company directorships within past three years: - Non-Executive Director of PM Capital Asian Opportunities Fund Limited (appointed 2014, resigned 2017) Director of TPI Enterprises Limited since 18 June 2015. Todd is a member of the Human Capital Committee and the Audit & Risk Committee.	Nil
Independent Non-Executive Director Simon Moore B.Com/LLB (Hons)	Simon Moore is currently a Non-Executive Director of Coates Hire, a Non-Executive Director of ASX-listed Megaport, a Non-Executive Director of ASX-listed Firstwave Cloud Technology Limited, a Non-Executive Director of Mexican fast casual restaurant chain Guzman Y Gomez and a Non-Executive Director of venture capital firm, OneVentures. Prior to joining Carlyle, Simon was a Managing Director and Investment Committee Member of Investcorp International, Inc. based in New York. Prior to that he worked in private equity investments and investment banking at J.P. Morgan & Co. in New York, Hong Kong and Melbourne. Simon's personal investments include significant pastoral holdings and investments in a number of agricultural enterprises. Former listed company directorships within past three years: - Non-Executive Director of Healthscope Limited (appointed 2010, resigned 2015) - alternate Non-Executive Director of Qube Holdings Limited (appointed 2011, resigned 2016) Director of TPI Enterprises Limited since 1 June 2016. Simon is Chair of the Human Capital Committee and a member of the Audit & Risk Committee.	1,416,310

DIRECTORS' REPORT

Name and Position	Qualifications and Experience	Shares held in TPI Enterprises Ltd
Independent Non-Executive Director Stuart Black AM FCA, FAICD, BA (Accounting)	Stuart Black is a Chartered Accountant with extensive experience in agribusiness. He retired in 2013 as managing partner of a practice specialising in agribusiness. Stuart is a current non-executive director of Australian Agricultural Company Limited, NetComm Wireless Limited, and a Past President of the Institute of Chartered Accountants of Australia. He was the inaugural Chair and a past board member of the Accounting Professional and Ethical Standards Board and served as the Australian representative on the International Federation of Accountants SMP Committee. Stuart is Chair of the Chartered Accountants Benevolent Fund Limited and a Director of the Country Education Foundation of Australia Limited. In 2012 Stuart was appointed a Member of the Order of Australia for services to the profession of accounting, to ethical standards, as a contributor to professional organisations and to the community. Former listed company directorships within past three years: - Non-Executive Director of Coffey International Limited (appointed 2002, resigned 2014) Director of TPI Enterprises Limited since 7 June 2016. Stuart is Chair of the Audit & Risk Committee, and a member of the Human Capital Committee.	Nil
Former CFO and Company Secretary Roger McPherson CPA, GAICD	Roger McPherson has more than 25 years' experience in senior finance roles in a wide variety of industries. His early career included working with a Chartered Accounting practice and two years with the Australian Taxation Office. Before joining TPI, Roger was the Chief Operating Officer (incorporating CFO and Company Secretary) at Patrys Limited. Roger has over 18 years of biotechnology and pharmaceutical experience. Company Secretary of TPI Enterprises Limited from 5 October 2015 to 28 October 2016.	N/A

DIRECTORS' REPORT

REMUNERATION REPORT (Audited)

The remuneration report is set out under the following main headings:
A. Key management personnel
B. Remuneration governance
C. Principals used to determine the nature and amount of remuneration
D. Details of remuneration
E. Service Agreements

A) Key management personnel (KMP)

Founded in 2004, TPI is one of the world's eight licensed suppliers of licit narcotics (specifically morphine, oripavine, codeine and thebaine) to the global pharmaceutical sector. TPI spent more than 10 years developing its water based, solvent-free extraction process while acquiring multiple international, national, state and territory licenses. Throughout this period the CEO and the Board set the strategy and direction of the company. The company has developed a flat reporting structure, with 10 direct reports to the CEO forming the executive management team. In addition to the CEO, the Chief Financial Officer (CFO) is the only member of the executive management team the Board has designated a KMP, with the combined CFO/Company Secretary role responsible for guiding and directing financial strategy, in conjunction with the Board and CEO. The key management personnel are as follows:

(a) Directors

(i) Non-Executive Chairman

Mr. Peter Robinson

(ii) Managing Director and Chief Executive Officer

Mr. Jarrod Ritchie

(iii) Non-Executive Directors

Mr. Todd Barlow
Mr. Simon Moore (appointed 1 June 2016)
Mr. Stuart Black (appointed 7 June 2016)

(b) Executives

The following people were the executives with the greatest authority for the strategic direction and management of the group ("other key management personnel") during the financial period:

Mr. Roger McPherson   Chief Financial Officer and Company Secretary (resigned 28 October 2016)

B) Remuneration governance

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

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

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

C) Principles used to determine the nature and amount of remuneration

The Company's goal is to engage and promote excellence at Board level, in staff members and partner organisations. The Company looks to engage the services of individuals and organisations with the experience necessary to assist the Company in meeting its strategic objectives. The Board of Directors has determined that recurring costs associated with full time employment should be held to a minimum wherever possible whilst maintaining a high level of competency in core skills in clinical and regulatory management.

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

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

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

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

In order to implement the LTI scheme, TPI intends to establish an Employee Share Ownership Plan (ESOP) to assist in the motivation, retention and reward of executives and employees and align the interests of the employees with the interests of Shareholders. Full time or part time employees, contractors, and executive or non-executive directors of TPI or any of its subsidiaries will be eligible to participate in the ESOP. The Executive and Non-Executive Directors of TPI will require approval from TPI's shareholders prior to being permitted to participate in the ESOP.

During the year the Board engaged Guerdon Associates Pty Ltd (**Guerdon**) as remuneration consultants to assist the Board with a review of the salary package of the CEO. Guerdon provided the Company with a report on CEO remuneration in the broader market, but did not provide any remuneration recommendations as part of the services provided. The Company paid $8,722 for these services.

(a) Non-Executive Directors' fees

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

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

(b) Executive pay

The executive pay and reward framework has three components:

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

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

(i) Base pay and benefits

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

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

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

(ii) Short term incentives (STI)

It is envisaged that STI payable to executives will be based upon the attainment of agreed corporate and individual milestones and reviewed and approved by the Board of Directors. STIs are expected to be payable in cash.

(iii) Long term incentives (LTI)

Executives will be issued with equity instruments as LTIs in a manner that aligns this element of remuneration with the creation of shareholder wealth. LTI grants will be made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the creation of shareholder wealth. The Board of Directors did not issue any equity instruments to Executives during the year ended 31 December 2016 (2015: nil).

(iv) Relationship between remuneration policy and company performance

Equity instruments and STI may be issued to new and existing employees, subject to performance review based on performance of the individual and/or the Company in absolute terms. Equity instruments issued for performance will be subject to performance targets set and recommended by the Human Capital Committee and approved by the Board.

The Company's remuneration policy seeks to reward staff members for their contribution to achieving significant operational, strategic, partnering, preclinical, clinical and regulatory milestones. Achievement of milestones selected will build sustainable and long term shareholder value. In considering the Group's performance and benefits for shareholder value, the Human Capital Committee have regard to the following indices in respect of the current financial year and the previous four financial years.

	2016	2015	2014	2013	2012
Revenue	10,556,449	3,679,063	8,390,395	15,487,945	9,683,256
Net profit/(loss) after tax	(14,020,835)	(25,899,838)	(14,443,973)	(6,794,656)	(12,362,789)
Closing share price	$2.91	$3.90	N/A	N/A	N/A
Price increase/(decrease) $	(0.99)	N/A	N/A	N/A	N/A
Price increase/(decrease) %	(25.38%)	N/A	N/A	N/A	N/A
Earnings per share (cents)	(26.96)	(52.07)	(33.30)	(17.79)	(39.47)

D) Details of remuneration

Year ended 31 December 2016

Details of the remuneration of each Director of TPI and the key management personnel (KMP) of the Group are set out in the following table for the year ended 31 December 2016.

2016	Short-term employee benefits		Post employment benefits		Equity-based payments		
Name	Cash salary & fees	Non-monetary benefits	Super-annuation	Termination Payments	Shares & Options	% of Total Remuneration	Total
	$	$	$	$	$		$
Executive Directors							
Jarrod Ritchie	770,000	-	30,000	-	-	-	800,000
Subtotal Executive Directors	*770,000*	-	*30,000*	-	-	-	*800,000*
Non-Executive Directors							
Peter Robinson	120,000	-	11,400	-	-	-	131,400
Todd Barlow	70,000	-	6,650	-	-	-	76,650
Simon Moore[1]	38,769	-	3,683	-	-	-	42,452
Stuart Black[2]	43,077	-	4,092	-	-	-	47,169
Subtotal Non-Executive Directors	*271,846*	-	*25,825*	-	-	-	*297,671*
Total Directors	*1,041,846*	-	*55,825*	-	-	-	*1,097,671*
Other KMP							
Roger McPherson[3]	247,128	-	29,781	-	-	-	276,909
Total Other KMP	*247,128*	-	*29,781*	-	-	-	*276,909*
Total	**1,288,974**	**-**	**85,606**	**-**	**-**	**-**	**1,374,580**

1. Simon Moore was appointed as a Non-Executive Director on 1 June 2016.
2. Stuart Black was appointed as a Non-Executive Director on 7 June 2016.
3. Roger McPherson resigned on 28 October 2016.

Year ended 31 December 2015

Details of the remuneration of each Director of TPI and the key management personnel (KMP) of the Group are set out in the following table for the year ended 31 December 2015.

2015	Short-term employee benefits		Post employment benefits		Equity-based payments		
Name	Cash salary & fees	Non-monetary benefits[4]	Super-annuation	Termination Payments	Shares & Options	% of Total Remuneration	Total
	$	$	$	$	$		$
Executive Directors							
Jarrod Ritchie	568,750	80,211	27,083	-	-	-	676,044
Subtotal Executive Directors	*568,750*	*80,211*	*27,083*	-	-	-	*676,044*
Non-Executive Directors							
Peter Robinson	76,697	-	7,286	-	-	-	83,983
Todd Barlow[1]	33,323	-	3,166	-	-	-	36,489
Ross Dobinson[2]	93,939	-	-	-	-	-	93,939
Subtotal Non-Executive Directors	*203,959*	-	*10,452*	-	-	-	*214,411*
Total Directors	*772,709*	*80,211*	*37,535*	-	-	-	*890,455*
Other KMP							
Roger McPherson[3]	55,096	-	8,750	-	-	-	63,846
Total Other KMP	*55,096*	-	*8,750*	-	-	-	*63,846*
Total	**827,805**	**80,211**	**46,285**	**-**	**-**	**-**	**954,301**

1. Todd Barlow was appointed as a Non-Executive Director on 18 June 2015.
2. Ross Dobinson retired on 18 June 2015.
3. Roger McPherson was appointed on 5 October 2015.
4. Non-monetary benefits relate to accommodation, transport, school fees and other associated expenses paid whilst Mr Ritchie and his family were temporarily relocated to Portugal for the establishment of activities in that jurisdiction.

Performance related remuneration for year ended 31 December 2016

During the year ended 31 December 2016 (2015: Nil) there was no performance related remuneration paid to the KMP.

E) Service agreements

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

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

Peter Robinson, Non-Executive Chairman
- Term of Agreement – Commencing from 21 July 2015.
- Director's fee – $120,000 plus statutory superannuation per annum to be reviewed independently and annually by the Board of Directors.
- Termination – No terms have been agreed.
- Bonus – Nil.
- Equity - Nil

Jarrod Ritchie, Managing Director and Chief Executive Officer
- Term of Agreement – Commencing from 21 July 2015 and ongoing unless terminated in accordance with its terms.
- Base Remuneration – $800,000 per annum, subject to annual increases at the discretion of the Board of Directors. No increase was awarded in 2016.
- Termination – By twelve months' notice from either side.
- Bonus – At the discretion of the Board of Directors.
- Equity – The Director shall be entitled to participate in the Employee Share Ownership Plan of the Company.

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

Simon Moore, Non-Executive Director
- Term of Agreement – Commencing from 1 June 2016.
- Director's Fees - $70,000 plus statutory superannuation per annum to be reviewed independently and annually by the Board of Directors.
- Termination – No terms have been agreed.
- Bonus – Nil.
- Equity – Nil.

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

Roger McPherson, Chief Financial Officer and Company Secretary (resigned effective 28 October 2016)
- Term of Agreement – Commencing from 5 October 2015 and ongoing unless terminated in accordance with its terms.
- Base Remuneration – $300,000 per annum, subject to annual increases at the discretion of the Board of Directors.
- Termination – By three months' notice from either side.
- Bonus – At the discretion of the Board of Directors.
- Equity – The Executive shall be entitled to participate in the Employee Share Ownership Plan of the Company.

END OF REMUNERATION REPORT (Audited)

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amount paid or payable to the auditor (KPMG) for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit & Risk Committee, is satisfied that the provision of the non-audit services by KPMG is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the Audit & Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor.

- None of the services undermine the general principles relating to auditor independence as set out in Professional Statement APES 110, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

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

	Consolidated	
	2016	*2015*
	$	*$*
Audit services		
Audit and review of financial reports and other audit work under the Corporations Act 2001	112,000	132,000
Audit and review of financial reports and other audit work for Portugal subsidiaries	23,052	18,437
Total auditor remuneration for audit services	*135,052*	*150,437*
Other advisory services		
Transaction due diligence services	95,000	-
Advice on taxation and other matters and review and lodgement of corporate tax returns – Portugal subsidiaries	4,581	47,094
Total auditor remuneration	**234,633**	**197,531**

No officers were previously partners of the audit firm KPMG.

Auditor's Independence Declaration

The Lead auditor's independence declaration is set out on page 15 and forms part of the Directors' Report for the financial year ended 31 December 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
Chairman

Date: 31 March 2017

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

To the Directors of TPI Enterprises Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2016 there have been:

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

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

KPMG

Tony Batsakis
Partner

Melbourne

31 March 2017

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

CORPORATE GOVERNANCE

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

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

The Corporate Governance Statement contains certain specific information and discloses the extent to which the Company has followed the Council's principles during the 2016 financial year.

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

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

TPI ENTERPRISES LTD
ACN 107 872 453
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 $	2015 $
Revenue			
Sale of goods		7,614,801	2,064,578
Other income		2,941,648	1,614,485
	5(a)	**10,556,449**	**3,679,063**
Expenses			
Raw materials, finished goods, consumables and other production expenses		(5,674,184)	(1,074,366)
Employee benefits (production) expenses	5(b)	(1,265,537)	(508,631)
Impairment of inventory and biological assets to net realisable value		(469,437)	(951,048)
Impairment of other assets	5(b)	-	(7,127,013)
Agricultural area trialling costs		(267,114)	(2,237,456)
Employee benefits (non-production) expenses	5(b)	(5,019,261)	(5,492,256)
Depreciation and amortisation expense	5(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)**
Loss from operating activities		**(11,243,166)**	**(25,120,576)**
Finance income		23,812	415,082
Finance expenses		(2,801,481)	(1,194,344)
Net finance expenses	5(c)	**(2,777,669)**	**(779,262)**
Loss before tax		**(14,020,835)**	**(25,899,838)**
Income tax benefit	6	-	-
Loss for the year		**(14,020,835)**	**(25,899,838)**
Other comprehensive income			
Items that are or may be classified to profit or loss:			
Exchange differences on translating foreign operations		125,213	(112,386)
Total comprehensive loss for the year		**(13,895,622)**	**(26,012,224)**
Earnings per share:			
Basic loss per share - from continuing operations	7	(26.96¢)	(52.07¢)
Diluted loss per share - from continuing operations	7	(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
ACN 107 872 453
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	2016 $	2015 $
Current assets			
Cash and cash equivalents	8	622,548	568,002
Trade and other receivables	9	4,128,247	1,368,435
Inventories	10	6,807,992	7,722,656
Biological assets	11	877,042	932,958
Prepayments		279,981	204,481
Total current assets		**12,715,810**	**10,796,532**
Non-current assets			
Property, plant and equipment	12	28,234,972	28,628,592
Investments	13	103,219	100,673
Intangible assets	14	1,924,634	2,003,745
Other assets		256,945	-
Total non-current assets		**30,519,770**	**30,733,010**
Total assets		**43,235,580**	**41,529,542**
Current liabilities			
Trade and other payables	15	3,397,074	5,258,406
Loans and borrowings	16	821,298	144,697
Deferred income		-	778,059
Employee benefits	17	770,416	622,743
Total current liabilities		**4,988,788**	**6,803,905**
Non-current liabilities			
Loans and borrowings	16	27,251,831	13,871,552
Employee benefits	17	274,719	226,472
Total non-current liabilities		**27,526,550**	**14,098,024**
Total liabilities		**32,515,338**	**20,901,929**
Net assets		**10,720,242**	**20,627,613**
Equity			
Issued capital	18	122,178,914	118,190,663
Reserves	19	1,934,756	1,809,543
Accumulated losses		(113,393,428)	(99,372,593)
Total equity		**10,720,242**	**20,627,613**

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

TPI ENTERPRISES LTD
ACN 107 872 453
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Fully paid ordinary shares	Foreign currency translation reserve	Other reserves	Accumulated losses	Total
		$	$	$	$	$
2015						
At 1 January 2015		**83,151,883**	**-**	**1,921,929**	**(73,472,755)**	**11,601,057**
Loss for the year		-	-	-	(25,899,838)	(25,899,838)
Other comprehensive income		-	(112,386)	-	-	(112,386)
Total comprehensive (loss) for the year		-	(112,386)	-	(25,899,838)	(26,012,224)
Transactions with owners in their capacity as owners:						
Conversion of shareholder loan to equity	18	7,077,500	-	-	-	7,077,500
Issue of share capital	18	27,961,280	-	-	-	27,961,280
At 31 December 2015		**118,190,663**	**(112,386)**	**1,921,929**	**(99,372,593)**	**20,627,613**
2016						
At 1 January 2016		**118,190,663**	**(112,386)**	**1,921,929**	**(99,372,593)**	**20,627,613**
Loss for the year		-	-	-	(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)
Transactions with owners in their capacity as owners:						
Issue of share capital	18	3,988,251	-	-	-	3,988,251
At 31 December 2016		**122,178,914**	**12,827**	**1,921,929**	**(113,393,428)**	**10,720,242**

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

TPI ENTERPRISES LTD
ACN 107 872 453
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 $	2015 $
Cash flows from operating activities			
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
Cash used in operating activities		(11,500,955)	(14,234,832)
Interest received		20,076	101,098
Finance costs paid		(2,334,408)	(1,384,373)
Net cash used in operating activities	20	**(13,815,287)**	**(15,518,107)**
Cash flows from investing activities			
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
Net cash used in investing activities		**(3,734,087)**	**(7,828,882)**
Cash flows from financing activities			
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)
Net cash provided by financing activities		**18,045,130**	**23,178,788**
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[1]		311,057	565,901
Cash and cash equivalents at end of year	8	**622,548**	**568,002**

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.

NOTE 1: REPORTING ENTITY

The financial report covers TPI Enterprises Ltd ("TPI" or "Company"), as a consolidated entity consisting of TPI and the entities it controlled at the end of or during the year ("Group").

TPI is a listed public company limited by shares (ASX: TPE), incorporated and domiciled in Australia. The Company's registered office is at Level 1, 333 Collins Street, Melbourne VIC 3000.

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. The Group is a for-profit entity.

The financial report was authorised for issue by the Board of Directors of TPI on the date shown on the Declaration by Directors attached to the Financial Statements.

NOTE 2: BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) 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 12 and 14 – impairment test: key assumptions underlying recoverable amounts of property, plant and equipment and intangible assets.

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

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

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

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

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

(e) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of TPI as at 31 December 2016 and the results of all subsidiaries for the year then ended.

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

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

(f) Parent entity financial information

The financial information for the parent entity, TPI Enterprises Limited, disclosed in Note 26, has been prepared on the same basis as the consolidated financial statements, except for investments in subsidiaries. Investments in subsidiaries are accounted for at cost in the financial statements of TPI Enterprises Limited.

(g) Going concern

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

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

- In March 2017 TPI raised $44.2 million from a combined placement and entitlement offer to new investors and existing shareholders (refer to Note 27). As at the date of this report TPI had received $30.33 million and is well capitalised, and the Directors have confidence that the recent equity raise and available debt facilities will meet the Group’s immediate capital requirements.
- The Directors are also confident in the continuing support from existing shareholders and the Group’s ability to attract new investors and debt providers if needed to fund future capital requirements.
- 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 $13,815,287 (2015: $15,518,107). The benefits derived from the ramp up of production in Victoria and the continued expansion of the group’s raw material supply chain were restricted as a prolonged approval process from European regulators delayed the expected increase in sales during the year.
- As at 31 December 2016 the Group’s current assets exceeded its current liabilities by $7,727,022 (31 December 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 2017 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.
- The Directors have confidence with the business plans, cash flow and profit and loss forecasts prepared by management to achieve its 2017 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 as the new facility is validated by existing and potential customers;
  - access to a more definite supply of raw material through geographic diversification, enabling the Group to increase raw material volumes and accordingly production volumes in order to achieve profitable operations. This includes the growing of raw material in more Australian states and territories as well as in Portugal, and the importation of raw material from other regulated countries;
  - increasing factory production capacity in its Victorian facility;
  - the expansion of the Group’s product range and customer base; and
  - the continued realisation of the cost optimisation programs at the Victorian manufacturing facility.
- To help facilitate the Group’s current 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”). As at the date of this report the facility has a limit of $25,000,000 and expires on 31 March 2018 (refer Note 16 for terms of the facility). The Directors acknowledge that the facility expires approximately 12 months after the signing date of the financial statements, and that prima facie an apparent refinancing risk exists at 31 March 2018 if the facility is not repaid out of funds secured from an alternative source of debt or raised from the issue of additional equity. Following the capital raising in March 2017, the facility will be repaid to a maximum commitment of $12 million.

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

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Foreign currency

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

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

Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income as either finance income or finance expenses (see Note 3(n)).

Foreign operations

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

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

(b) Financial instruments

Non-derivative financial assets

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

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

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses (see Note 3(i)).

Financial assets at fair value through profit or loss

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

Cash and cash equivalents

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

Non-derivative financial liabilities

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

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

Compound financial instruments

Compound financial instruments issued by the Group comprise convertible debt that can be converted to share capital at the option of the holder and the number of shares to be issued is fixed.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONT.)

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option using a market interest rate. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest related to the financial liability is recognised in profit or loss. On conversion the financial liability is reclassified to equity and no gain or loss is recognised.

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

(c) Biological assets
Biological assets primarily comprise poppy crops planted by the Group which have yet to be harvested, and are recorded at cost. Crops are not measured at fair value, reflecting the absence of an active market.

Certain types of plants are expected to provide crop yields in more than one season or reporting period. In these cases, the cost of planting and establishment of the plants is amortised on a straight line basis over the expected productive life of the plants.

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

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

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

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

(f) Property, plant and equipment
Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

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

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

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

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

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

- buildings 40 years
- farming plant and equipment 5 – 20 years
- manufacturing plant and equipment 3 – 25 years
- motor vehicles 8 years
- office equipment 2 – 7 years

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

(g) Investments

Details of shares in controlled entities are disclosed at Note 25(a). Controlled entities are accounted for in the consolidated accounts as set out in the Note 2(e).

(h) Intangible assets

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

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

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

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

Intangible assets not amortised are subject to annual impairment testing.

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

Amortisation
Intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use.

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

- patents and trademarks 3 – 5 years
- capitalised development costs 2 – 5 years

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

(i) Impairment

Non-derivative financial assets
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is considered impaired if there is objective evidence that one or more loss events have occurred after the initial recognition of the asset, and that the loss event(s) have had a negative impact on the estimated future cash flows of that asset that can be measured reliably.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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

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

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

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

(j) Employee benefits

Defined contribution plans
A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

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

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

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

(k) Provisions

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

(l) Leases

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

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

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

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

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

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

(m) Revenue

Goods sold
Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. For sales of alkaloid and seed products, transfer usually occurs when the product is received at the customer's warehouse. Where cash consideration has been received but revenue recognition criteria have not been met, such amounts have been recorded on the statement of financial position as deferred income.

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

(n) Finance income and finance expenses

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

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

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

(o) Tax

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

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

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

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

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

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

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

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

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

(p) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Taxation Authority is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(q) New accounting standards for application in future periods

A number of new standards and amendments to standards that are potentially applicable to the Group are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the Group has not early adopted the following new or amended applicable standards in preparing these consolidated financial statements.

IFRS 9 Financial Instruments, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

IFRS 15 Revenue Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

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

(r) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year. Refer to Note 7 for further details.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. Refer to Note 7 for further details.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(s) Operating segments

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

(t) Comparative figures

Certain comparative amounts in the financial statements have been reclassified to conform with the current year's financial statement presentation. The key changes include:

Consolidated statement of profit or loss and other comprehensive income

During the period, the analysis of expenses has changed to provide further detail, as the Group considers that this change provides information that is more reliable and relevant.

NOTE 4: SEGMENT INFORMATION

The Group operates through one segment to supply narcotic raw materials (predominately morphine and thebaine) to the active pharmaceutical ingredient sector.

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

Geographic information

The Group has facilities and operations in Australia and Portugal.

In presenting the geographic information, segment revenue is based on the geographic location of customers and segment assets are based on the geographic location of the assets.

	2016 $	2015 $
Revenue		
Europe	5,953,407	1,868,912
Other regions	1,661,394	195,666
	7,614,801	**2,064,578**
Non-current assets		
Australia	27,503,281	27,750,876
Europe	3,016,489	2,982,134
	30,519,770	**30,733,010**

NOTE 5: REVENUE AND EXPENSES FROM CONTINUING OPERATIONS

	2016 $	2015 $
(a) Revenue		
Sale of goods	7,614,801	2,064,578
Government grants	1,904,748	1,415,119
Other	1,036,900	199,366
Total revenue from continuing operations	**10,556,449**	**3,679,063**
(b) Expenses		
Employee benefits (non-production) expenses:		
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 in liability for annual leave	166,580	165,349
Total employee benefits (non-production) expenses	**5,019,261**	**5,492,256**

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 other comprehensive income.

NOTE 5: REVENUE AND EXPENSES FROM CONTINUING OPERATIONS (CONT.)

	2016 $	2015 $
Depreciation expense		
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
Total depreciation expense	**2,326,600**	**2,151,836**
Amortisation expense		
Patents	27,916	298,017
Development costs	504,468	1,106,443
Total amortisation expense	**532,384**	**1,404,460**
Total depreciation and amortisation expense	**2,858,984**	**3,556,296**
Impairment loss on write down of assets to recoverable amount		
Land and buildings	-	4,088,512
Development costs	-	190,799
Manufacturing plant and equipment	-	2,847,702
Total impairment of other assets	**-**	**7,127,013**

(c) Finance income and expenses

	2016 $	2015 $
Interest income	23,812	101,098
Net foreign exchange	-	313,984
Finance income	**23,812**	**415,082**
Interest expense on financial liabilities measured at amortised cost	(2,501,086)	(1,194,344)
Net foreign exchange	(300,395)	-
Finance expenses	**(2,801,481)**	**(1,194,344)**
Net finance expenses recognised in profit or loss	**(2,777,669)**	**(779,262)**

NOTE 6: INCOME TAXES

	2016 $	2015 $
Tax recognises in profit or loss		
Income tax benefit		
Current year	-	-
Deferred tax benefit		
Current year	-	-
Total tax benefit	**-**	**-**
The prima facie income tax expense on the loss from continuing operations before tax reconciles to the income tax expense in the financial statements as follows:		
Loss from continuing operations before tax	(14,020,835)	(25,899,838)
Income tax calculated at 30%	(4,206,250)	(7,769,951)
Effect of different tax rates of subsidiaries operating in other jurisdictions	46,420	162,196
Deferred tax assets not brought into account	4,159,830	7,607,755
Income tax expense	**-**	**-**
Current tax liabilities		
Income tax payable attributable to subsidiaries	**-**	**-**
Unrecognised deferred tax assets		
The following deferred tax assets have not been brought to account as assets:		
Deductible temporary differences	3,190,109	3,047,010
Tax losses – revenue	27,118,106	21,500,484
	30,308,215	**24,547,494**

NOTE 6: INCOME TAXES (CONT.)

These deductible temporary differences and tax losses do not expire under current tax legislation in Australia but do expire after 12 years for those related to the Portugal activities. Deferred tax assets have not been recognised in respect of these items because, given the stage of business, the Group cannot currently satisfy the necessary standard of probability that future taxable profits will be available against which the Group can utilise the benefits therefrom.

NOTE 7: EARNINGS PER SHARE

	2016	*2015*
	$	*$*
Net loss used in calculating basic earnings per share:	14,020,835	25,899,838
Net loss used in calculating diluted earnings per share:	14,020,835	25,899,838
	No. of Shares	**No. of Shares**
Weighted average number of ordinary shares used in calculating basic earnings per share	52,007,194	49,744,177
Dilutive potential ordinary shares	-	-
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per share	**52,007,194**	**49,744,177**

Information concerning the classification of securities

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

No other securities are currently on issue.

NOTE 8: CASH AND CASH EQUIVALENTS

	Consolidated	
	2016	*2015*
	$	*$*
Cash at bank	622,548	311,057
Term deposits[1]	-	256,945
	622,548	**568,002**

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 9: TRADE AND OTHER RECEIVABLES

	2016	*2015*
	$	*$*
Trade receivables	2,148,590	465,049
Deposits	-	5,704
GST and VAT	318,843	527,943
Government grants	622,250	-
Other receivables	1,038,564	369,739
	4,128,247	**1,368,435**

The balance of trade and other receivables of $4,128,247 (2015: $1,368,435) is not past due and not considered impaired. Refer to Note 23(i) for details of the credit risk exposure analysis.

NOTE 10: INVENTORIES

	2016 *$*	*2015* *$*
Raw materials and consumables	2,356,833	2,804,381
Work in progress	4,277,893	3,980,570
Finished goods	173,266	937,705
	6,807,992	**7,722,656**

NOTE 11: BIOLOGICAL ASSETS

	2016 *$*	*2015* *$*
Balance at 1 January	932,958	1,196,966
Increase due to new crops	3,114,658	2,733,021
Harvested crops transferred to inventories	(3,170,574)	(2,997,029)
Balance at 31 December	**877,042**	**932,958**

The biological assets comprise poppy crops prior to harvest, being mature and bearer biological assets regularly harvested. The carrying values comprises advances paid to growers and related costs incurred in respect of the Group's farming lease commitments (refer Note 22).

Risk management strategy related to agricultural activities

Regulatory and environmental risks
The Group is subject to laws and regulations in various jurisdictions in which it operates. The Group has established policies and procedures aimed at compliance with local environmental and other laws.

Supply risk
The Group is exposed to risks arising from fluctuations in sales volume of alkaloids. When possible, the Group manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analyses for projected harvest volumes.

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Farm plant and equipment	Manufacturing plant and equipment	Office equipment	Motor vehicles	Total
Cost	**$**	**$**	**$**	**$**	**$**	**$**
At 1 January 2016	18,582,667	1,838,369	24,883,810	1,066,734	699,660	47,071,240
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)
At 31 December 2016	19,451,515	1,645,136	23,735,179	896,585	678,482	46,406,897
Depreciation and impairment losses						
At 1 January 2016	(6,523,864)	(1,090,645)	(9,897,272)	(483,807)	(474,319)	(18,469,907)
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
At 31 December 2016	(7,228,252)	(590,929)	(9,407,598)	(350,144)	(496,636)	(18,073,559)
Effect of foreign currency movements						(98,366)
Carrying amount at 31 December 2016						**28,234,972**

NOTE 12: PROPERTY, PLANT AND EQUIPMENT (CONT.)

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's size.

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.

Leased land and buildings

The Group acquired the Melbourne facility site through a finance lease during the year ended 31 December 2014. At 31 December 2016, the net carrying amount of this site is $8,048,750 (2015: $8,150,000).

NOTE 13: INVESTMENTS

	2016 $	2015 $
Non-current		
Macquarie River Pipeline Partnership – at fair value	**103,219**	**100,673**

The unlisted interest in the Macquarie River Pipeline Partnership has been designated at fair value through profit or loss because it is managed on a fair value basis (refer Note 23). The Company recognised its share of profits generated by the Partnership during the year.

NOTE 14: INTANGIBLE ASSETS

Cost	Patents $	Development Costs $	Irrigation Rights $	Total $
At 1 January 2016	607,881	3,523,519	1,100,000	5,231,400
Additions	470	462,096	-	462,566
At 31 December 2016	608,351	3,985,615	1,100,000	5,693,966
Amortisation				
At 1 January 2016	(574,957)	(2,656,957)	-	(3,231,914)
Amortisation for the year	(27,916)	(504,468)	-	(532,384)
Adjust prior year amortisation	-	10,020	-	10,020
At 31 December 2016	(602,873)	(3,151,405)	-	(3,754,278)
Effect of foreign currency movements				(15,054)
Carrying amount at 31 December 2016				**1,924,634**

NOTE 14: INTANGIBLE ASSETS (CONT.)

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 12 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 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 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 15: TRADE AND OTHER PAYABLES

	2016 $	*2015* $
Trade payables	3,114,834	4,556,767
Other payables	282,240	701,639
	3,397,074	**5,258,406**

NOTE 16: 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.

	2015 $	*2015* $
Current		
Finance lease liabilities	600,000	-
Irrigation rights fixed repayment plan	144,721	133,570
Insurance premium funding	59,884	-
Other	16,693	11,127
	821,298	**144,697**
Non-current		
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
	27,251,831	**13,871,552**

Movements during the year

	Currency	*Nominal Interest Rate*	*Year of Maturity*	*Face Value* $	*Carrying Amount* $
At 1 January 2016					**14,016,249**
New Issues					
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
Repayments					
Irrigation rights fixed repayment plan	AUD	8.1%	2018	(221,552)	(133,570)
Other			2017	(15,962)	(14,971)
Carrying amount at 31 December 2016					**28,073,129**

NOTE 16: LOANS AND BORROWINGS (CONT.)

In October 2014 Washington H. Soul Pattinson and Company Limited, a substantial shareholder, provided the Group with a standby facility ("the Facility") to meet short term working capital needs. During the year ended 31 December 2016 the terms of the Facility were amended. As at 31 December 2016 the Facility provided access to funds of up to $23,500,000, had a maturity date of 31 March 2018, included a clause requiring repayment of the loan out of the proceeds of any capital raise, and was secured against the Australian assets of the Group. As at 31 December 2016 the Group had drawn down $19,625,000 of the Facility (2015: $5,500,000).

Subsequent to balance date, the limit of the Facility was increased to $25,000,000 and the repayment clause partially waived, such that funds from any capital raise would be required to repay the Facility to a maximum outstanding drawdown of $12,500,000. All other terms of the Facility remain the same at the date of this report.

In addition to the Facility, as at 31 December 2016 the Group's 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 were within terms at balance date.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2016		31 December 2015	
	Currency	Nominal Interest Rate	Year of Maturity	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
Total Interest bearing liabilities				**29,557,874**	**28,073,129**	**16,249,445**	**14,016,249**

Finance lease liabilities

	Future minimum lease payments 2016 $	2015 $	Interest 2016 $	2015 $	Present value of minimum lease payments 2016 $	2015 $
Less than one year	752,859	727,400	752,859	727,400	-	-
Between one and five years	8,862,198	9,615,056	712,198	1,465,056	8,150,000	8,150,000
	9,615,057	**10,342,456**	**1,465,057**	**2,192,456**	**8,150,000**	**8,150,000**

NOTE 17: EMPLOYEE BENEFITS

	2016 $	*2015* $
Current		
Annual leave	770,416	603,836
Long service leave	-	18,907
	770,416	**622,743**
Non-current		
Long service leave	274,719	226,472
	274,719	**226,472**

NOTE 18: ISSUED CAPITAL

Movements in issued capital during the year were as follows:

	2016 No.	*2015* No.	*2016* $	*2015* $
Issued shares:				
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)
At end of the reporting period	**52,828,750**	**51,449,440**	**122,178,914**	**118,190,663**

NOTE 18: ISSUED CAPITAL (CONT.)

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 Company. In respect of the Company's shares that are held by the Company, all rights are suspended until those shares are reissued.

NOTE 19: RESERVES

Foreign currency translation reserve

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

Other reserves

Other reserves comprise a 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 20: CASH FLOW INFORMATION

	2016 *$*	*2015* *$*
Loss for the year	(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 gain	319,715	(313,208)
Other	-	(113,442)
	(8,364,862)	(14,549,933)
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)	-
Cash used in operating activities	(11,500,955)	(14,234,832)
Interest received	20,076	101,098
Interest paid	(2,334,408)	(1,384,373)
Net cash used in operating activities	(13,815,287)	(15,518,107)

NOTE 21: COMMITMENTS AND CONTINGENCIES

Capital commitments

As at 31 December 2016 the Group had capital commitments for equipment of $413,489 (2015: $70,044).

Lease commitments

On 1 December 2014, the Group entered into a 4-year lease with an unrelated party in respect of its Victorian manufacturing facility. On the same date, the Group entered into a contract to purchase the same property with a settlement date at the end of the lease term for an amount of $8.15 million. Refer to Note 16 for further details.

NOTE 21: COMMITMENTS AND CONTINGENCIES (CONT.)

Biological asset commitments

As at 31 December 2016 the Group had entered into contracts with a number of farmers to grow crops for the supply of poppy straw to be used by the Group. These contracts include clauses requiring the Group to make minimum lease payments to the farmers based on area under production. As at 31 December 2016 the minimum payment commitment for lease payments to farmers under these contracts was $247,912 (2015: $nil).

Other commitments

In 2015 the Group entered into a 36 month rental arrangement in respect of a piece of office equipment. The outstanding operating lease commitment at 31 December 2016 was $6,360 (2015: $10,849) of which $4,489 is payable during the 2017 financial year.

As at 31 December 2016 the Group had no other commitments for operating expenditure (2015: $43,032).

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, TPI 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.

NOTE 22: REMUNERATION OF AUDITORS

Auditors of the Group - KPMG

	2016 *$*	*2015* *$*
Audit services		
Audit and review of financial reports and other audit work under the Corporations Act 2001	112,000	132,000
Audit and review of financial reports and other audit work for Portugal subsidiaries	23,052	18,437
Total auditor remuneration for audit services	*135,052*	*150,437*
Other advisory services		
Transaction due diligence services	95,000	-
Advice on taxation and other matters and review and lodgement of corporate tax returns – Portugal subsidiaries	4,581	47,094
Total auditor remuneration	**234,633**	**197,531**

NOTE 23: FINANCIAL INSTRUMENTS

Overview

The Group's activities expose it to the following risks arising from their use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk (including currency and interest rate risks).

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

Risk management framework

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

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

(i) Credit risk

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

Management have established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Board; these limits are reviewed regularly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

NOTE 23: FINANCIAL INSTRUMENTS (CONT.)

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables.

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

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

	Note	2016 $	2015 $
Trade receivables	9	2,148,590	465,049
Other receivables	9	1,979,657	903,386
Cash and cash equivalents	8	622,548	568,002
Other assets[1]	8	256,945	-
		5,007,740	**1,936,437**

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

	2016 $	2015 $
Americas	-	-
Europe	1,662,454	465,049
Other regions	486,136	-
	2,148,590	**465,049**

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

	2016 $	2015 $
End-user customers	**2,148,590**	**465,049**

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

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

	2015 $	2015 $
Not past due	1,920,513	465,049
1-30 days	-	-
31-60 days	228,077	-
60 days and over	-	-
	2,148,589	**465,049**

The trade receivable balances are reviewed monthly and an allowance is raised where an indication of impairment exists such as customer insolvency or slow payment record without due cause. Where the Group considers that recovery of the amount owing is not possible, the amounts considered irrecoverable are written off against the financial asset directly. As at 31 December 2016, there was no provision for impairment in relation to trade receivable balances (2015: nil).

At 31 December 2016, trade receivables owing by a significant customer of the Group represented $1,593,109. Based on the credit profile and historical payment behaviour of the customer, the Group does not believe this represents a significant credit risk. As at 31 December 2015 the Group did not have any material credit risk exposure to any single receivable or group of receivables under financial instruments.

Cash and cash equivalents
The Group held cash and cash equivalents, including other assets, of $879,493 at 31 December 2016 (2015: $568,002), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with financial institution counterparties with strong credit ratings.

NOTE 23: FINANCIAL INSTRUMENTS (CONT.)

(ii) Liquidity risk

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

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

Non-derivative financial liabilities	Carrying amount $	Contractual cash flows $	6 months or less $	6-12 months $	1-2 years $	2-5 years $	More than 5 years $
31 December 2016							
Shareholder loan facility	19,625,000	(19,625,000)	-	-	(19,625,000)	-	-
Irrigation rights fixed repayment plan	221,552	(237,517)	(79,172)	(79,172)	(79,173)	-	-
Financial lease liabilities	8,150,000	(9,615,057)	(375,335)	(377,524)	(8,862,198)	-	-
Trade and other payables	3,397,074	(3,397,074)	(3,397,074)	-	-	-	-
Insurance premium funding	59,884	(63,607)	(63,607)	-	-	-	-
Other	16,693	(16,693)	(16,693)	-	-	-	-
	31,470,203	**(32,954,948)**	**(3,931,881)**	**(456,696)**	**(28,566,371)**	**-**	**-**
31 December 2015							
Shareholder loan facility	5,500,000	(5,500,000)	-	-	(5,500,000)	-	-
Irrigation rights fixed repayment plan	355,122	(395,862)	(79,172)	(79,172)	(158,345)	(79,173)	-
Financial lease liabilities	8,150,000	(10,342,456)	(362,642)	(364,758)	(752,859)	(8,862,197)	-
Trade and other payables	5,258,406	(5,258,406)	(5,258,406)	-	-	-	-
Other	11,127	(11,127)	(11,127)	-	-	-	-
	19,274,655	**(21,507,851)**	**(5,711,347)**	**(443,930)**	**(6,411,204)**	**(8,941,370)**	**-**

(iii) Market risk

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

Currency risk

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

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

	31 December 2016		31 December 2015	
Consolidated	**USD**	**Euro**	**USD**	**Euro**
Financial Assets				
Cash and cash equivalents	410,330	11,638	127,047	80,615
Trade and other receivables	1,525,009	65,523	339,766	147,106
Financial Liabilities				
Trade and other payables	-	23,413	-	81,602

NOTE 23: FINANCIAL INSTRUMENTS (CONT.)

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the statement of financial position date. A 10 percent increase or decrease in the foreign exchange rate is used and represents management's assessment of the possible change in foreign exchange rates and historically is within a range of rate movements. A positive number indicates an increase in result and other equity. A negative number indicates a decrease in result and other equity. At 31 December 2016, if foreign exchange rates had moved, as illustrated in the table below, with all other variables held constant, pre-tax result and equity would have been affected as follows:

	- 10%		+ 10%	
	Profit $	**Equity $**	**Profit $**	**Equity $**
31 December 2016				
Financial Assets				
Cash and cash equivalents	64,889	64,889	(53,091)	(53,091)
Trade and other receivables	244,765	244,765	(200,262)	(200,262)
Financial Liabilities				
Trade and other payables	(3,785)	(3,785)	3,097	3,097
	305,869	**305,869**	**(250,256)**	**(250,256)**
31 December 2015				
Financial Assets				
Cash and cash equivalents	32,727	32,727	(26,776)	(26,776)
Trade and other receivables	76,134	76,134	(62,291)	(62,291)
Financial Liabilities				
Trade and other payables	(13,569)	(13,569)	11,102	11,102
	95,292	**95,292**	**(77,965)**	**(77,965)**

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

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

	Carrying Amounts	
	2016 $	***2015 $***
Fixed rate instruments		
Financial assets	256,945	256,945
Financial liabilities	28,056,436	14,005,122
Variable rate instruments		
Financial assets	34,050	13,935
Financial liabilities	-	-

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

Cash flow sensitivity analysis for variable rate instruments
A change of 100 basis points in interest rates would have increased or decreased the Group's equity by $340 (2015: $139). This analysis assumes that all other variables, in particular foreign currency rates remain constant.

Other market risk
The Group's operations result in exposure to fluctuations in commodity prices, primarily those relating to poppy crops and alkaloids. Management monitors commodity prices and initiates instruments to manage exposure to these risks when it deems it appropriate. Currently, the Group has not initiated any such instruments. The Group also seeks wherever possible to obtain fixed price contracts with both suppliers and customers in order to minimise potential commodity price fluctuation exposures.

Financial instruments held by the Group do not give rise to any material direct exposures to equity price risk.

NOTE 23: FINANCIAL INSTRUMENTS (CONT.)

Capital management

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

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

Fair values

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

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

Accounting classifications and fair values

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

	Carrying Amounts			
	Designated at fair value *$*	***Loans and receivables*** *$*	***Other financial liabilities*** *$*	***Total*** *$*
31 December 2016				
Financial assets measured at fair value				
Unlisted investments	103,219	-	-	103,219
Financial assets not measured at fair value				
Cash and cash equivalents	-	622,548	-	622,548
Trade and other receivables	-	4,128,247	-	4,128,247
	103,219	4,750,795	-	4,854,014
Financial liabilities not measured at fair value				
Shareholder loan facility	-	-	19,625,000	19,625,000
Irrigation rights fixed repayment plan	-	-	221,552	221,552
Finance lease liabilities	-	-	8,150,000	8,150,000
Insurance premium funding	-	-	59,884	59,884
Other borrowings	-	-	16,693	16,693
Trade and other payables	-	-	3,397,074	3,397,074
	-	-	31,470,203	31,470,203
31 December 2015				
Financial assets measured at fair value				
Unlisted investments	100,673	-	-	100,673
Financial assets not measured at fair value				
Cash and cash equivalents	-	568,002	-	568,002
Trade and other receivables	-	1,368,435	-	1,368,435
	100,673	1,936,437	-	2,037,110
Financial liabilities not measured at fair value				
Shareholder loan facility	-	-	5,500,000	5,500,000
Irrigation rights fixed repayment plan	-	-	355,122	355,122
Finance lease liabilities	-	-	8,150,000	8,150,000
Other borrowings	-	-	11,127	11,127
Trade and other payables	-	-	5,258,406	5,258,406
	-	-	19,274,655	19,274,655

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

NOTE 24: KEY MANAGEMENT PERSONNEL

(a) Details of key management personnel

The Directors and other members of key management personnel of the Company during the year were:

Name	Position
Mr. Peter Robinson	Non-Executive Chairman
Mr. Todd Barlow	Non-Executive Director
Mr. Simon Moore	Non-Executive Director (Appointed 1 June 2016)
Mr. Stuart Black	Non-Executive Director (Appointed 6 June 2016)
Mr. Jarrod Ritchie	Managing Director and Chief Executive Officer
Mr. Roger McPherson	Chief Financial Officer and Company Secretary (Resigned 28 October 2016)

(b) Key management personnel compensation

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

	2016	*2015*
	$	*$*
Short term employee benefits	1,288,974	908,016
Post-employment benefits	85,606	46,285
Equity based payments	-	-
	1,374,580	**954,301**

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

NOTE 25: RELATED PARTY TRANSACTIONS

(a) Equity interests in related parties

	Country of Incorporation	Class of share	Percentage Owned	
			2016	*2015*
Parent Entity:				
TPI Enterprises Ltd	Australia			
Controlled Entities:				
TPIH Holding Portugal, Serviços de Agricultura Lda	Portugal	Ordinary	100%	100%
TPIH – API Portugal, S.A	Portugal	Ordinary	100%	100%
TPIH – Poppygrowing (Portugal) S.A.	Portugal	Ordinary	100%	100%
Purplebay Pty Limited	Australia	Ordinary	100%	100%

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

(b) Transactions with controlled entities

The parent entity has advanced funds to each of the Portugal based subsidiaries. These loans are non-interest bearing and unsecured with no fixed due date of repayment.

During 2016 the parent entity made net total advances of $796,212. (2015: $7,179,168).

As at 31 December 2016 the parent entity has recognised total intercompany loans receivable, net of impairments, of $3,203,702 valued at the year end exchange rate (2015:$3,381,604).

(c) Transactions with key management personnel

Details of key management personnel compensation are disclosed in note 24 and the Remuneration Report.

During the year ended 31 December 2016 an entity associated with Mr Jarrod Ritchie provided contract transport services to the Group to the value of $43,830 (2015: nil). As at 31 December 2016 the amount owed by the Group for these services was $14,310 (2015: nil). The services were provided under a contract at arms-length commercial rates.

(d) Amounts owing to related parties

Refer to Note 16 for details of loans from shareholders.

NOTE 26: PARENT ENTITY INFORMATION

Information relating to TPI Enterprises Ltd:

	31 December 2016 $	31 December 2015 $
Current assets	15,610,770	13,656,543
Total assets	43,114,051	41,407,419
Current liabilities	4,867,229	6,908,253
Total liabilities	32,393,809	20,779,806
Net assets	**10,720,242**	**20,627,613**
Issued capital	122,178,914	118,190,663
Accumulated Losses	(113,380,601)	(99,484,979)
Reserves	1,921,929	1,921,929
Total shareholders' equity	**10,720,242**	**20,627,613**
Profit or (loss) of the parent entity	(13,895,622)	(27,344,076)
Total comprehensive income of the parent entity	(13,895,622)	(27,344,076)
Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries	Nil	Nil
Details of any contingent liabilities of the parent entity	Refer Note 22	Refer Note 22
Details of any contractual commitments by the parent entity for the acquisition of property, plant or equipment.	Refer Note 22	Refer Note 22

NOTE 27: SUBSEQUENT EVENTS

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

- In March 2017 the Company extended the limit of the facility with Washington H Soul Pattinson and Company Limited (WHSP) to $25,000,000. All other terms of the facility remained the same as at 31 December 2016.

- On 23 March 2017 TPI announced a fully underwritten Capital Raising to raise $44.2 million (before costs of the offer). The Capital Raising is comprised of a placement to institutional investors to raise approximately $20.92 million ("Placement"), and an accelerated pro rata non-renounceable entitlement offer to raise approximately $23.24 million ("Entitlement Offer"). The Entitlement Offer comprises an institutional component ("Institutional Entitlement Offer") and a retail component ("Retail Entitlement Offer").

  - The Institutional Offer was successfully completed on 23 March 2017, raising approximately $30.33 million. Funds raised under the Institutional Offer were received on 30 March 2017. On 31 March 2017 TPI issued 13,790,025 new shares subscribed for under the Institutional Offer.

  - The Retail Entitlement Offer, which is expected to raise approximately $13.8 million, will close on 10 April 2017. TPI expects to receive the $13.8 million raised in the Retail Entitlement Offer by 18 April 2017 and issue approximately 10.57 million shares by 19 April 2017.

  - Total costs of the Capital Raise are expected to be approximately $2.3 million.

DECLARATION BY DIRECTORS

1. In the opinion of the Directors of TPI Enterprises Limited (the “Company”):
   (a) the consolidated financial statements and notes that are set out on pages 17 to 43 and the Remuneration report that is set out on pages 10 to 13 in the Directors’ report, are in accordance with the *Corporations Act 2001*, including:
      (i) giving a true and fair view of the Group’s financial position as at 31 December 2016 and of its performance for the financial year ended on that date; and
      (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer for the financial year ended 31 December 2016.
3. The Directors draw attention to Note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

____

Peter Robinson
Director

Sydney, 31 March 2017

Independent Auditor's Report

To the shareholders of TPI Enterprises Ltd

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the ***Group***'s financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 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 year then ended.
- Notes including a summary of significant accounting policies.
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

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

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

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

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Going concern basis of accounting.
- Recoverable value of intangible assets and plant and equipment.

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

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG

Going concern basis of accounting	
Refer to Note 2(g) to the Financial Report.	
The key audit matter	**How the matter was addressed in our audit**
The Group's use of the going concern basis of accounting and the associated extent of uncertainty is a key audit matter due to the high level of judgement required by us in evaluating the Group's assessment of going concern and the events or conditions that may cast significant doubt on their ability to continue as a going concern. These are outlined in Note 2(g). The Directors have determined that the use of the going concern basis of accounting is appropriate in preparing the financial report. Their assessment of going concern was based on cash flow projections. The preparation of these projections incorporated a number of assumptions and significant judgements, and the Directors have concluded that the range of possible outcomes considered in arriving at this judgement does not give rise to a material uncertainty casting significant doubt on the Group's ability to continue as a going concern. We critically assessed the levels of uncertainty, as it related to the Group's ability to continue as a going concern, within these assumptions and judgements, focusing on the following: • the Group's ability to raise additional funds from shareholders or other parties and the projected timing thereof. This included quantum of funds and the status and progress of securing those funds; • the Group's ability to meet financing commitments. This included nature of planned methods to achieve this, feasibility and status of those plans; • impact of the loss making operations of the Group which is impacted by raw material input volumes, production volumes and sales prices to cash inflows projected; and • the Group's planned levels of operational expenditures and the ability of the Group to manage cash outflows within available funding. In assessing this key audit matter, we involved senior audit team members who understand the Group's business, industry and the economic environment it operates in.	Our procedures included: • We analysed the cash flow projections by: i. Evaluating the underlying data used to generate the projections. We specifically looked for their consistency, including raw material input volumes, production volumes and sales prices to cash inflows projected, with those used by the Directors, and tested by us, as set out in the recoverable value of intangible assets and plant and equipment key audit matter, and their consistency with the Group's intentions, as outlined in Directors minutes and strategy documents, and their comparability to past practices; ii. Analysing the impact of reasonably possible changes in projected cash flows and their timing, to the projected periodic cash positions. Assessing the resultant impact to the ability of the Group to pay debts as and when they fall due and continue as a going concern. The specific areas we focused on were informed from our test results of the accuracy of previous Group cash flow projections and sensitivity analysis on key cash flow projection assumptions; iii. Assessing the planned levels of operating and capital expenditures for consistency of relationships and trends to the Group's historical results, results since year end, and our understanding of the business, industry and economic conditions of the Group; and iv. Comparing forecast capital raising amounts to actual capital raising proceeds achieved subsequent to balance date. • We read correspondence with existing and potential financiers to understand and assess the options available to the Group including renegotiation of existing debt facilities, negotiation of additional and revised funding arrangements. • We read Directors' minutes and relevant correspondence with the Group's advisors to understand and assess the Group's ability to raise additional shareholder funds. • We evaluated the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection

KPMG

	assessment, the Group's plans to address those events or conditions, and accounting standard requirements.

Recoverable value of intangible assets and plant and equipment

Refer to intangible assets ($1,924,634 note 14) and plant and equipment ($28,234,972 note 12) to the Financial Report.

The key audit matter	How the matter was addressed in our audit
This is a key audit matter due to our need to consider the recoverable value of intangible assets and plant and equipment in light of the loss making operations of the Group during the year. This principally arose due to low production volumes. The Group's strategy to address supplier input volumes is in progress, though untested as it will take some time to build up to full production capacity. The value of these assets is significant at balance date. Our audit attention focused on assessing the significant management judgements in the value in use model. This model uses forward looking estimations, which can be inherently difficult to determine with precision, and to audit. This is particularly challenging as the Group has relocated its production facilities to Victoria and is establishing its production output which is planned to significantly increase from current levels. The increased production is dependent on securing additional supply of raw narcotic input material from a number of new suppliers in different geographical regions. Key judgements and estimates included the: • discount rate applied to the cash flows, • forecast cash outflows, in particular influenced by key supplier input volumes, such as poppy straw, not contracted or planted, raw material input costs, manufacturing production costs, • forecast cash inflows, in particular influenced by forecast customer demand, expected production volumes, narcotic sales prices, and foreign exchange rates, and • EBITDA growth rates, as forecast in the value in use model and developed from the cash flow assessments.	Our procedures included: • We compared the previous year's forecast production volumes and poppy straw supplier input volumes to the actual amounts achieved in the current year, to assess the accuracy of management's forecasting. We used this information to inform our areas of focus in the current year. • We compared the five year forecast used in the value in use model for consistency with the Board approved plan for the business. We checked the key judgements and estimates for evidence of detailed review and approval by the Directors. • We assessed the key judgements and estimates used in the forecast included in the value in use model, in particular, those relating to the discount rate and EBITDA growth rates. To do this we: - evaluated the EBITDA forecast amounts with reference to current year results, and by assessing management's assumptions regarding the key factors that drive forecast EBITDA. We assessed expected supplier input volumes and raw material input costs to the current year's contracted harvest agreements. We checked forecast production volumes and manufacturing production costs to the current year's production results, and assessed the increased forecast compared to management's planned actions. We assessed the forecast narcotic sales prices to historical sales data, and the forecast exchange rates to current forward exchange rates. These factors were compared to historical market evidence and the Group's historical results and planned actions. - considered the sensitivity of the value in use model by varying key judgements and estimates and applying other values within a reasonably possible range to test the

KPMG

	headroom available in the value in use model. We did this by increasing the discount rate, by reducing certain production output assumptions and by changing forecast variable raw material input costs, and - evaluated the discount rate adopted. Assisted by our valuation specialists, we independently developed an acceptable range of discount rates based on market data for comparable entities, adjusted by risk factors specific to the Group.

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor’s responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor’s Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of TPI Enterprises Ltd for the year ended 31 December 2016, complies with *Section 300A* of the *Corporations Act 2001*.

Directors’ responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in pages 10 to 13 of the Directors’ report for the year ended 31 December 2016.

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

KPMG

Tony Batsakis
Partner

Melbourne

31 March 2017

SHAREHOLDER INFORMATION

A. Substantial shareholders

The Company's Holders of Relevant Interests as notified by ASX Substantial Shareholders and the number of shares in which they have an interest as disclosed by notices received under Part 6.7 of the Corporations Act 2001 as at 28 February 2017 are listed below:

Name	*Ordinary Shares*
Washington H. Soul Pattinson and Company Limited	9,964,750
Thorney Opportunities Limited & TIGA Trading Pty Limited	4,539,946

B. Number of holders of equity securities and voting rights

	Ordinary Shares
Number of holdings as at 28 February 2017	1,184

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

Ordinary shares

On a show of hands, every member present at a meeting, in person or by proxy, shall have one vote and upon a poll each share shall have one vote.

C. Distribution of equity securities

Distribution of holders of equity securities as at 28 February 2017:

No. of holders			*Ordinary Shares*
1	-	1,000	55
1,001	-	5,000	253
5,001	-	10,000	186
10,001	-	100,000	464
100,001 and over			226
			1,184

Number of holders of less than a marketable parcel of shares	Nil

D. 20 largest holders of quoted securities

The names of the 20 largest shareholders of each class of equity security as at 28 February 2017 are listed below:

No.	*Name*	*No. of shares held*	*% of total shares*
1	Washington H. Soul Pattinson Co Ltd	9,964,750	18.86
2	UBS Nominees Pty Ltd	5,060,276	9.58
3	JP Morgan Nominees Australia Limited	2,972,782	5.63
4	Jarrod Ritchie	2,016,718	3.82
5	HSBC Custody Nominees (Australia) Limited	1,989,699	3.77
6	Sico Holdings Pty Ltd	1,957,672	3.71
7	BNP Paribas Noms Pty Ltd	1,647,741	3.12
8	Sky Lights Pty Ltd	1,552,160	2.94
9	Colinton Investments Pty Ltd	1,379,310	2.61
10	Gaspard Boot	1,014,001	1.92
11	Jarrod Ritchie & Catrina Ritchie	986,555	1.87
12	Langburgh Pty Ltd	723,173	1.37
13	Gowing Bros Limited	666,667	1.26
14	Espasia Pty Ltd	631,962	1.20
15	Espasia Pty Ltd	597,784	1.13
16	Amcil Limited	594,411	1.13
16	Mirrabooka Investments Limited	594,411	1.13
17	Bond Street Custodians Limited	499,508	0.95
18	Gwynvill Trading Pty Ltd	390,269	0.74
19	Mr Andrew Rudolph Sypkes & Mrs Elizabeth Anne Petrusma	317,996	0.60
20	Rubi Holdings Pty Ltd	316,000	0.60
		35,873,845	**67.91**

E. Shares subject to restriction arrangements

The total number of shares subject to restriction arrangements is 7,375,814 shares. 5,996,504 of these shares were escrowed for a period of two years from the date of official quotation on the ASX 13 August 2015, and will be released from escrow on 13 August 2017. 1,379,310 of these shares were escrowed for a period of 12 months from their date of issue on 5 August 2016, and will be released from escrow on 5 August 2017.

BOARD OF DIRECTORS AND COMPANY PARTICULARS

Directors
- Peter Robinson
- Jarrod Ritchie
- Todd Barlow
- Simon Moore
- Stuart Black

Secretary
- Jaime Pinto

Registered Office
c/- Link Market Services Limited
Tower 4
727 Collins Street
Melbourne Vic 3008

Tel: +61 3 9301 0800
Fax: +61 3 9301 0899

Mailing Address
PO Box 2139
Melbourne VIC 3001

Website
www.tpienterprises.com

Auditors
KPMG
Tower 2
727 Collins Street
Docklands VIC 3008

Australian Company Number
107 872 453

Share Registry
Link Market Services Limited
Tower 4
727 Collins Street
Docklands Vic 3008

Stock Exchange Listing
Australian Securities Exchange
(ASX Code: TPE)