

TPI Enterprises Limited ABN 26 107 872 453

Annual report for the year ended 31 December 2017

Appendix 4E

The following information is presented in accordance with ASX listing rule 4.3A.

1. Details of the reporting period and previous corresponding period

Reporting period: year ended 31 December 2017
Previous corresponding period: year ended 31 December 2016

2. Results for announcement to the market

		Consolidated entity		
		31 December	31 December	
		2017	2016	Change
		\$	\$	%
2.1	Revenue from ordinary activities	22,263,174	10,556,449	+110.9%
2.2	Loss from ordinary activities after tax attributable to members	(16,692,689)	(14,020,835)	+19.1%
2.3	Net loss for the period attributable to members	(16,692,689)	(14,020,835)	+19.1%
2.4	There were no dividends paid, recommended or declared during the current or previous reporting period.			
2.5	The record date for determining entitlements to dividends – not applicable.			
2.6	Supplementary commentary on figures presented in 2.1 to 2.4 above – please refer to the Annual Report for the year ended 31 December 2017 attached and Results Presentation issued 28 February 2018.			

3. Consolidated statement of profit or loss and other comprehensive income

Please refer to the Annual Report for the year ended 31 December 2017 attached.

4. Consolidated statement of financial position

Please refer to the Annual Report for the year ended 31 December 2017 attached.

5. Consolidated statement of cash flows

Please refer to the Annual Report for the year ended 31 December 2017 attached.

6. Consolidated statement of changes in equity

Please refer to the Annual Report for the year ended 31 December 2017 attached.

7. Dividend payments

Not applicable.

8. Dividend reinvestment plans

Not applicable.

9. Net tangible assets per security

	Consolidated entity		
	31 December	31 December	
	2017	2016	Change
	\$	\$	%
Net tangible assets per security	0.43	0.17	+152.9%

10. Details of entities over which control has been gained or lost during the period

Please refer to note 25 of the Annual Report for the year ended 31 December 2017 attached.

11. Associate or joint venture entities

Not applicable.

12. Other significant information

Please refer to the Annual Report for the year ended 31 December 2017 attached.

13. Foreign entities

Not applicable.

14. Results commentary for period

- 14.1 Earnings per security and the nature of any dilution - please refer to note 29 of the Annual Report for the year ended 31 December 2017 attached.
- 14.2 Returns to shareholders including distributions and buy-backs - not applicable.
- 14.3 Significant features of operating performance - please refer to the Annual Report for the year ended 31 December 2017 attached and Results Presentation issued 28 February 2018.
- 14.4 The results of segments that are significant to the understanding of the business as a whole - please refer to note 5 of the Annual Report for the year ended 31 December 2017 attached.
- 14.5 A discussion of trends in performance - please refer to the Annual Report for the year ended 31 December 2017 attached and Results Presentation issued 28 February 2018
- 14.6 Any other factors which have affected the results in the period or which are likely to affect the results in the future, including those where the effect could not be quantified - please refer to the Annual Report for the year ended 31 December 2017 attached and Results Presentation issued 28 February 2018.

15. Independent audit of financial statements

The financial information contained in this report has been extracted from the financial statements in the attached audited Annual Report for the year ended 31 December 2017.



TPI Enterprises Limited

ACN 107 872 453

**Annual report
for the year ended 31 December 2017**

TPI Enterprises Limited ACN 107 872 453
Annual report - 31 December 2017

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TPI Enterprises Limited
Corporate directory

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

Directors' report

The directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of TPI Enterprises Limited ("the Company") and the entities it controlled at the end of, or during, the year ended 31 December 2017.

Directors

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

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

Principal activities

During the year the principal continuing activities of the Group were the production and distribution of Narcotic Raw Material ("NRM") for supply to international pharmaceutical markets, and the production and distribution of poppy seed for supply to international culinary markets.

Through the acquisition of TPI Norway AS on 2 October 2017, the Group extended its operations down the supply chain in line with its strategic plan and is now involved in the production and distribution of Active Pharmaceutical Ingredients ("API") and Finished Dosage Formulations ("FDF") for supply to international pharmaceutical markets.

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

Review of operations

Year in review

2017 was a defining year for the Group, becoming one of only four fully integrated suppliers of pain relief products globally after acquiring the Norwegian opiates and tableting division of Vistin Pharma AS. This was the first year the Group could source its raw material (Poppy Straw) from five (5) Australian States and Territories and had the ability to import from two (2) northern hemisphere countries. The Group is the only narcotic supplier that sources its poppy straw from both hemispheres, giving it superior security of supply compared to other industry participants.

The Group's manufacturing operations expanded to include the Norwegian site which has capability to produce up to 70 tonnes of Codeine Phosphate ("CPO") API per annum and 1.6 billion tablets per annum. The Group continued to grow, approximately tripling its Operating Revenue from \$7.6 million in 2016 to \$21.7 million in 2017.

Key achievements announced in 2017:

a. Approval to import straw from Hungary	24 February
b. Approval to construct CPO facility in Portugal	6 March
c. Completes fully underwritten raising of \$44.2 million	23 March
d. Announces toll processing deal with French Pharma company	3 April
e. Confirms all approvals for toll deal	26 May
f. Signs first CPO contract in UK	30 June
g. Sign 2nd UK CPO contract	11 July
h. Acquisition of Norwegian API and FDF Facility	12 July
i. Fully underwritten raising of \$18.0 million	17 July
j. 2nd Poppy Straw supply source (UK)	5 September
k. Receipt of medicinal cannabis licence	29 September
l. Closing of Norway Acquisition	3 October
m. Announces first toll processing shipment occurs	13 October
n. Signals Profitable binding agreement to sell Portugal asset	6 November

Review of operations (continued)

Financial Results Summary

	Consolidated entity	
	31 December	31 December
	2017	2016
	\$	\$
Sales of NRM, API, FDF and poppy seed	21,666,095	7,614,801
Statutory Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	(11,880,005)	(8,384,182)
Statutory Earnings Before Interest and Tax (EBIT)	(14,642,784)	(11,243,166)
Statutory (Loss) for the year after tax	(16,692,689)	(14,020,835)
Net cash (outflow) from operating activities	(13,144,906)	(13,815,287)
Operating EBITDA	(7,745,027)	(10,589,279)

The Group generated a statutory loss after income tax for the full-year of \$16.7 million (2016: \$14.0 million) and reported a statutory Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") loss of \$11.9 million (2016: \$8.4 million).

Operating EBITDA (reported EBITDA adjusted for acquisition costs, inventory impairments, agricultural trialling costs, discontinued operations and other income), a non-GAAP financial measure used internally within the Group, continues to improve along with gross profit margins. A decrease in the Operating EBITDA loss from \$10.6 million in 2016 to an Operating EBITDA loss of \$7.7 million for 2017 predominantly reflects improved operating leverage and margin mix.

Expectations for a positive Operating EBITDA result in 2H 2017 were not met due to imported Poppy Straw supply interruptions experienced in the second half (external tolling straw and Hungary straw), unfavourable foreign exchange rates and softer than expected sales of finished dosage Codeine Phosphate tablets into the United Kingdom during the last quarter. This coincided with investing in additional headcount in Australia in anticipation of increasing manufacturing volumes, which were ultimately delayed. An impairment of inventories to net realisable value was recognised due to an analysis having been completed during the second half of 2017 of legacy Tasmanian mother liquors showing a lower alkaloid concentration than previously expected and therefore was not able to be processed in a cost-effective manner. The Group expects a positive Operating EBITDA first half 2018 trading result and a continuing trend of Operating EBITDA growth in 2018.

Reconciliation of Operating EBITDA to Statutory EBITDA and Loss After Tax

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

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

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

Review of operations (continued)

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

	Consolidated entity	
	31 December 2017	31 December 2016
	\$	\$
Statutory (Loss) after income tax	(16,692,689)	(14,020,835)
Add: Net finance expenses	2,049,905	2,777,669
Statutory Earnings Before Interest and Tax (EBIT)	(14,642,784)	(11,243,166)
Add: Depreciation and amortisation expense	2,762,779	2,858,984
Statutory Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	(11,880,005)	(8,384,182)
Add:		
Impairment of inventory to net realisable value	1,958,963	469,437
Agricultural area trialling expenses	432,318	267,114
Acquisition related expenses - legal and other expenses	1,873,056	-
Transaction integration and change management advisory services	170,192	-
Loss from discontinued operation	646,587	-
Deduct:		
Other income	(597,079)	(2,941,648)
Depreciation and amortisation expense - discontinued operation	(349,059)	-
Operating EBITDA	(7,745,027)	(10,589,279)

Raw Material Supply

2017 was the first year that the Group had poppy straw delivered from two northern hemisphere countries, resulting in the highest production levels since inception. Strong support from the New South Wales Government enabled growing for the first time in New South Wales, which yielded positive results for growers and lower cost of raw material supply for the Group. This is reflected in having over 1,500 ha of New South Wales contracts already signed for the 2018 growing season after a first year of approximately 300 ha. The cost of Poppy Straw sourced from mainland states (including Victoria and South Australia) in 2017 was approximately 30% lower compared to Tasmania, as a result of lower freight costs.

During the year the Agriculture division of the Group was strengthened by the appointment of Mr Michael Long as Agriculture Director and the introduction of a new agronomist model in New South Wales and Victoria. The new model saw improved communication and coordination between growers, agronomists and the Group.

With importation from Europe and expanding growing prospects in Australia, the Group expects to be able to produce in excess of 65 tonnes of NRM in 2018; including accumulated inventory, which will see the Group on track to reach between 65 and 75 tonnes of total NRM sales for 2018.

NRM production in Australia

Production of NRM in 2017 was up over 100% compared to the prior corresponding period. Despite interrupted supply in the second half, the Group continued processing in every month of the year. This was the first year the Group did not run out of straw entirely and in 2018, factory utilisation will increase further.

Review of operations (continued)

Supply consistency was assisted by the first imported European straw arriving at the Victorian facility during the first half and continuing throughout the rest of the year. Whilst a significant improvement on previous years, teething problems at the supplier's deseeding facility combined with delays in foreign government approvals, customs clearance, and availability of shipping capacity resulted in the volume of material shipped being less than expected. The Group expects these initial teething problems to be minimised during 2018.

From October 2017 the Group began extraction and processing under the announced tolling agreement for one of the Group's largest historical NRM competitors. This agreement demonstrates that the Group's technology enables the extraction and purification of narcotic material at a lower cost to the rest of the NRM industry. The initial batch of tolled product was successfully shipped in October, and the remaining volume under the initial contract is being progressively delivered until April 2018.

API production in Norway

The Norwegian acquisition will consume the greatest amount of NRM produced in Australia, followed by toll processing. In the three months of ownership of the Norwegian asset, the Group has produced Codeine Phosphate API at a greater rate than that achieved historically, with all Codeine Phosphate sold as soon as produced.

The Group has commenced implementing an Operational Excellence program for the API manufacturing process to achieve a significant reduction in processing costs, including waste disposal and raw materials.

At balance date, inventory levels were higher than targeted levels, with work still in train on reducing the level of NRM held in Norway and implementing 'just in time' supply chain provisioning of NRM between Australia and Norway. Management of working capital and inventory is a key priority, and the Group expects to demonstrate an improved working capital position with the 1H 18 result.

During 2018 the Group plans to submit applications to the European authorities for a CEP ("Certification of suitability of European Pharmacopoeia monographs") to allow production of other opiate based API's.

FDF production in Norway

The FDF business currently has multiple supply contracts to produce niche prescription formulations and generic over the counter tablets, and codeine tablets for supply into the United Kingdom hospital tender market. During the period since acquisition, the Group has reviewed the profitability of these contracts and identified an opportunity to revisit pricing with these customers along with realising operational benefits from restructuring manning levels. The Group is progressing with a cost out program aimed at reducing fixed overhead in the FDF production process, predominantly through Full Time Equivalent headcount reduction, savings in energy, waste costs and reduction in working capital. There is also significant additional capacity in granulation, tableting and packaging, which supports the Group's aspirations to acquire FDF Dossiers to enable the supply of finished product into global tender markets for the production of Codeine Phosphate.

Summary of key business risks

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

- failure to obtain or renew all necessary licences and permits across all jurisdictions in which the Group operates;
- inability to source sufficient raw material, including as a result of adverse weather conditions or plant diseases;
- changes in international, national or state laws, regulations or conventions relating to the growing, manufacture, export or sale of NRM;
- loss of key staff and inability to replace them with appropriately qualified personnel;
- claims arising from the consequences of inappropriate use or excessive exposure to NRM;

Review of operations (continued)

- diversion or illicit use of NRM during manufacture, storage or freight;
- introduction or growth of competing pain relief products, including non-narcotic opiate;
- increasing poppy prices, including due to the reduction or withdrawal of government subsidies;
- failure to maintain its trade secrets, including in relation to its water based, solvent free extraction process;
- changes to scheduling or availability of pain relief medication or restrictions on import quotas for NRM;
- adverse movements in currencies in which the Group operates, principally US dollars, Euros, Norwegian Krone, Swedish Krona, Danish Krone and Australian dollars;
- changes in the supply of, and/or demand for, poppy seed and changes in pricing of poppy seed;
- changes to the cost of purifying poppy seed;
- failure to comply with applicable standards and the risk of product recalls; and
- restrictions on sales in some countries of API's which have not been manufactured in that country or region.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year were as follows.

- Contributed equity increased by \$59,303,346 (from \$122,178,914 to \$181,482,260) as a result of a combined placement and entitlement offer in March 2017, and a placement in July 2017 to existing shareholders. Details of the changes in contributed equity are disclosed in note 20(a) of the financial statements. The net cash received from the increase in contributed equity was principally used to repay borrowings and acquire shares in TPI Norway AS.
- The Group acquired 100% of the issued share capital of TPI Norway AS, the demerged entity holding the assets of the opiate and tableting division of Vistin Pharma ASA, a Norwegian pharmaceutical company. The acquisition has enabled the Group to accelerate its entry into Active Pharmaceutical Ingredient and Finished Dosage Formulation markets. Details of the acquisition are disclosed in note 25 of the financial statements.

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

Event since the end of the financial year

On 2 February 2018 the Group completed the sale of its Portugal domiciled subsidiary entities for €2.85m. The sale proceeds will be used to meet the Group's working capital needs through 2018.

On 16 February 2018 the Group extended the maturity date of its standby debt facility with Washington H. Soul Pattinson and Company Ltd from August 2018 to February 2019.

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

Likely developments and expected results of operations

The Group will continue to pursue its previously stated production volume target of 100 tonnes of NRM by 2019 and 200 tonnes of NRM by 2021. Demand for this volume will come from a combination of external NRM sales directly from Australia, internal downstream supply for API and FDF demand from the Group's Norway production facility, and NRM toll manufacturing supply agreements.

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

Dividends

No dividends have been paid during the financial year. The directors do not recommend that a dividend be paid in respect of the financial year (2016: \$nil).

Environmental regulation

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

Indemnification and insurance of officers and auditors

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

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

Meetings of directors

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 31 December 2017, and the numbers of meetings attended by each director were:

	Board of Directors		Human Capital Committee		Audit & Risk Committee	
	Held and Eligible to Attend	Attended	Held and Eligible to Attend	Attended	Held and Eligible to Attend	Attended
Mr. Peter Robinson (Non-Executive Chairman)	23 #	23	-	3 *	-	3 *
Mr. Jarrod Ritchie (Managing Director and CEO)	23 #	23	-	3 *	-	3 *
Mr. Todd Barlow (Non-Executive Director)	21	21	3	3	3	3
Mr. Simon Moore (Non-Executive Director)	21	21	3	3	3	3
Mr. Stuart Black (Non-Executive Director)	23 #	23	3	3	3	3

* Attended by invitation

Includes special purpose board sub-committee meetings

Proceedings on behalf of the Company

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

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

Information on directors

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

Mr. Peter Robinson, BCom, FAICD, Non-Executive Chairman

Qualifications and Experience

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.

Former listed company directorships within past three years:

- Non-Executive director of New Hope Corporation Limited (appointed 1997, resigned 2015)
- Non-Executive director of Clover Corporation Limited (appointed 1997, resigned 2017)
- Non-Executive director of Australian Pharmaceutical Industries Limited (appointed 2000, resigned 2018)

Director of TPI Enterprises Limited since 1 February 2013, appointed Chairman 18 June 2015.

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

Qualifications and Experience

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

Director of TPI Enterprises Limited since 5 February 2004.

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

Qualifications and Experience

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

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

Former listed company directorships within past three years:

- Non-Executive Director of PM Capital Asian Opportunities Fund Limited (appointed 2014, resigned 2017)

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

Information on directors (continued)

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

Qualifications and Experience

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

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

Former listed company directorships within past three years:

- Non-Executive Director of Healthscope Limited (appointed 2010, resigned 2015)
- alternate Non-Executive Director of Qube Holdings Limited (appointed 2011, resigned 2016)

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

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

Qualifications and Experience

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

Information on secretary

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

Mr. Jaime Pinto, BComm, CA, Company Secretary

Qualifications and Experience

Mr. Pinto is a Chartered Accountant with over 20 years' experience in both professional practice and in senior commercial roles across a broad range of industries. Jaime is currently Company Secretary of Quickstep Holdings Limited (ASX: QHL), BKI Investment Company Limited (ASX: BKI), URB Investments Limited (ASX: URB), and is Company Secretary and CFO of a number of unlisted investment and industrial companies.

Company Secretary of TPI Enterprises since 28 October 2016.

Remuneration report

The directors present the TPI Enterprises Limited 2017 remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year.

The report is structured as follows:

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

(a) Key management personnel disclosed in this report

Non-executive and executive directors

(i) Non-Executive Chairman

Mr. Peter Robinson

(ii) Managing Director and Chief Executive Officer

Mr. Jarrod Ritchie

(iii) Non-Executive Directors

Mr. Todd Barlow

Mr. Simon Moore

Mr. Stuart Black

Other key management personnel

(i) Chief Financial Officer

Mr. Brendan Middleton (from 5 June 2017)

(b) Remuneration governance

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

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

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

Remuneration report (continued)

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

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

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

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

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

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

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

Non-Executive Directors' fees

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

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

Executive pay

The executive pay and reward framework has three components:

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

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

Remuneration report (continued)

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

(i) Base pay and benefits

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

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

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

(ii) Short term incentives (STI's)

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

(iii) Long term incentives (LTI's)

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

(iv) Relationship between remuneration policy and company performance

LTI's and STI's may be issued to new and existing employees, subject to performance review and based on performance of the individual and/or the Company in absolute terms. LTI's issued are subject to vesting conditions and share price appreciation 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, financial and regulatory milestones. Achievement of milestones selected will build sustainable and long term shareholder value.

Statutory performance indicators

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

Remuneration report (continued)

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

	2017	2016	2015	2014	2013
Revenue	22,263,174	10,556,449	3,679,063	8,390,395	15,487,945
Net profit/(loss) after tax	(16,692,689)	(14,020,835)	(25,899,838)	(14,443,973)	(6,794,656)
Closing share price	\$2.20	\$2.91	\$3.90	N/A	N/A
Price increase/(decrease) \$	(\$0.71)	(\$0.99)	N/A	N/A	N/A
Price increase/(decrease) %	(24.4%)	(25.4%)	N/A	N/A	N/A
Earnings per share (cents)	(23.38)	(26.96)	(52.07)	(33.30)	(17.79)

(d) Details of remuneration

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

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

* KMP from 5 June 2017

Remuneration report (continued)

(d) Details of remuneration (continued)

Name	Short-term employee benefits		Post-employment benefits	Other long term benefits	Equity-based payments Share Appreciation Rights	Total
	Cash salary and fees \$	Non-monetary benefits \$				
2016						
Non-executive directors						
Peter Robinson	120,000	-	11,400	-	-	131,400
Todd Barlow	70,000	-	6,650	-	-	76,650
Simon Moore	38,769	-	3,683	-	-	42,452
Stuart Black	43,077	-	4,092	-	-	47,169
Sub-total non-executive directors	271,846	-	25,825	-	-	297,671
Executive directors						
Jarrold Ritchie	770,000	-	30,000	14,108	-	814,108
Sub-total executive directors	770,000	-	30,000	14,108	-	814,108
Other key management personnel						
Roger McPherson **	247,128	-	29,781	-	-	276,909
Sub-total other key management personnel	247,128	-	29,781	-	-	276,909
Total key management personnel compensation	1,288,974	-	85,606	14,108	-	1,388,688

** KMP until 28 October 2016

(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

Jarrold Ritchie, Managing Director and Chief Executive Officer

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

Remuneration report (continued)

(e) Service agreements (continued)

Todd Barlow, Non-Executive Director

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

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

Brendan Middleton, Chief Financial Officer

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

(f) Equity instruments granted

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

	Number of equity instruments issued	Fair value of equity instruments per share	Total value of equity instruments issued	Start of performance period	End of performance period	Included in 2017 remuneration
<i>Jarrold Ritchie, Managing Director and Chief Executive Officer</i>						
2017 Share Appreciation Rights	451,613	\$0.62	\$280,000	27 March 2017	27 March 2020	\$71,254
<i>Brendan Middleton, Chief Financial Officer</i>						
2017 Share Appreciation Rights	120,968	\$0.62	\$75,000	5 June 2017	27 March 2020	\$19,086

Remuneration report (continued)

(g) Movement in shares held

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

Name	Held at 1 January 2017	Purchased	Sold	Held at 31 December 2017
<i>Non-executive directors</i>				
Peter Robinson	84,900	-	-	84,900
Todd Barlow	-	-	-	-
Simon Moore	1,416,310	737,757	-	2,154,067
Stuart Black	-	15,000	-	15,000
<i>Executive directors</i>				
Jarrold Ritchie	3,100,407	-	(1,572,656)	1,527,751
<i>Other key management personnel</i>				
Brendan Middleton	-	-	-	-

End of the Remuneration Report (Audited)

Non-audit services

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

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

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

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

	Consolidated entity	
	2017	2016
	\$	\$
<i>(i) Audit and other assurance services</i>		
Audit and review of financial reports and other audit work under the Corporations Act 2001 – KPMG Australia	136,650	112,000
Audit and review of financial reports and other audit work for subsidiaries – KPMG International	86,444	23,052
Total remuneration for audit and other assurance services	223,094	135,052
<i>(ii) Taxation services</i>		
Advice on taxation and other matters and review and lodgement of corporate tax returns – KPMG International	-	4,581
Total remuneration for taxation services	-	4,581
<i>(iii) Other services</i>		
Transaction due diligence services – KPMG Australia	25,670	95,000
Transaction integration and change management advisory services – KPMG International	170,192	-
Total remuneration for other services	195,862	95,000
Total remuneration of KPMG	418,956	234,633

No officers were previously partners of the audit firm KPMG.

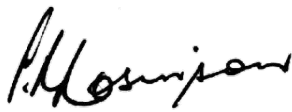
Auditor's independence declaration

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

Auditor

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

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

A handwritten signature in black ink, appearing to read 'P. Robinson', is positioned above the printed name and title.

Mr. Peter Robinson
Director

Melbourne
27 February 2018



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 of TPI Enterprises Ltd for the financial year ended 31 December 2017 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

27 February 2018

Corporate Governance Statement

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

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

The Corporate Governance Statement contains certain specific information and discloses the extent to which the Company has followed the Council's principles during the 2017 financial year.

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

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

TPI Enterprises Limited ACN 107 872 453

Financial statements - 31 December 2017

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These financial statements are the consolidated financial statements of the consolidated entity consisting of TPI Enterprises Limited and its subsidiaries. A list of subsidiaries is included in note 24. These financial statements are presented in Australian dollars (\$), which is the Group's functional currency.

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

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

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

The financial statements were authorised for issue by the directors on 27 February 2018. The directors have the power to amend and reissue the financial statements.

TPI Enterprises Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2017

		Consolidated entity	
		31 December	31 December
		2017	2016
	Notes	\$	\$
Revenue			
Sale of goods		21,666,095	7,614,801
Other income		597,079	2,941,648
	6	22,263,174	10,556,449
Expenses			
Raw materials, consumables and other production expenses		(14,055,378)	(5,674,184)
Employee benefits (production) expenses	7	(3,133,052)	(1,265,537)
Employee benefits (non-production) expenses	7	(8,251,127)	(5,019,261)
Legal and listing expenses		(430,381)	(338,281)
Market development expenses		(382,785)	(847,873)
Occupancy expenses		(1,621,115)	(1,676,649)
Research expenses		(374,975)	(1,287,481)
Relocation expenses		-	(28,673)
Acquisition related expenses - legal and other expenses		(1,873,056)	-
Agricultural area trialling expenses		(432,318)	(267,114)
Impairment of inventory to net realisable value		(1,958,963)	(469,437)
Other expenses		(1,630,029)	(2,066,141)
Total expenses		(34,143,179)	(18,940,631)
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)		(11,880,005)	(8,384,182)
Depreciation and amortisation expense	7	(2,762,779)	(2,858,984)
Earnings Before Interest and Tax (EBIT)		(14,642,784)	(11,243,166)
Finance income		190,914	23,812
Finance expenses		(2,240,819)	(2,801,481)
Net finance expenses	7	(2,049,905)	(2,777,669)
(Loss) before income tax		(16,692,689)	(14,020,835)
Income tax expense	8	-	-
(Loss) for the year		(16,692,689)	(14,020,835)
Other comprehensive income			
<i>Item that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		(277,420)	125,213
Total comprehensive (loss) for the year		(16,970,109)	(13,895,622)
(Loss) is attributable to:			
Owners of TPI Enterprises Limited		(16,692,689)	(14,020,835)

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

TPI Enterprises Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2017
(continued)

		Consolidated entity	
		31 December	31 December
		2017	2016
	Notes	\$	\$
Total comprehensive (loss) for the year is attributable to:			
Owners of TPI Enterprises Limited		<u>(16,970,109)</u>	<u>(13,895,622)</u>
		Cents	Cents
Earnings per share for the loss from continuing operations			
attributable to the ordinary equity holders of the Company:			
Basic loss per share	29	(23.38)	(26.96)
Diluted loss per share	29	(23.38)	(26.96)

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

TPI Enterprises Limited
Consolidated statement of financial position
As at 31 December 2017

		Consolidated entity	
		31 December	31 December
		2017	2016
Notes		\$	\$
ASSETS			
Current assets			
	9	3,644,547	622,548
Cash and cash equivalents			
Trade and other receivables	10	9,333,756	4,128,247
Inventories	11	16,499,470	6,807,992
Prepayments		1,202,288	1,157,023
Assets classified as held for sale	26	2,961,845	-
Total current assets		33,641,906	12,715,810
Non-current assets			
Investments	12	101,766	103,219
Property, plant and equipment	13	27,387,040	28,234,972
Intangible assets	14	18,362,423	1,924,634
Other non-current assets		256,945	256,945
Total non-current assets		46,108,174	30,519,770
Total assets		79,750,080	43,235,580
LIABILITIES			
Current liabilities			
Trade and other payables	15	9,353,248	3,397,074
Borrowings	16	13,226,838	821,298
Provisions	17	1,219,118	770,416
Total current liabilities		23,799,204	4,988,788
Non-current liabilities			
Borrowings	18	-	27,251,831
Deferred tax liabilities	8	2,384,098	-
Provisions	19	314,566	274,719
Total non-current liabilities		2,698,664	27,526,550
Total liabilities		26,497,868	32,515,338
Net assets		53,252,212	10,720,242
EQUITY			
Share capital	20	181,482,260	122,178,914
Reserves	21	1,856,069	1,934,756
(Accumulated losses)		(130,086,117)	(113,393,428)
Total equity		53,252,212	10,720,242

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

TPI Enterprises Limited
Consolidated statement of changes in equity
For the year ended 31 December 2017

Consolidated entity	Notes	Attributable to owners of TPI Enterprises Limited				Total equity \$
		Contributed equity \$	Foreign currency translation reserve \$	Other reserves \$	(Accumulated losses) \$	
Balance 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 (loss)/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:						
Contributions of equity, net of transaction costs and tax	20	3,988,251	-	-	-	3,988,251
Balance at 31 December 2016		122,178,914	12,827	1,921,929	(113,393,428)	10,720,242
Balance at 1 January 2017		122,178,914	12,827	1,921,929	(113,393,428)	10,720,242
(Loss) for the year		-	-	-	(16,692,689)	(16,692,689)
Other comprehensive (loss)/income		-	(277,420)	-	-	(277,420)
Total comprehensive income/(loss) for the year		-	(277,420)	-	(16,692,689)	(16,970,109)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs and tax	20	59,303,346	-	-	-	59,303,346
Share-based payments	30	-	-	198,733	-	198,733
		59,303,346	-	198,733	-	59,502,079
Balance at 31 December 2017		181,482,260	(264,593)	2,120,662	(130,086,117)	53,252,212

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

TPI Enterprises Limited
Consolidated statement of cash flows
For the year ended 31 December 2017

		Consolidated entity	
		31 December	31 December
		2017	2016
Notes		\$	\$
Cash flows from operating activities			
		15,531,077	5,950,581
	Receipts from customers (inclusive of goods and services tax)		
	Payments to suppliers and employees (inclusive of goods and services tax)	(28,290,799)	(18,235,514)
		(12,759,722)	(12,284,933)
	Cash receipts from government grants	1,526,588	255,500
	Other cash receipts	-	528,478
	Interest received	190,914	20,076
	Interest and finance costs paid	(2,102,686)	(2,334,408)
	Net cash (outflow) from operating activities	(13,144,906)	(13,815,287)
Cash flows from investing activities			
	Payments for acquisition of subsidiary, net of cash acquired	(25,557,114)	-
	Payments for property, plant and equipment	(1,872,495)	(3,280,880)
	Payments for capitalised development costs and patents	(524,957)	(453,207)
	Proceeds from sale of property, plant and equipment	3,193	-
	Net cash (outflow) from investing activities	(27,951,373)	(3,734,087)
Cash flows from financing activities			
	Proceeds from issues of shares	53,834,526	3,999,999
	Share issuance transaction costs	(2,861,711)	(11,748)
	Proceeds from borrowings	10,375,000	14,205,420
	Repayment of borrowings	(16,890,760)	(148,541)
	Net cash inflow from financing activities	44,457,055	18,045,130
Net increase in cash and cash equivalents			
	Cash and cash equivalents at the beginning of the financial year	622,548	311,057
	Effects of exchange rate changes on the balance of assets held in foreign currencies	(338,777)	(184,265)
	Cash and cash equivalents at end of year	3,644,547	622,548

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

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1 Reporting entity

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

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

(i) Compliance with IFRS

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

(ii) Historical cost convention

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

(iii) New accounting standards for application in future periods

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the future impact of these new standards and interpretations is set out below.

IFRS 9 *Financial Instruments*, 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 has reviewed its financial assets and liabilities and is expecting the following impacts from the adoption of this new standard on 1 January 2018:

- The Group does not expect the new guidance to affect the classification and measurement of its financial assets;
- There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities; and
- The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial assets and liabilities in the year of the adoption of the new standard.

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.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The Group has assessed the effects of applying this new standard on the Group's financial statements from 1 January 2018 and has identified the following area:

- Goods sold: revenue from the sale of goods is currently recognised when the significant risks and rewards of ownership of the goods have passed to the customer. Revenue is recognised at this point if it can be reliably measured, recovery of the consideration is probable, there is no continuing management involvement by the Group with the goods, there is no unfulfilled obligation that could affect customers' acceptance of the goods, and the associated costs and possible return of goods can be estimated reliably. Under IFRS 15, revenue will be recognised when a customer obtains control of the goods which does not materially differ from the transfer of the significant risks and rewards of ownership of the goods based on existing terms of sale contracts for the sale of goods.

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

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16 from 1 January 2019 noting that the Group has an existing lease arrangement that is currently recognised as a finance lease, which is not expected to change.

(b) Principles of consolidation

Business combinations

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

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

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

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

2 Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of TPI Enterprises Limited as at 31 December 2017 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 ceases.

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

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

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

(iii) Foreign operations

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

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

2 Summary of significant accounting policies (continued)

(e) Going concern

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

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

- For the year ended 31 December 2017 the Group generated a loss after income tax of \$16,692,689 (2016: \$14,020,835) and had cash outflows from operations of \$13,144,906 (2016: \$13,815,287).
- As at 31 December 2017 the Group's current assets exceeded its current liabilities by \$9,842,702 (2016: \$7,727,022), with cash and cash equivalents of \$3,644,547 (2016: \$622,548).
- In March 2017 the Group raised \$44.2 million from a combined placement and entitlement offer, and raised a further \$18 million in July 2017 from a placement to existing shareholders.
- The Directors have confidence that the recent equity capital raised and availability of debt facilities can meet the Group's immediate funding needs.
- The Directors' confidence in the continuing support from existing shareholders and ability to attract new investors and debt providers to fund the Group's future finance requirements, if required, as demonstrated by previous capital and debt raisings.
- The Directors' confidence in the business plans, cash flow and profit and loss forecasts prepared by management, and resources in place to achieve these forecasts for the 2018 financial year. The forecasts project positive EBITDA and positive operating cash flows in the medium-term.
- The Group has a standby debt facility in place with Washington H. Soul Pattinson and Company Limited, a substantial shareholder. As at the date of this report the facility has a limit of \$12,500,000 and expires on 28 February 2019. The Directors acknowledge that prima facie an apparent refinancing risk exists at 28 February 2019 if the facility is drawn down and not repaid out of funds secured from an alternative source of debt or raised from the issue of additional equity.

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

(f) Financial instruments

Non-derivative financial assets

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 consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

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 2(j)).

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.

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.

(g) Revenue recognition

(i) 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 it can be reliably measured, the significant risks and rewards of ownership of the goods have passed to the customer, recovery of the consideration is probable, there is no continuing management involvement by the Group with the goods, there is no unfulfilled obligation that could affect customers' acceptance of the goods, and the associated costs and possible return of goods can be estimated 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 sale of goods are recognised. The timing of the transfer of risks and rewards to the customer for the sale of goods occurs either:

- when the goods are despatched or delivered in line with the International Chamber of Commerce's International Commercial Terms (Incoterms®) as detailed in the relevant contract of sale or purchase order for the goods;

2 Summary of significant accounting policies (continued)

(g) Revenue recognition (continued)

- when they are made available to the customer and ownership transfers prior to despatch as detailed in the relevant contract of sale or purchase order for the goods; or
- on notification that the product has been used when the goods are consignment products located at customers' premises.

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

(ii) Government grants

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

(h) Income tax

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

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

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

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

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.

2 Summary of significant accounting policies (continued)

(h) Income tax (continued)

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

(i) Leases

Leased assets

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

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

Lease payments

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

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

Determining whether an arrangement contains a lease

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

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

(j) Impairment

Non-derivative financial assets

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.

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.

2 Summary of significant accounting policies (continued)

(j) Impairment (continued)

Non-financial assets

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

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

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

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

Goodwill

Goodwill is tested annually for impairment.

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

(k) Inventories

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

(l) Assets held for sale

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

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

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

2 Summary of significant accounting policies (continued)

(m) Property, plant and equipment

Recognition and measurement

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

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

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

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

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

Subsequent costs

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

Depreciation

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

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

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

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

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

(n) Investments

Details of shares in controlled entities are disclosed at note 24(a). Controlled entities are accounted for in the consolidated accounts as set out in the note 2(b).

2 Summary of significant accounting policies (continued)

(o) Intangible assets

(i) Research and development

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

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

(ii) Patents and trademarks

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

(iii) Irrigation rights

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

Intangible assets not amortised are subject to annual impairment testing.

(iv) Goodwill

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

(v) Subsequent expenditure

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

(vi) Amortisation

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

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

- Patents and trademarks 3 - 5 years
- Capitalised development costs 2 - 5 years
- Customer relationships 6 years

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

2 Summary of significant accounting policies (continued)

(p) Finance income and finance expenses

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

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

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

(q) Provisions

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

(r) Employee benefits

(i) Short-term obligations

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

(ii) Other long-term employee benefit obligations

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

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

(iii) Share-based payment arrangements

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

2 Summary of significant accounting policies (continued)

(s) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year. Refer to note 29 for further details.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. Refer to note 29 for further details.

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

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

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

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

(u) Parent entity financial information

The financial information for the parent entity, TPI Enterprises Limited, disclosed in note 31, has been prepared on the same basis as the consolidated financial statements, except for investments in subsidiaries. Investments in subsidiaries are accounted for at cost in the financial statements of TPI Enterprises Limited.

3 Financial risk management

Overview

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

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

(a) Credit risk

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

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

Exposure to credit risk

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

		Consolidated entity	
		31 December	31 December
		2017	2016
	Notes	\$	\$
Trade receivables	10	8,602,451	2,148,590
Other receivables	10	731,305	1,979,657
Cash and cash equivalents	9	3,644,547	622,548
Other assets		256,945	256,945
		13,235,248	5,007,740

3 Financial risk management (continued)

(a) Credit risk (continued)

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

	Consolidated entity	
	31 December 2017	31 December 2016
	\$	\$
Europe	7,942,700	1,662,454
Other regions	659,751	486,136
	8,602,451	2,148,590

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

	Consolidated entity	
	31 December 2017	31 December 2016
	\$	\$
End-user customers	8,602,451	2,148,590

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 is impaired.

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

	Consolidated entity	
	31 December 2017	31 December 2016
	\$	\$
Not past due	4,788,525	1,920,513
1 - 30 days	1,294,277	-
31 - 60 days	2,001,143	228,077
60 days and over	518,506	-
	8,602,451	2,148,590

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 2017, there was no provision for impairment in relation to trade receivable balances (2016: nil).

Cash and cash equivalents

The Group held cash and cash equivalents, including other assets, of \$3,644,547 at 31 December 2017 (2016: \$622,548), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with a reputable bank and financial institution counterparts.

3 Financial risk management (continued)

(b) Liquidity risk

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

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

Contractual maturities of financial liabilities	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount of liabilities
At 31 December 2017	\$	\$	\$	\$	\$	\$	\$
Non-derivatives							
Shareholder loan facility	-	(5,000,000)	-	-	-	(5,000,000)	5,000,000
Irrigation rights fixed repayment plan	(79,172)	-	-	-	-	(79,172)	76,831
Financial lease liabilities	(388,472)	(8,473,726)	-	-	-	(8,862,198)	8,150,000
Trade and other payables	(7,424,482)	-	-	-	-	(7,424,482)	7,424,482
Deferred consideration payable	(1,487,680)	-	-	-	-	(1,487,680)	1,487,680
Other	(7)	-	-	-	-	(7)	7
Total non-derivatives	(9,379,813)	(13,473,726)	-	-	-	(22,853,539)	22,139,000

At 31 December 2016

Non-derivatives							
Shareholder loan facility	-	-	(19,625,000)	-	-	(19,625,000)	19,625,000
Irrigation rights fixed repayment plan	(79,172)	(79,172)	(79,173)	-	-	(237,517)	221,552
Financial lease liabilities	(375,335)	(377,524)	(8,862,198)	-	-	(9,615,057)	8,150,000
Trade and other payables	(3,397,074)	-	-	-	-	(3,397,074)	3,397,074
Insurance premium funding	(63,607)	-	-	-	-	(63,607)	59,884
Other	(16,693)	-	-	-	-	(16,693)	16,693
Total non-derivatives	(3,931,881)	(456,696)	(28,566,371)	-	-	(32,954,948)	31,470,203

3 Financial risk management (continued)

(c) Market risk

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

(i) Currency risk

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

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

Consolidated entity	31 December 2017					31 December 2016	
	USD	EUR	NOK	SEK	DKK	USD	EUR
Financial assets							
Cash and cash equivalents	210,145	398,647	16,818,651	-	15,000	410,330	11,638
Trade and other receivables	4,469,030	1,953,977	7,044,081	-	-	1,525,009	65,523
Financial liabilities							
Trade and other payables	(913,402)	(395,786)	(6,913,086)	(2,740,805)	(170,000)	-	(23,413)
Net exposure	3,765,773	1,956,838	16,949,646	(2,740,805)	(155,000)	1,935,339	53,748

3 Financial risk management (continued)

(c) Market risk (continued)

Sensitivity

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the statement of financial position date. A 10 percent increase or decrease in the foreign exchange rate is used and represents management's assessment of the possible change in foreign exchange rates and historically is within a range of rate movements. A positive number indicates an increase in profit and equity. A negative number indicates a decrease in profit and equity. At 31 December 2017, if foreign exchange rates had moved, as illustrated in the table below, with all other variables held constant, pre-tax profit and equity would have been affected as follows:

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

	- 10% in AUD		+ 10% in AUD	
31 December 2016				
Consolidated entity	Profit \$	Equity \$	Profit \$	Equity \$
<i>Financial assets</i>				
Cash and cash equivalents	64,889	64,889	(53,091)	(53,091)
Trade and other receivables	244,765	244,765	(200,262)	(200,262)
<i>Financial liabilities</i>				
Trade and other payables	(3,785)	(3,785)	3,097	3,097
	<u>305,869</u>	<u>305,869</u>	<u>(250,256)</u>	<u>(250,256)</u>

3 Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk

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

Profile

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

	Carrying amounts	
	31 December	31 December
	2017	2016
	\$	\$
<i>Fixed rate instruments</i>		
Financial assets	256,945	256,945
Financial liabilities	13,226,831	28,056,436
<i>Variable rate instruments</i>		
Financial assets	112,186	34,050
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 \$1,122 (2016: \$340). This analysis assumes that all other variables, in particular foreign currency rates remain constant.

(d) Capital management

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

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

(e) Fair values

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

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

3 Financial risk management (continued)

(e) Fair values (continued)

Accounting classifications and fair values

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

	Carrying amounts			
	Designated at fair value \$	Loans and receivables \$	Other financial liabilities \$	Total \$
31 December 2017				
<i>Financial assets measured at fair value</i>				
Unlisted investments	101,766	-	-	101,766
<i>Financial assets not measured at fair value</i>				
Cash and cash equivalents	-	3,644,547	-	3,644,547
Trade and other receivables	-	9,333,756	-	9,333,756
	101,766	12,978,303	-	13,080,069
<i>Financial liabilities not measured at fair value</i>				
Shareholder loan facility	-	-	5,000,000	5,000,000
Irrigation rights fixed repayment plan	-	-	76,831	76,831
Finance lease liabilities	-	-	8,150,000	8,150,000
Other borrowings	-	-	7	7
Trade and other payables	-	-	7,424,482	7,424,482
	-	-	20,651,320	20,651,320
31 December 2016	\$	\$	\$	\$
<i>Financial assets measured at fair value</i>				
Unlisted investments	103,219	-	-	103,219
<i>Financial assets not measured at fair value</i>				
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
<i>Financial liabilities not measured at fair value</i>				
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

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

4 Critical estimates, judgements and errors

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

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

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2017 is included in the following notes:

Notes 13 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 data (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.

5 Segment information

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

Australia

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

Norway

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

	Australia		Norway		Eliminations		Consolidated	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	\$	\$	\$	\$	\$	\$	\$	\$
Consolidated entity								
External revenue	13,035,189	10,468,950	9,227,985	-	-	-	22,263,174	10,468,950
Inter-segment revenue	979,893	-	-	-	(979,893)	-	-	-
Total segment revenue	14,015,082	10,468,950	9,227,985	-	(979,893)	-	22,263,174	10,468,950
Reportable segment profit	(14,019,206)	(10,469,492)	92,148	-	(294,378)	-	(14,221,436)	(10,469,492)
<i>Unallocated amounts</i>								
Net financing costs	-	-	-	-	-	-	(1,824,666)	(2,777,669)
(Loss) from discontinued operation	-	-	-	-	-	-	(646,587)	(773,674)
Consolidated (loss) before tax	-	-	-	-	-	-	(16,692,689)	(14,020,835)

5 Segment information (continued)

	Consolidated entity	
	31 December 2017	31 December 2016
	\$	\$
Non-current assets		
Australia	27,290,562	27,503,281
Europe	18,817,613	3,016,489
	46,108,175	30,519,770

6 Revenue

	Consolidated entity	
	31 December 2017	31 December 2016
	\$	\$
From continuing operations		
<i>Sales revenue</i>		
Sale of goods	21,666,095	7,614,801
<i>Other income</i>		
Government grants	-	1,904,748
Research and development tax incentive	597,079	1,036,900
	597,079	2,941,648
	22,263,174	10,556,449

7 Expenses

	Consolidated entity	
	31 December 2017	31 December 2016
	\$	\$
(Loss) before income tax includes the following specific expenses:		
<i>Employee benefits expenses</i>		
Salaries and wages	9,008,370	5,287,136
Other associated personnel expenses	1,117,185	454,174
Defined contribution superannuation expenses	571,342	309,059
Increase in liability for long service leave	39,566	67,849
Increase in liability for annual leave	448,983	166,580
Share-based payments	198,733	-
Total employee benefits expenses	11,384,179	6,284,798

7 Expenses (continued)

	Consolidated entity	
	31 December 2017	31 December 2016
	\$	\$
<i>Depreciation</i>		
Buildings	441,938	419,703
Contract equipment	147,553	119,743
Manufacturing plant and equipment	1,686,043	1,685,426
Office equipment	91,070	33,691
Motor vehicles	50,249	68,037
Total depreciation	2,416,853	2,326,600
<i>Amortisation</i>		
Patents	5,477	27,916
Capitalised development costs	340,449	504,468
Total amortisation	345,926	532,384
Total depreciation and amortisation	2,762,779	2,858,984
<i>Finance income</i>		
Interest income	(190,914)	(23,812)
	(190,914)	(23,812)
<i>Finance costs</i>		
Interest and finance expenses on financial liabilities measured at amortised cost	2,015,583	2,501,086
Net exchange losses on foreign currency	225,236	300,395
	2,240,819	2,801,481
Net finance expenses recognised in profit or loss	2,049,905	2,777,669

8 Income tax expense

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

	Consolidated entity	
	31 December 2017	31 December 2016
	\$	\$
(Loss) from continuing operations before income tax expense	(16,692,689)	(14,020,835)
Tax at the Australian tax rate of 30.0% (2016 - 30.0%)	(5,007,807)	(4,206,250)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Effect of different tax rates of subsidiaries operating in other jurisdictions	11,131	46,420
Deferred tax assets not brought into account	4,996,676	4,159,830
Income tax expense	-	-

8 Income tax expense (continued)

(b) Unrecognised deferred tax assets

Consolidated entity	
31 December	31 December
2017	2016
\$	\$

The following deferred tax assets have not been brought to account as assets:

Deductible temporary differences	3,282,637	3,190,109
Tax losses – revenue	32,683,507	27,118,106
	35,966,144	30,308,215

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

(c) Deferred tax balances

Consolidated entity	
31 December	31 December
2017	2016
\$	\$

The balance comprises temporary differences attributable to:

Intangible assets - Norway	2,384,098	-
Total deferred tax liabilities	2,384,098	-

Set-off of deferred tax assets pursuant to set-off provisions	-	-
Net deferred tax liabilities	2,384,098	-

Movements	Intangible assets	Total
	\$	\$
At 1 January 2017	-	-
Acquired in business combinations	2,384,098	2,384,098
At 31 December 2017	2,384,098	2,384,098

9 Current assets - Cash and cash equivalents

	Consolidated entity	
	31 December 2017	31 December 2016
	\$	\$
Cash at bank	3,644,547	622,548

10 Current assets - Trade and other receivables

	Consolidated entity	
	31 December 2017	31 December 2016
	\$	\$
Trade receivables	8,602,451	2,148,590
GST and VAT	-	318,843
Government grants	-	622,250
Other receivables	731,305	1,038,564
	9,333,756	4,128,247

The balance of trade and other receivables of \$9,333,756 (2016: \$4,128,247) are not considered impaired. Refer to note 3 for details of the credit risk exposure analysis.

11 Current assets - Inventories

	Consolidated entity	
	31 December 2017	31 December 2016
	\$	\$
Raw materials and consumables	6,544,865	2,356,833
Work in progress	9,157,516	4,277,893
Finished goods	797,089	173,266
	16,499,470	6,807,992

12 Non-current assets - Investments

	Consolidated entity	
	31 December 2017	31 December 2016
	\$	\$
Macquarie River Pipeline Partnership - at fair value	101,766	103,219

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 3). The Group recognised its share of profits generated by the Partnership during the year.

13 Non-current assets - Property, plant and equipment

Consolidated entity	Land and buildings \$	Manufacturing plant and equipment \$	Office equipment \$	Motor vehicles \$	Contract plant and equipment \$	Total \$
At 1 January 2016						
Cost	18,582,667	24,883,810	1,066,734	699,660	1,838,369	47,071,240
Accumulated depreciation	(6,523,864)	(9,897,272)	(483,807)	(474,319)	(1,090,645)	(18,469,907)
Net book amount	12,058,803	14,986,538	582,927	225,341	747,724	28,601,333
Year ended 31 December 2016						
Opening net book amount	12,058,803	14,986,538	582,927	225,341	747,724	28,601,333
Exchange rate movements	(98,238)	-	(3)	(125)	-	(98,366)
Additions	58,902	1,437,399	42,925	33,050	496,378	2,068,654
Disposals	-	-	(1,541)	(8,508)	-	(10,049)
Transfers between assets classes	525,261	(410,930)	(44,179)	-	(70,152)	-
Depreciation charge	(419,703)	(1,685,426)	(33,691)	(68,037)	(119,743)	(2,326,600)
Closing net book amount	12,125,025	14,327,581	546,438	181,721	1,054,207	28,234,972
At 31 December 2016						
Cost	19,353,277	23,735,179	896,582	678,357	1,645,136	46,308,531
Accumulated depreciation	(7,228,252)	(9,407,598)	(350,144)	(496,636)	(590,929)	(18,073,559)
Net book amount	12,125,025	14,327,581	546,438	181,721	1,054,207	28,234,972

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

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

Impairment testing

During the year ended 31 December 2017, the Group continued to record operating losses and accordingly has performed impairment testing to assess whether the recoverable amount of its property, plant and equipment and intangible assets is in excess of carrying value.

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

The recoverable amount for Norway was determined based on fair value less costs of disposal, based on a recent transaction during the period.

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

Value in use as at 31 December 2017 was determined for the Australia CGU, based on the following key assumptions:

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

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

- Sales prices are based on current industry trends for each sales territory and contracted pricing where applicable.
- Forecast gross margins are based on past performance and management's expectations for the future.
- Other operating costs of the CGU, which do not vary significantly with sales volumes or prices, have been forecast by Management based on the current structure of the business, but not reflecting any future restructurings or cost saving measures.
- Annual capital expenditure is based on the historical experience of management. No incremental cost savings are assumed in the value-in-use model as a result of this expenditure.
- An after-tax discount rate of 10.3% (pre tax amount of 13.7%) was applied in determining the recoverable amount of the CGU based on an industry average weighted-average cost of capital and applying a premium to the industry average due to the Group's size and stage of lifecycle.

The recoverable amount of the Australia CGU was determined to be higher than its carrying amount, indicating that no impairment is evident. In addition, reasonably possible changes in key assumptions were considered, such as changes in the forecast sales volumes, foreign exchange rates and the discount rate; sufficient headroom exists and no 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 2017, the net carrying amount of this site is \$7,947,500 (2016: \$8,048,750).

14 Non-current assets - Intangible assets

Consolidated entity	Goodwill \$	Patents \$	Customer relationships \$	Capitalised development costs \$	Irrigation rights \$	Total \$
At 1 January 2016						
Cost	-	607,881	-	3,523,519	1,100,000	5,231,400
Accumulated amortisation and impairment	-	(574,957)	-	(2,656,957)	-	(3,231,914)
Net book amount	-	32,924	-	866,562	1,100,000	1,999,486
Year ended 31 December 2016						
Opening net book amount	-	32,924	-	866,562	1,100,000	1,999,486
Exchange differences	-	-	-	(5,034)	-	(5,034)
Additions	-	470	-	462,096	-	462,566
Amortisation charge	-	(27,916)	-	(504,468)	-	(532,384)
Closing net book amount	-	5,478	-	819,156	1,100,000	1,924,634
At 31 December 2016						
Cost	-	608,351	-	3,970,561	1,100,000	5,678,912
Accumulated amortisation and impairment	-	(602,873)	-	(3,151,405)	-	(3,754,278)
Net book amount	-	5,478	-	819,156	1,100,000	1,924,634

14 Non-current assets - Intangible assets (continued)

Consolidated entity	Goodwill \$	Patents \$	Customer relationships \$	Capitalised development costs \$	Irrigation rights \$	Total \$
Year ended 31 December 2017						
Opening net book amount	-	5,478	-	819,156	1,100,000	1,924,634
Exchange differences	-	(3,313)	-	-	-	(3,313)
Additions	-	124,436	-	400,521	-	524,957
Acquisition of subsidiary	6,772,206	125,597	9,933,741	-	-	16,831,544
Assets held for sale	-	-	-	(569,473)	-	(569,473)
Amortisation charge	-	(5,477)	-	(340,449)	-	(345,926)
Closing net book amount	6,772,206	246,721	9,933,741	309,755	1,100,000	18,362,423
At 31 December 2017						
Cost	6,772,206	607,450	9,933,741	1,070,646	1,100,000	19,484,043
Accumulated amortisation and impairment	-	(360,729)	-	(760,891)	-	(1,121,620)
Net book amount	6,772,206	246,721	9,933,741	309,755	1,100,000	18,362,423

Impairment testing

The Group reviewed the carrying value of development costs at 31 December 2017 and determined that no additional impairments were required in respect of these assets.

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

Refer to note 13 for further details of the Group's impairment testing for the year ended 31 December 2017.

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.

15 Current liabilities - Trade and other payables

	Consolidated entity	
	31 December 2017	31 December 2016
	\$	\$
Trade payables	6,688,155	3,114,834
GST and VAT	441,090	-
Deferred consideration payable (note 25)	1,487,680	-
Other payables	736,323	282,240
	9,353,248	3,397,074

16 Current liabilities - Borrowings

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

	Consolidated entity	
	31 December 2017	31 December 2016
	\$	\$
Finance lease liabilities	8,150,000	600,000
Irrigation rights fixed repayment plan	76,831	144,721
Insurance premium funding	-	59,884
Shareholder loan facility	5,000,000	-
Other loans	7	16,693
Total current borrowings	13,226,838	821,298

Refer to note 18 for movements during the year, and the contractual terms of the Group's current borrowings.

Refer to note 18 for reconciliation of movements of liabilities to cash flows arising from financing activities.

17 Current liabilities - Provisions

	Consolidated entity	
	31 December 2017	31 December 2016
	\$	\$
Employee benefits - annual leave	1,219,118	770,416

18 Non-current liabilities - Borrowings

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

	Consolidated entity	
	31 December 2017	31 December 2016
	\$	\$
Finance lease liabilities	-	7,550,000
Irrigation rights fixed repayment plan	-	76,831
Shareholder loan facility	-	19,625,000
Total non-current borrowings	-	27,251,831

(a) Movements during the year

	Currency	Nominal interest rate	Year of maturity	Movement	Carrying amount (\$)
At 1 January 2017					28,073,129
<i>Repayments</i>					
Shareholder loan facility	AUD	11.00%	2018	(14,625,000)	5,000,000
Finance lease liabilities	AUD	9.04%	2018	-	8,150,000
Irrigation rights fixed repayment plan	AUD	8.10%	2018	(144,721)	76,831
Insurance premium funding	AUD	6.22%	2017	(59,884)	-
Other	AUD		2018	(16,686)	7
Carrying amount at 31 December 2017				(14,846,291)	13,226,838

Washington H. Soul Pattinson and Company Limited, a substantial shareholder has provided the Group with a standby debt facility with a limit of up to \$12,500,000 (2016: \$23,500,000) to meet the Group's short term working capital needs. At 31 December 2017 the Group had drawn down \$5,000,000 of the Facility (2016: \$19,625,000). The maturity date of this facility was extended in February 2018 from August 2018 to February 2019.

In addition, as at 31 December 2017, external debt included a vendor loan provided by the Meander Valley Water Scheme, secured by the water rights provided by the scheme, and the finance lease (deferred purchase arrangement) for the Melbourne factory site. Both these facilities are within terms.

(b) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2017		31 December 2016	
	Currency	Nominal interest rate	Year of maturity	Face value (\$)	Carrying amount (\$)	Face value (\$)	Carrying amount (\$)
Shareholder loan facility	AUD	11.00%	2018	5,000,000	5,000,000	19,625,000	19,625,000
Finance lease liabilities	AUD	9.04%	2018	8,862,198	8,150,000	9,615,057	8,150,000
Irrigation rights fixed repayment plan	AUD	8.10%	2018	79,172	76,831	237,517	221,552
Insurance premium funding	AUD	6.22%	2017	-	-	63,607	59,884
Other	AUD		2018	7	7	16,693	16,693
Total interest bearing liabilities				13,941,377	13,226,838	29,557,874	28,073,129

18 Non-current liabilities - Borrowings (continued)

(c) Finance lease liabilities

	Consolidated entity	
	31 December 2017	31 December 2016
	\$	\$
Commitments in relation to finance leases are payable as follows:		
Within one year	8,862,198	752,859
Later than one year but not later than five years	-	8,862,198
Minimum lease payments	8,862,198	9,615,057
Future finance charges	(712,198)	(1,465,057)
Total lease liabilities	8,150,000	8,150,000
Representing lease liabilities:		
Current	8,150,000	600,000
Non-current	-	7,550,000
	8,150,000	8,150,000

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

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

19 Non-current liabilities - Provisions

	Consolidated entity	
	31 December 2017	31 December 2016
	\$	\$
Employee benefits - long service leave	314,566	274,719

20 Contributed equity

(a) Share capital

	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	Shares	Shares	\$	\$
Ordinary shares Fully paid	81,085,594	52,828,750	181,482,260	122,178,914

(b) Movements in ordinary shares:

Details	Number of shares	Total \$
Opening balance 1 January 2016	51,449,440	118,190,663
Shares issued for cash	1,379,310	3,999,999
Less: Transaction costs arising on share issue	-	(11,748)
Balance 31 December 2016	52,828,750	122,178,914
Opening balance 1 January 2017	52,828,750	122,178,914
Shares issued for cash	24,470,239	53,834,526
Conversion of shareholder loan to equity	3,786,605	8,330,531
Less: Transaction costs arising on share issue	-	(2,861,711)
Balance 31 December 2017	81,085,594	181,482,260

(c) Ordinary shares

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

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

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

21 Reserves

Foreign currency translation reserve

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

Other reserves

Other reserves comprise a share-based payment reserve.

22 Remuneration of auditors

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

KPMG

(i) Audit and other assurance services

	Consolidated entity	
	2017	2016
	\$	\$
Audit and review of financial reports and other audit work under the Corporations Act 2001 – KPMG Australia	136,650	112,000
Audit and review of financial reports and other audit work for subsidiaries – KPMG International	86,444	23,052
Total remuneration for audit and other assurance services	223,094	135,052

(ii) Taxation services

Advice on taxation and other matters and review and lodgement of corporate tax returns – KPMG International	-	4,581
Total remuneration for taxation services	-	4,581

(iii) Other services

Transaction due diligence services – KPMG Australia	25,670	95,000
Transaction integration and change management advisory services – KPMG International	170,192	-
Total remuneration for other services	195,862	95,000

Total remuneration of KPMG	418,956	234,633
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23 Commitments

(a) Capital commitments

As at 31 December 2017 the Group had capital commitments for equipment of \$141,750 (2016: \$413,489).

(b) 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 18 for further details.

24 Related party transactions

(a) Controlled subsidiary entities

	Country of incorporation	Class of shares	Equity holding 2017 %	2016 %
<i>Parent Entity:</i>				
TPI Enterprises Ltd	Australia			
<i>Controlled Entities:</i>				
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
TPI Norway Holding AS	Norway	Ordinary	100	-
TPI Norway AS	Norway	Ordinary	100	-

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

(b) Key management personnel compensation

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

	Consolidated entity	
	31 December 2017 \$	31 December 2016 \$
Short-term employee benefits	1,256,175	1,288,974
Post-employment benefits	73,241	85,606
Other long term benefits	28,062	14,108
Share-based payments	90,340	-
	1,447,818	1,388,688

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

24 Related party transactions (continued)

(c) Transactions with key management personnel

During the year ended 31 December 2017 an entity associated with Mr Jarrod Ritchie provided contract transport services to the Group to the value of \$16,065 (2016: \$43,830). As at 31 December 2017 the amount owed by the Group for these services was \$nil (2016: \$14,310). The services were provided under a contract at arms-length commercial rates.

(d) Amounts owing to related parties

Refer to note 18 for details of loans from shareholders.

(e) Other related party transactions

During 2017 financial advisory services amounting to \$1,451,830 (2016: \$nil) were provided by Pitt Capital Partners Limited, and company secretarial and financial reporting services amounting to \$31,900 (2016: \$1,650) were provided by Corporate and Administrative Services Pty Ltd, both are subsidiary entities of Washington H. Soul Pattinson and Company Limited.

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

	Consolidated entity	
	31 December	31 December
	2017	2016
	\$	\$
Pitt Capital Partners Limited	953,513	-
Corporate and Administrative Services Pty Ltd	3,300	1,650

25 Acquisition of subsidiary

(a) Summary of acquisition

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

The acquisition has enabled the Group to accelerate its entry into Active Pharmaceutical Ingredient and Finished Dosage markets, and the Group also expects to benefit from reduced costs through economies of scale and overhead synergies.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	\$
Purchase consideration (refer to (b) below):	
Cash paid	25,559,517
Deferred consideration payable	1,487,680
Total purchase consideration	<u>27,047,197</u>

25 Acquisition of subsidiary (continued)

(a) Summary of acquisition (continued)

The fair values of the assets and liabilities recognised at the date of acquisition measured on a provisional basis are as follows:

	Provisional fair values \$
Cash	2,403
Inventories	10,657,855
Plant and equipment	1,939,493
Intangible assets: patents	125,597
Intangible assets: customer relationships	9,933,741
Deferred tax liabilities	<u>(2,384,098)</u>
Net identifiable assets acquired	20,274,991
 Add: goodwill	 <u>6,772,206</u>
Total purchase consideration	<u>27,047,197</u>

The goodwill is attributable mainly to the skills of the work force of the acquired business and the synergies expected to be achieved from integrating the company into the Group's existing business.

If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above fair value amounts, or any additional provisions that existed at the date of acquisition, then the fair values for the acquisition will be revised.

There were no acquisitions by the Group during the year ending 31 December 2016.

Revenue and profit contribution

The acquired business contributed revenues of \$9,227,985 and net profit before tax of \$92,215 to the Group for the period from 2 October to 31 December 2017. If the acquisition had occurred on 1 January 2017, consolidated pro-forma revenue and net profit before tax for the year ended 31 December 2017 would have been \$36,911,940 and \$1,666,451 respectively. In determining these amounts, management has assumed that the fair value adjustments, measured on a provisional basis, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017.

(b) Purchase consideration - cash outflow

	31 December 2017 \$
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	<u>25,559,517</u>
Less: balances acquired	
Cash	<u>(2,403)</u>
Net outflow of cash - investing activities	<u>25,557,114</u>

Acquisition-related costs

The Group incurred acquisition-related costs of \$1,873,056 on legal fees and due diligence costs.

26 Discontinued operation

(a) Description of discontinued operation

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

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

(b) Financial performance and cash flow information

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

	Consolidated entity	
	31 December	31 December
	2017	2016
	\$	\$
Revenue	-	-
Expenses	(646,587)	(773,674)
(Loss) before income tax	(646,587)	(773,674)
Income tax expense	-	-
(Loss) from discontinued operation	(646,587)	(773,674)
Net cash (outflow) from operating activities	(409,060)	(310,966)
Net cash (outflow) from investing activities	(206,585)	(387,076)
Net increase/(decrease) in cash generated from discontinued operations	(615,645)	(698,042)

26 Discontinued operation (continued)

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

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

	Consolidated entity	
	31 December	31 December
	2017	2016
	\$	\$
Assets classified as held for sale		
Property, plant and equipment	2,304,543	-
Other assets	743,517	-
Total assets of disposal group held for sale	<u>3,048,060</u>	<u>-</u>
Liabilities classified as held for sale		
Trade creditors	(86,215)	-
Total liabilities classified as held for sale	<u>(86,215)</u>	<u>-</u>
Net assets of discontinued operation classified as held for sale	<u>2,961,845</u>	<u>-</u>

27 Cash flow information

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

	Consolidated entity	
	31 December	31 December
	2017	2016
	\$	\$
(Loss) for the period	(16,692,689)	(14,020,835)
Adjustment for		
Depreciation expense	2,416,853	2,326,600
Amortisation expense	345,926	532,384
Interest income	(190,914)	(23,812)
Interest expense	2,102,686	2,501,086
Equity-settled share-based payment transactions	198,733	-
Unrealised foreign exchange loss and other items	-	319,715
Change in operating assets and liabilities:		
(Increase) in trade and other receivables	(5,205,509)	(2,756,076)
Decrease in inventories	966,376	914,664
Decrease in other assets	1,453	-
(Increase) in investments	-	(2,546)
(Increase) in prepayments	(45,265)	(19,583)
Increase (decrease) in trade and other payables	4,380,665	(690,415)
(Decrease) in deferred income	-	(778,059)
Increase in other provisions	488,551	195,922
Interest received	190,914	20,076
Interest paid	(2,102,686)	(2,334,408)
Net cash (outflow) from operating activities	<u>(13,144,906)</u>	<u>(13,815,287)</u>

28 Events occurring after the reporting period

On 2 February 2018 the Group completed the sale of its Portugal domiciled subsidiary entities for €2.85m. The sale proceeds will be used to meet the Group's working capital needs through 2018.

On 16 February 2018 the Group extended the maturity date of its standby debt facility with Washington H. Soul Pattinson and Company Limited from August 2018 to February 2019.

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

29 Earnings per share

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

	Consolidated entity	
	31 December 2017	31 December 2016
	\$	\$
Net loss used in calculating basic earnings per share:	16,692,689	14,020,835
Net loss used in calculating diluted earnings per share:	16,692,689	14,020,835

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

	Consolidated entity	
	2017	2016
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	71,392,897	52,007,194
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	71,392,897	52,007,194

At 31 December 2017, 1,259,597 Share Appreciation Rights were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive.

(c) Information concerning the classification of securities

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

No other securities are currently on issue.

30 Share-based payments

At 31 December 2017, the Group had the following share-based payment arrangement:

Share appreciation rights (equity settled)

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

On 27 March 2017, the Company granted 1,259,597 Share Appreciation Rights to employees under the Share Appreciation Rights Plan. Each Share Appreciation Right is an equity security that confers on the participant a right to be issued a specified number of the Company's shares, calculated by reference to the increase in market price of the Company's shares over a three year period, but subject to satisfaction of the vesting condition that the participant must be an employee of the Group on the third anniversary of the grant date. Share Appreciation Rights are granted under the plan for no consideration and carry no dividend or voting rights.

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

Measurement of grant date fair value

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

Fair value at grant date	\$0.62
Grant date	27 March 2017
Expiry date	27 March 2020
Share price at grant date	\$2.62
Expected volatility	30%
Risk-free interest rate	2.5%
Expected dividends	nil

None of the Share Appreciation Rights had vested at 31 December 2017. Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expenses was \$198,733 (2016: nil).

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

31 Parent entity financial information

(a) Summary financial information

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

	31 December 2017	31 December 2016
	\$	\$
Balance sheet		
Current assets	16,275,267	15,610,770
Total assets	72,899,343	43,114,051
Current liabilities	13,544,873	4,867,229
Total liabilities	18,859,439	32,393,809
<i>Shareholders' equity</i>		
Issued capital	181,482,260	122,178,914
Reserves	2,120,662	1,921,929
(Accumulated losses)	(129,563,018)	(113,380,601)
Total shareholder's equity	54,039,904	10,720,242
(Loss) for the year of the parent entity	(16,812,417)	(13,895,622)
Total comprehensive (loss) of the parent entity	(16,812,417)	(13,895,622)

(b) Guarantees entered into by the parent entity

The parent entity did not enter any guarantees in relation to the debts of its subsidiaries as at 31 December 2017 or 31 December 2016.

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

Refer to note 23.

In the directors' opinion:

- (a) the financial statements and notes set out on pages 21 to 70 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

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



Mr. Peter Robinson
Director

Melbourne
27 February 2018



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 2017 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 2017.
- 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:

- Business acquisition; and
- Recoverable value of intangible assets and plant and equipment

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

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.

Business acquisition

Refer to acquisition of subsidiary Note 25 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>The Group's acquisition of 100% of the share capital of TPI Norway AS for consideration of \$27,047,197 on 2 October 2017 represents a significant single transaction for the Group. This was a key audit matter due to:</p> <ul style="list-style-type: none"> • Size of the acquisition and the pervasive impact on the financial statements; • Complexity of the Purchase Agreement. We focused on assessing the consideration paid and payable, transaction costs and future business expenses against the criteria of the accounting standards; and • The level of judgement and audit effort required in assessing the valuation and provisional purchase price allocation at 31 December 2017, that was performed by an external valuation expert engaged by the group. We focused on key aspects of the valuation report such as the identification and measurement of separately identifiable intangible assets. <p>These conditions and associated complex acquisition accounting required significant audit effort and greater involvement by senior audit team members.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • We read the Purchase Agreement to understand the structure, key terms and conditions, and nature of consideration paid and payable. Using this, we evaluated the accounting treatment of consideration paid, transaction costs and future business expenses against the criteria in the accounting standards. • We assessed and challenged the key assumptions used in the valuation based on the Purchase Agreement. This involved: <ul style="list-style-type: none"> - assessing the objectivity, competence, experience and scope of the Group's external valuation expert. - comparing the inputs used by the Group's external valuation expert to historical results of the acquired business obtained from the Group's due diligence'; - challenging the Group's identification of separate identifiable intangible assets and the Group's external expert's approach and methodology to valuing these assets by comparing to accepted industry practice and the requirements of the accounting standards; • We assessed the Group's disclosures of the quantitative and qualitative considerations in relation to the business acquisition, by comparing these disclosures to our understanding of the acquisition and the requirements of the accounting standards.

Recoverable value of property, plant and equipment	
Refer to property, plant and equipment (\$27,387,040 Note 13) to the Financial Report	
The key audit matter	How the matter was addressed in our audit
<p>This is a key audit matter due to our need to consider the recoverable value of property, plant and equipment in light of the continued loss making operations of the Australian segment during the year. This principally arose due to low production volumes in the Australian segment. 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.</p> <p>Our audit attention focused on assessing the significant management judgements in the value in use model with particular focus on the Australian segment. This model uses forward looking estimations, which can be inherently difficult to determine with precision, and to audit. This is particularly challenging as the Group is planning to further significantly increase production output from current levels. The increased production is dependent on securing additional supply of raw narcotic input material from a number of new suppliers in different geographical regions. Key judgements and estimates included the:</p> <ul style="list-style-type: none"> • 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, new sales channels for example the Norway segment, expected production volumes, narcotic sales prices, and foreign exchange rates, and • EBITDA growth rates, as forecast in the value in use model and developed from the cash flow assessments. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> - evaluated the EBITDA forecast amounts with reference to current year results, and by assessing management's assumptions regarding the key factors that drive forecast EBITDA. We assessed expected supplier input volumes and raw material input costs to the previous year's achieved harvests. We checked forecast production volumes and manufacturing production costs to the current year's production results, and assessed the increased forecast compared to management's planned actions. We assessed the forecast narcotic sales prices to historical sales data, and the forecast exchange rates to current forward exchange rates. These factors were compared to historical market evidence and the Group's historical results and planned actions. - considered the sensitivity of the value in use model by varying key judgements and estimates and applying other values within a reasonably possible range to test the headroom available in the value in use model. We did this by increasing the discount rate, by reducing certain production output and sales volume assumptions and by changing forecast variable input costs. • We 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. • We assessed the disclosures in the financial report using our understanding of the issue obtained from our testing and against the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in TPI Enterprises 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
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.



Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of TPI Enterprises Ltd for the year ended 31 December 2017, complies with *Section 300A of the Corporations Act 2001*.

KPMG

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in *pages 10 to 16* of the Directors' report for the year ended 31 December 2017.

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

Tony Batsakis

Partner

Melbourne

27 February 2018

TPI Enterprises Limited
Shareholder information
31 December 2017

The shareholder information set out below was applicable as at 15 February 2018.

A. Distribution of equity securities

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

Holding	Class of equity security	
	Ordinary shares	Share Appreciation Rights
	Shares	
1 - 1000	312	-
1,001 - 5,000	586	-
5,001 - 10,000	231	-
10,001 - 100,000	331	7
100,001 and over	75	4
	<u>1,535</u>	<u>11</u>

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

B. Equity security holders

Twenty largest quoted equity security holders

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

Name	Ordinary shares	
	Number held	Percentage of issued shares
Washington H. Soul Pattinson and Company Limited	15,337,597	18.92
UBS Nominees Pty Ltd	7,472,890	9.22
National Nominees Limited	4,769,686	5.88
HSBC Custody Nominees (Australia) Limited	4,167,833	5.14
JP Morgan Nominees Australia Limited	4,047,515	4.99
BNP Paribas Noms Pty Ltd	2,745,117	3.39
Citicorp Nominees Pty Limited	2,251,806	2.78
Sandhurst Trustees Ltd	2,090,497	2.58
Skylights Pty Ltd	2,076,224	2.56
Sico Holdings Pty Ltd	1,957,672	2.41
Sky Lights Pty Ltd	1,552,160	1.91
Colinton Investments Pty Ltd	1,379,310	1.70
Gaspard Boot	1,070,000	1.32
Gowing Bros Limited	1,064,914	1.31
Gwynvill Trading Pty Ltd	995,000	1.23
Jarrold Ritchie & Catrina Ritchie	986,555	1.22
Langburgh Pty Ltd	723,173	0.89
Bond Street Custodians Limited	599,410	0.74
Mirrabooka Investments Limited	536,942	0.66
Mr Craig Graeme Chapman	525,000	0.65
	<u>56,349,301</u>	<u>69.50</u>

B. Equity security holders (continued)

Unquoted equity securities

	Number on issue	Number of holders
Share appreciation rights granted to employees under the Group's Share Appreciation Rights Plan	1,259,597	11

C. Substantial shareholders

The Company's Holders of Relevant Interests as notified by ASX Substantial Shareholders and the number of shares in which they have an interest as disclosed by notices received under Part 6.7 of the *Corporations Act 2001* as at 28 February 2018 are listed below:

Name	Ordinary Shares	Percentage
Washington H. Soul Pattinson and Company Limited	15,337,597	18.92%
Thorney Opportunities Limited & TIGA Trading Pty Limited	7,062,503	8.71%
Cooper Investors Pty Ltd	4,091,292	5.05%

D. Voting rights

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

- (a) Ordinary shares: on a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.
- (b) Share appreciation rights: no voting rights.