Commentary on Preliminary Final Report

Melbourne, Australia; 26 February, 2016: TPI Enterprises Ltd **(ASX: TPE)** announces its financial results and provides an overview of operations for the year ended 31 December 2015.

Summary:

2015 was a transformational year for TPE. It was a year in which the company raised $36.5 million, listed on the Australian Securities Exchange, relocated and relicensed its manufacturing facility from Tasmania to Victoria, and significantly increased its ability to obtain raw material from what was historically one source in Australia two years ago, to now four sites (Victoria, South Australia, Northern Territory and Tasmania). The company also established the ability to obtain raw material from two northern hemisphere sites.

While the net loss for the year is greater than had been expected, the primary reason for this is the three month delay in receipt of the required licences, TPE is on track to deliver a positive EBITDA in 2016 and utilise the full capacity of its new manufacturing facility within 3-4 years.

The key outcomes for 2015 were follows:

a. Agricultural
   i. Despite an exceptionally dry year in Victoria and Tasmania, TPE has sufficient raw material (including northern hemisphere straw) to report a positive EBITDA in 2016[1].
   ii. Crop harvested to date is slightly below budgeted cost.
   iii. Confirmed viability of Victorian growing with the best crop grossing over $4,500/Ha.
   iv. A 30% increase in the Victorian kg/ha harvested in 2015/16 compared to 2014/15, despite a 30% reduction in yield of all other Victorian winter cereal crops[2].
   v. New harvester technology proved successful by almost doubling the assay of harvested material.
   vi. Increased field officers from 6 in January 2015 to 11 in early 2016.
   vii. A 31% increase in the kg/ha in the Tasmania crops, which slightly mitigated a 46% decrease in total kg harvested due to exceptionally dry conditions and lack of water.
   viii. Of the Tasmanian contracts signed only 70% were sown and of those sown only 65% was harvested.
   ix. Legislation passed in November for growing of poppies in South Australia.

b. Production
   i. Tasmanian facility shutdown, relocated and rebuilt in Victoria in under 12 months.
   ii. Successfully completed commissioning and process verification within 2 months.
   iii. 2 commercial batches totalling approximately 1 tonne were sold in December 2015.
   iv. Significant efficiency gains from relocation including removal of 5 processing steps resulting in:

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[1] *Subject to foreign exchange and seed pricing*
[2] *http://www.agriculture.gov.au/abares/publications/display?url=http://143.188.17.20/anrdl/DAFFService/display.php?fid=pb_aucrpd9aba_20160209_11a.xml*

1. reduction in raw material cost/kg of NRM by up to 25%
2. reduction in expected full time equivalent employees (FTE)

c. Commercial
   i. Significant interest from existing and new customers after 6 customer visits and audits since completion of commissioning.
   ii. Signed a new 3 year supply agreement with a cornerstone European customer.
   iii. Both Morphine and Thebaine have been tested by customers, passing all specifications required.
   iv. Portugal site (ex-Merck) for expansion into active pharmaceutical ingredients (API´s) has been acquired. License application for Portugal API license (Stage 1 and 2) has been submitted.
   v. Equipment capable of making validation batches of all Narcotic API´s has been relocated to Portugal ready for assembly once the is license granted.

d. Financial
   i. Total revenue of $3.7 million for 2015.
      1. Total sales of Seed and NRM of $2.1 million despite only becoming operational in November.
      2. Total income from grants of $1 million in 2015 with a total government grants to date of $5.5 million.
   ii. Total loss of $25.9 million
      1. Underlying operational loss of $14.5 million.
      2. Non-recurring costs of $11.4 million made up as follows:
         a. Impairment of assets, primarily associated with the Cressy facility of $7.1 million
            i. Cressy gas let down station $1.75 million
            ii. Cressy property write down, following change of use $2.35 million
            iii. Equipment $2.9 million due primarily to significant process improvement.
            iv. Other assets $200k.
         b. Trial crops in Portugal and the Northern Territory $2.2 million
         c. Relocation expenses of $1.6 million
         d. Listing expenses of $400k.

Overview

The key factor in the decision to relocate the Cressy manufacturing facility to Victoria, was the inability to source sufficient raw material from Tasmania. Another exceptionally dry year in Tasmania[3] again vindicates this decision. It was also anticipated that the relocation would provide other tangible benefits arising from access to natural gas rather than LPG, and from access to potable water compared to river water.

[3] http://www.bom.gov.au/climate/current/annual/tas/summary.shtml

As reported in the half-year accounts, TPE reported a half year loss of $8.6 million. At this point in time the factory had yet to receive its Commonwealth licence and raw material had not been processed in the new Victorian facility. The Commonwealth licence was obtained on the 9th September 2015 after which the process of commissioning commenced.

After completion of commissioning the management team realised significantly greater operational benefits had occurred than had first been planned. The two most significant consequences of the relocation was a major reduction in budgeted production FTEs to run the manufacturing facility, based on a 24 hour, 4.5 day/week operation, and a reduction in the stages required to process the material to saleable quality.

While the benefits to the underlying business are significant and are reflected in the announcement made on 11 November 2015, the negative impact of the savings was the need to increase the level of impairments on what is now redundant equipment. This total $2.9 million impairment of redundant equipment was $2.6 million additional to the impairments made in the 1st half of 2015.

The two other significant impacts on the result were the cost of the agricultural trials, more specifically the cost of the security requirements for the Northern Territory crop, and the cost of the Portuguese growing trials which accounted for $2.2 million.

The third most significant write-down was that associated with the ceasing of manufacturing at the Cressy (Tasmanian) facility. The Board considered it appropriate to obtain a valuation on the site given a decision in the 2nd half not to conduct any processing in Tasmania (de-seeding or preliminary processing of waste liquids). This change in use precipitated a $2.35 million impairment charge being recognised. An additional impairment of $1.75 million in Cressy was the result of a revaluation of the gas let down station, given the further decline in the mining and energy sector which was the target market for the sale of the asset. TPE will continue to investigate options for the sale of the gas let down station with the aim of realising a value greater than exists on the balance sheet. The gas let down station had already been impaired by $1.25 million in 2014.

Despite these impairments, the underlying business is on track with its plan to achieve positive EBITDA in 2016 and continue to expand supply in 2017 in line with the strategic plan to be at full capacity by 2019.

a. Agriculture

i. Summary

Despite challenges in the 2015-16 growing year due to an unseasonably hot and dry season[4] and a significant heatwave during October, a number of crops throughout Victoria delivered profitable results for farmers. TPE's best crop delivered a gross value up to $4,500 per hectare with input costs of approximately $1,100 per hectare. Total alkaloid yield was 23 kg per hectare (kg/ha) for this crop.

While the Australian harvest is ongoing, management is confident that with the northern hemisphere supply, sufficient raw material will be delivered, resulting in a positive EBITDA assuming current foreign exchange rates and seed pricing in 2016.

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[4] http://www.bom.gov.au/climate/current/annual/vic/summary.shtml

ii. Growing Season Overview

The 2015-16 growing season (sowing in 2015 and harvesting late 2015, early 2016) was a difficult agricultural year across all crops.[5] The last two years (TPE´s first two years of growing in Victoria) have been difficult climatically. On average the 2015-16 winter cereal crops in Victoria yielded 30% less than 2014-15, which in turn yielded 13% less than the 2013-14 year.

Despite the increased challenges agriculturally, TPE´s second growing year in Victoria delivered a 30% increase in the kg/ha harvested and delivered a 400% increase in total kilograms harvested.

The impact of adverse weather and downy mildew in Tasmania saw total harvested kg reduce by 46% compared to the 2014-15 years, despite an increase of kg/ha of approximately 31% in kg/ha in the 2015-16 year.

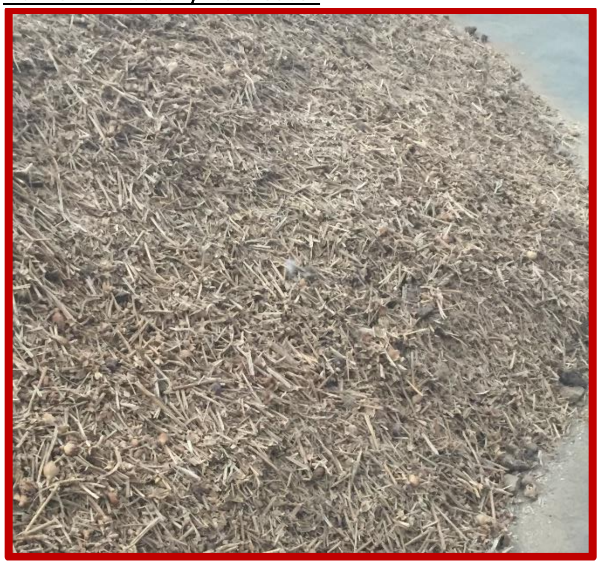
Crop results from Portugal and the Northern Territory were as expected for trial crops with some varied results. The detailed results for both crops are yet to be received. It is expected that Northern Territory trials will continue, subject to the regulations imposed by the Northern Territory government being harmonised with other Australian growing regions.

The importance of overseas crops will diminish with the commencement of growing in South Australia and potentially other Australian states, as freight cost from the Northern hemisphere is a key consideration when planning raw material supply. To this extent it is unlikely that TPE will grow in Portugal in the 2016 year. This decision will be reviewed annually along with all other growing regions.

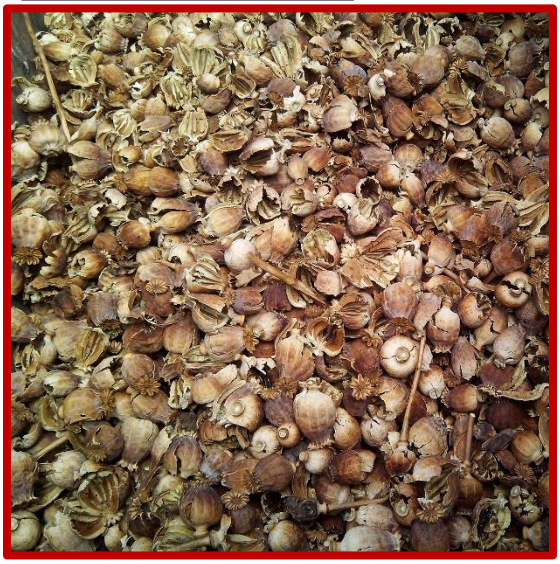
iii. Harvester Technology

The new prototype harvester designed to collect more capsules and less stem has been a success with more harvesters to be built this year for deployment in the 2017 harvest. TPE will have the intellectual property rights over the design of the harvester in all of the main growing countries globally.

Current Industry harvester



New Capsule only harvester



[5]http://www.agriculture.gov.au/abares/publications/display?url=http://143.188.17.20/anrdl/DAFFService/display.php?fid=pb_aucrpd9aba_20160209_11a.xml

The key benefits of the new harvester are as follows:

1. Increased factory capacity
   The current factory has a capacity of over 100 tonnes based on the poppy straw (capsules and stem) having an average alkaloid content of 2%. The capsules are where the majority of the alkaloid is contained, which is currently diluted with the stems due to the global industry's existing harvester technology. If the alkaloid content is not diluted by stems and only capsules are harvested, then the resultant alkaloid content can be as high as 3-4%. As the extraction of the alkaloid from the straw is the factory´s rate limiting step, the factory capacity increases proportionally with the concentration of the alkaloid in the capsules. The two crops harvested with the new harvester delivered crops with alkaloid content over 3%. This would mean that the factory capacity could increase to 150 tonnes, without any additional capital or labour costs being incurred, resulting in a reduction in the cost per kg.

2. Reduced freight cost
   An additional benefit in reduced harvest of the unwanted stems is a significant reduction in freight costs due to less material being transported from the farm to the factory.

3. Less crop remaining in paddock
   As the new harvester can be used lower in the paddock it is expected that more of the missed capsules can be collected, resulting in higher returns for farmers. After initial trials it is estimated that current technology leaves behind up to 15% of the capsules in the paddock.

4. Earlier harvesting potential
   The ability of the new harvester to operate when the crop is not entirely dry may enable TPE to harvest early, if a predicted adverse weather event is forecast, such as damaging rain and wind which can "lodge" (flatten) a crop and make it difficult to harvest.

5. De-weeding
   While the prevention of weeds is an important part of good crop management, an adverse weather event can delay the timely application of herbicides. The new harvester can harvest a weed infested crop without excessive contamination of the capsules with weed.

TPE sees the development of new harvesting technology as a significant achievement which will contribute to TPE factory capacity and cost effectiveness as well as increased farmer returns.

iv. Seed Varieties

TPE has invested in developing new poppy seed varieties with high Codeine and high Thebaine at the forefront of its strategy. TPE also continues to work on improving the Morphine varieties and will look to select varieties that favour the environmental conditions for the specific region that the poppy will be grown in. Most promising of the new varieties is the high Codeine poppy, which has alkaloid concentrations approaching 5%. 2016 will be the first year TPE will be planting commercial quantities of Codeine seed

v. Importation Approval

In September of last year TPE announced that in addition to its straw capability in Portugal it had arranged for another supplier of poppy straw in Europe. TPE has applied for importation approval and expects this to allow straw to be imported in the 2nd half of 2016, subject to all approvals being obtained. Poppy straw and Opium have been imported previously by competitors and therefore no barriers to importation are expected.

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

-Ends-

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TPI ENTERPRISES LTD
(ABN 26 107 872 453)

APPENDIX 4E

PRELIMINARY
FINAL REPORT

YEAR ENDED 31 DECEMBER 2015

CONTENTS

APPENDIX 4E

TPI ENTERPRISES LTD
ABN 26 107 872 453

PRELIMINARY FINAL REPORT

Current reporting period	**Year ended 31 December 2015**
Previous corresponding period	*Year ended 31 December 2014*

Results for announcement to the market

	$	% increase /(decrease) over previous corresponding period
Revenue from continuing activities	3,679,063	(56.2)
Loss from continuing activities after tax attributable to members	25,899,838	79.3
Net loss for the period attributable to members	25,899,838	79.3

Dividends (distributions)	Amount per security	Franked amount per security
Final Dividend	N/A	N/A
Interim Dividend	N/A	N/A
Record date for determining entitlements to the dividends (if any)	N/A	
Brief explanation of any of the figures reported above necessary to enable the figures to be understood: N/A		

Dividends

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

NTA Backing

	Current Period	Previous corresponding period
Net tangible asset backing per ordinary security (cents per share)	36 cents	19 cents

Control Gained Over Entities Having Material Effect

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

Loss of Control Gained Over Entities Having Material Effect

Name of entity (or group of entities)	N/A

Details of Associates and Joint Venture Entities

Name of Entity (or group of entities)	N/A

Foreign Entities Accounting Framework

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

Audit/Review Status

This report is based on accounts to which one of the following applies: (Tick one)			
The accounts have been audited		The accounts are in the process of being audited	✓
If the accounts are subject to audit dispute or qualification, a description of the dispute or qualification: N/A			

Attachments Forming Part of Appendix 4E

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

Roger McPherson
Company Secretary
26 February 2016

TPI ENTERPRISES LTD
ABN 26 107 872 453
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Consolidated 2015 $	2014 $
Revenue			
Sale of goods		2,064,578	7,567,242
Other income		1,614,485	823,153
	2(a)	3,679,063	8,390,395
Expenses			
Production expenses		(1,145,547)	(5,169,892)
Changes in inventory of finished goods		(437,450)	(449,035)
Impairment of inventory to net realisable value		(951,048)	(4,742,482)
Impairment of other assets		(7,127,013)	(3,153,714)
Agricultural area trialling costs		(2,237,456)	-
Employee benefits expenses		(5,492,256)	(2,918,081)
Depreciation and amortisation expense		(3,556,296)	(1,998,551)
Legal and listing expenses		(1,029,163)	(429,663)
Travel expenses		(1,239,859)	(741,418)
Relocation expenses		(1,662,256)	(869,841)
Occupancy expenses		(1,709,844)	(671,992)
Other expenses		(2,211,451)	(965,395)
	2(b)	(28,799,639)	(22,110,064)
Loss from operating activities		**(25,120,576)**	**(13,719,669)**
Finance income		415,082	287,441
Finance expenses		(1,194,344)	(1,092,325)
Net finance expenses	2(c)	(779,262)	(804,884)
Loss before tax		**(25,899,838)**	**(14,524,553)**
Income tax benefit		-	80,580
Loss for the year		**(25,899,838)**	**(14,443,973)**
Other comprehensive income			
Exchange differences on translating foreign operations		(112,386)	-
Total comprehensive loss for the year		**(26,012,224)**	**(14,443,973)**
Earnings per share:			
Basic loss per share - from continuing operations		(52.07¢)	(33.30¢)
Diluted loss per share - from continuing operations		(52.07¢)	(33.30¢)

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

TPI ENTERPRISES LTD
ABN 26 107 872 453
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

		Consolidated	
		2015	2014
	Note	$	$
Current assets			
Cash and cash equivalents	4	568,002	565,901
Trade and other receivables		1,368,435	1,189,219
Inventories		7,722,656	5,235,750
Biological assets		932,958	1,196,966
Prepayments		204,481	98,818
Assets held for sale	5	-	2,231,480
Total current assets		**10,796,532**	**10,518,134**
Non-current assets			
Property, plant and equipment	6	28,628,592	26,277,093
Investments		100,673	297,659
Intangible assets	7	2,003,745	3,138,257
Total non-current assets		**30,733,010**	**29,713,009**
Total assets		**41,529,542**	**40,231,143**
Current liabilities			
Trade and other payables		5,258,406	1,213,451
Loans and borrowings	8	144,697	17,561,149
Deferred income		778,059	778,059
Employee benefits		622,743	438,487
Total current liabilities		**6,803,905**	**19,991,146**
Non-current liabilities			
Loans and borrowings	8	13,871,552	8,505,122
Employee benefits		226,472	133,818
Total non-current liabilities		**14,098,024**	**8,638,940**
Total liabilities		**20,901,929**	**28,630,086**
Net assets		**20,627,613**	**11,601,057**
Equity			
Issued capital	9	118,190,663	83,151,883
Reserves	10	1,809,543	1,921,929
Accumulated losses		(99,372,593)	(73,472,755)
Total equity		**20,627,613**	**11,601,057**

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

TPI ENTERPRISES LTD
ABN 26 107 872 453
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

Consolidated	**Fully paid ordinary shares**	**Foreign currency translation reserve**	**Other reserves**	**Accumulated losses**	**Total**
2014	**$**	**$**	**$**	**$**	**$**
At 1 January 2014	**71,796,038**	**-**	**1,921,929**	**(59,028,782)**	**14,689,185**
Loss for the year	-	-	-	(14,443,973)	(14,443,973)
Total comprehensive loss for the year	-	-	-	(14,443,973)	(14,443,973)
Transactions with owners in their capacity as owners:					
Conversion of convertible debt into equity	1,500,000	-	-	-	1,500,000
Issue of share capital	9,855,845	-	-	-	9,855,845
At 31 December 2014	**83,151,883**	**-**	**1,921,929**	**(73,472,755)**	**11,601,057**
2015					
At 1 January 2015	**83,151,883**	**-**	**1,921,929**	**(73,472,755)**	**11,601,057**
Loss for the year	-	-	-	(25,899,838)	(25,899,838)
Foreign currency translation reserve	-	(112,386)	-	-	(112,386)
Total comprehensive loss for the year	-	(112,386)	-	(25,899,838)	(26,012,224)
Transactions with owners in their capacity as owners:					
Conversion of shareholder loan to equity	7,077,500	-	-	-	7,077,500
Issue of share capital	27,961,280	-	-	-	27,961,280
At 31 December 2015	**118,190,663**	**(112,386)**	**1,921,929**	**(99,372,593)**	**20,627,613**

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

TPI ENTERPRISES LTD
ABN 26 107 872 453
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Consolidated 2015 $	2014 $
Cash flows from operating activities			
Cash receipts from customers		2,542,650	9,800,529
Cash payments to employees and suppliers		(18,156,538)	(16,012,530)
Cash receipts from government grants		995,730	267,573
Other cash receipts		383,326	553,795
Cash used in operating activities		(14,234,832)	(5,390,633)
Interest received		101,098	38,533
Finance costs paid		(1,384,373)	(902,296)
Net cash used in operating activities	12	**(15,518,107)**	**(6,254,396)**
Cash flows from investing activities			
Payment for property, plant and equipment		(9,909,855)	(2,586,204)
Payment for intangible assets		(460,747)	(1,343,039)
Proceeds from disposal of property, plant and equipment		2,291,581	-
Proceeds from disposal of investments		250,139	-
Net cash used in investing activities		**(7,828,882)**	**(3,929,243)**
Cash flows from financing activities			
Proceeds from issue of shares		27,961,280	9,855,845
Proceeds from borrowings		10,638,028	635,864
Repayment of borrowings		(15,420,520)	-
Net cash from financing activities		**23,178,788**	**10,491,709**
Net increase/(decrease) in cash and cash equivalents		(168,201)	308,070
Effects of exchange rate changes on the balance of assets held in foreign currencies		170,302	-
Cash and cash equivalent at beginning of year		565,901	257,831
Cash and cash equivalents at end of year	4	**568,002**	**565,901**

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

INTRODUCTION

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

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

NOTE 1: BASIS OF PREPARATION OF PRELIMINARY FINANCIAL REPORT

This preliminary financial report does not include all of the notes of the type normally included in an annual financial report. Accordingly, it should be read in conjunction with the Annual Report for the year ended 31 December 2014 and the financial report for the six months ended 30 June 2015 and any public announcements made by TPI Enterprises Ltd, since it listed on 13 August 2015, in accordance with continuous disclosure requirements of the Corporations Act 2001. This preliminary final report has been prepared in accordance with the measurement and recognition requirements of Australian Accounting Standards, Accounting Interpretations and the Corporations Act 2001.

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

The accounting policies and methods of computation adopted in the preparation of the preliminary financial report are consistent with those adopted and disclosed in the company's annual financial report for the year ended 31 December 2014 and the half year ended 30 June 2015.

This preliminary financial report was authorised for issue by the Company's Board of Directors on 26 February 2016.

(a) Significant accounting policies
The accounting policies applied in this preliminary financial report are the same as those applied in the Group's consolidated financial report as at and for the year ended 31 December 2014.

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

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

Assumptions and estimation uncertainties
Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2015 is included in the following notes:

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

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

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

- For the year ended 31 December 2015 the Group generated a loss after income tax of $25,899,838 (2014: $14,443,973) and had cash outflows from operations of $15,518,107 (2014: $6,254,396) predominantly due to the cessation of production and sales whilst the Group's manufacturing equipment was being relocated from Tasmania to Victoria.
- As at 31 December 2015 the Group's current assets exceeded its current liabilities by $3,992,627 (31 December 2014: current liabilities exceed its current assets by $9,473,012). The significant improvement in the working capital position is due to the Group successfully raising $36,500,000 of new equity from existing shareholders and new investors to allow it to:
    - repay the Group's debt obligations with Rabobank;
    - repay a short-term loan facility with a significant shareholder, Washington H. Soul Pattinson and Group Limited;
    - meet costs associated with the relocation of its manufacturing facility to Victoria;
    - purchase a manufacturing facility in Portugal; and
    - meet ongoing working capital requirements.

- Subsequent to balance date, the Group has continued to record operating losses after income tax. Management are also forecasting a working capital deficiency during the 2016 calendar year due to the cyclical nature of the Group's business with increasing farmer payments and further operating expenses being recorded prior to the positive impact of customer receipts.
- To facilitate the Group's immediate working capital requirements, the Group has a standby debt facility in place with Washington H. Soul Pattinson Company Ltd, a substantial shareholder. The Directors expect that this standby debt facility will provide the Group with sufficient funds to be able to meet its obligations for a period of at least 12 months from the date that these financial statements are approved. The facility has a limit of $20,000,000 and expires on 31 March 2017. The Directors acknowledge that the facility expires approximately 12 months after the expected signing date of the financial statements and prima facie that an apparent refinancing risk exists at 31 March 2017.
- The Directors' confidence in the continuing support from existing shareholders and ability to attract new investors and debt providers to fund the Group's future finance requirements, if required, as demonstrated by previous capital and debt raisings.
- The Directors' confidence over the plans, cash flow and profit and loss forecasts prepared by management to achieve its 2016 calendar year forecast and ultimately lead to a positive EBITDA position and achieve profitability and positive operating cash flows in the medium-term. These plans, which are advancing, involve:
  - ongoing production at the new facility with sales increasing as the new facility is validated by existing and potential customers following the commencement of production and sales in December 2015;
  - access to a more definite supply of raw material through geographic diversification (i.e. the growing of raw material in more Australian states and territories as well as in Portugal with potentially some importation of raw material from other regulated countries) to enable it to increase raw material volumes and accordingly production volumes in order to achieve profitable operations;
  - the expansion of the Group's product range and customer base; and
  - the realisation of the cost optimisation programs following the commencement of manufacturing operations in Victoria.

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

NOTE 2: REVENUE AND EXPENSES FROM CONTINUING OPERATIONS

	Consolidated	
	2015	*2014*
	$	*$*
(a) Revenue		
Sale of goods	2,064,578	7,567,242
Government grants	1,047,034	267,573
Other	567,451	555,580
Total revenue from continuing operations	**3,679,063**	**8,390,395**

(b) Expenses		
Employee salary and benefit expenses:		
Salaries and wages	4,465,153	2,344,948
Other associated personnel expenses	515,211	279,952
Defined contribution superannuation expenses	234,982	180,520
Increase in liability for long service leave	111,561	41,182
Increase in liability for annual leave	165,349	71,479
Total employee salary and benefit expenses	**5,492,256**	**2,918,081**

Other personnel expenses relating to employees involved in the production process have been included in 'raw materials and consumables used' expense and 'relocation expenses' in the consolidated statement of profit or loss and other comprehensive income.

Depreciation,expense		
Buildings	267,450	186,120
Farm equipment	11,354	87,960
Manufacturing plant and equipment	1,755,504	981,410
Office equipment	24,517	14,710
Motor vehicles	93,011	49,800
Total depreciation expense	**2,151,836**	**1,320,000**
Amortisation expense		
Patents	298,017	60,308
Development costs	1,106,443	618,243
Total amortisation expense	**1,404,460**	**678,551**
Total depreciation and amortisation expense	**3,556,296**	**1,998,551**

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

	Consolidated *2015* *$*	Consolidated *2015* *$*
(b) Expenses (cont.)		
Impairment loss on write down of assets to recoverable amount		
Assets held for sale	-	93,520
Land and buildings	4,088,512	1,250,000
Development costs	190,799	1,778,194
Manufacturing – plant and equipment	2,847,702	-
Office equipment	-	32,000
Total impairment of other assets	**7,127,013**	**3,153,714**
(c) Finance income and costs		
Interest income	101,098	38,533
Net foreign exchange	313,984	248,908
Finance income	**415,082**	**287,441**
Interest expense on financial liabilities measured at amortised cost	(1,194,344)	(1,092,325)
Finance costs	**(1,194,344)**	**(1,092,325)**
Net finance costs recognised in profit or loss	**(779,262)**	**(804,884)**

NOTE 3: SEGMENT INFORMATION

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

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

NOTE 4: CASH AND CASH EQUIVALENTS

	Consolidated *2015* *$*	*2014* *$*
Cash at bank	311,057	308,956
Term deposits	256,945	256,945
Total cash and cash equivalents	**568,002**	**565,901**

NOTE 5: ASSETS HELD FOR SALE

	Consolidated *2015* *$*	*2014* *$*
Assets held for sale	**-**	**2,231,480**

During the year ended 31 December 2014, management committed to a plan to sell the two farming properties in Tasmania. Accordingly, these properties were classified as assets held for sale as at 31 December 2014. Management entered into contracts for sale of these properties and settlement was completed for both during the half-year ended 30 June 2015.

NOTE 6: PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Farm plant and equipment	Manufacturing plant and equipment	Office equipment	Motor vehicles	Total
Cost	**$**	**$**	**$**	**$**	**$**	**$**
At 1 January 2015	17,304,660	1,815,973	16,050,819	549,468	596,666	36,317,586
Additions	2,323,782	161,522	8,319,171	516,889	103,000	11,424,364
Transfer between asset classes	(1,045,776)	(139,124)	513,840	377	-	(670,683)
At 31 December 2015	18,582,666	1,838,371	24,883,830	1,066,734	699,666	47,071,267
Depreciation and impairment losses						
At 1 January 2015	(2,090,598)	(481,073)	(6,738,553)	(370,953)	(359,316)	(10,040,493)
Depreciation for the year	(267,450)	(82,049)	(1,684,809)	(24,517)	(93,011)	(2,151,836)
Impairment loss	(4,088,512)	-	(2,847,702)		-	(6,936,214)
Disposals	-	-	-	(619)	-	(619)
Transfer between asset classes	(77,204)	(522,207)	1,377,466	(85,380)	(21,992)	670,683
At 31 December 2015	(6,523,764)	(1,085,329)	(9,893,598)	(481,469)	(474,319)	(18,458,479)
Effect of foreign currency movements						15,804
Carrying amount at 31 December 2015						**28,628,592**

Impairment testing

During the year ended 31 December 2015, the Group continued to record operating losses and accordingly this triggered a requirement to perform impairment testing in respect of the carrying value of its property, plant and equipment and intangible assets. The recoverable amount of the CGU (being the Group as a whole at this stage in the Group's lifecycle) was estimated based on the value in use of the Group as a whole, determined by discounting the future cash flows to be generated from the continuing use of the Group's assets. Value in use as at 31 December 2015 was based on the following key assumptions:

- Cash flows were forecast based on the five-year business plan. The terminal value of the Group was based on the fifth-year cash flow and a long-term growth rate of 3%, which is consistent with the long-term inflation target for Australia of between 2% and 3%.
- Revenue was forecast based on past yield experience and forecast hectares to be sown for the years 2016 to 2020. Revenue forecasts are based on the anticipated ramp up of the Victorian production facility to at least 100 tonnes of narcotic raw materials by 2019.
- Management has not factored in price growth in the cash flow forecast as contracts entered into are relatively long-term (three to five years) with a set price for inventory.
- An after tax discount rate of 15% was applied in determining the recoverable amount of the Group. The discount rate was estimated based on an industry average weighted-average cost of capital and applying a premium to the industry average due to the Group being in its growth phase and risks inherent in the cash flow forecast.

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

However, following management's decision to relocate the Group's manufacturing facility to Victoria in the prior year, management conducted a detailed review of the carrying value of certain assets. As a result of the significant improvement in the manufacturing process it was determined that plant and equipment that had been integral to the process in the Tasmania was no longer required and certain other assets were also considered to be of no ongoing value resulting in an impairment loss of $2,847,702 with respect to specific plant and equipment. In addition, it was also considered prudent to review the value of the Cressy facility which is now predominately being used for the storage of straw from the Tasmanian harvest and other inventory. This resulted in an impairment loss of $4,088,512.

NOTE 7: INTANGIBLE ASSETS

	Patents	Development Costs	Irrigation Rights	Total
Cost	$	$	$	$
At 1 January 2015	592,388	5,679,108	1,100,000	7,371,496
Additions	15,493	442,152	-	457,645
Fully amortised intangibles	-	(2,597,741)	-	(2,597,741)
At 31 December 2015	607,881	3,523,519	1,100,000	5,231,400
Amortisation				
At 1 January 2015	(276,940)	(3,956,299)	-	(4,233,239)
Amortisation for the year	(298,017)	(1,106,443)	-	(1,404,460)
Impairment loss	-	(190,799)	-	(190,799)
Fully amortised intangibles	-	2,596,584	-	2,596,584
At 31 December 2015	(574,957)	(2,656,957)	-	(3,231,914)
Effect of foreign currency movements				4,259
Carrying amount at 31 December 2015				**2,003,745**

Impairment testing

The Group reviewed the carrying value of certain development costs at the year end and determined it was prudent to write down the value of certain of these assets. As such an impairment loss of $190,799 was recognised. Refer to Note 6 for further details of the Group's impairment testing for the year ended 31 December 2015.

Irrigation rights

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

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

NOTE 8: LOANS AND BORROWINGS

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

	Consolidated	
	2015	*2014*
	$	*$*
Current liabilities		
Secured bank loans	-	15,359,000
Short term loan facility	-	1,967,244
Convertible debt accrued interest	-	55,205
Irrigation rights fixed repayment plan	133,570	123,276
Other	11,127	56,424
	144,697	**17,561,149**
Non-current liabilities		
Finance lease liabilities	8,150,000	8,150,000
Irrigation rights fixed repayment plan	221,552	355,122
Shareholder loan facility	5,500,000	-
	13,871,552	**8,505,122**

NOTE 8: LOANS AND BORROWINGS (CONT.)

Movements during the year	Currency	Nominal Interest Rate	Year of Maturity	Face Value	Carrying Amount
At 1 January 2015					**26,066,271**
New Issues					
Shareholder loan facility	AUD	12%	Variable	5,138,028	5,138,028
Shareholder loan facility	AUD	11%	2017	5,500,000	5,500,000
Repayments					
Secured bank loan	AUD	5.16-9.91%	2016	(15,390,010)	(15,390,010)
Conversion of shareholder loan to equity	AUD	12%	Variable	(7077,500)	(7,077,500)
Irrigation rights fixed repayment plan	AUD	8.1%	2018	355,122	(123,276)
Other					(97,264)
Carrying amount at 31 December 2015					**14,016,249**

The Banking facilities provided by Rabobank and the shareholder loan provided by Washington H. Soul Pattinson Company Ltd were fully repaid in March 2015, from the proceeds of the capital raising.

In October 2015, Washington H. Soul Pattinson Company Ltd, a substantial shareholder provided the Group with a standby facility to meet short term working capital needs. The facility was increased in January 2016 and now provides access to funds of up to $20,000,000 which is secured against the Australian assets of the Group and has a maturity date of 31 March 2017. At 31 December 2015 the Group had drawn down $5,500,000 of this facility.

In addition, as at 31 December 2015, external debt included a vendor loan provided by the Meander Valley Water Scheme, secured by the water rights provided by the scheme, and the finance lease (deferred purchase arrangement) for the Melbourne factory site. Both these facilities are within terms.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2015		31 December 2014	
	Currency	Nominal Interest Rate	Year of Maturity	Face Value	Carrying Amount	Face Value	Carrying Amount
Secured bank loans	AUD	5.16-9.91%	2016	-	-	15,359,000	15,359,000
Short term loan facility	AUD	12.00%	Variable	-	-	1,967,244	1,967,244
Convertible debt accrued interest	AUD		2014	-		55,205	55,205
Irrigation rights fixed repayment plan	AUD	8.10%	2018	395,862	355,122	554,207	478,398
Finance lease liabilities	AUD	9.04%	2018	10,342,457	8,150,000	11,045,258	8,150,000
Shareholder loan facility	AUD	11%	2017	5,500,000	5,500,000	-	-
Other	AUD		2016	11,127	11,127	56,424	56,424
Total Interest bearing liabilities				**16,249,446**	**14,016,249**	**29,037,338**	**26,066,271**

NOTE 9: ISSUED CAPITAL

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

Ordinary shares participate in dividends and the proceeds on winding up of the Company in equal proportion to the number of shares held. At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Movements in issued capital during the year were as follows:

	2015 No.	*2014* No.	*2015* $	*2014* $
Issued shares:				
At the beginning of the reporting period	43,765,229	39,587,549	83,151,883	71,796,038
Shares issued for cash	6,194,211	3,785,523	29,422,500	9,855,845
Conversion of convertible debt into equity	-	392,157	-	1,500,000
Conversion of shareholder loan into equity	1,490,000	-	7,077,500	-
Transaction costs arising on issue of shares	-	-	(1,461,220)	-
At end of the reporting period	**51,449,440**	**43,765,229**	**118,190,663**	**83,151,883**

Ordinary shares

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

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

NOTE 10: RESERVES

Foreign currency translation reserve

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

Other reserves

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

NOTE 11: SUBSEQUENT EVENTS

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

In January 2016, the Company extended the facility with Washington H. Soul Pattinson Company Ltd, a substantial shareholder to $20,000,000 to meet working capital needs predominantly associated with the seasonal nature of the purchase of raw materials (poppy crop) which is mainly harvested in the first quarter each year.

NOTE 12: CASH FLOW INFORMATION

	Consolidated	
	2015	***2014***
	$	***$***
Loss for the year	(25,899,838)	(14,443,973)
Adjustments for:		
Depreciation expense	2,151,836	1,320,000
Impairment of other assets	7,127,013	3,153,714
Amortisation of intangible assets	1,404,460	678,551
Interest income	(101,098)	(38,533)
Interest expense	1,194,344	1,092,325
Unrealised foreign exchange gain	(313,208)	(188,876)
Other	(113,442)	14,749
	(14,549,933)	(8,412,043)
Change in inventories	(2,486,719)	2,640,067
Change in biological assets	264,008	322,584
Change in trade and other receivables	(179,216)	1,984,378
Change in investments	-	(1,785)
Change in deferred tax liability	-	(80,580)
Change in prepayments	(105,663)	(25,044)
Change in trade and other payables	2,545,781	(1,930,871)
Change in employee provisions	276,910	112,661
Cash used in operating activities	(14,234,832)	(5,390,633)
Interest received	101,098	38,533
Interest paid	(1,384,373)	(902,296)
Net cash used in operating activities	(15,518,107)	(6,254,396)