

## **TPI Enterprises Ltd**

Investor Presentation - March 2016





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### **Business Overview**

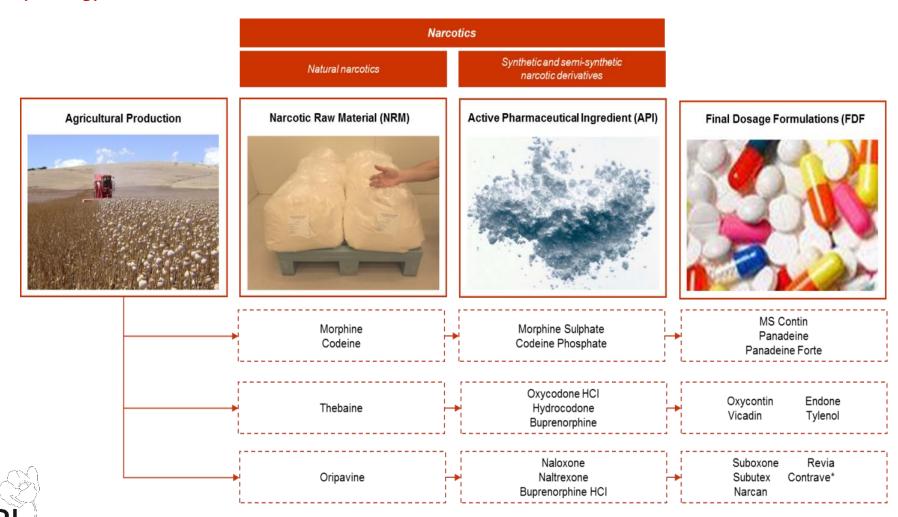
- Stock Code ASX: TPE
- Listed on the ASX since August 13 2015. Market Cap approximately \$150 million.
- Core competency in cultivation and extracting plant based pharmaceuticals in a highly regulated environment using a lower cost manufacturing process.
- Currently has manufacturing and storage facilities in:
  - Melbourne, Victoria, Australia
  - Lisbon, Portugal
  - · Cressy, Tasmania, Australia.
- Currently contracts farmers in Australia (Tasmania, Victoria, Northern Territory) and Portugal to grow opium poppies for processing at its Melbourne facility.
- TPI extracts and purifies narcotics from opium poppies.
- Since 2004 TPI has invested approximately \$140 million in IP creation, regulatory approvals, supply chain diversification and customer contracts.





### Narcotic value chain

### TPI is expanding from NRM's into API's





### Investment Case

TPI offers one of the few opportunities globally to invest directly in the licit narcotics sector

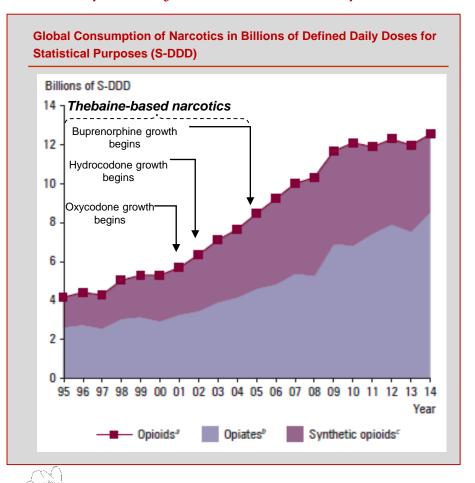
1.	Growing industry
2.	Manufacturing advantage
3.	Highly regulated / significant barriers to entry
4.	Established business, experienced Management team
7'	Established business, experienced Management team
5.	Diversity of supply





## Demand for Narcotics has Grown 3.5x Since 1993

#### Growth underpinned by traditional and new products



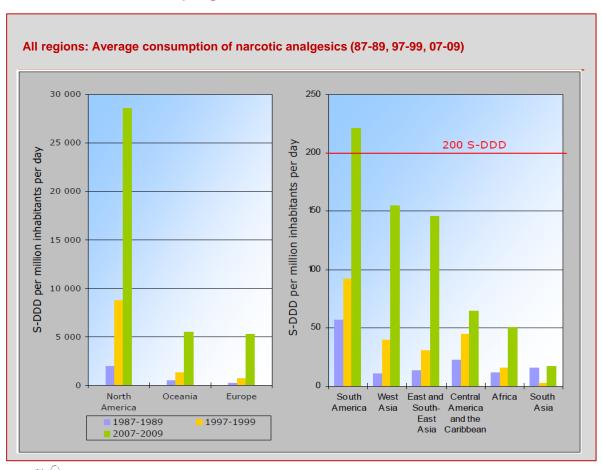
#### Key drivers of growth include:

- INCB 3 March 2015 press release "3/4 world has limited to no access to pain relief".
- Ageing populations and the increasing incidence and severity of chronic disease.
- New product approvals and alternate narcotic applications (nonpain management).
- Retreat from non-narcotic pain management alternatives to more traditional narcotics.
  - 5.5 Billion people have little or no access to pain relief.
  - World population expected to increase by approx. 50% within 35 years.



### Regional Consumption is Doubling Every Decade

### *Upside demand in developing countries - 100-1,000x*



- Both WHO and INCB have drawn attention to a critical shortage of essential narcotic drugs
  - Six countries account for c.79% of global morphine consumption.
  - Developing countries, which represent c.80% of the global population, account for only 6% of morphine consumption.
  - WHO estimates 10 million cancer cases per year will occur in developing countries by 2015.

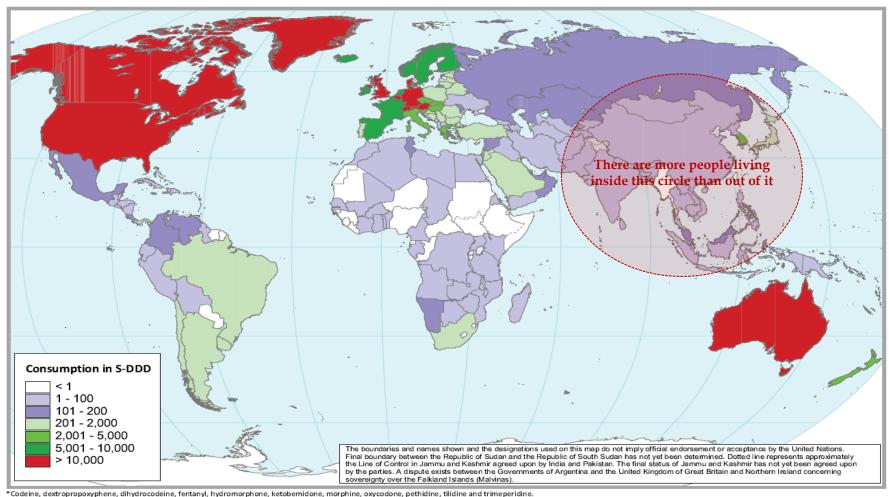


Source: INCB Report on the Availability of Internationally Controlled Drugs 2010



## Discrepancy in Global Availability

#### 5.5 Billion people (75%) have no or little access to pain relief







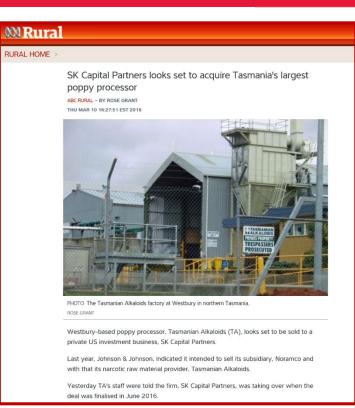


### Recent Industry Changes

### Signs of consolidation within the industry









Manufacturing facilities





## TPI's Key IP Industrial Advantage

#### c.33% FTE, c.20% capital cost, no toxic solvents

#### **TPI Technology**

- \$20 million Capital Investment (100 tonne facility).
- 1/3 of the FTE of competitors with similar capacity.
- 8 Ha site.
- Modular expansion capability.
- No toxic solvents.
- No wastewater treatment.

#### **Competitors Technology**

- \$100-150 million Capital Investment (100 tonne facility).
- 10 Ha site.
- Toxic solvents.
- Wastewater treatment required.
- Old technology.
- 3 year construction and approval timeline.









# Securing Raw Material Supply

Straw in the Shed from 2015/16 Harvest







# Victorian Processing Facility

### Significant area to expand

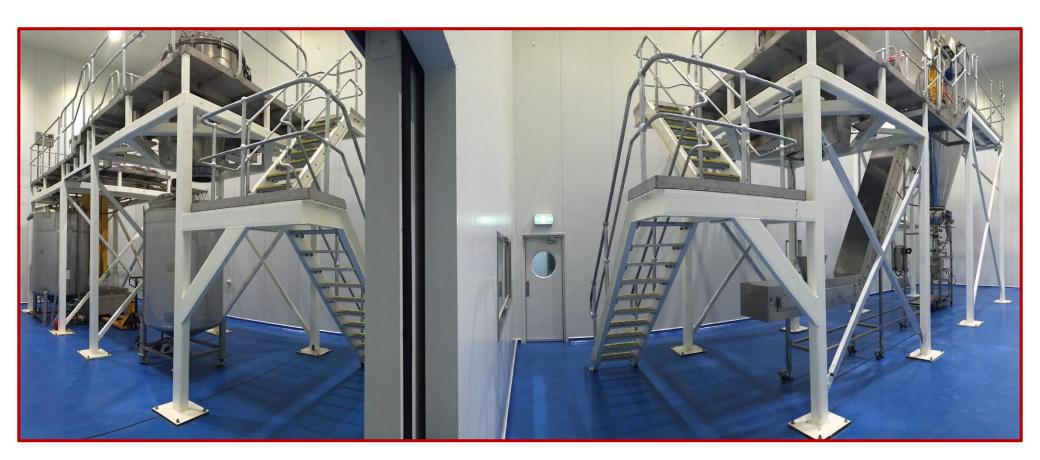






# Victorian Processing Facility

### Cleanroom capacity of up to 300 Tonne





# Tasmanian Operations

### Straw Storage

#### **Site Description**

- 5 FTE
- Original manufacturing facility before being relocated to Victoria.
- Site will be used for:
  - Straw storage.
- Enables TPI to continuing growing in Tasmania.

#### **Asset utilisation**

- Continue to investigate alternate uses for the site.
- Possible sale of some of the disused assets being explored.









## **European Expansion**

### API capability

#### **Site Description**

- Pharmaceutical grade production facility.
- Site will initially be used for:
  - De-seeding of straw
  - Straw storage.
- Enables TPI to implement API manufacturing.

#### **API Manufacturing**

- Poppies grown in Portugal will be exported to Australia.
- NRM will then be exported to Europe for API manufacturing.
- Estimated capital expenditure of \$8 million.
- High calibre experienced staff already sourced to setup and run this facility.





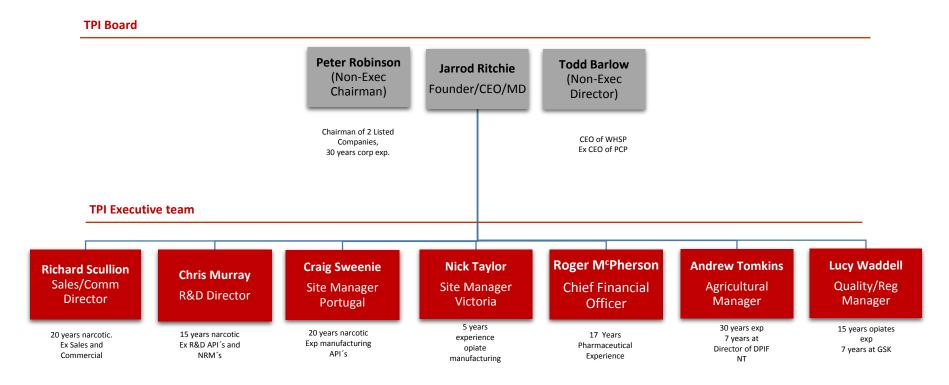






## Experienced Board and Senior Management Team

#### Over 100 years of cumulative narcotic industry experience







Agricultural overview

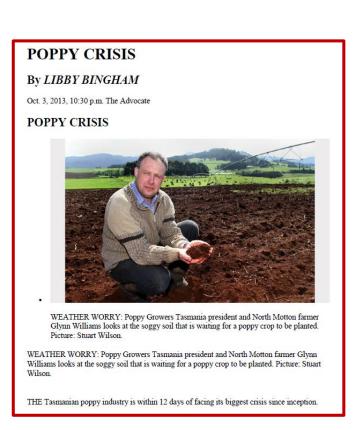




### Raw Material Supply

#### Tasmanian monopoly has held industry and TPI back











### TIAR Report into Tasmanian Land Availability

#### 83% of land identified as suitable the reports states is "Land marginally suitable for cropping"

Elevation	≤300m	≤400m	≤300m
Rainfall	≤1250mm	≤1250mm	No Limit
Class 1 (1 in 3 yr rotation)	490 Ha	490 Ha	490 Ha
Class 2 (1 in 3 yr rotation)	1,932 Ha	1,933 Ha	2,587 Ha
Class 3 (1 in 4 yr rotation)	7,592 Ha	7,798 Ha	9,998 Ha
Class 4 (1 in 6 yr rotation)	50,245 Ha	54,845 Ha	58,014 Ha
Total	60,259 Ha	65,066 Ha	71,090 Ha

Class 4 land described as "Land marginally suitable for cropping. Frequently has severe limitations of both physical and structural nature. Cropping rotations should be restricted to 1 or 2 years in 10."

#### **Key Facts**

- 83% of land identified in the report is Class 4 land.
- The nature of class 4 land means that as area is expanded greater volatility in return to processors will occur.
- A significant amount of area to poppies is being processed on either 2 year of back to back rotations as opposed to ideally 1 to 3.
- Of the 1 to 3 rotation area identified it contributes 4% of the area identified.





## Raw Material Supply-The Game Changer

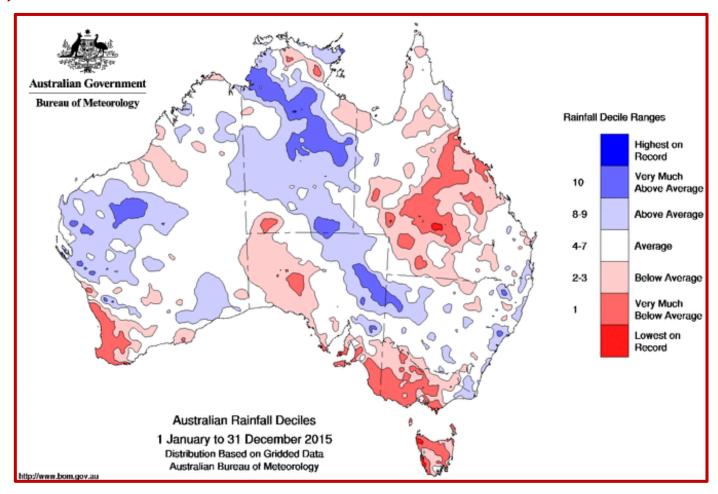
### Victoria, Northern Territory, Portugal & South Australia





## 2015-16 Agricultural Season

#### Below average rainfall in Victoria (23%) and Tasmania (20%)





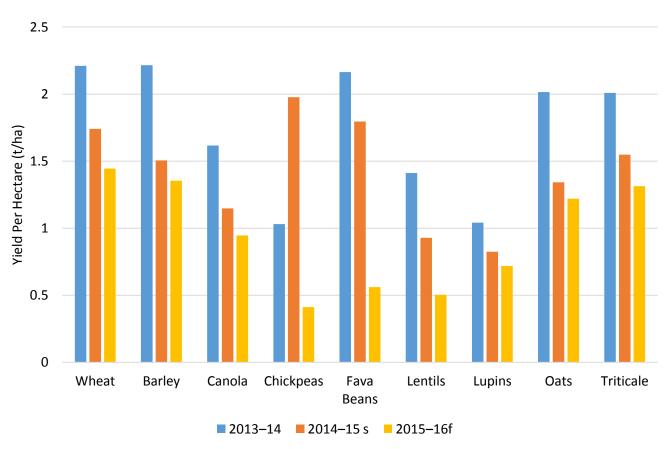
Source: http://www.bom.gov.au/climate/current/annual/aus/2015/

Source: http://www.bom.gov.au/climate/current/annual/vic/summary.shtml & http://www.bom.gov.au/climate/current/annual/tas/summary.shtml



### 2015-16 Agricultural Season

#### A 30% increase in TPI's Victorian kg/ha despite a dry agricultural season



#### **Key Facts**

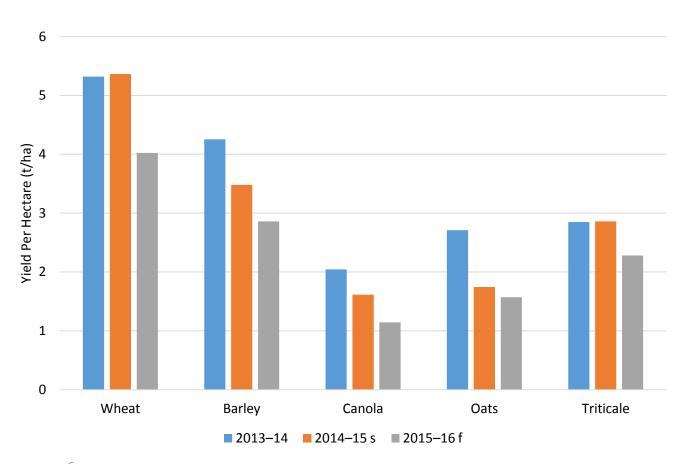
- A 30% increase in the Victorian kg/ha harvested in 2015/16 compared to 2014/15 despite a 30% reduction in yield of all other Victorian winter cereal crops.
- Winter cereal crop yields across the state fell 15% in 2014/15 and a further 30% in 2015/16.





### 2015-16 Agricultural Season

#### A 31% increase in TPI's Tasmanian kg/ha despite exceptionally dry conditions



#### **Key Facts**

- A 31% increase in the kg/ha in the Tasmanian crops.
- A exceptionally dry season with lack of water that resulted in a subsequent decrease in total kg harvested by 46% compared to 2014/15 season.
- The lack of water resulted in 70% of the Tasmanian contracts being sown and of those sown only 65% were harvested.

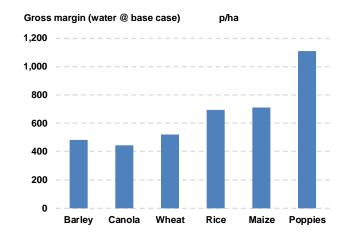


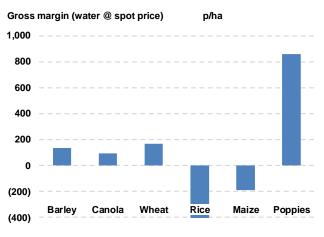
burce: http://www.agriculture.gov.au/abares/publications/display?url=http://143.188.17.20/anrdl/DAFFService/display.php?fid=pb\_aucrpd9aba\_20160209\_11a.xml

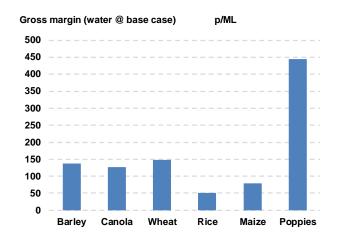


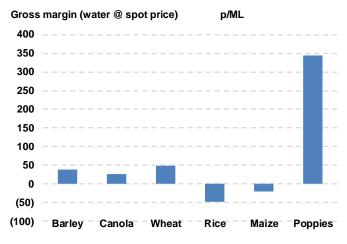
### Competing with other Crops

### As water increases in cost, poppies become more profitable







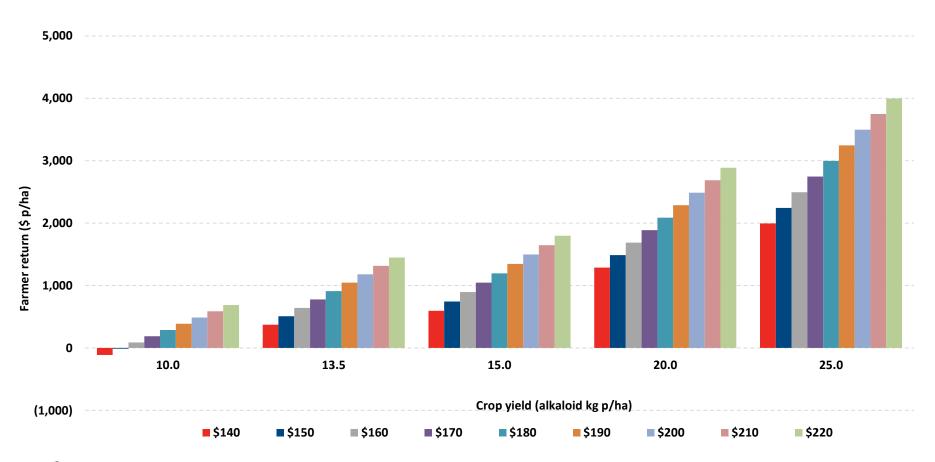






# Farmer returns at various \$/Kg payments

### Expansion into marginal land inflates \$/Kg to maintain farmer Net returns



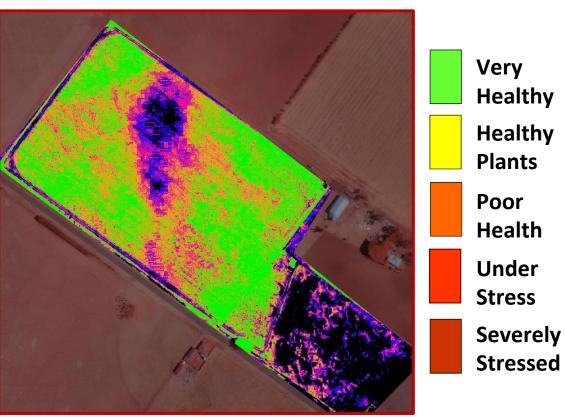






### Greater farmer information and better communication









# Investing in Technology – Soil Moisture Monitoring

### Collecting useful Ag data



#### GBug is the low cost, low maintenance Continuous Soil moisture monitoring system.

The GBug is a logger for the Watermark and Gypsum block Soil Tension sensors. Logging a kPa reading from up to four sensors every 2 hours and storing 20 days worth of data for wireless collection via the MEARetriever.



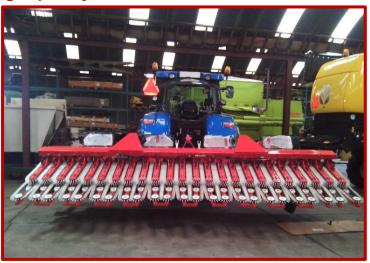


## Investing in Technology – Harvesting Technology

### Higher assay = Increased return to farmers and manufacturing capacity

#### **Key benefits**

- Increased factory capacity.
- Reduced freight cost.
- Less crop remaining in paddock
  - Higher returns to farmers.
- Earlier harvesting potential.
- De-weeding of harvested crop.











Financials





### TPI 2015 Full Year Results

#### 2015 was a transformational year for TPI

#### **Key Points**

#### Total revenue of \$3.7 million for 2015

- Seed and NRM (884kg) sales of \$2.1 million
  - Production in Victoria commenced in November 2015
  - Seed sales from 2014/15 Tasmanian harvest only.
- Grant monies of \$1 million.

#### Total loss of \$25.9 million

- Underlying operational loss of \$14.5 million.
- Non-recurring costs of \$11.4 million including
  - Impairment of assets at Cressy facility of \$6.9 million
  - Trial crops in Portugal and the Northern Territory \$2.2 million
  - Relocation expenses of \$1.6 million
  - Listing expenses of \$0.4 million.

	Consolidated	Consolidated
	2015 \$	2014 \$
Revenue	Y	7
Sale of goods	2,064,578	7,567,242
Other income	1,614,485	823,153
_	3,679,063	8,390,395
Expenses	3,0.3,000	2,222,222
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)
	(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	(779,262)	(804,884)
Loss before tax	(25,899,838)	(14,524,553)





## Summary

### TPI offers one of the few opportunities globally to invest directly in the licit narcotics sector

1.	Growing industry
2.	Manufacturing advantage
3.	Highly regulated / significant barriers to entry
4.	Established business, experienced Management team
5.	Diversity of supply





Appendix A KEY INVESTMENT RISKS



# Appendix A: Key Investment Risks

Government licences	TPI is required to obtain licences and permits across many jurisdictions. The majority of the licences are renewed either annually or biannually. There is a risk that laws or regulations may be amended in Australia or elsewhere in a manner that restricts TPI's markets for saleable product and for raw material supply. Any such change may affect the ability of TPI to carry on its business and may have a material impact on TPI's financial performance and future prospects of the business.
Agricultural Risk	TPI's supply of poppy straw is subject to risks commensurate with any agricultural enterprise. A number of factors may adversely affect both supply volume and alkaloid content. The most common adverse environmental conditions that could affect the poppy crops are flood, frosts, hail, wind, storms, fires and excessive heat and/or rain during critical physiological periods.  The company is seeking to manage agricultural risk through the diversification of supply, however poor poppy crops may have a detrimental impact on TPI's operational and financial performance, including reputational risk associated with failing to deliver on key supply contracts.
Sovereign risk	The narcotics industry in which TPI operates is highly regulated. Changes, whether as a result of changes in government or otherwise, in international, national or state conventions, laws or regulations relating to the growing, manufacture, export or sale of narcotic raw materials could materially impact TPI's ability to operate. This may adversely affect TPI's financial performance and future prospects. The Therapeutic Goods Administration's Advisory Committee on Medicines Scheduling is currently considering making approximately 150 codeine products prescription only medicine. It is unclear whether or to what extent this change will occur and if it does, whether this will have a material effect on the supply of NRM. This would bring Australia in line with the pharmaceutical regimes currently existing in the US and Europe.
Loss of key personnel	The manufacturers in the licit NRM sector and API sector are relatively small in number and, as a consequence, the number of people skilled in the industry is lower than other pharmaceutical sectors. TPI is currently operating as a relatively flat organisation and is reliant on a few key staff. TPI operates across two countries and has facilities in three jurisdictions. Management of a complex business that operates globally has a higher employee risk/complexity than a business which operates in one jurisdiction. Loss of a few key personnel could have a material impact on TPI's operations and may impact the financial performance and future prospects of the business.
Sensitisation	Licit NRMs are by their nature toxic. If used inappropriately, they can lead to death and excessive exposure can lead to long term sensitisation, which can result in employee or other claims. Any claims may be costly and may impact TPI's ability to manufacture and the financial performance and future prospects of the business.
Changes in accounting standards	Australian Accounting Standards are issued by the Australian Accounting Standards Board and are not within the control of TPI and its Directors. Any changes to the accounting standards or to the interpretation of those standards may have an adverse effect on the reported financial performance and position of TPI.



# Appendix A: Key Investment Risks, cont...

Introduction of competing products	Companies are continually exploring new products which provide pain relief and may not exhibit side effects related to the use of opiate based pain relief (such as respiratory depression and/or addiction). An introduction of a non-narcotic opiate without adverse side effects could have a material impact on TPI's ability to compete and may impact the financial performance and future prospects of the business.
Subsidisation of competing crops	Some countries (including the European Union) currently grant subsidies for certain crops. Should existing subsidies increase or new subsidies be introduced by relevant countries (including the European Union) for crops that compete with opium poppies for returns, this may have a material impact on TPI's ability to obtain raw material at a commercially viable price. This would impact TPI's ability to compete and may impact the financial performance and future prospects of the business.
Manufacturing	TPI is currently relocating its facility from Tasmania to Victoria. While the move is approximately 80% completed. The installation and commissioning of the facility could be delayed which would have an effect on TPI's ability to supply to its customers. Any substantial delay could have a material impact on TPI's operations and may impact the financial performance and future prospect of the business.  TPI is currently yet to achieve all necessary approvals for its manufacturing site in Victoria. TPI may be delayed or prevented from obtaining its Commonwealth licence which would have a material impact on TPI's operations and may impact TPI's financial performance and future prospects.
IP protection	TPI's low cost water based, solvent-free extraction process is not protected by patents but rather by confidentiality agreements. TPI protects its intellectual property based on a trade secret approach. This may result in a competitor developing a similar low cost extraction process which would compete with TPI's main competitive strengths. Any new competitor with similar intellectual property may have a material impact on TPI's competitive position and may impact TPI's financial performance and future prospects.
Competing with SOE	Two of TPI's competitors are enterprises owned by the Indian and Turkish governments. While these competitors have a protected position in, and focus primarily on, the US market, there is a possibility that they could compete in markets in which TPI has a presence. Large state owned enterprises have an ability to run at a loss for a long period of time. A price war could have a material impact on TPI and its ability to compete and may impact the financial performance and future prospects of the business. Currently, a significant quantity of codeine is being sold into India. It is possible that, in time, the Indian government will cease its historical opium manufacturing and create a NRM business similar to that occurring in Australia and Europe. Such a change may have a material impact on TPI's ability to compete and may impact the financial performance and future prospects of the business.
Diversion of material	TPI employs state of the art security and has a highly regulated and monitored security system at its facilities. Despite this, any diversion (theft or illicit use) of material during manufacture, storage or freight could result in a loss of an operating licence or substantial fine and/or reputational damage. This may have a material impact on TPI's ability to compete and may impact the financial performance and future prospects of the business.



# Appendix A: Key Investment Risks, cont...

Change in regulation to limit supply into the US and other markets	The US government has, from time to time, restricted the quota issued for importation of NRMs in response to the abuse of prescription medication. This restriction on quota could limit the opportunities for expansion in the US market. Other countries may take a similar view and/or change the scheduling and/or availability of pain relief medication. Such changes or quota restrictions may have a material impact on TPI's ability to operate and may impact the financial performance and future prospects of the business.
Competition	TPI competes against both SOE and large multinationals. Both have a capacity to operate at a loss or compete aggressively for market share for a longer period than TPI. This may place pricing pressure on TPI and may impact TPI's ability to retain existing customers or attract new customers. If TPI cannot compete successfully, TPI's financial performance and the future prospects of the business may be adversely affected.
Foreign exchange	TPI sells NRM in US dollars and poppy seed in Euros. It buys its raw material (opium poppies) predominantly in Australian dollars and Euros. Any adverse change in currency could have a material impact on TPI's financial performance and future prospects of the business.
Poppy seed price volatility	Poppy seed is a commodity based product the price of which varies in response to supply and demand. The revenue derived from poppy seed contributes to a proportion of the cost of the raw material and hence contributes a material amount to TPI's revenue and profit. The poppy seed market can be volatile and pricing can change rapidly. This volatility, in combination with €/AUD foreign exchange changes, could have a material impact on TPI's ability to compete and may impact the financial performance and future prospects of the business.
Poppy seed purity	Some countries, including the Czech Republic, are lobbying the EU to decrease the residual poppy straw dust (morphine content) in poppy seed. This would restrict the importation of poppy seed from high alkaloid countries, such as Australia and Spain. Should the EU accede to these demands the cost of purifying poppy seed could materially change. This may have a material impact on TPI's ability to compete and may impact the financial performance and future prospects of the business.
API expansion and product recalls	If TPI expands into API manufacturing, the regulatory requirements for selling product will increase above the already significant regulatory hurdles. Product produced at an API level must be fit for human consumption and any manufacturing, documentation or regulatory errors will increase the risk of an adverse financial outcome including that associated with a pubic recall and enforcement actions. This may impact the financial performance and future prospects of the business.
Changes in tax rules or their interpretation	Changes in tax law, or changes in the way tax laws are interpreted may impact the tax liabilities of TPI, Shareholder returns, or the tax treatment of a Shareholder's investment. In particular, both the level and basis of taxation may change. The tax information provided in this Information Memorandum is based on current taxation law as at the Information Memorandum Date. Tax law is frequently being changed, both prospectively and retrospectively. Any actual or alleged failure to comply with, or any change in the application or interpretation of tax rules applied in respect of such transactions, may increase TPI's tax liabilities or expose it to legal, regulatory or other actions.



# Appendix A: Key Investment Risks, cont...

Litigation	In the ordinary course of business, TPI may be involved in possible disputes. These disputes could give rise to litigation. While the extent of any disputes and litigation cannot be ascertained at this time, any dispute or litigation may be costly and may adversely affect the operational and financial results of TPI.
Counterparties	There is always a risk that, notwithstanding appropriate safeguards, a party with whom TPI has dealings may experience financial or other difficulties which may affect that party's ability to perform its obligations to TPI. This may affect the value of, and returns from, an investment in Shares.
Absence of dividends	The Board has yet to establish a dividend policy, and does not expect to pay dividends in the near term. While TPI continues to expand its business operations, TPI expects to continue to reinvest in its growth rather than distribute profits in the form of dividends. The ability of TPI to pay any dividend in the future is dependent on many factors. The Directors do not give any assurance regarding the payment of dividends in the future.
Market conditions	If TPI is admitted to the official list of ASX, the price at which Shares are quoted on ASX may increase or decrease due to a number of factors outside TPI's control and which are not explained by the fundamental operations and activities of TPI. These factors may cause the Shares to trade at prices above or below the price at which the Shares were initially acquired. There is no assurance that the price of the Shares will increase if they are quoted on ASX.
Additional requirements for capital	The future capital requirements of TPI will depend on many factors including its business development activities. However, TPI will not raise capital for three months from the date of this Information Memorandum. Should TPI seek to raise further funds after three months, there can be no assurance that additional financing will be available when needed or, if available, on terms acceptable to TPI. Any inability to obtain additional finance, if required, may have a material adverse effect on TPI's business and its financial condition and performance. Further, any additional finance raised may dilute Shareholders' interests in TPI.
Force Majeure	Events may occur within or outside Australia that could affect investor sentiment or impact upon the global and Australian economies, the operations of TPI and the price of the Shares. These events include acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other man-made or natural events. These events can have an adverse effect on the demand for TPI's goods and services and its ability to conduct business. TPI has only a limited ability to insure against some of these risks.
Insurance	TPI insures its business and operations. However, TPI's insurance may not be of a nature or level to provide adequate insurance cover to insure against the occurrence of all events that may impact on the operations of TPI. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial conditions and results of TPI.
Market access	If TPI expands into API manufacturing, restrictions imposed by some countries on the sale of APIs which have not been manufactured in that country or region may impact TPI's ability to compete. If TPI cannot compete successfully, this would impact TPI's financial performance and future prospect.

