TPI Enterprises Limited

ABN 26 107 872 453

Interim report
for the half-year ended 30 June 2018

TPI Enterprises Limited ABN 26 107 872 453
Interim report - 30 June 2018

Contents

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2017 and any public announcements made by TPI Enterprises Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

TPI Enterprises Limited is a company limited by shares, incorporated and domiciled in Australia. The shares of TPI Enterprises Limited are publicly traded on the Australian Securities Exchange under the ASX issuer code TPE.

Directors' report

Directors

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

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

Mr. Peter Robinson was a Non-Executive Director from the beginning of the financial period until his resignation on 1 May 2018.

Review of operations

Financial Results Summary

	Consolidated entity	
	30 June 2018 $	30 June 2017 $
Sales of NRM, API, FDF and poppy seed	**22,705,907**	5,952,161
Statutory Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	**(1,916,973)**	(5,734,802)
Statutory Earnings Before Interest and Tax (EBIT)	**(4,007,749)**	(6,927,279)
Statutory (Loss) for the year after tax	**(3,656,534)**	(8,770,035)
Net cash (outflow) from operating activities	**(6,512,244)**	(10,590,460)
Operating EBITDA	**(1,793,107)**	(4,152,239)

The Group reported a statutory loss after income tax for the half-year of $3.7 million (2017: $8.8 million) and reported a statutory Earnings Before Interest, Tax, Depreciation and Amortisation (“EBITDA”) loss of $1.9 million (2017: $5.7 million).

Operating EBITDA (reported EBITDA adjusted for acquisition costs, inventory impairments, agricultural trialling costs, discontinued operations and other income), a non-GAAP financial measured used internally within the Group, continues to improve along with gross profit margins. A decrease in the Operating EBITDA loss from $4.2 million in 1H2017 to an Operating EBITDA loss of $1.8 million for 1H2018 predominantly reflects a continued improvement in operating leverage as the Group’s production volumes and revenues continue to grow. Organic revenue growth was primarily driven by the growth of API sales.

Reported Operating EBITDA was negatively impacted by the strategic decision to terminate a finished dosage contract, including the costs of managing the associated large-scale headcount reduction in Norway, reduced external NRM sales and toll NRM processing volumes in order to focus on API growth.

The Group completed the sale of its Portugal domiciled subsidiary entities during the half-year period. The positive financial impact of the transaction was two-fold with a net gain on sale of $1.1m being recognised during the period along with eliminating the ongoing property occupancy and administration expenses.

Raw Material Supply

Reliability of poppy straw supply continues to improve, with mainland straw growing demonstrating the major cost benefits of large scale and streamlined transportation operations. The Group’s Northern Hemisphere sourcing capability reduces stock-out risk in Narcotic Raw Material (“NRM”) production, provides diversification of agricultural exposure, and enables a wider spread of inventory procurement throughout the year reducing the Group’s working capital needs. The associated improvements in consistency of supply is reflected in continuing NRM production cost reduction enabling the NRM business to efficiently produce the required raw material volumes needed by the Group.

Review of operations (continued)

Expansion of mainland growing continues to be a key priority for the Group. Projected contracted area in the New South Wales growing region for the 2018 season is more than 1,500 ha. after a first year of approximately 300 ha. The total domestic growing area is forecast to increase by over 40% in 2018. The factory delivered cost (adjusting for alkaloid content) of poppy straw sourced from mainland states (including Victoria and South Australia) during 2018 was approximately 30% lower compared to Tasmania, because of lower freight costs.

During the first half of 2018 the Group harvested its first large scale thebaine and oripavine variety crops which are used to manufacture Oxycodone and Naloxone respectively. Despite the reduction in thebaine demand from the USA, the Group remains in discussions with customers for the supply of thebaine NRM and will supply some small commercial volumes in 2018.

NRM production in Australia

Having resolved straw supply security in 2017 and with the acquisition of Norway providing wider access to end-use markets through API supply, additional NRM production volumes have been directed internally to supply API customers and capture additional margin for the Group from downstream processing. Small volumes of NRM were supplied externally during the first half; however the focus of the Group remains on building sufficient raw material inventory for downstream API production. NRM production throughput and factory utilisation continued to improve during the first half with a focus on high volume codeine NRM extraction.

The Group has in excess of 10 tonnes of thebaine poppy straw on hand and will look to enter the US market with small volumes of thebaine NRM in the second half predominantly to address the anti-addiction market.

API production in Norway

The Group's operations in Norway have two streams of production; Active Pharmaceutical Ingredient ("API") manufacturing, which converts NRM manufactured in Australia into either codeine phosphate or pholcodine, and Finished Dosage Formulation ("FDF") manufacturing which is responsible for the supply of Finished Dosage products to third parties (e.g. packaged tablets). The FDF division is also referred to as contract manufacturing ("CMO").

The principal strategic benefit of acquiring the Group's Norway operations was to enable the Group to fast track its entry into the API market for codeine phosphate and pholcodine. Given approximately 80% of the cost to produce codeine phosphate resides in the NRM, the Group expects that its NRM production cost advantage will enable it to become the lowest cost supplier of codeine phosphate globally. The acquisition has delivered a number of new API customers and fast-tracked regulatory approvals to access other API markets.

The Group expects sales volumes in the second half of 2018 to continue to increase on a quarter by quarter basis. While pricing across the industry is at cyclical lows, the Group continues to attract new API volumes at commercially attractive margins, demonstrating the Group's competitive cost advantage in API production.

The Group has increased production headcount within API production to allow for 7 day a week operation (previously 5 days a week), and with further investment in drying capacity, the API division will continue to deliver volume growth for the medium term. Additional headcount has also been added in the product development area to focus on broadening the Group's product portfolio and registering new API products such as Morphine Sulphate, Dihydrocodeine and the anti-addiction narcotic Naloxone.

FDF production in Norway

FDF production provides contract manufacturing services ("CMO") for third parties under long term manufacture and supply agreements. These services include compounding, tableting, packaging and warehousing, all of which requires high levels of labour and working capital and generates lower margins than the core businesses of the Group; NRM production and downstream conversion of NRM into API.

Review of operations (continued)

After review of the cost of servicing one of the Group's supply agreements, the Group decided to cease supply of tablets to this customer after May 2018. The Group is continuing to focus its attention on both the API division and efficiently supplying its largest FDF customer. This streamlining of the FDF business has allowed the Group to undertake a significant cost reduction program, thereby enhancing the profitability of the FDF and wider Norway operations into the future. However, in the first half of 2018 the profitability of the FDF division was impacted by the loss of revenue from the terminated customer contract whilst the associated costs were removed. Subsequent to balance date, the customer decided to renew the contract on improved terms for the Group.

Importantly, the Group will be able to utilise its FDF capability in future for tableting and packaging its own product rather than supply only to third parties. To realise this opportunity to extend the downstream processing of the NRM and associated API, the Group will need to make a modest investment in the acquisition of product dossiers. These dossiers will allow the Group to market and sell directly into regional generic markets, giving the Group access to additional markets and allow for additional margin accretion.

Cost Reduction Activities in Norway

The Group has initiated a significant reduction in headcount at the Group's Norway facility (approximately 29 FTE's or a one-third of total workforce reduction), primarily driven by the decision to terminate the unprofitable non-core FDF customer contract. The headcount reduction will mostly affect the FDF division, with additional headcount being added to the API division. There is additional scope for manufacturing efficiency gains with equipment uptime levels in FDF well below recognised industry standards with ongoing improvements in this area expected over the medium term.

One of the benefits of the termination of the FDF customer contract is the reduction in associated working capital requirements. This working capital reduction, combined with the removal of the high levels of overtime and additional headcount required to service the non-core contract, has resulted in a significant improvement in the economics of the FDF division.

Review of operations (continued)

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.

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

Statutory (Loss) after income tax	**(3,656,534)**	(8,770,035)
(Profit)/loss from discontinued operation	**(1,119,003)**	322,222
Less: Income tax benefit	**(198,675)**	-
Add: Net finance expenses	**966,463**	1,520,534
Statutory Earnings Before Interest and Tax (EBIT)	**(4,007,749)**	(6,927,279)
Add: Depreciation and amortisation expense	**2,090,776**	1,192,477
Statutory Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	**(1,916,973)**	(5,734,802)
Add:		
Impairment of inventory to net realisable value	**-**	729,549
Agricultural area trialling expenses	**-**	240,609
Acquisition related expenses - legal and other expenses	**174,625**	633,655
Deduct:		
Other income	**(50,759)**	(21,250)
Operating EBITDA	**(1,793,107)**	(4,152,239)

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 6.

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

Simon Moore

Mr. Simon Moore
Chairman

Melbourne
30 August 2018

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

To the Directors of TPI Enterprises Limited

I declare that, to the best of my knowledge and belief, in relation to the review of TPI Enterprises Limited for the half-year ended 30 June 2018 there have been:

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

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

KPMG

Tony Batsakis
Partner

Melbourne

30 August 2018

	Notes	Consolidated entity 30 June 2018 $	30 June 2017 $
Revenue			
Sale of goods		**22,705,907**	5,952,161
Other income		**50,759**	21,250
		22,756,666	5,973,411
Expenses			
Raw materials, consumables and other production expenses		**(10,775,364)**	(4,293,822)
Employee benefits (production) expenses	3	**(4,365,648)**	(868,043)
Employee benefits (non-production) expenses	3	**(6,382,052)**	(3,023,347)
Legal and listing compliance expenses		**(366,079)**	(252,453)
Market development expenses		**(548,937)**	(231,678)
Occupancy expenses		**(785,462)**	(127,761)
Research expenses		**(136,148)**	(304,083)
Acquisition related expenses - legal and other expenses		**(174,625)**	(633,655)
Agricultural area trialling expenses		**-**	(392,635)
Impairment of inventory to net realisable value		**-**	(729,549)
Other expenses		**(1,139,324)**	(851,187)
Total expenses		**(24,673,639)**	(11,708,213)
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)		**(1,916,973)**	(5,734,802)
Depreciation and amortisation expense	3	**(2,090,776)**	(1,192,477)
Earnings Before Interest and Tax (EBIT)		**(4,007,749)**	(6,927,279)
Finance income		**11,808**	81,538
Finance expenses		**(978,271)**	(1,602,072)
Net finance expenses	3	**(966,463)**	(1,520,534)
(Loss) before income tax		**(4,974,212)**	(8,447,813)
Income tax expense		**198,675**	-
(Loss) from continuing operations		**(4,775,537)**	(8,447,813)
Profit/(loss) from discontinued operation, net of tax	10	**1,119,003**	(322,222)
(Loss) for the period		**(3,656,534)**	(8,770,035)
Other comprehensive income/(loss)			
Item that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**1,295,959**	(115,326)
Total comprehensive (loss) for the period		**(2,360,575)**	(8,885,361)

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

	Notes	Consolidated entity **30 June 2018 $**	30 June 2017 $
(Loss) is attributable to:			
Owners of TPI Enterprises Limited		**(3,656,534)**	(8,770,035)
Total comprehensive (loss) for the period is attributable to:			
Owners of TPI Enterprises Limited		**(2,360,575)**	(8,885,361)
		Cents	Cents
Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company:			
Basic profit/(loss) per share		**(5.89)**	(13.58)
Diluted profit/(loss) per share		**(5.89)**	(13.58)
Earnings per share for profit/(loss) for discontinued operations attributable to the ordinary equity holders of the Company:			
Basic profit/(loss) per share		**1.38**	(0.52)
Diluted profit/(loss) per share		**1.38**	(0.52)

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

	Notes	Consolidated entity 30 June 2018 $	31 December 2017 * $
ASSETS			
Current assets			
Cash and cash equivalents	4	**1,399,943**	3,644,547
Trade and other receivables		**5,446,382**	9,333,756
Contract assets		**2,324,075**	-
Inventories		**20,245,180**	16,499,470
Prepayments		**954,989**	1,202,288
Assets classified as held for sale	10	**-**	2,961,845
Total current assets		**30,370,569**	33,641,906
Non-current assets			
Investments		**101,766**	101,766
Property, plant and equipment	5	**26,714,804**	27,387,040
Intangible assets	6	**18,362,911**	18,362,423
Other non-current assets		**256,945**	256,945
Total non-current assets		**45,436,426**	46,108,174
Total assets		**75,806,995**	79,750,080
LIABILITIES			
Current liabilities			
Trade and other payables		**7,742,608**	9,353,248
Borrowings	7	**13,150,546**	13,226,838
Provisions		**964,533**	1,219,118
Total current liabilities		**21,857,687**	23,799,204
Non-current liabilities			
Net deferred tax liabilities		**2,267,575**	2,384,098
Provisions		**328,380**	314,566
Total non-current liabilities		**2,595,955**	2,698,664
Total liabilities		**24,453,642**	26,497,868
Net assets		**51,353,353**	53,252,212
EQUITY			
Contributed equity	8	**181,482,260**	181,482,260
Reserves	9	**3,282,186**	1,856,069
(Accumulated losses)		**(133,411,093)**	(130,086,117)
Total equity		**51,353,353**	53,252,212

* The Group initially applied AASB 9 and AASB 15 at 1 January 2018. Under the transition method chosen comparative information is not restated.

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

		Attributable to owners of TPI Enterprises Limited				
Consolidated entity	Notes	**Contributed equity $**	**Foreign currency translation reserve $**	**Other reserves $**	**(Accumulated losses) $**	**Total equity $**
Balance at 1 January 2017		122,178,914	12,827	1,921,929	(113,393,428)	10,720,242
(Loss) for the half-year		-	-	-	(8,770,035)	(8,770,035)
Other comprehensive income/(loss)		-	(115,326)	-	-	(115,326)
Total comprehensive income/(loss) for the period		**-**	**(115,326)**	**-**	**(8,770,035)**	**(8,885,361)**
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs and tax		42,315,012	-	-	-	42,315,012
Share-based payments		-	-	28,341	-	28,341
		42,315,012	-	28,341	-	42,343,353
Balance at 30 June 2017		**164,493,926**	**(102,499)**	**1,950,270**	**(122,163,463)**	**44,178,234**
Balance at 1 January 2018		181,482,260	(264,593)	2,120,662	(130,086,117)	53,252,212
Opening balance adjustment on application of AASB 15	1(a)	-	-	-	331,558	331,558
Restated total equity at the beginning of the financial period		**181,482,260**	**(264,593)**	**2,120,662**	**(129,754,559)**	**53,583,770**
(Loss) for the half-year		-	-	-	(3,656,534)	(3,656,534)
Other comprehensive income/(loss)		-	1,295,959	-	-	1,295,959
Total comprehensive income/(loss) for the period		**-**	**1,295,959**	**-**	**(3,656,534)**	**(2,360,575)**
Transactions with owners in their capacity as owners:						
Share-based payments		-	-	130,158	-	130,158
Balance at 30 June 2018		**181,482,260**	**1,031,366**	**2,250,820**	**(133,411,093)**	**51,353,353**

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

	Notes	Consolidated entity 30 June 2018 $	30 June 2017 $
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**27,368,129**	4,030,938
Payments to suppliers and employees (inclusive of goods and services tax)		**(32,913,910)**	(14,836,743)
		(5,545,781)	(10,805,805)
Cash receipts from government grants		**-**	622,250
Cash receipts from research and development tax incentive		**-**	1,026,998
Other cash receipts		**-**	14,655
Interest received		**11,808**	81,538
Interest and finance costs paid		**(978,271)**	(1,530,096)
Net cash (outflow) from operating activities	11	**(6,512,244)**	(10,590,460)
Cash flows from investing activities			
Payments for property, plant and equipment	5	**(558,842)**	(1,267,216)
Payments for capitalised development costs and patents	6	**(237,225)**	(379,429)
Proceeds from sale of property, plant and equipment		**54,750**	3,193
Proceeds from sale of held-for-sale assets	10(d)	**4,291,522**	-
Net cash inflow (outflow) from investing activities		**3,550,205**	(1,643,452)
Cash flows from financing activities			
Proceeds from issues of shares		**-**	24,540,073
Share issuance transaction costs		**-**	(1,850,061)
Repayment of borrowings		**(76,292)**	(129,913)
Net cash (outflow) inflow from financing activities		**(76,292)**	22,560,099
Net (decrease) increase in cash and cash equivalents		**(3,038,331)**	10,326,187
Cash and cash equivalents at the beginning of the financial year		**3,644,547**	622,548
Effects of exchange rate changes on the balance of assets held in foreign currencies		**793,727**	(224,054)
Cash and cash equivalents at end of period	4	**1,399,943**	10,724,681

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

1 Basis of preparation of half-year report

This consolidated interim report for the half-year reporting period ended 30 June 2018 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

This condensed interim report does not include all of the notes of the type normally included in an annual financial report, however selected explanatory notes are included to explain events and transactions that are significant to understanding the changes to the Group's financial position and performance since 31 December 2017. Accordingly, it should be read in conjunction with the Annual Report for the year ended 31 December 2017 and any public announcements made by TPI Enterprises Limited, since 31 December 2017, in accordance with continuous disclosure requirements of the *Corporations Act 2001*. This interim report has been prepared in accordance with the measurement and recognition requirements of Australian Accounting Standards, Accounting Interpretations and the *Corporations Act 2001*.

This interim 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 interim report are consistent with those adopted and disclosed in the Group's annual financial report for the year ended 31 December 2017.

This interim report was authorised for issue by the Group's Board of Directors on 30 August 2018.

(a) Changes in significant accounting policies

Except for the changes in accounting policies as described below, the accounting policies applied in this interim financial report are the same as those applied in the Group’s consolidated financial report as at and for the year ended 31 December 2017. These changes in accounting policies are also expected to be reflected in the Group’s consolidated financial statements as at and for the year ending 31 December 2018.

A number of new or amended accounting standards became applicable for the current reporting period. As a result of adopting *AASB 15 Revenue from Contracts with Customers* the Group had to change its accounting policy related to revenue recognition and make cumulative adjustments which are set out below. The other standards that became applicable for the current reporting period did not have an impact on the Group’s accounting policies and did not require any retrospective adjustments.

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced *AASB 118 Revenue, AASB 111 Construction Contracts* and related interpretations.

(i) New accounting policy – revenue recognition

Under AASB 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control - at a point in time or over time - requires judgement. The following amended revenue recognition accounting policies have been applied from 1 January 2018:

1 Basis of preparation of half-year report (continued)

(a) Changes in significant accounting policies (continued)

(i) New accounting policy – revenue recognition (continued)

Sale of goods - contract manufacturing revenue recognised over time

The Group has determined that for certain goods that are manufactured and supplied under contract manufacturing and supply arrangements, the customer controls the goods once the goods are duly finished, approved for distribution and packaged in accordance with the relevant agreement. This is because under those agreements, goods are manufactured to a customer's specification, packaged with the customer's branding, and if a firm order that is placed by the customer in accordance with the agreement is terminated, the Group is entitled to reimbursement of the costs incurred in manufacturing the goods, including a reasonable margin. Therefore, revenue from these agreements and the associated costs are recognised over time - i.e. before the goods are delivered to the customer's premises. Invoices are issued according to contractual terms and amounts not yet invoiced are presented as contract assets.

Sale of goods - other revenue recognised at a point in time

Revenue from the sale of goods that are not subject to contract manufacturing arrangements is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

Revenue is recognised when a customer obtains control of the promised goods and the Group has satisfied its performance obligation in relation to the promised goods. In determining when control of promised goods passes to the customer, the Group considers the transfer of significant risks and rewards of ownership of the goods to the customer to indicate that the customer has obtained the ability to direct the use of and obtain substantially all of the remaining benefits from the goods. 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;
- 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 a contract liability.

(ii) Impact on the financial statements

The Group has applied AASB 15 cumulatively, with the effect of initial adoption adjusted to the opening balance of equity, the comparative figures are therefore not restated. The effect of initially applying the standard is attributed to the earlier recognition of revenue from the sale of goods manufactured and supplied under contract manufacturing and supply arrangements. The following tables show the adjustments recognised for each individual financial statement line item. Line items that were not affected by the changes have not been included.

1 Basis of preparation of half-year report (continued)

(a) Changes in significant accounting policies (continued)

(ii) Impact on the financial statements (continued)

The opening equity adjustment due to the application of AASB 15 is illustrated by financial statement line item below at the date of initial application (1 January 2018):

Consolidated statement of financial position (extract)	31 December 2017 $	AASB 15 adjustment $	1 January 2018 $
Current assets			
Contract assets	**-**	**922,829**	**922,829**
Inventories	**16,499,470**	**(591,271)**	**15,908,199**
Total current assets	**33,641,906**	**331,558**	**33,973,464**
Total assets	**79,750,080**	**331,558**	**80,081,638**
Net assets	**53,252,212**	**331,558**	**53,583,770**
Equity			
(Accumulated losses)	**(130,086,117)**	**331,558**	**(129,754,559)**
Total equity	**53,252,212**	**331,558**	**53,583,770**

(b) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with Australian Accounting Standards 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.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the half-year ended ending 30 June 2018 is included in the following notes:

Notes 5 and 6 - impairment test: key assumptions underlying recoverable amounts of property, plant and equipment and intangible assets.

(c) Going concern

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

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

- For the half-year ended 30 June 2018 the Group generated a loss after income tax of $3,656,534 (2017: $8,770,035) and had cash outflows from operations of $6,512,244 (2017: $10,590,460).

- As at 30 June 2018 the Group's current assets exceeded its current liabilities by $8,512,882 (31 December 2017: $9,842,702), with cash and cash equivalents of $1,399,943 (31 December 2017: $3,644,547).

1 Basis of preparation of half-year report (continued)

(c) Going concern (continued)

- The Group has a standby debt facility in place with Washington H. Soul Pattinson and Company Limited to meet the Group's short term working capital requirements. As at the date of this report the facility has a limit of $12,500,000 and at 30 June 2018 the Group had drawn down $5,000,000 of the Facility. The remaining facility available for utilisation of $7,500,000 combined with cash and cash equivalents of $1,399,943 provides adequate funding to meet the Group's immediate needs.

- The standby debt facility in place with Washington H. Soul Pattinson expires on 31 August 2019. The Directors acknowledge that prima facie an apparent refinancing risk exists at 31 August 2019 if the facility is not renewed in line with past practice, repaid out of funds secured from an alternative source of debt or raised from the issue of additional equity.

- The Group is in active dialogue with multiple debt providers to refinance the expiring finance lease (deferred purchase arrangement) for the Melbourne factory site due in November 2018.

- The Directors' have 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.

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

2 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**	
Consolidated entity	**30 June 2018 $**	**30 June 2017 $**	**30 June 2018 $**	**30 June 2017 $**	**30 June 2018 $**	**30 June 2017 $**	**30 June 2018 $**	**30 June 2017 $**
External revenue	**2,408,454**	**5,973,411**	**20,348,212**	**-**	**-**	**-**	**22,756,666**	**5,973,411**
Inter-segment revenue	**5,532,408**	**-**	**-**	**-**	**(5,532,408)**	**-**	**-**	**-**
Total segment revenue	**7,940,862**	**5,973,411**	**20,348,212**	**-**	**(5,532,408)**	**-**	**22,756,666**	**5,973,411**
Reportable segment profit	**(3,492,628)**	**(6,927,279)**	**(540,584)**	**-**	**224,138**	**-**	**(3,809,074)**	**(6,927,279)**
Unallocated amounts								
Net financing costs							**(966,463)**	**(1,520,534)**
Profit/(loss) from discontinued operation							**1,119,003**	**(322,222)**
Consolidated (loss) before tax							**(3,656,534)**	**(8,770,035)**

2 Segment information (continued)

	Consolidated entity	
	30 June 2018 $	31 December 2017 $
Non-current assets		
Australia	**26,585,747**	27,290,561
Europe	**18,850,679**	18,817,613
	45,436,426	46,108,174

3 Expenses

	Consolidated entity	
	30 June 2018 $	30 June 2017 $
(Loss) before income tax includes the following specific expenses:		
Employee benefits expenses		
Salaries and wages	**9,039,665**	3,055,082
Other associated personnel expenses	**438,317**	449,562
Defined contribution superannuation expenses	**1,380,331**	204,765
Increase/(decrease) in liability for long service leave	**13,814**	41,206
Increase/(decrease) in liability for annual leave	**(254,585)**	112,434
Share-based payments	**130,158**	28,341
Total employee benefits expenses	**10,747,700**	3,891,390
Depreciation		
Buildings	**208,275**	162,681
Contract equipment	**94,738**	31,143
Manufacturing plant and equipment	**891,296**	888,381
Office equipment	**51,367**	48,989
Motor vehicles	**17,288**	12,525
Total depreciation	**1,262,964**	1,143,719
Amortisation		
Patents	**-**	2,661
Capitalised development costs	**-**	46,097
Customer relationships	**827,812**	-
Total amortisation	**827,812**	48,758
Total depreciation and amortisation	**2,090,776**	1,192,477

3 Expenses (continued)

	Consolidated entity	
	30 June 2018 $	30 June 2017 $
Finance income		
Interest income	**(11,808)**	(81,538)
	(11,808)	(81,538)
Finance costs		
Interest and finance expenses on financial liabilities measured at amortised cost	**775,928**	1,530,096
Net exchange losses on foreign currency	**202,343**	71,976
	978,271	1,602,072
Net finance expenses recognised in profit or loss	**966,463**	1,520,534

4 Current assets - Cash and cash equivalents

	Consolidated entity	
	30 June 2018 $	31 December 2017 $
Cash at bank	**1,399,943**	3,644,547

5 Non-current assets - Property, plant and equipment

	Land and buildings $	Manufacturing plant and equipment $	Office equipment $	Motor vehicles $	Contract plant and equipment $	Total $
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
Period ended 30 June 2018						
Opening net book amount	9,994,373	14,943,154	708,701	134,194	1,606,618	27,387,040
Exchange rate movements	28,846	83,102	1,896	349	-	114,193
Additions	24,295	512,561	9,923	-	12,063	558,842
Disposals	-	-	-	(32,976)	(49,331)	(82,307)
Depreciation charge	(208,275)	(891,296)	(51,367)	(17,288)	(94,738)	(1,262,964)
Closing net book amount	9,839,239	14,647,521	669,153	84,279	1,474,612	26,714,804
At 30 June 2018						
Cost	17,438,614	26,637,725	1,157,689	412,131	2,262,571	47,908,730
Accumulated depreciation	(7,599,375)	(11,990,204)	(488,536)	(327,852)	(787,959)	(21,193,926)
Net book amount	9,839,239	14,647,521	669,153	84,279	1,474,612	26,714,804

Impairment testing

During the half-year ended 30 June 2018, 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 Norway was determined based on fair value less costs of disposal, based on the prior year acquisition transaction of TPI Norway AS.

Value in use as at 30 June 2018 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%.

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

Impairment testing (continued)

- 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. 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.

6 Non-current assets - Intangible assets

	Goodwill $	Patents $	Customer relationships $	Capitalised development costs $	Irrigation rights $	Total $
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
Period ended 30 June 2018						
Opening net book amount	6,772,206	246,721	9,933,741	309,755	1,100,000	18,362,423
Exchange differences	233,359	15,416	342,300	-	-	591,075
Additions	-	203,984	-	33,241	-	237,225
Amortisation charge	-	-	(827,812)	-	-	(827,812)
Closing net book amount	7,005,565	466,121	9,448,229	342,996	1,100,000	18,362,911
At 30 June 2018						
Cost	7,005,565	466,121	10,276,041	342,996	1,100,000	19,190,723
Accumulated amortisation and impairment	-	-	(827,812)	-	-	(827,812)
Net book amount	7,005,565	466,121	9,448,229	342,996	1,100,000	18,362,911

Impairment testing

The Group reviewed the carrying value of its intangible assets at the reporting date and determined that the carrying value of these assets was appropriate. Refer to note 5 for further details of the Group's impairment testing for the half-year ended 30 June 2018.

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 they are 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. The Group has not recorded an impairment charge against the irrigation rights as the fair value less costs of disposal approximates the carrying value of the irrigation rights.

7 Current liabilities - Borrowings

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

	Consolidated entity	
	30 June 2018 $	31 December 2017 $
Finance lease liabilities	**8,150,000**	8,150,000
Irrigation rights fixed repayment plan	**-**	76,831
Shareholder loan facility	**5,000,000**	5,000,000
Other loans	**546**	7
Total current borrowings	**13,150,546**	13,226,838

Movements during the half-year

	Currency	**Nominal interest rate**	**Year of maturity**	**Movement**	**Carrying amount ($)**
At 1 January 2018					**13,226,838**
Repayments					
Shareholder loan facility	AUD	11.00%	2019	-	5,000,000
Finance lease liabilities	AUD	9.04%	2018	-	8,150,000
Irrigation rights fixed repayment plan	AUD	8.10%	2018	(76,831)	-
Other	AUD		2018	539	546
Carrying amount at 30 June 2018				(76,292)	**13,150,546**

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 to meet the Group's short term working capital needs. At 30 June 2018 the Group had drawn down $5,000,000 of the Facility (2017: $nil). The maturity date of this facility was extended in August 2018 from February 2019 to August 2019.

In addition, as at 30 June 2018, external debt included a finance lease (deferred purchase arrangement) for the Melbourne factory site maturing in November 2018.

8 Contributed equity

(a) Share capital

	30 June 2018 Shares	31 December 2017 Shares	**30 June 2018 $**	31 December 2017 $
Ordinary shares				
Fully paid	**81,085,594**	81,085,594	**181,482,260**	181,482,260

(b) Ordinary shares

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

Ordinary shares participate in dividends and the proceeds on winding up of the Group 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 Group's shares that are held by the Group, 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 Group.

9 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.

10 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 were consequently presented as held for sale and are 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 half-year ended 30 June:

	Consolidated entity	
	30 June 2018 $	30 June 2017 $
Revenue	**-**	-
Expenses	**-**	(322,222)
(Loss) before income tax	**-**	(322,222)
Income tax expense	**-**	-
Gain on sale of subsidiary entities after income tax	**1,119,003**	-
Profit/(loss) from discontinued operation	**1,119,003**	(322,222)

(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 half-year ended 30 June:

	Consolidated entity	
	30 June 2018 $	31 December 2017 $
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	**-**	3,048,060
Liabilities classified as held for sale		
Trade creditors	**-**	(86,215)
Total liabilities classified as held for sale	**-**	(86,215)
Net assets of discontinued operation classified as held for sale	**-**	2,961,845

10 Discontinued operation (continued)

(d) Details of the sale of the subsidiary entities

	Consolidated entity	
	30 June 2018 $	30 June 2017 $
Consideration received:		
Cash	**4,291,522**	-
Foreign currency translation reserve	**(210,674)**	-
Carrying amount of net assets sold	**(2,961,845)**	-
Gain on sale	**1,119,003**	-

11 Cash flow information

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

	Consolidated entity	
	30 June 2018 $	30 June 2017 $
(Loss) for the period	**(3,656,534)**	(8,770,035)
Depreciation expense	**1,262,964**	1,192,870
Amortisation expense	**827,812**	169,803
Net loss on sale of non-current assets	**27,559**	-
Gain on sale of discontinued operation, net of income tax	**(1,119,003)**	-
Equity-settled share-based payment transactions	**130,158**	-
Income tax benefit	**(198,675)**	-
Interest income	**(11,808)**	(81,538)
Unrealised foreign exchange loss and other items	**202,343**	100,314
Interest expense	**775,928**	1,530,096
Change in operating assets and liabilities:		
Decrease (increase) in trade, other receivables and contract assets	**1,563,300**	(320,026)
(Increase) in inventories	**(3,745,709)**	(3,705,563)
Decrease in prepayments	**247,299**	267,998
(Decrease) increase in trade and other payables	**(1,610,644)**	320,541
(Decrease) increase in other provisions	**(240,771)**	153,638
Interest received	**11,808**	81,538
Interest paid	**(978,271)**	(1,530,096)
Net cash (outflow) from operating activities	**(6,512,244)**	(10,590,460)

In the directors' opinion:

(a) the interim financial statements and notes set out on pages 7 to 25 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and 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 30 June 2018 and of its performance for the half-year ended on that date, and

(b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

Simon Moore

Mr. Simon Moore
Chairman

Melbourne
30 August 2018

Independent Auditor's Review Report

To the shareholders of TPI Enterprises Ltd

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of TPI Enterprises Ltd.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of TPI Enterprises Ltd is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2018 and of its performance for the ***Interim Period*** ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2018.
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Interim Period ended on that date.
- Notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information.
- The Directors' Declaration.

The ***Group*** comprises TPI Enterprises Ltd (the Company) and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

The ***Interim Period*** is the 6 months ended on 30 June 2018.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;* and
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2018 and its performance for the interim period ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of TPI Enterprises Ltd, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

Tony Batsakis

Partner

Melbourne

30 August 2018