2022 ANNUAL REPORT

AFT pharmaceuticals

Working to improve your health

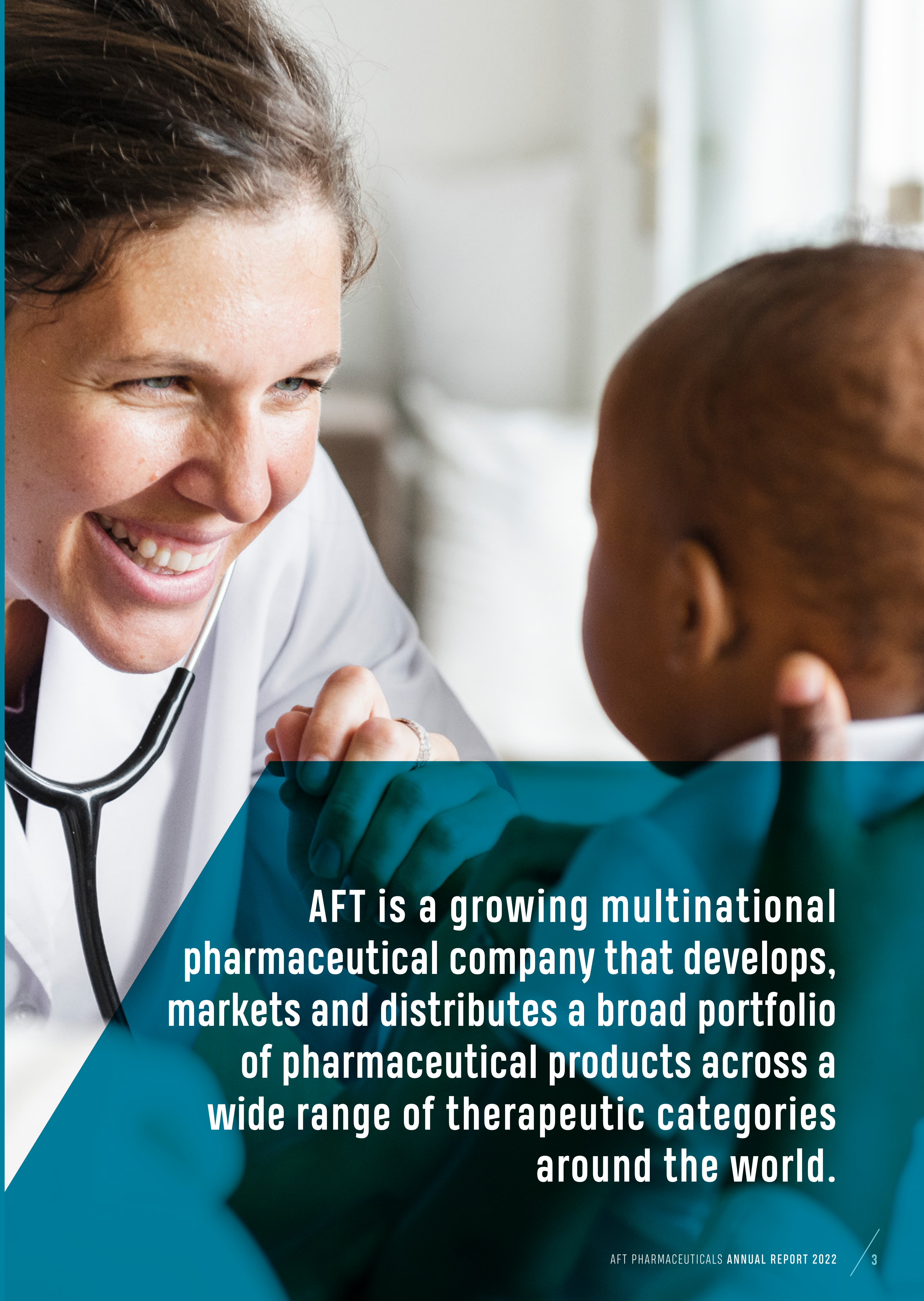

Developing innovative
products that
make a real difference
to your health.
AFT pharmaceuticals
Working to improve your health

Contents

This report provides a summary review of AFT's operational and financial performance for the year to 31 March 2022 and should be read in conjunction with the company's financial statements on pages 42 to 71 of this report.

The information provided in this report has been compiled in accordance with relevant law, rules and corporate governance recommendations for investor reporting. Financial information has been prepared in accordance with appropriate accounting standards and has been audited by Deloitte.

Throughout this report we have focused on what we believe matters most to our stakeholders and our business. We have endeavoured to ensure all information is accurate through internal verification and other approval processes.



AFT is a growing multinational pharmaceutical company that develops, markets and distributes a broad portfolio of pharmaceutical products across a wide range of therapeutic categories around the world.

Growing Globally from a Strong Australasian Core

FY22 Highlights

$130.3 million
Annual operating revenue grew by 15.2% from $113.1 million

$20.4 million
Operating profits rose 90.6% from $10.7 million

$19.8 million
Net profit after tax rose 153.8% from $7.8 million

$29.3 million
Net debt down from $35.2 million

$56.7 million
Total equity rises 54.9% from $36.6 million

FY22 Operational Highlights

AUSTRALIA
Sales $76.7 million
UP 12.3%
Operating profit up 9.8% to $15.7 million

Key drivers
Broad-based growth
New product launches

NEW ZEALAND
Sales $35.1 million
GROWTH 14.9%
Operating profit[1] rose 30% to $5.2 million

Key drivers:
Covid recovery
New products

ASIA
Sales $5.5 million
GROWTH 24.4%
Operating profit $0.6 million, down 57%

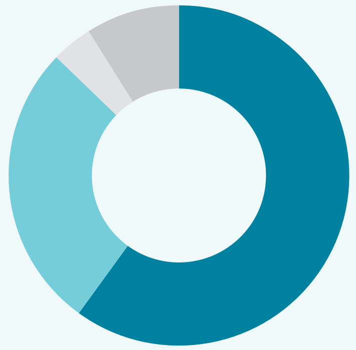
Key drivers:
Strong anti-bacterial sales, but offset by product mix

INTERNATIONAL
Sales $13.1 million
GROWTH 32.2%
Operating profit of $4.2 million rose from the prior year's $1.4 million

Key drivers:
Licence revenue from the US offset by Covid pressures

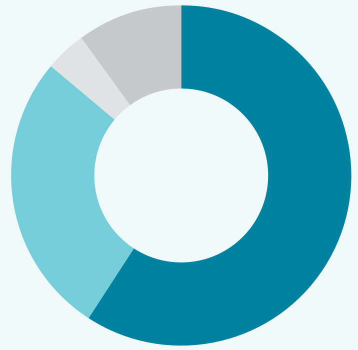
FY21 Revenue

Australia	60%
New Zealand	27%
Asia	4%
International	9%



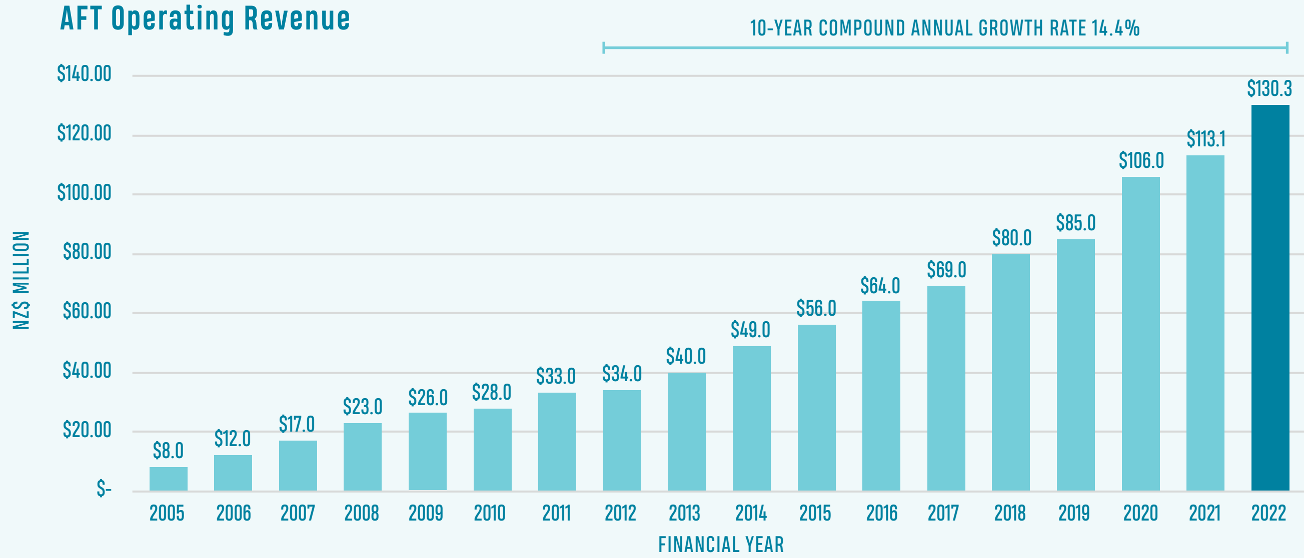
FY22 Revenue

Australia	59%
New Zealand	27%
Asia	4%
International	10%



An Outstanding Record of Growth

AFT Operating Revenue



1 Excluding head office costs

Looking Confidently to the Future

Offering Investors Highly Defensive Revenue Streams with Strong Growth Prospects

Dear shareholders,

If there is one message that investors should take from our performance during the 2022 financial year, it is AFT Pharmaceuticals' resilience and its ability to continue to grow in the face of adversity.

Yet again we have grown our business amongst the turmoil in international markets, enabled by the strength of our growing and highly defensible Australasian business, which is founded on a broad portfolio of more than 130 clinically proven products for a diverse spectrum of therapeutic applications.

This portfolio, which we continue to expand, is the product of more than two decades of careful and deliberate analysis of clinical need and then the identification of medicines that will improve patient health outcomes.

We have worked to meet these needs with international partners to in-license medicines to our home markets. However, in several important instances we have either developed new medicines or found novel applications for existing molecules that we are now commercialising at home as well as taking to international markets.

Of these medicines Maxigesic®, our novel non-opioid family of pain relief medicines, is the standout success. But we have a broad portfolio of IP across a spectrum of therapeutic applications.

Importantly for shareholders, our consistent record of success in both domains - in-licensing and the development and commercialisation of our own IP - has this year continued to offer investors a rare proposition in New Zealand capital markets, highly defensive revenue streams with strong growth prospects.

Our Australasian business has grown steadily year-on-year since the early 2,000s and delivered consistent and attractive margins even in the face of adversity such as we have seen since the outbreak of the Covid pandemic more than two years ago.

This consistent earnings stream is supported by a growing Asian business. Meanwhile, our portfolio of unique IP is delivering the company an additional and rapidly growing source of high-margin revenue both in Australasia and further afield.

It is thanks to these strengths – a strong defensible and growing core and a growing international business built on our unique IP – that directors have announced, that they are introducing a dividend policy and expect to declare a maiden dividend to shareholders for the 2023 financial year .

Our move to setting a dividend policy is a strong statement of confidence in AFT's future.

The Board believes this policy (see below) allows the company sufficient headroom to fund the ongoing significant growth opportunities we continue to see. It also helps signal to shareholders our expectations of the returns they can expect from their investment in the company and demonstrates the discipline they expect in the company's allocation of capital.

Financial Results

Annual operating revenue for the 2022 financial year grew by 15.2% to $130.3 million from $113.1 million in the same period a year ago. This is a highly creditable performance given the disruption we have seen in all markets at the hands of both the Covid pandemic and the continuing congestion and disruption in the international supply chain.

All regions posted strong revenue growth, with Australia and New Zealand delivering growth of 12.3% and 14.9% respectively, despite Covid lagging sales particularly in the third quarter. Meanwhile, our faster growing Asian and international business saw growth of 24.4% and 32.2% respectively, although the pandemic still represented a significant headwind in all markets. Further detailed discussion of each of our core markets is included on pages 11 to 13 of this report.

In line with our expectations, we benefited from a traditionally stronger second half of the year as Covid became endemic around the world and we benefited from previously delayed product launches in the second half of the year.

"Our Australasian portfolio is the product of more than two decades of careful and deliberate analysis of clinical need and then the identification of medicines that will improve patient health outcomes."

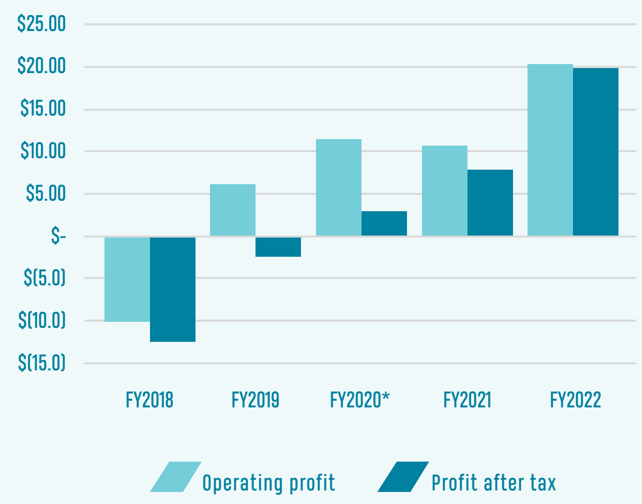
David Flacks / *Chairman (left),*
Dr Hartley Atkinson / *Founder & CEO*

The result was also underpinned by revenue generated from our unique IP, including growth in product royalties, and licensing income and income from the licensing of the intravenous form of Maxigesic in the US market.

Gross profit increased by 26.7% to $61.8 from $48.7 million in the same period a year ago while margins improved 4.4 percentage points to 47.4%. In some measure this reflected the strong growth in licensing income following the licensing of Maxigesic IV in the US but stripping out this high margin licensing revenue, gross profit margins still increased, primarily due to favourable product mix and currency.

Operating profits have rose 90.6% to $20.4 million from $10.7 million in the prior half year, a figure in the middle of the guidance we issued in May last year. Net profit after tax increased to $19.8 million from $7.8 million in the same period a year ago.

AFT Operating and Net Profit



Maxigesic

Maxigesic, the flagship of AFT's IP commercialisation programme, has delivered another strong contribution to the company.

At the end of March, we had started selling the tablet form of the medication in 46 countries up from 43 at the same time last year. Maxigesic IV is now sold in seven countries up from three last year, while the programme to commercialise the oral liquid formulation is still in its infancy.

Key successes in the still nascent programme have included the licensing of Maxigesic IV for the US, the FDA's acceptance of our filing application to register the medicine in that market, and its first launches in European markets.

Maxigesic tablets are meanwhile now sold across the major markets of Europe, and we are hopeful of regulatory approval for tablets in the US later this year. We continue to pursue licensing agreements and registration across multiple markets in Asia and South America.

We also launched Maxigesic hot drink sachets in Australia. It is the first product of its kind in the combined paracetamol/ibuprofen market, and it has been well received by Pharmacies. The medicine will be rolled out to additional markets.

These gains have been tempered by ongoing Covid restrictions, which have both lagged sales and the commercialisation programme in multiple markets.

Further detail is covered on pages 16 to 17 of this report.

Research and Development

We have continued to invest in the future of the business. Research and development expenditure, which includes new market development costs, rose to $10.4 million from $9.4 million in the same period a year ago. We expect it to remain at this level for the future reflecting the size of our programme and our intentions to continue research and development work.

Key projects include the continued expansion of the Maxigesic family of medicines, Nasosurf® our patented nasal drug nebuliser, as well as a number of confidential trials for applications in dermatology, gastro-intestinal health, and medicinal CBD products.

The one setback this year was the success of a competitor which registered with the US FDA a version of our Pascomer compound. It also gained the lucrative 'orphan status' for its version of the medicine for an exclusive period of seven years.

Still, we remain confident about the prospects for the medicine in a variety of other applications. The clinical trial program of the medicine for non-orphan applications is ongoing and we are looking forward to reporting the first findings of the study later this year.

Further detail on our R&D programme is included on page 18 of this report.

Balance Sheet and Dividend

AFT remains well funded. Net debt at the end of the half year was $29.3 million, down from $35.2 million a year ago. The company has met its targeted net debt of $25 million to $30 million outlined at the half year.

We have retained higher than normal inventory levels as a buffer against ongoing disruption in the global supply chain. This approach despite the additional holding costs has provided considerable support to the company over the last year, largely ensuring continuity of supply across our distribution networks and ongoing sales.

Now, reflecting our confidence in the business' ability to build on its decades long record of growth, we have today announced the commencement of a dividend policy. Commencing in relation to the 2023 financial year, the Board intends, all other things being equal, to pay a dividend in the 20 – 30% range of normalised net profit after tax[3] on an ongoing basis.

The declaration of any dividend remains at the Board's discretion and is subject to the usual caveats including AFT's earnings, overall financial condition, the outlook for the industry in which AFT operates and future capital requirements or research and development investment expectations.

[3]Normalised net profit after tax is non-GAAP financial measure, which adjust the GAAP measure of net profit after tax for extraordinary one-off gains and losses.

Sustainability and People

Building on the prior year's stock take of our environmental, social and governance (ESG) performance, we have this year undertaken a detailed analysis of the ESG matters that are material to our business.

We have also established a framework that will drive our efforts to realise the opportunities we see, manage the risks to our business and ensure we are meeting the expectations of stakeholders. Our progress and our priorities are set out on pages 20 to 33 of this report.

While the process has demonstrated opportunities for further development, it clearly shows, within a well understood framework, that we are effectively managing the relevant ESG issues.

A key element of this plan is looking after our people and ensuring that we operate a culture that ensures we can attract and retain the talent we need. Covid has presented numerous challenges for our people over the last year, including lock downs, social distancing, and the ongoing limits to face-to-face meetings and travel.

We have worked hard to ease the burden on our people, but equally they have shown their usual commitment and enthusiasm for the task at hand. On behalf of shareholders, we thank them for their ongoing efforts.

Outlook

We continue to see considerable opportunities to accelerate growth and have significantly increased both our in-licensing and product R&D pipeline activities. We also believe the gradual move worldwide to living with Covid and our ability to now travel across borders to meet with both existing and new customers will allow a gradual return to a more normal trading environment.

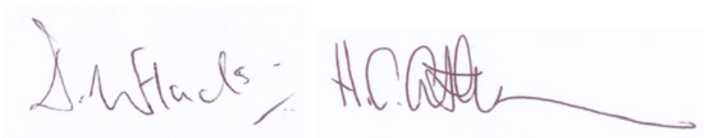
We have already identified a broad portfolio of new products we have in-licensed into our domestic and Asian markets, and additionally we see considerable potential for our own intellectual property in these markets and further afield.

We also see significant opportunities to accelerate our growth with investments into sales and marketing and e-commerce initiatives both at home and offshore. The contribution of these opportunities will be bolstered by the ongoing roll out of Maxigesic and its line extensions in international markets and after this, products from our expanded R&D pipeline.

On this basis we now expect operating profit for the year to 31 March 2023 to range between $27 million and $32 million.

AFT continues with its customary practice of setting a wide range for its guidance. The approach recognises the wide range of outcomes that may flow from the ongoing international supply chain difficulties, uncertainty over the timing and success of planned product launches, the pace of the roll out of the Maxigesic family of medicines.

We look forward to providing a further update at our annual meeting in August.



David Flacks
Chair

Dr Hartley Atkinson
Founder and
Chief Executive Officer

New Product Launches Drive Australian Growth

Sales in Australia grew by 12.3% to $76.7 million from $68.3 million in the prior year and now represent 59% of group operating revenue. Operating profit rose to $15.7 million from $7.9 million in the prior year.

The OTC channel has been hindered by Covid lockdowns and restrictions but has grown at 10.9% and is generating 61.5% of total Australian revenue. Revenue growth for the year was assisted by new launches already planned and deferred launches.

Key product launches included our preservative free treatment for eye infections, Ocuzo, our allergy product, Allerclear, our Hemptuary dermatology range and our new Optisoothe 3-in-1 eyecare treatment kit for dry eye. The company has a strong programme of at least 20 product launches planned for the coming year.

Maxigesic sales were impacted by Covid restrictions but have regardless grown over the year. The brand maintains its leadership of the paracetamol/ibuprofen combination section of the pain management market. We also launched the hot-drink sachet line extension, and it has been well received.

Meanwhile, our success in a comparative advertising case against Reckitt & Benckiser has now released us from a number of onerous advertising constraints on Maxigesic. We are now well positioned to drive Maxigesic volume growth with more effective advertising.

Our eyecare range continues to deliver good growth. We retain the number two position in the lubricating eyecare category in Australia and the number one selling product.

The Hospital channel grew by 15.4%, due to the return to more usual levels of antibiotic sales, with the return to business as usual in hospitals, together with strong growth in newly launched products. Further new product launches in this sector are anticipated to continue to drive growth going forward.

The Prescription channel grew at 12.9% with the launch of further new products, with other products, such as penicillin oral liquid, returning to more usual sales levels.

AUSTRALIAN SNAPSHOT

REVENUE
$76.7m

40 STAFF

PRODUCTS
70
across seven therapeutic categories: pain, eyecare, medicated vitamins, allergy, gastrointestinal health, dermatology, and hospital

DISTRIBUTION 6,000 PHARMACIES

Building AFT's Brand Presence

Maxigesic Cold & Flu Hot Drink, which has been launched in Australia and we believe is to launch in New Zealand later in the current financial year, is the first line extension of the Maxigesic range in the over-the-counter pharmacy market.

The new product is an important achievement for AFT. It is firstly the only product of its type in the paracetamol/ibuprofen combination market, and it is attracting premium pricing.

Additionally, the product enhances and expands the Maxigesic brand presence on pharmacy shelves and will leverage existing investments in the marketing of other Maxigesic brands.

The product has been well received by Australian pharmacists who are especially interested as this product is only available in the Pharmacy channel whilst its main competitor (a paracetamol only product) is available in the grocery channel.

The powder for an oral liquid hot drink is a unique combination of paracetamol and ibuprofen in the same patented synergistic 3.3:1 ratio as other Maxigesic dose forms.

It has two strengths being Paracetamol 1000mg + Ibuprofen 300mg and Paracetamol 500mg + Ibuprofen 300mg per sachet and expands the choices available to customers combatting the symptoms of cold and flu.

New Zealand Enjoys Covid Recovery

Sales in New Zealand grew strongly by 14.9% to $35.1 million from $30.5 million in the prior year and represented 27% of group operating revenue. Operating profit, excluding head office costs, increased to $5.2 million from $4.0 million in the same period a year ago.

The OTC channel grew by 18.4% to $20.1 million from $16.8 million. This primarily reflects a return to more normal sales and rates of growth as Covid restrictions, most notably at the start of the prior financial year, receded.

There was some drop off in general OTC sales following the re-introduction of lockdowns in Auckland in Spring 2021 with growth returning as these eased. Growth has been aided by new product launches including the Optisoothe 3 Step Eyecare Pack, Crystamed First Aid Kit, Hemptuary line extensions and Ferro Lipo-Sachets,

The Hospital channel grew at 6.3% to $5.1 million from $4.8 million with the return of hospitals to more business as usual. The prescription channel grew at 11.0% to $9.8 million from $8.9 million with sales growth of a number of existing products as the easing of restrictions allowed more regular GP visits. New products also assisted growth in the channel.

NEW ZEALAND SNAPSHOT

REVENUE $35.1m

56 STAFF

PRODUCTS 130 across seven therapeutic categories: pain, eyecare, medicated vitamins, allergy, gastrointestinal health, dermatology, and hospital

DISTRIBUTION 900 PHARMACIES

Product Innovation: An Eyecare Regime in a Single Packet

Opti-Soothe® 3 Step Eyecare Pack - AFT Pharmaceuticals

Our Opti-Soothe® Eyecare Pack is a clear demonstration of AFT's ability to identify and then deliver solutions to meet the healthcare needs of our customers.

The kit, which has seen strong uptake in New Zealand and is set to roll out in Australia contains three preservative free, highly effective products that are recommended by optometrists and ophthalmologists.

The pack is tailored to address the cause of, and treat all the symptoms of, Dry Eye Disease with a 3-step approach that is founded on best practice (soothing with a heat mask, cleansing, and lubricating),

One in five people suffer from Dry Eye Disease and the prevalence is increasing due to our modern lifestyle and environmental factors such as increased screen use, decreased blink rate, air conditioning, climate change and our aging population to name just a few.

Dry Eye occurs when the tear film that coats our eyes is insufficient to keep them adequately lubricated. This could be due to reduced tear production (Aqueous Deficient Dry Eye), excessive tear evaporation (Evaporative Dry Eye), or a combination of both. The lack of moisture can lead to a range of symptoms, including irritation of the eye, dryness, stinging and a scratchy or gritty feeling.

Asian Sales Lifted by Hospital Channel Growth

ASIA SNAPSHOT

REVENUE $5.5m

DISTRIBUTION Direct, agreements McPherson's and online via T-Mall

PRODUCTS Branded proprietary and generic products focussed on four therapeutic areas: pain; vitamins; dermatology; hospital

2 STAFF

Sales in Asia grew 24.4% to $5.5 million from $4.4 million and generated 4% of group operating revenue. Operating profits declined to $0.6 million from $1.4 million primarily due to product mix, with hospitals stockpiling lower margin injectable antibiotics

The OTC channel remained flat with growth in sales in Malaysia offset by lower sales in Singapore which had benefitted in the prior year from pandemic stockpiling of Maxigesic.

The T-Mall flagship store consolidated this year whilst preparing for the launch of our OTC products. The store is part of a pilot scheme through Alibaba.

Our 'Kiwi Health' website will launch 10+ OTC products before September 2022 and will be the first New Zealand flagship store to do so. This will allow AFT to leverage its unique positioning and product registrations in New Zealand by making them available to purchase by Chinese consumers through cross-border e-commerce.

The Hospital and Prescription channels grew 32% due primarily to strong anti-bacterial sales.

McPHERSON'S Est. 1860

Leveraging Partnerships to Drive Growth

AFT Pharmaceuticals signed an exclusive distribution agreement with ASX-listed McPherson's.

The move is aimed at maximising the potential for AFT's OTC medicines in Singapore, where the OTC market is worth approximately US$600 million and is forecast to grow at around 5.45% to reach US$800 million by 2026[4]. It is also part of AFT's broader strategy to grow its presence in Asia.

McPherson's will distribute and market the tablet form of AFT's patented Maxigesic pain relief medicine, launched in Singapore in 2018, AFT's premium Liposomal Products as well as a number of other newly registered pharmaceuticals.

The agreement seeks to leverage McPherson's experienced sales and marketing teams in Singapore and will ensure channel strategies and product and merchandising activations are tailored to the local market.

Additionally, the growth of licensee and distributor sales of products AFT has developed has kicked off with the launch of Maxigesic IV in the Korean market by our local partner Kyongbo Pharmaceuticals. Going forward we see a number of launches of our products throughout Asia.

Maxigesic Licensing Drives Global Revenue Growth

Sales to the rest of the world grew 32.2% to $13.1 million from $9.9 million and represented 10% of group operating revenue.

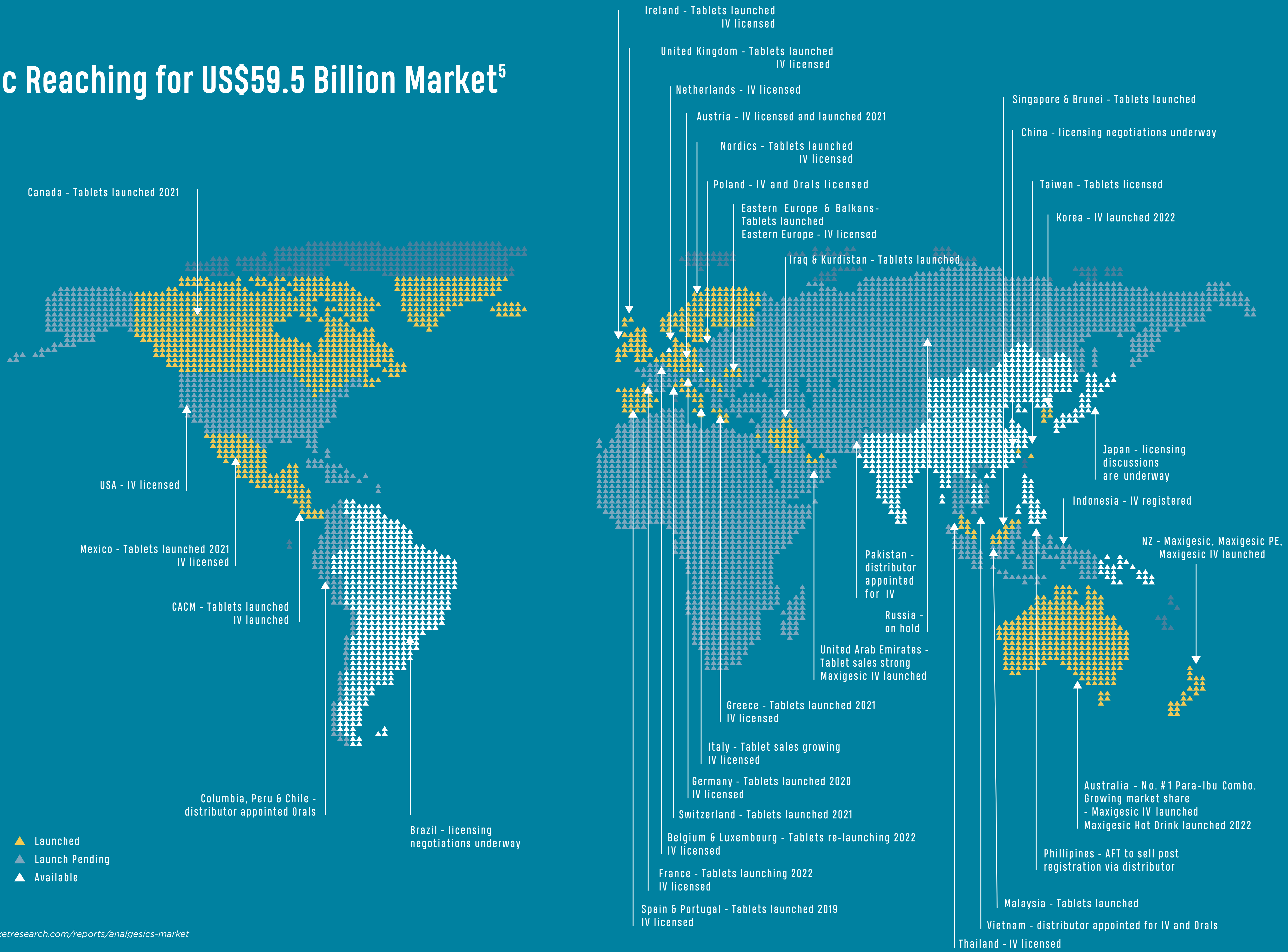
License income of $6.7 million is up significantly from the $2.1 million in the prior year. Royalties earned from licensees' in-market sales grew 96.7% to $0.5 million from $0.2 million. A return to stronger growth following the easing of restrictions together with launches in new markets also helped.

However, overall sales to partners decreased due to prior year stockpiling and then significant constraints to in-market sales due to the effects of the Covid pandemic, primarily across Europe. Despite these constraints in-market sales recovered strongly toward the end of the financial year as evidenced by greater royalties than the prior year.

Operating profit of $4.2 million was up significantly on the prior year's $1.4 million with the increase in revenues partially offset by the additional investment made into research and development.

[4] https://www.marketdataforecast.com/market-reports/singapore-over-the-counter-drugs-market

Maxigesic Reaching for US$59.5 Billion Market[5]



[5]*Source: www.expertmarketresearch.com/reports/analgesics-market*

Maxigesic Roll Out Progresses in Covid Headwind

Steady Progress, but Sales Lagged by Restrictions

Maxigesic continues its steady roll out around the globe. The three initial dose forms in the commercialisation programme, tablets, related oral dose forms, and the intravenous form, Maxigesic IV, have been licensed in the majority of territories around the world.

Our focus with these products is moving them to the next stages of the programme of registration with local regulatory authorities and then to sale. We have made good progress with all the dose forms as the table on the page opposite shows.

Lockdowns, social distancing and severe restrictions on customer movements in pharmacies have lagged sales in the OTC market.

In hospital settings, where the hospital sales teams need to access the clinicians to extol the merits of the analgesic, have faced similar restrictions and only now, as the virus becomes endemic, are much needed face-to-face meetings resuming.

In the face of these challenges, an increase in the number of countries where the tablets are sold to 46 from 43 at the same time last year and the accelerating roll out of Maxigesic IV is a creditable result.

The commercialisation programme is still in its infancy. In addition to the still substantial number of countries that are yet to begin selling the three initial dose forms, there is a long pipeline of new dose forms that are still to be launched.

As we have detailed earlier (see Australia page 11), we have launched the hot drink sachet dose form of the medication and we expect to follow this with a paediatric and rapid dose form, another treatment kit for cold and flu and a dry stick sachet version.

The US remains a key target market for Maxigesic in all its does forms. We were gratified at the start of the financial year to license the intravenous form to Hikma Pharmaceuticals, which is the third largest US supplier of generic injectable medicines by volume, with a growing portfolio of over 100 products.

We are expecting to receive FDA notification on the progress of our registration application for Maxigesic IV in late June of this year. Both the license agreement and the FDA acceptance of our application have led to progress payments from our licensee.

All things going well, we expect our licensee to commence sales of Maxigesic IV in the US later this financial year.

We meanwhile continue to pursue registration of the tablet form of the medication in the US. We are confident of success as we were notified by the FDA in 2020 that the only significant barrier to the company obtaining registration was a Good Manufacturing Practice (GMP) audit of the company's manufacturing facilities.

We are expecting notification on the success of registration imminently, but are still considering the best approach to market.

Product	Maxigesic Tablet		Maxigesic IV		Maxigesic Oral Solution*		Maxigesic Hot Drink*	
Territories	31 March 2022	31 March 2021	31 March 2022	31 March 2021	31 March 2022	31 March 2021	31 March 2022	31 March 2021
Licensed	100+	100+	100+	100+	100+	100+	100+	100+
Registered	52	49	37	21	2	-	1	-
Sold in	46	43	7	3	-	-	1	-

Maxigesic Commercialisation Progress

April 2021	Maxigesic IV licensed to Hikma (Maxigesic/Combogesic IV – USA) Maxigesic tablets launched in Switzerland
May 2021	Maxigesic IV licensed to Pharma Bavaria (Maxigesic IV – Bolivia, Chile, Columbia, Ecuador, Peru, Uruguay)
July 2021	Maxigesic IV launched in Germany and Austria
September 2021	Maxigesic Oral Liquid gets first regulatory approval in Europe (Italy and Malta Maxigesic IV registered in South Korea and Panama
October 2021	Maxigesic IV registered in the UK and Ireland Maxigesic tablets launched in Greece
November 2021	US FDA accepts new drug application for Maxigesic IV US FDA confirms it will respond to Maxigesic IV filing by 30 June 2022
December 2021	Australian Federal Court upholds Maxigesic comparative advertising claims in favour of AFT clearing the way for increased marketing investment
March 2022	Maxigesic IV launched in Korea Maxigesic IV launched in Panama

Research and Development

A Strong Pipeline Supported by Research and Development

AFT's intellectual property development pipeline spans a broad range of therapeutic applications and medicines.

Research and development expenditure, which includes new market development costs, rose to $10.4 million from $9.4 million in the same period a year ago.

We expect it to remain at this elevated level for the future reflecting the size of our programme which we anticipate will be ongoing.

Maxigesic has attracted the lion's share of investment as we move into new markets and new dose forms. However, we have added five projects (HS, BT, KW, SD & Medicinal CBD) see the table to the right to our pipeline, which now includes three late-stage projects (HS, BT & SD) and presently we are in discussions for a number of additional projects as we actively seek to strengthen our R&D pipeline and utilise our R&D and clinical trial capabilities

Risk Sharing

Pascomer Partnership Delivers Protection

Research and development partnerships (Hyloris for Maxigesic IV and Timber Pharmaceuticals for Pascomer) ensure the risks associated with new product development are not all borne by AFT.

The benefits of this approach were brought into stark relief this year when Japan's Nobelpharma secured registration for a topical treatment for facial angiofibromas (FA) associated with Tuberous Sclerosis Complex (TSC).

Disappointingly, this was the initial indication we were pursuing for Pascomer and it used the same molecule (Rapamycin).

Nobelpharma's medicine was also granted orphan status for FA in TSC, which means it has gained lucrative exclusivity in the US for the treatment of the condition for a period of seven years. AFT and its partner were always aware that a competitor could beat us to the punch and the subsequent risk sharing has ensured we have been protected from the downside of our competitor's success.

However, our enthusiasm for the product remains in alternative and larger non orphan indications where being first to market is not essential, not least because we have an easier to use product.

Specifically, the Nobelpharma product is only stable under refrigerated conditions for 12 months, while the AFT proprietary formulation has resulted in a product stable at room temperature for 36 months.

Our research trial of the medicine for FA in TSC is continuing and is due to deliver results in the middle of this year. With our partner we expect to continue to extend the trial to examine its efficacy in the treatment of a range of other ailments.

[4] **Merry et al (2010).** *"Combined acetaminophen and ibuprofen for pain relief after oral surgery in adults: a randomized controlled trial" British Journal of Anaesthesia 104(1): 80-88. Result achieved in a trial of post-operative pain relief after removal of 1-4 wisdom teeth using 2 tablets MAXIGESIC® compared with paracetamol 1000mg or ibuprofen 300mg alone 4 times a day (paracetamol 4000mg or ibuprofen 1200mg per day). Results assessed on the Intention-to-treat (ITT) patient population, including data following the use of rescue medication. Research sponsored by AFT Pharmaceuticals*

[5] **Daniels et al (2018).** *"Analgesic Efficacy of an Acetaminophen/ibuprofen Fixed- dose Combination in Moderate to Severe Postoperative Dental Pain: A Randomized, Double-blind, Parallel-group, Placebo-controlled Trial", Clinical Therapeutics 40 (10): 1765-1776. Result achieved in a trial of post-operative pain relief after removal of at least 2 wisdom teeth using MAXIGESIC® (paracetamol 975mg/ibuprofen 292.5mg) compared with paracetamol 975mg or ibuprofen 292.5mg alone 4 times a day (paracetamol 3900mg or ibuprofen 1170mg per day). Study results assessed on the intent-to-treat (ITT) population with adjustment for the use of rescue medication. MAXIGESIC® 975/292.5mg US combination is bioequivalent in fed/non-fasting conditions to MAXIGESIC® 1000/300mg NZ combination at full dose (Aitken et al., J Bioequiv Availab 2018, 10:5). Research sponsored by AFT Pharmaceuticals.*

AFT Intellectual Property Projects

MAXIGESIC
Analgesic

- Analgesic market size US$59.5 billion[7]
- Maxigesic IV development partner Hyloris (EU)
- New Products
  - Hot drink sachet (launched)
  - Paediatric oral liquid (first approvals in Europe)
  - Cold & Flu (filed registration in ANZ)
  - Rapid (awaiting registration in US)
  - Day & Night (seeking registration in ANZ)
  - Dry stick sachet (slated for 2023 filing in ANZ)

PASCOMER D
Dermatology applications including the treatment of facial angiofibroma associated with tuberous sclerosis complex and and other indications.

- Clinical studies under way and due to deliver first results in mid-2022
- Minimum addressable market US$27 million[8]
- Development partner Timber Pharmaceuticals (US)

NasoSURF
Ultrasonic nasal mesh nebuliser used for the intranasal delivery of medication and treatment of sinus conditions.

- Early research indicates that it has several advantages over the existing market leading nebulisers
- Pharmacokinetic proof of concept underway, results due this financial year
- Addressable market, initial application ~ US$1 billion[9]

PROJECT HS
Topical analgesic

- Looking to develop and license AFT IP in new territories
- Low development risk
- Dossier due to be filed with ex-ANZ regulators in 2022
- Addressable market US$30 million[9]

PROJECT BT
Gastrointestinal medicine

- Looking to develop and license AFT IP in new territories
- Low development risk
- Dossier due to be filed in ANZ in 2022
- Addressable market circa US$200 million[9]

PROJECT KW
Gastrointestinal medicine

- Developing two formulations and AFT IP position
- Early-stage development
- Addressable market in excess of US$700 million[9]

PROJECT SD
Dermatology medicine

- Looking to develop and license AFT IP in new territories
- Low development risk
- Dossier due to be filed in ex-ANZ in 2022
- Addressable market US$200 million[9]

Medicinal CBD
Application confidential

- Partner Setek
- Ongoing product development work
- Addressable market US$3 billion[9]

[6] *Source: https://www.expertmarketresearch.com/reports/analgesics-market*
[7] *https://www.expertmarketresearch.com/reports/analgesics-market*
[8] *Edison and company estimates covering facial Angiofibroma in EU and ANZ and undisclosed larger non-orphan indications.*
[9] *Company estimate*

Working to Improve Your Health

AFT Pharmaceuticals has delivered a decades-long record of growth built on integrity and a clear purpose of working to improve the health of its customers and the communities it serves.

It is a mission that has at its heart a commitment to sustainability, the maintenance of corporate governance practices that are aligned with best practice and high ethical standards, and a determination to contribute positively to environmental and social outcomes.

Building on the prior year's stock take of our environmental, social and governance (ESG) performance, we have this year undertaken a detailed analysis of the ESG matters that are material to our business. We have also established a framework that will drive our efforts to realise the opportunities we see, manage the risks to our business and ensure we are meeting the expectations of all our stakeholders.

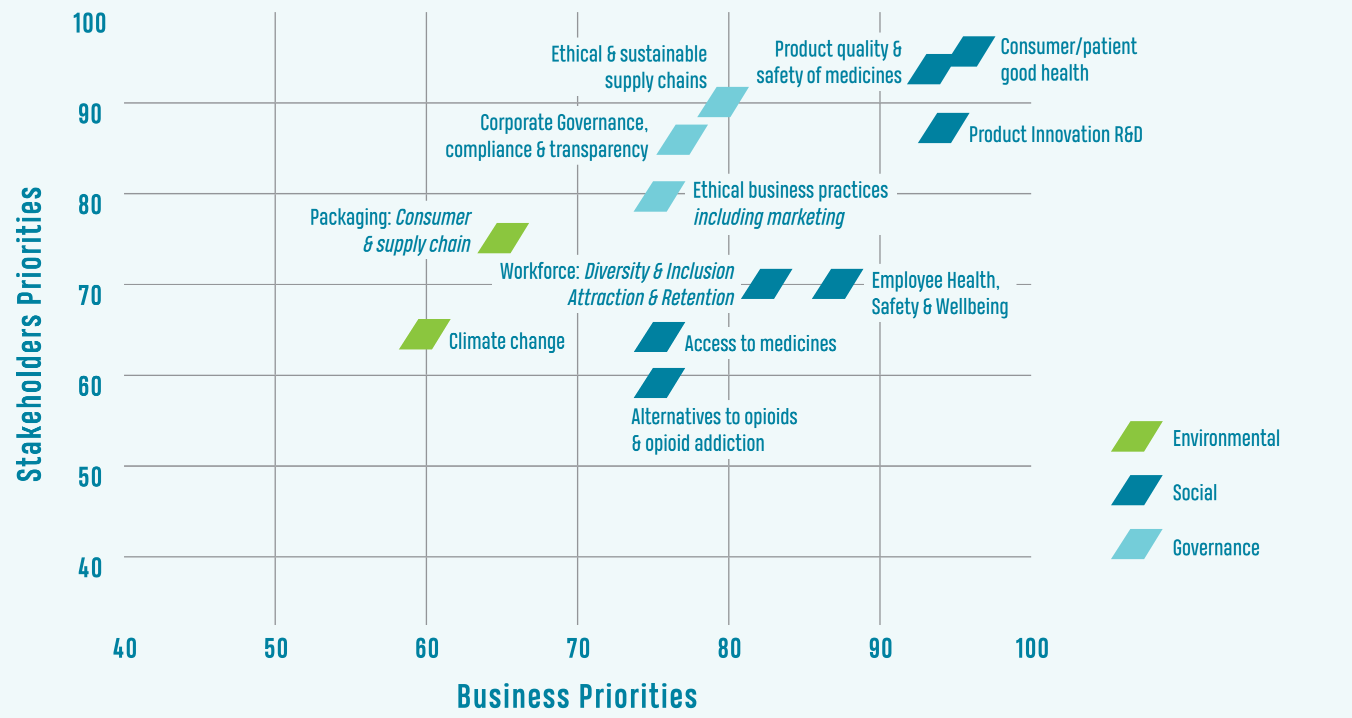
Focusing on What Matters

Our analysis of the material sustainability issues facing AFT was designed to help us better understand the ESG issues that matter most to our business and our stakeholders. It was also designed to ensure we are focussed on those areas where we can have the greatest impact.

In the context of our status as a publicly listed company, 'material' matters are those that a reasonable person would consider having an impact on the company's valuation or the sustainability of our operations. However, in line with best practice ESG standards we also considered those topics that reflect AFT's most significant impacts on the economy, environment, and people.

The assessment commenced with a comprehensive review of AFT's current ESG activity. This work was followed by a review of materiality in the global pharmaceutical industry and a survey of AFT leadership's views on material matters. From there we derived a long list of material topics relevant to AFT. We then engaged with external stakeholders to determine external views of what mattered most. The stakeholders represented investors; suppliers; retailers; corporate lawyers; corporate bankers; New Zealand Government trade officials; environmental member organisations; and distribution and wholesale partners. The result of this engagement is set out in the matrix below.[10]

ESG matters material to AFT's business



[10]Ethical and sustainable supply chains are categorised as a governance issue, as it encompasses the management oversight of both environmental and social performance of contract manufacturers, license holders and other suppliers.

Setting our Priorities

Based on our materiality assessment we have developed our first ESG framework opposite. The framework clearly sets out the material issues and identifies what we see are the six ESG priorities for the business and the areas where we will focus. Underneath each of the six priorities we have identified areas of focus, which set out what we will do to deliver on our priorities. The framework is used to guide internal decision making and investment and track progress and report publicly. This process has given us confidence that we are focussed on priority ESG matters that will have the greatest impact and represent our stakeholder interests.

As in previous years, we continue to map our business and community initiatives onto the United Nation's Sustainable Development Goals to show how our efforts fit within a large and robust vision for positive global change. This process has resulted in a refinement of the goals to the six where we believe we can make meaningful change.

UN SUSTAINABLE DEVELOPMENT GOALS

The UN sustainable development goals are a collection of 17 interlinked global goals designed to be a blueprint to achieve a better and more sustainable future for all.

The goals were established in 2015 by the United Nations General Assembly and are intended to be achieved by the year 2030. At AFT we believe we can meaningfully contribute the six of the goals.

More information on the goals can be found here: https://sdgs.un.org/goals

Good Health and Wellbeing
Ensure healthy lives and promote well-being for all at all ages.

Gender Equality
Achieve gender equality and empower all women and girls.

Decent Work and Economic Growth
Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all.

Reduced Inequalities
Reduce inequality within and among countries.

Responsible Production and Consumption
Ensure sustainable consumption and production patterns.

Climate Action
Take urgent action to combat climate change and its impacts.

Our Mission:
Working to Improve Your Health

AFT is committed to enhancing the health and wellbeing of people and communities in the markets we serve and operating a sustainable business.

	ENVIRONMENT	SOCIAL	GOVERNANCE
	Minimising the environmental impact of our business and supply chain	**Enhancing the health and wellbeing of people**	**Best practice governance, stakeholder transparency and an ethical and sustainable value chain**
Material topics (As identified in the Materiality Assessment of January 2022)	Packaging (consumer and supply chain) Climate change	Consumer/patient good health Product innovation/R&D Product quality and safety of medicines Access to medicines Alternatives to opioids and opioid addiction Employee health, safety and wellbeing Workforce Diversity and inclusion Attraction and retention	Corporate governance, compliance, and transparency Ethical and sustainable supply chains Ethical business practices
ESG priorities	5. Waste minimisation (12 Responsible consumption and production) 6. Understanding our climate-related risks and taking action (12 Responsible consumption and production; 13 Climate action)	1. Improving health and wellbeing (3 Good health and well-being; 8 Decent work and economic growth) 4. Supporting and developing AFT people (5 Gender equality; 8 Decent work and economic growth; 10 Reduced inequalities)	2. Best practice corporate governance (12 Responsible consumption and production) 3. Ethical and sustainable value chains (8 Decent work and economic growth)

PRIORITY 1

Improving Health and Wellbeing

Focus areas:

- BETTER HEALTH AND WELLBEING FOR PATIENTS AND COMMUNITIES
- BEST PRACTICE QUALITY AND SAFETY SYSTEMS FOR MANUFACTURING AND DISTRIBUTING MEDICINES
- INNOVATION IN RESPONSE TO PATIENT NEED
- PROVIDING ALTERNATIVE PAIN RELIEF TO OPIOIDS

Improving the health of our customers is the reason we exist, and we are determined to be good to our word by researching, developing, commercialising, and distributing medicines and other healthcare products that are proven to deliver improvements. We will never lean on pseudo-science or spin to imply efficacy.

In the past year alone, we spent $10.4 million on research and development. This level of spending is in line with our spending over the last two decades. These resources have been devoted to tracking and responding to our customers' needs, funding clinical trials to prove the efficacy of our Maxigesic family of pain relief medicines and other products such as Pascomer, our treatment for a disfiguring and distressing skin disease.

We are also reaching out to clinicians and other healthcare professionals to inform them about, and encourage the use of, our products.

We apply the same standards to the products we in license from our networks around the world. Leveraging our global partnerships, we identify solutions to meet hitherto unmet needs in our home markets of Australia, New Zealand and turn only to those products where there is a body of evidence that attests to the benefits they offer.

Finally, all research and clinical trials are conducted and are subject to ethical and patient safety standards that are administered by independent oversight bodies such as the US Food and Drug Administration, Australia's Therapeutic Goods Administration, New Zealand's Medicines and Medical Devices Safety Authority among many others as well as ethical research oversight bodies in the countries where we are conducting clinical research.

AFT relies on New Zealand educational and research institutions to train the people we need to grow and thrive. Recognising the immense value these institutions generate through public good research and cooperation with the private sector, we this year contributed $100,000 to the University of Auckland Medical Health Sciences Foundation for anaesthesiology research. AFT has a long-standing association with the University's Medical Health Science Professor Brian Anderson, who specialises in paediatric anaesthesia, paediatric intensive care paediatric and pharmacology. The gift is aligned with the company's determination to work in partnership with organisations and people who are involved in the business and to gift to areas where we believe we can have the greatest impact.

Professor Brian Anderson with student James Morse

Product Safety and Quality

Efficacy of a medicine means nothing without the highest standards of product safety and quality. We recognise them as being at the foundations of our business, our financial well-being, and our corporate reputation.

We also understand that the multiple national regulators that approve our products for sale around the world and our customers and sales and distribution partners will accept nothing less.

Whenever we take a new medicine to market or in-license a product we must meet the stringent regulatory requirements set and administered by national food and medicine regulators. Registration of a medicine requires independent analysis and approval of the therapeutic claims we make and the evidence and research we have undertaken to make those claims. Registration also requires AFT to file and update safety information with regulators and maintain product traceability information. It also requires compliance with Good Manufacturing Practice (GMP) to ensure our products are consistently produced, controlled, and shipped according to nationally mandated quality standards.

A member of the executive team is dedicated to managing and complying with regulatory process while another oversees our research and development processes.

We and our licensees monitor the markets in which we operate to ensure counterfeits or copies of our medicines are not being sold. Meanwhile our brands and anti-tamper devices in our packaging such as seals, and blister packs protect us against product interference, and we continually review new technologies and practices to ensure we evolve with the industry.

We also operate a Board-level committee, the Regulatory and Product Development Oversight Committee, which oversees our regulatory and risk management framework and the company's product labelling system. The committee charter is available on the investor section of our website.

Providing an Alternative to Opioids

A key motivation for AFT's development of our Maxigesic family of pain relief medicines was to provide a better, faster alternative for pain relief than other analgesics, particularly those containing opiates, which have become a global scourge.

According to the US Centres for Disease Control, opioid overdoses have claimed the lives of 100,000 people in the US in the past 12 months alone[1] and well over 800,000 since 1999[2]. The New Zealand Drug Foundation has found opioids are the second most frequently identified drug in a drug-related death in New Zealand after alcohol[3]. Meanwhile, according to a 2019 survey by UNSW Sydney's National Drug & Alcohol Research Centre, excluding alcohol and tobacco, opioids were the most commonly identified substances in drug-induced deaths (61%) in 2019. Opioids have also been the main drug cited in drug-induced deaths in Australia for over two decades[4].

Maxigesic provides double-action pain relief that is clinically proven to be more effective than paracetamol or ibuprofen alone. Our clinical peer-reviewed studies have shown that the intravenous form of the medicine, Maxigesic IV, reduces patient demand for opioids to relieve more severe pain. Fewer patients in the study, which compared the efficacy and safety of Maxigesic IV to ibuprofen and paracetamol, asked for opioid alternatives such as oxycodone or morphine. Meanwhile, the total amount of opioid medication prescribed to patients using Maxigesic IV was less than those patients that were administered a placebo or ibuprofen and paracetamol[5].

While the Maxigesic family of medicines will never be a panacea to the epidemic, we are proud and excited about the role it can play in providing an alternative to prescription opioids, which for thousands of people around the world is the gateway to addiction and abuse.

Access to Medicines

We recognise access to medicines is an important equity issue.

We have a strong history of working with clinicians who engage regularly with our business to identify countries, communities, and charities that most need access to our products.

This philanthropic work has included the provision of medicines to the charities working to improve eyecare in Nepal (Eyes4Everest), delivering medicines to communities in Vietnam (AusViet Charity Foundation) and East Timor (Carmelite Nuns) and providing medicine to help combat scabies in Bougainville (Wesleyan Medical Mission) among others. We also provide medicines to firefighters involved in combatting bushfires each season in Australia and to support services during the recent flooding across parts of the country.

This year we donated to a number of charities including Liptember, a charity supporting Women's mental health and wellbeing and the Women's Refuge. AFT donated 5% of sales of Maxigesic tablets over September 2021. We also worked with New Plymouth's Vivian Pharmacy to provide 50 First Aid packs to Women's Refuge, and this included the donation of our Crystawash hand sanitiser and Crystaderm antiseptic cream.

[1] https://www.cdc.gov/nchs/nvss/vsrr/drug-overdose-data.htm
[2] https://www.cdc.gov/opioids/data/index.html
[3] https://www.drugfoundation.org.nz/assets/uploads/2022-uploads/State-of-the-Nation-2022-web.pdf
[4] https://ndarc.med.unsw.edu.au/resource-analytics/trends-drug-induced-deaths-australia-1997-2019
[5] Daniels et al Efficacy and Safety of an Intravenous Acetaminophen/Ibuprofen Fixed-dose Combination After Bunionectomy: a Randomized, Double-blind, Factorial, Placebo-controlled Trial. Clinical Therapeutics, Vol 41, Number 10, 2019

PRIORITY 2

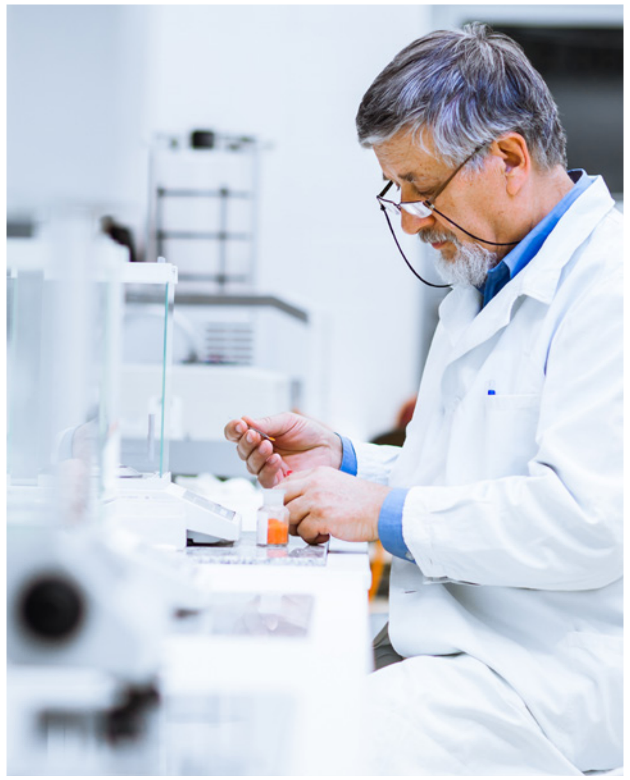
Best Practice Corporate Governance

Focus Areas:

- COMPLYING WITH ALL RELEVANT LEGAL AND LISTING REQUIREMENTS
- ESG REPORTING AND TRANSPARENCY

AFT Pharmaceuticals is committed to maintaining corporate governance standards in line with best practice and high ethical standards. This commitment recognises good governance is fundamental to our business success. It puts in place clear standards of oversight and risk management and ensures accountability to all our stakeholders.

We have continued to evolve our governance framework notably with the steps we have taken to report our performance on material ESG matters within a robust framework. Our advances this year represent a significant step forward for the company, but it does not represent an endpoint. Our focus in the coming year will be the further development of the strategies in our six priority areas and the development of objective metrics that all stakeholders can rely on to assess our progress. Finally, we have this year strengthened oversight of our supply chain with the introduction of a Modern Slavery Policy and Statement and introduced an Anti-Bribery and Anti-Corruption Policy.



NZX and ASX Listing Rules

We meanwhile continue to ensure that our governance framework is aligned with our obligations as a listed company and the prevailing standards of good corporate behaviour.

The AFT Board has had regard to the NZX Listing Rules and a number of corporate governance recommendations when establishing its governance framework, including the Third and Fourth Editions of the Australian Securities Exchange (ASX) Corporate Governance Council Principles and Recommendations (notwithstanding AFT is not required to follow these recommendations due to its ASX Foreign Exempt Listing) and the current NZX Corporate Governance Code (NZX Code).

The NZX Listing Rules require AFT to formally report its compliance against the recommendations contained in the NZX Code. How AFT has implemented these recommendations is set out in AFT's Corporate Governance Statement. Except to the extent outlined in the Corporate Governance Statement, the Board considers that AFT's corporate governance structures, practices and processes have followed all of the recommendations in the NZX Code in the financial year to 31 March 2022.

AFT's Corporate Governance Statement and governance charters and policies can be found on the investor centre of the Company's website.

PRIORITY 3

Ethical and Sustainable Value Chains

Focus Areas:

- ESG PERFORMANCE IN OUR VALUE CHAIN
- ETHICAL MARKETING AND SALES PRACTICES

AFT is committed to operating an ethical and sustainable supply chain. Our supply chains are extensive and sometimes complex, with a high proportion of products sourced from large and reputable pharmaceutical companies and manufacturers based in regions including Europe, the United States and India and Asia. Due to the extent of these networks, we recognise the supply chain represents a reputational and financial risk to the business.

This year the Board introduced a Modern Slavery Policy to ensure that our supply chain was free of intolerable practices such as slavery, servitude, forced or compulsory labour and human trafficking. The policy requires that the entities that AFT controls: comply with all applicable laws and regulations; address Modern Slavery risks in its supply chain and business operations; and sets minimum standards for employees and those who work on AFT's behalf.

Notably it requires that compliance with the Modern Slavery Policy – and compliance with applicable Modern Slavery laws and regulations – be embedded within supplier contracts and give AFT the capacity to cease dealing with a counterparty, if it is found in breach of either. The policy also requires AFT and its business units to monitor suppliers to ensure compliance with the policy and transparently report on the steps it takes to address Modern Slavery risks in its operations and supply chains.

The Modern Slavery Policy and AFT's first Modern Slavery Statement issued in compliance with the Australian Modern Slavery Act 2018 (Ch) can be found in the Investor Centre on the Company's website.

We are committed to ethical and marketing sales practices. Our Code of Culture and Ethics sets our commitment to ethical and professional conduct, requiring honesty, integrity at the forefront of our business practices with all stakeholders including clients, customers and consumers. It also prohibits bribes or any improper inducements and requires us to maintain the good reputation of the company.

We meanwhile continue to evolve our risk management framework to account for these supply chain risks.

PRIORITY 4

Supporting and Developing Our People

Focus Areas:

- DEVELOPING OUR PEOPLE
- DIVERSITY AND INCLUSION
- HEALTH AND SAFETY

AFT is committed to ensuring equal opportunity for all its people regardless of race, nationality, gender, sexual orientation, age, religion, or disability. We are also committed to developing our people through education, training and providing workplace flexibility, including working from home.

We make these commitments recognising that building a culture of diversity, accountability, and fair reward will deliver improved business performance and help to ensure we can attract and retain highly skilled people.

These commitments are underpinned by Board-level policies including a Code of Culture and Ethics, Diversity & Inclusion, Remuneration and Whistleblowing, all of which are available on the investor section of the Company's website.

At a management level we have introduced an anti-Bullying, Discrimination and Harassment policy.

Employees by Gender Diversity
(%, as at 31 March 2022)

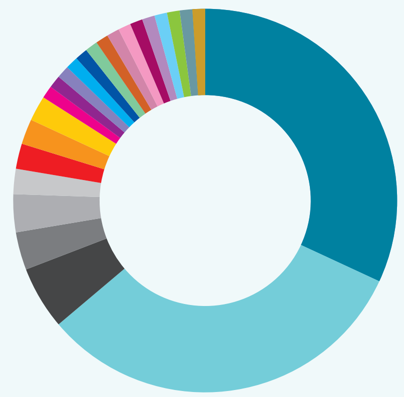
Female 61%
Male 39%

Employees by Age Diversity
(%, as at 31 March 2022)

Under 30 15%
30-44 38%
45 and over 47%

Employees by Birth Country Diversity
(%, as at 31 March 2022)

Australia	32%	Malaysia	2%	Iraq	1%
New Zealand	32%	Romania	1%	Malta	1%
South Africa	5%	Poland	1%	Iran	1%
England	3%	Austria	1%	India	1%
China	3%	Germany	1%	Brazil	1%
United Kingdom	2%	Singapore	1%	Macedonia	1%
Phillipines	2%	Italy	1%	Scotland	1%
Switzerland	2%	Canada	1%	Korea	1%



Diversity

We are proud to have a workforce consisting of many individuals with diverse skills, values, backgrounds, ethnicities, and experiences. In year to 31 March 2022, AFT's 97 employees came from 30 different cultural backgrounds and 24 birth countries, with a gender split of 61% women and 39% men and an age spread of employees ranging from 21 years to more than 70 years (average age of 42 years 11 months old).

To continue to develop and maintain a diverse and inclusive working environment:

- We undertook an annual merits-based remuneration review, which provided visibility to management in relation to parity of working conditions and pay across the workforce. We also benchmarked ourselves against our peers. These reviews did not highlight any material pay disparity based on gender, considering experience and accountabilities of comparable roles.
- We continued to actively monitor and review gender and cultural diversity metrics on a quarterly basis across the business by department and geography and this showed that AFT continues to attract and retain a highly diverse workforce.
- We reviewed the reasons for any significant deviations from company averages and targets to seek to understand whether any unconscious bias was occurring at the recruitment or promotion stage. It was noted that in the few cases where gender disparities were identified within teams, there tended to be a much higher applicant rate of that gender when recruiting new members to those teams. This factor is taken into consideration when making future hires, aiming to correct the imbalance over time, where possible.
- We continued to educate managers on the importance of creating a diverse and inclusive environment and providing awareness of the potential for unconscious bias in people management processes. We have a formal managers' training programme provided by an external company for maintaining our current diversity of culture, age, and gender across departments.
- We continued to provide refresher training to all staff annually on the importance of AFT's Code of Culture and Ethics. This training is also included in the induction programme for all new staff. Our Policy Manual was meanwhile updated during the past year and training on the new version was completed with every employee.

In the year ahead the company will continue to monitor and benchmark against the same diversity and inclusion objectives adopted in respect of the year ended 31 March 2022 (as detailed above).

Gender composition of AFT's workforce

The respective numbers and proportions of men and women at various levels within the AFT workforce as at 31 March 2021 and 31 March 2022 are set out in the table below:

	Female				Male			
	2022		2021		2022		2021	
Directors	2	33%	2	29%	4	67%	5	71%
Officers*	4	40%	4	36%	6	60%	7	64%
Workforce	59	61%	57	61%	38	39%	37	39%

Officers are considered to be the CEO and his direct reports. CEO Hartley Atkinson and Chief of Staff Marree Atkinson are included in both the number of directors and the number of offices

Health and Safety in a Pandemic

The Covid pandemic and the disruption to the global supply chain has presented as a significant challenge to the health and wellbeing of our people.

The move to remote working, for many of our teams, our inability to travel offshore for manufacturing site inspections and the pressures of working across time-zones have placed huge demands on our people.

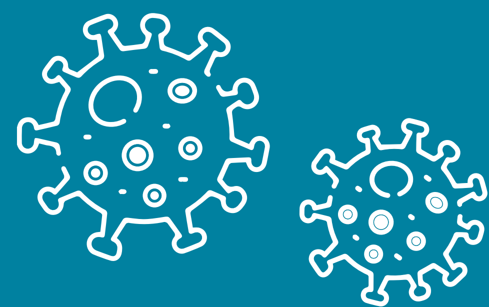
We have adopted a flexible approach rather than a blanket 'one rule for all' allowing flexible working hours and offered support to ease the extra stresses of the pandemic.

Meanwhile, we worked hard to prevent and manage the spread of the virus. AFT has ensured all government protocols were followed throughout the various Covid outbreaks. No employee was placed under additional personal financial strain because of Covid isolation rules.

We strongly encouraged full vaccination of our employees, achieving 99% vaccination rates. Our numbers of Covid positive cases in our office workspace was less than 10%. These cases were mainly related to family members passing on the infection. Only one small cluster of two, seemed to be from within our workplace. We continue to encourage and fund annual seasonal influenza vaccinations.

Our Health and Safety management is focussed on prevention as accidents and injuries are very rare. We have a series of annual checks for workplace safety, including annual electrical checks of all equipment and workplace assessments by a team of Occupational Therapists.

Our aim is to ensure compliance with health and safety regulations both in our home markets of Australia and New Zealand to deliver on our commitments to the promotion of a supportive and inclusive culture.



PRIORITY 5

Waste Minimisation

Focus Areas:

- IMPROVING OUR CONSUMER PACKAGING
- REDUCING WASTE IN THE SUPPLY CHAIN

AFT is determined to embrace, where possible and meaningful, opportunities to minimise waste. Our immediate approach towards this vision is to take a life-cycle approach to packaging from manufacture to disposal, particularly of supply-chain and distribution packaging, consumer packaging, and hospital packaging.

We understand consumers and retail and wholesale distribution partners want to buy products that do not unnecessarily divert resources into landfill. They also want confidence that we have explored options to minimise our environmental footprint. We also recognise that governments globally are focussing on the responsible use of resources and as a result we are driving initiatives that anticipate regulatory change.

Since 2020 AFT has been a participant in the Australian Packaging Covenant Organisation (APCO), which partners with government and industry to reduce the harmful impact of packaging on the environment. It achieves this by promoting sustainable design and recycling initiatives, waste to landfill reduction activities and circular economy projects.

APCO's latest assessment has recognised AFT's improvements in the way we are integrating packaging sustainability into business strategies. This reflects the quality of our communication with wholesalers and the warehouses of our distributors over what elements of our packaging should be recycled. We have also added the Australian standard recycling logo (pictured) to all our packaging.

APCO's full report is due to be published at the end of May 2022 and will be published on the investor section of our website.

PRIORITY 6

Understanding Our Climate-Related Risks and Taking Action

Focus Areas:

- UNDERTAKING A CLIMATE-RISK ASSESSMENT
- WORKING WITH SUPPLIERS AND PARTNERS TO TAKE CLIMATE ACTION

AFT's business model has a low environmental footprint relative to carbon-intensive industries, due to our focus on the development and commercialisation of our intellectual capital.

The majority of emissions directly attributable to the business are in the distribution of our products via sea, land, and air freight modes of transport.

AFT has begun the preparation to report against the new Financial Sector (Climate-related Disclosures Act and Other Matters) Act in the 2024 financial year. We recognise this commitment supports the UN's drive to promote mechanisms that will assist with climate change planning and management and help the government integrate climate change measures into national policies.

The Act is modelled on the global Task Force on Climate Related Financial Disclosures (TCFD) standard. When complete, our report will give our stakeholders information about the financial implications of climate change on our business and what we are doing to mitigate the risks and take advantage of the opportunities.

Directors

David Flacks

CHAIRMAN

Appointed 22 June 2015

David has a number of governance roles and has been chair of AFT since the IPO in 2015. David is also chair of the Suncorp New Zealand group of companies. He is also a director of Todd Corporation, Harmoney Corp. and a number of environmentally focused pro bono organisations.

He is a former chair of the NZX Markets Disciplinary Tribunal and a former member of the Takeovers Panel. He is also a director of boutique corporate law firm Flacks & Wong.

David was for many years a senior corporate partner at Bell Gully and was general counsel and company secretary of Carter Holt Harvey during the 1990's. He is a law graduate from Cambridge University.

Dr Hartley Atkinson

CHIEF EXECUTIVE OFFICER, EXECUTIVE DIRECTOR AND CO-FOUNDER

Appointed 4 September 1997

Hartley founded AFT in 1997. Before founding AFT, Hartley worked at Swiss multinational pharmaceutical company, Roche, for eight years where he held positions as Sales & Marketing Director, Medical Director, Product Manager and Medical Manager.

Prior to his work at Roche, Hartley was a Drug Information Pharmacist and Researcher at the Department of Clinical Pharmacology, Christchurch Hospital. Hartley is the author of a number of scientific publications. Hartley's work has been published in the prestigious The New England Journal of Medicine.

Hartley holds a doctorate in Pharmacology, a Masters in Pharmaceutical Chemistry with distinction, and a Degree in Pharmacy, all from the University of Otago.

Marree Atkinson

CHIEF OF STAFF, EXECUTIVE DIRECTOR AND CO-FOUNDER

Appointed 4 September 2012

Marree has been involved in all aspects of AFT's business since its establishment in 1997, including roles in sales, regulatory affairs, customer services and logistics.

Marree's role as Chief of Staff sees her involved in the day-today running of AFT's head office including managing staffing requirements and special projects involving AFT's head and affiliate offices.

Marree is a registered nurse previously practising at Waikato Hospital.

Anita Baldauf

INDEPENDENT DIRECTOR

Appointed 4 November 2020

Anita joins AFT with a broad and international experience in FMCG and Corporate Finance. Her 22 year career at Nestlé and L'Oréal (Laboratoires innéov), mostly as CFO in multiple developed and developing countries, gave her a rich expertise in finance and investor relation, compliance and governance, international business as well as people development, and value based leadership.

Anita is impassioned about driving impact, particularly in the area of Wellbeing and mental health. She is an EHF Fellow, where she is advising and supporting New Zealand and international start-ups and impact ventures as they navigate through the challenges of exponential change, rapid growth, and their aim for impact and sustainability.

AFT has an experienced and balanced Board with a diverse range of skills. The Board comprises an independent Chairman, three other independent directors, one non-executive director and two executive directors. Their names and information about their skills, experience and background, together with information about AFT's management team, are set out below and on the following pages.

Dr John Douglas (Doug) Wilson

INDEPENDENT DIRECTOR

Appointed 4 September 2012

Doug Wilson was a New Zealand physician and academic. He joined a major International pharmaceutical company, Boehringer Ingelheim, working in their US subsidiary, becoming their Head of Medical Research and Regulatory Affairs, the interface with FDA, playing a major role in steering 10 drugs through the FDA to the US and global markets.

He moved to Head Office in Germany, being responsible for those same functions for worldwide drug development. He chaired the company's International Medical Committee overseeing the medical aspects of all drugs in development globally, and their Internal Labelling Committee for the drugs on the worldwide market.

He was the medical parent of Spiriva, a drug for Chronic Obstructive Pulmonary Disease (COPD), one of the major global killers. The drug last year sold $5 billion. He now consults internationally on new drugs in development, and for pharmaceutical companies.

Jon Lamb

INDEPENDENT DIRECTOR

Appointed 4 September 2012

Jon has led the strategic planning, marketing and restructuring of various companies throughout his career. He has held various roles at Beecham (a multinational pharmaceutical company that would later merge with a predecessor company to GlaxoSmithKline) including CEO in New Zealand and Marketing Manager in both Australia and South Africa. He has also held roles as CEO of Nylex in New Zealand, Managing Director within the Rural Division of Fletcher Challenge, Director of Southland Frozen Meats and Marketing Director of the New Zealand Kiwifruit Marketing Board (where he was responsible for creating the Zespri brand of kiwifruit, and restructuring Zespri into a retail focussed operation).

More recently, Jon was a Director of Virionyx, a New Zealand company that developed an antiviral drug designed to combat AIDS. He was Deputy Chair of Australian diagnostic company ATF Group that developed a real time tool for measuring the Hepatitis B virus in individual patients.

Jon has been involved with AFT since 2004, firstly as a consultant, and then in his current capacity as a director. Jon is a Member of the Institute of Directors and has a Diploma from the Marketing Institute of the UK (now the Chartered Institute of Marketing).

Dr Ted Witek

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed 23 December 2020

Dr. Witek served Boehringer Ingelheim Pharmaceuticals for nearly 25 years where he held various pharmacology and clinical research positions, including Director of Respiratory and Immunology Clinical Research leading to his roles as President and CEO of Boehringer Ingelheim's Canadian and Portuguese operations. He led the Global Operating Team for Spiriva serving as Co-Chair of the Global Alliance with Pfizer.

Dr. Witek also was Chief Scientific Officer & Senior Vice President, Corporate Partnerships, at Innoviva (Formerly Theravance, Inc.). He also served on the Board of Directors of Canada's Research-Based Pharmaceutical Companies (Rx&D) including Chair of the Health Technology Assessment and Public Relations Committee. He was appointed to the Ontario Health Innovation Council and advisor to the Design for Health Program at OCAD University. He is currently an Adjunct Professor & Senior Fellow at the University of Toronto's School of Public Health & Leslie Dan Faculty of Pharmacy. He serves as Director of the DrPH program. Dr. Witek is the author of more than 100 scientific papers as well as several chapters and books.

Dr. Witek holds a Doctor of Public Health from Columbia University and a Master of Public Health from Yale University and an MBA from Henley Management College in the UK.

Management Team

Malcom Tubby

CHIEF FINANCIAL OFFICER

Malcolm is a qualified Chartered Accountant in the United Kingdom and New Zealand with a wealth of senior corporate governance expertise in the commerce sector including roles in significant public companies as Chief Financial Officer.

He has experience in senior positions in public and private companies in pharmaceuticals, beverages, insurance and aged care facilities in Australia and New Zealand.

Malcolm has been involved in the AFT Board since its foundation. Malcolm is also the CFO for AFT Pharmaceuticals.

Ioana Stanescu

HEAD OF DRUG DEVELOPMENT

Ioana has overall responsibility for AFT's R&D. She has over 20 years experience in the pharmaceutical industry, including positions as VP QA & Regulatory Affairs and Head of Vaccine Business Area at FIT Biotech Ltd, and a WHO adviser within Central and Eastern Europe.

She has also coordinated several European FP6 and FP7 funded research grants and was selected as an Expert by the European Health Committee – Council of Europe to participate in a research study in 1999.

Vladimir Illievski

REGULATORY AFFAIRS MANAGER

Born and raised in Macedonia, Vladimir holds a Masters degree in Pharmacy from the University of Ljubljana, Slovenia, where he started his career as a pre-clinical researcher before moving to New Zealand. Prior to joining AFT in 2006, Vladimir worked for Douglas Pharmaceuticals in various roles including as QC and QA analyst and regulatory/senior regulatory associate.

Vladimir has responsibility for product registrations in countries in Australasia and Asia, Europe and the US.

Louise Clayton

DIRECTOR
INTERNATIONAL BUSINESS

Having worked with brands within the supplement, OTC, health and beauty channels, Louise has significant experience in driving international brands through a variety of roles encompassing sales, brand marketing, product sourcing/new product development, and new market expansion.

With over 20 years' experience with international business, key accounts, sales and marketing teams, Louise has a core focus on brand growth and development within local and international markets.

Scott Crawford

GENERAL MANAGER
PROMOTED PRODUCTS

Scott joined AFT in 2013 and is responsible for over-the-counter sales in New Zealand across all retail channels including pharmacy, supermarkets, petrol and convenience.

His role as General Manager of Promoted Products involves account management, field supervision and trade marketing.

Scott has over 20 years' experience in fast-moving consumer goods in both Australia and New Zealand and has previously held roles with Red Bull and Ferrero Rocher.

Murray Keith

GROUP MARKETING
MANAGER

Murray joined AFT Pharmaceuticals in 2011 and has since been responsible for managing our marketing function, with a primary focus on the Australian and New Zealand markets.

His extensive marketing career prior to joining AFT includes a range of roles working across a number of blue-chip brands and companies, including Nestlé, Lion Nathan, Bay of Plenty Rugby, Nestlé Purina, New Zealand Lotteries and Fonterra Brands (Tip Top).

AFT Pharmaceuticals Limited Consolidated Financial Statements

for the Year Ended 31 March 2022

Financial Statements Contents

Deloitte.

Independent Auditor's Report

To the Shareholders of AFT Pharmaceuticals Limited

Opinion

We have audited the consolidated financial statements of AFT Pharamceuticals Limited and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as at 31 March 2022, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 42 to 71, present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2022, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor and the provision of taxation advice, we have no relationship with or interests in the Company or any of its subsidiaries. These services have not impaired our independence as auditor of the Company and Group.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group financial statements as a whole to be $1.4 million.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Recoverability of the Pascomer IP As disclosed in note 11, the Group has intellectual property with a carrying value of $12.5m in relation to the Pascomer product at 31 March 2022. During the period, while clinical trials are progressing, the US Food and Drug Administration (FDA) approved another treatment which will prevent AFT from filing its Pascomer orphan indication in the US (a key product market) for seven years. The recoverability of the intellectual property associated with the Pascomer product depends upon successful clinical trials and product registration with orphan status. The recoverable amount of the intellectual property associated with the Pascomer product is determined based on fair value less costs of disposal, using a risk-adjusted net present value model (the 'valuation'), which takes into account the inherent uncertainties of both the successful conclusion of the clinical trials and registration. The valuation also includes significant unobservable inputs, including forecast financial performance, discount rate and growth rates. We identified this as a key audit matter because of the significance of the intellectual property to the Group's consolidated financial statements and the judgment involved in determining the recoverable amount of the Pascomer IP.	We evaluated the Group's recoverable amount assessment for the Pascomer IP. In performing our procedures, we: • Obtained an understanding of the relevant controls over the valuation process including controls around the methodology adopted, the date used and the setting of key assumptions • Assessed the independence, objectivity and competence of the valuer engaged by the Group • Worked with our internal valuation specialists to assess whether the valuation method was appropriate • Challenged the key assumptions in the valuation by: o Considering the timing of when successful clinical trials will be completed and the product registered by understanding the milestones achieved to date and the Group's progress against plans o Evaluating and challenging the Group's cash flow forecasts based on historical forecasting accuracy o Working with our internal valuation specialists to determine whether the discount rate was in accordance with an appropriate valuation methodology, growth rate and assumptions used were reasonable • Assessed the sensitivity of the valuation to key assumption changes and tested the integrity and mechanical accuracy of the valuation.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Jason Stachurski
Partner
for Deloitte Limited
Auckland, New Zealand
23 May 2022

Consolidated Income Statement

For the Year Ended 31 March 2022

	Note	2022 $'000	2021 $'000
Revenue	4	130,314	113,105
Cost of sales		(68,539)	(64,364)
Gross profit		**61,775**	**48,741**
Other Income	5	225	626
Selling and distribution expenses		(28,330)	(27,438)
General and administrative expenses		(7,774)	(7,784)
Research and development expenses		(5,507)	(3,437)
Operating profit		**20,389**	**10,708**
Finance income		4	4
Interest costs	6	(2,435)	(3,441)
Other finance gain	6	727	616
Profit before tax		**18,685**	**7,887**
Tax benefit/(expense)	12	1,163	(105)
Profit after tax attributable to owners of the parent		**19,848**	**7,782**
Earnings per share			
Basic and diluted earnings per share ($)	17	$0.19	$0.07

The accompanying Notes form an integral part of the Financial Statements.

Consolidated Statement of Comprehensive Income

For the Year Ended 31 March 2022

	Note	2022 $'000	2021 $'000
Profit after tax		**19,848**	**7,782**
Other comprehensive income			
Items that may be subsequently reclassified to profit and loss:			
Foreign exchange difference on translation of foreign operations		13	29
Other comprehensive income for the year, net of tax		**13**	**29**
Total comprehensive income		**19,861**	**7,811**

The accompanying Notes form an integral part of the Financial Statements.

Consolidated Statement of Changes in Equity

For the Year Ended 31 March 2022

	Note	Share capital $'000	Redeemable preference shares reserve $'000	Share options reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total equity $'000
Balance 31 March 2020		**63,746**	**1,669**	**763**	**352**	**(49,275)**	**17,255**
Profit after tax		-	-	-	-	7,782	7,782
Other comprehensive income		-	-	-	29	-	29
Total comprehensive income		**-**	**-**	**-**	**29**	**7,782**	**7,811**
Conversion of preference shares	16	1,669	(1,669)	-	-	-	-
Issue of share capital	16	12,389	-	-	-	-	12,389
Capital raising expenses	16	(723)	-	-	-	-	(723)
Movement in share options reserve	16	116	-	(489)	-	417	44
Preference dividends paid		-	-	-	-	(188)	(188)
Balance 31 March 2021		**77,197**	**-**	**274**	**381**	**(41,264)**	**36,588**
Profit after tax		-	-	-	-	19,848	19,848
Other comprehensive income		-	-	-	13	-	13
Total comprehensive income		**-**	**-**	**-**	**13**	**19,848**	**19,861**
Issue of share capital	16, 19	409	-	(113)	-	-	296
Movement in share options reserve		-	-	(1)	-	-	(1)
Balance 31 March 2022		**77,606**	**-**	**160**	**394**	**(21,416)**	**56,744**

The accompanying Notes form an integral part of the Financial Statements.

Consolidated Balance Sheet

As at 31 March 2022

	Note	2022 $'000	2021 $'000
ASSETS			
Current assets			
Inventories	9	33,500	33,654
Trade and other receivables	8	36,002	31,039
Cash and cash equivalents		7,940	3,209
Derivative assets	22	100	-
Total current assets		**77,542**	**67,902**
Non-current assets			
Property, plant and equipment	10	484	305
Intangible assets	11	38,093	32,720
Right of use assets	10	2,876	3,481
Deferred income tax assets	12	2,765	724
Total non-current assets		**44,218**	**37,230**
Total assets		**121,760**	**105,132**
LIABILITIES			
Current liabilities			
Trade and other payables	14	19,160	21,329
Provisions	15	4,143	4,461
Lease liabilities	13	542	614
Current income tax liability		844	-
Derivative liabilities	22	361	537
Interest bearing liabilities	13	4,000	5,161
Total current liabilities		**29,050**	**32,102**
Non-current liabilities			
Lease liabilities	13	2,766	3,242
Interest bearing liabilities	13	33,200	33,200
Total non-current liabilities		**35,966**	**36,442**
Total liabilities		**65,016**	**68,544**
EQUITY			
Share capital	16	77,606	77,197
Retained earnings/(losses)		(21,416)	(41,264)
Share options reserve	19	160	274
Foreign currency translation reserve		394	381
Total equity		**56,744**	**36,588**
Total liabilities and equity		**121,760**	**105,132**

The accompanying Notes form an integral part of the Financial Statements.

On behalf of the Board on the 23 May 2022

David Flacks
Chair

Dr Hartley Atkinson
Founder and Chief Executive Officer

Consolidated Statement of Cash Flows

For the Year Ended 31 March 2022

	2022 $'000	2021 $'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	128,702	109,823
Payments to suppliers and employees	(114,329)	(108,903)
Tax paid	(221)	(170)
Net cash generated from operating activities	**14,152**	**750**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(329)	(93)
Purchase of intangible assets	(5,256)	(6,138)
Net cash used in investing activities	**(5,585)**	**(6,231)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital	295	12,396
Repayments of bank overdraft	(1,638)	1,638
Capital raising cost paid	-	(723)
Dividends paid	-	(188)
Payment for lease liabilities	(879)	(630)
New borrowings	5,000	-
Borrowings repaid	(4,500)	(6,500)
Interest received	4	4
Interest paid on lease liabilities	(263)	(295)
Interest costs paid on borrowings	(1,933)	(3,180)
Net cash (used in)/generated from financing activities	**(3,914)**	**2,522**
Net increase / (decrease) in cash	4,653	(2,959)
Impact of foreign exchange on cash and cash equivalents	78	49
Opening cash and cash equivalents	3,209	6,119
Closing cash and cash equivalents	**7,940**	**3,209**

The accompanying Notes form an integral part of the Financial Statements.

Reconciliation of Profit After Tax With Net Cash Flow From Operating Activities

	2022 $'000	2021 $'000
Profit after tax	19,848	7,782
Adjustments for		
Depreciation	150	103
Depreciation ROU assets	634	716
Amortisation	260	285
Impact of foreign exchange on cash and cash equivalents	78	49
Share options expense	13	44
Interest on lease liabilities	-	295
Interest and finance expense	2,084	3,155
Unrealised (gain)/loss on foreign currency movements	(268)	(58)
Provision for tax	(1,175)	19
Interest received	-	(4)
Movement in working capital		
(Increase)/decrease in inventories	154	(10,920)
(Increase)/decrease in trade and other receivables and derivative assets	(4,963)	(4,556)
(Increase)/decrease in trade and other payables, provisions and derivative liabilities	(2,663)	3,840
Net cash generated from operating activities	**14,152**	**750**

The accompanying Notes form an integral part of the Financial Statements.

Notes to the Financial Statements

For the Year Ended 31 March 2022

1. Reporting Entity

AFT Pharmaceuticals Ltd (the "Company" or "Parent") together with its subsidiaries (the "Group") is a pharmaceutical distributor and developer of pharmaceutical intellectual property. The Company is incorporated and domiciled in New Zealand, it is registered under the Companies Act 1993. The address of the Company's registered office is 129 Hurstmere Road, Takapuna, New Zealand.

The Company is an FMC reporting entity under the Financial Markets Conduct Act 2013 and is listed on both the NZX and ASX.

These consolidated financial statements were approved for issue by the Board of Directors on 23 May 2022.

2. Basis of Preparation and Principles of Consolidation

Statement of compliance

These consolidated financial statements of the Group have been prepared in accordance with the requirements of the Companies Act 1993, Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013. As Group consolidated financial statements are prepared and presented for the Parent and its subsidiaries, separate financial statements for the Company are not required to be prepared under the Companies Act 1993.

The consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The Group is a for-profit entity for the purposes of complying with NZ GAAP. The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

Basis of accounting

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss and/or other comprehensive income.

Functional and presentation currency

The consolidated financial statements are presented in New Zealand dollars (NZD), which is the Company's functional currency rounded to the nearest thousand dollars unless otherwise stated. Items included in the financial statements of each of the subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

Foreign currency transactions and balances

The results and balance sheets of all foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from New Zealand dollars are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- Income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions.
- Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at the balance date and the results of all subsidiaries for the year then ended.

Intercompany transactions, balances and unrealised gains on transactions between subsidiary companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Critical accounting estimates and judgements

In applying the Group's accounting policies, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant estimates are disclosed in each of the applicable notes to the financial statements and are designated with an **E** symbol. E

Significant accounting policies

Accounting policies are disclosed in each of the applicable notes to the financial statements and are designated with an **AP** symbol. AP

All mandatory amendments have been adopted in the current year. None had a material impact on these financial statements.

Goods and Services Tax (GST)

The income statement and the statement of comprehensive income have been prepared so that all components are stated exclusive of New Zealand, Australian and Malaysian GST. All items in the balance sheet are stated net of GST, with the exception of accounts receivable and payable, which include GST invoiced. All components of the statement of cash flows are stated exclusive of GST.

3. Significant Transactions and Events in the Financial Year

On 28 April 2021, the Group announced that it had licensed Maxigesic IV in the US. The agreement with Hikma Pharmaceuticals, the US' third largest supplier of generic injectable medications by volume, will see AFT benefit from upfront, regulatory and commercial milestone payments worth up to US$18.8 million and a profit share from in-market product sales.

No other significant transactions and events occurred during the current period.

4a. Revenue from Operations

	2022 $'000	2021 $'000
Sale of goods	123,090	110,736
Royalty income	480	244
Licensing Income	6,744	2,125
Total revenue from operations	**130,314**	**113,105**

AP

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties:

- The sale of goods, which are recognised when control of the product is transferred to the customer.
- Licensing income, the Group has entered into a number of out-licencing contracts whereby the Group's obligations are the provision of territorial rights to the company's intellectual property and the provision and support of the documentation required to enable registration of the product in the territory. The Group typically receives an upfront fee, milestone payments for specific registration and/or development-based outcomes, and sales-based milestones or royalties as consideration for the license. Licenses coupled with other services, must be assessed to determine if the license is distinct (that is, the customer must be able to benefit from the IP on its own or together with other resources that are readily available to the customer, and the Group's promise to transfer the IP must be separately identifiable from other promises in the contract). If the license is not distinct, then the license is combined with other goods or services into a single performance obligation. Revenue is then recognised as the Group satisfies the combined performance obligation.

  A license will either provide:

  - A right to access the entity's intellectual property throughout the license period, which results in revenue that is recognised over time;

  or

  - A right to use the entity's intellectual property as it exists at the point in time in which the license is granted, which results in revenue that is recognised at a point in time. For sales- or usage-based royalties that are attributable to a license of IP, the amount is recognized at the later of:
    - when the subsequent sale or usage occurs; and
    - the satisfaction or partial satisfaction of the performance obligation to which some or all of the sales- or usage-based royalty has been allocated.

Notes to the Financial Statements (Continued)

For the Year Ended 31 March 2022

4b. Joint Operations

Hyloris Pharmaceuticals SA and AFT have been collaborating in the development of the Maxigesic IV product. AFT has now licensed the product to a number of partners covering multiple countries. Maxigesic IV is protected by several granted and pending patent applications. Under the terms of the development collaboration agreement between Hyloris and AFT, Hyloris is eligible to receive a share on any product-related revenues, such as license fees, royalties, milestone payments, received by AFT. The arrangement constitutes a joint operation whereby the Group recognises, in relation to its interest in the joint operation, its share of assets and liabilities in the consolidated statement of financial position and share of revenue earned and expenses incurred in the consolidated statement of comprehensive income. The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in the joint operation in accordance with the NZ IFRS standards applicable to the particular assets, liabilities, revenues and expenses.

AP

Interests in joint operations:
A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

5. Segment Reporting

	Operating Segments				
	Australia $'000	New Zealand $'000	Asia $'000	Rest of World $'000	Total $'000
31 March 2022					
Revenue - Sale of goods	76,669	35,072	5,487	5,862	123,090
Revenue - Royalties	-	-	-	480	480
Revenue - Licensing	-	-	-	6,744	6,744
Total revenue	**76,669**	**35,072**	**5,487**	**13,086**	**130,314**
Other income	-	-	-	225	225
Depreciation - ROU assets	391	243	-	-	634
Depreciation - Other	32	117	1	-	150
Amortisation	-	259	-	-	259
Operating profit	**15,685**	**(73)**	**618**	**4,159**	**20,389**
Finance income	-	4	-	-	4
Interest expense - Loans	-	(2,088)	(84)	-	(2,172)
Interest expense - Lease liabilities	(72)	(191)	-	-	(263)
Other finance gains/(losses)	(258)	1,003	(18)	-	727
Profit / (loss) before tax	**15,355**	**(1,345)**	**516**	**4,159**	**18,685**
Total assets	**41,764**	**67,550**	**14**	**12,432**	**121,760**
ROU assets	646	2,230	-	-	2,876
Property plant and equipment	50	433	1	-	484
Pascomer IP	-	-	-	12,500	12,500
Other intangible assets	-	-	-	25,593	25,593
Total liabilities	**5,362**	**57,838**	**1,848**	**(32)**	**65,016**
Capital expenditure	**37**	**292**	**-**	**-**	**329**

	Operating Segments				
	Australia $'000	New Zealand $'000	Asia $'000	Rest of World $'000	Total $'000
31 March 2021					
Revenue - Sale of goods	68,266	30,526	4,411	7,533	110,736
Revenue - Royalties	-	-	-	244	244
Revenue - Licensing	-	-	-	2,125	2,125
Total revenue	**68,266**	**30,526**	**4,411**	**9,902**	**113,105**
Other income	-	193	-	433	626
Depreciation - ROU assets	424	292	-	-	716
Depreciation - Other	25	80	1	-	106
Amortisation	-	285	-	-	285
Operating profit	**7,919**	**(69)**	**1,450**	**1,408**	**10,708**
Finance income	-	4	-	-	4
Interest expense - Loans	(656)	(2,409)	(81)	-	(3,146)
Interest expense - Lease liabilities	(91)	(204)	-	-	(295)
Other finance gains/(losses)	417	411	(212)	-	616
Profit / (loss) before tax	**7,589**	**(2,267)**	**1,157**	**1,408**	**7,887**
Total assets	**39,522**	**53,094**	**20**	**12,496**	**105,132**
ROU assets	960	2,521	-	-	3,481
Property plant and equipment	46	257	2	-	305
Pascomer IP	-	-	-	12,500	12,500
Other intangible assets	-	-	-	20,337	20,337
Total liabilities	**5,852**	**60,831**	**1,861**	**-**	**68,544**
Capital expenditure	**27**	**65**	**-**	**-**	**92**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM). For the purposes of NZ IFRS 8, the CODM is a group comprising the Board of Directors, together with the Chief Executive Officer, the Chief of Staff, the Chief Financial Officer and the Director of International Business Development. This has been determined on the basis that it is this group that determines the allocation of the resources to segments and assesses their performance.

The Group has four operating segments based on geographical locations reportable under NZ IFRS 8, as described below, which are the Group's strategic groupings of business units. The following summary describes the operations in each of the Group's reporting segments:

- **New Zealand** – Includes the Head Office function for the Group, supplier relationships and procurement of all stock for the Group, all regulatory activity, governance, all marketing activity and all finance activity. The sales and distribution activity principally relate to the New Zealand market.
- **Australia** – Includes the sales and distribution activity relating to the Australian market.
- **Asia** – Includes the sales and distribution activity relating to the Asian market.
- **Rest of World** – Includes the out-licensing of IP developments to markets in which the Group does not have a presence and the export of products to export markets. The costs of research and development and new market development activity not specific to the other segments are expensed to this segment.

Major Customers – Revenues from one customer of the Australian segment (being a licensed wholesaler) represents approximately NZ$37.9m (2021: NZ$30.3m) and from one customer of the New Zealand segment (also being a licensed wholesaler) represents approximately NZ$16.1m (2021: NZ$15.6m) of the Group's total revenues.

Notes to the Financial Statements (Continued)

For the Year Ended 31 March 2022

6. Net Operating Profit

	Note	2022 $'000	2021 $'000
Profit before tax		**18,685**	**7,887**
After charging the following specific expenses			
Finished goods materials		67,688	63,521
Inventory write off		851	843
Audit fees and review of financial statements	7	249	353
Short term rental expenses - premises		137	132
Share options expense		13	45
Short term employee emoluments[1]			
Selling and distribution expenses		7,344	7,314
General and administration expenses		2,895	2,499
Research and development expenses		2,529	1,899
		12,768	**11,712**
Research and development expenses			
Business development		1,088	74
New market development		1,890	1,464
		2,978	**1,538**
Depreciation			
Plant and machinery		85	82
Furniture and fixtures		20	18
Vehicles		45	3
ROU equipment		55	56
ROU vehicles		246	327
ROU buildings		333	333
		784	**819**
Amortisation			
Patents		129	156
Software		9	17
Development costs		49	40
Registration costs		73	72
		260	**285**
Finance costs			
Interest on borrowings		2,172	3,146
Interest on ROU liabilities		263	295
Foreign exchange (gains)		(642)	(239)
Derivative (gains)		(269)	(360)
Other financing costs/(gains)		184	(17)
		1,708	**2,825**

[1] This includes contributions recognised as an expense for defined contributions		583	569

AP

Finance income comprises interest income that is recognised on a time-proportion basis using the effective interest method.

Other income comprises research and development and international growth grants and other income.

Research and development grant

Research and development grant income is recognised when eligible research and development expenses are incurred and conditions relating to the grant are satisfied.

International growth grant

International growth grant income is recognised when eligible international growth expenses are incurred and conditions relating to the grant are satisfied.

7. Fees Paid to Auditors

	2022 $'000	2021 $'000
Audit of financial statements		
Audit of annual financial statements (NZ)	210	198
Audit of annual financial statements (AU)	-	117
Review of interim financial statements	39	38
Review of Callaghan Grant claim	-	12
Total fees for audit and review services	**249**	**365**
Other services		
Tax due diligence services - Deloitte	6	4
Total fees paid to Deloitte	**255**	**369**

Notes to the Financial Statements (Continued)

For the Year Ended 31 March 2022

8. Trade and Other Receivables

	2022 $'000	2021 $'000
Trade receivables	40,751	34,973
Expected credit losses	-	-
Less provision for customer rebates	(10,885)	(5,746)
Prepayments & sundry debtors	6,136	1,812
Total trade and other receivables	**36,002**	**31,039**

Ageing of overdue trade debtors	1-30 Days $'000	31-60 Days $'000	61-90 Days $'000	90+ Days $'000	Total $'000
31 March 2022	3,432	623	748	259	5,062
31 March 2021	5,300	183	106	265	5,854

All balances are expected to be settled within the next 12 months.

The expected credit loss (ECL) allowance provision has been determined as follows:

As at 31 March 2022	Current $'000	Current to 1 month $'000	Greater than 1 month $'000	Total $'000
Expected loss rate	*	*	0.03%	
Gross carrying amount	35,689	3,432	1,630	40,751
As at 31 March 2021				
Expected loss rate	*	*	0.03%	
Gross carrying amount	29,119	5,300	554	34,973

*Expected credit losses are negligible.

The average credit period on sale of goods is 45 days (2021: 41 days). No interest is charged on outstanding trade receivables.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL.

AP

The Group has applied the simplified approach to providing for expected credit losses, which requires the recognition of a lifetime expected loss provision for trade and other receivables. NZ IFRS 9 requires the Group to consider future potential credit losses and consider items such as forecasted economic conditions.

The Group does not expect any significant expected credit losses due to the nature of the distribution and regulatory licensing structure of the industry.

The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as forecast direction of conditions at the reporting date.

As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer base.

Bad debt expense for the current year was nil (2021: nil).

9. Inventories

	2022 $'000	2021 $'000
Inventory on hand	33,940	34,124
Provision for obsolescence	(440)	(470)
Total inventories	**33,500**	**33,654**

Inventory on hand comprises pharmaceutical goods ready for resale and raw materials. The value of inventory is transferred to cost of sales in the income statement when sold.

To reduce supply chain risks, the Group purchases from multiple manufacturing sites across different geographies for its main products such as Maxigesic.

AP

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average cost basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements (Continued)

For the Year Ended 31 March 2022

10. Property, Plant and Equipment

	Plant and machinery $'000	Furniture and fixtures $'000	Vehicles $'000	ROU Buildings $'000	ROU Vehicles $'000	ROU Equipment $'000	Total $'000
Cost							
Balance at 01 April 2020	**1,023**	**433**	**174**	**3,472**	**692**	**186**	**5,980**
Additions	91	2	-	54	426	5	578
Disposals	-	-	-	(7)	(109)	(3)	(119)
Balance at 31 March 2021	**1,114**	**435**	**174**	**3,519**	**1,009**	**188**	**6,439**
Additions	48	26	255	(8)	81	(1)	401
Disposals	-	-	-	-	(43)	-	(43)
Balance at 31 March 2022	**1,162**	**461**	**429**	**3,511**	**1,047**	**187**	**6,797**
Accumulated depreciation							
Balance at 01 April 2020	**(870)**	**(295)**	**(150)**	**(319)**	**(265)**	**(54)**	**(1,953)**
Depreciation	(82)	(18)	(3)	(333)	(327)	(56)	(819)
Disposals	-	-	-	7	109	3	119
Balance at 31 March 2021	**(952)**	**(313)**	**(153)**	**(645)**	**(483)**	**(107)**	**(2,653)**
Depreciation	(85)	(20)	(45)	(333)	(289)	(55)	(827)
Disposals	-	-	-	-	43	-	43
Balance at 31 March 2022	**(1,037)**	**(333)**	**(198)**	**(978)**	**(729)**	**(162)**	**(3,437)**
Carrying amounts							
Balance at 31 March 2021	**162**	**122**	**21**	**2,874**	**526**	**81**	**3,786**
Balance at 31 March 2022	**125**	**128**	**231**	**2,533**	**318**	**25**	**3,360**

AP

All plant and equipment is stated at historical cost less depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the diminishing value method which apportions the cost of the assets over their useful lives. The Group has the following classes of property, plant & equipment and depreciation rates:

Category	Depreciation rate (%)
Plant and Machinery	21% to 80%
Furniture and fixtures	9% to 60%
Vehicles	26% to 36%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing proceeds to carrying amounts and are included in the consolidated income statement.

AP

Lease accounting

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short term leases (leases less than 12 months duration), and leases of low value assets. For these leases the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined the Group uses its incremental borrowing rate.

The lease liability is presented as a separate line in the consolidated balance sheet.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect the lease payments made.

The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payments change due to a change in a floating interest rate, in which case a revised discount rate is used)
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under NZ IAS 37. The costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the balance sheet.

The Group applies NZ IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment losses.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "general and administrative expenses" in the income statement.

See note 13 for interest bearing liability analysis and note 21b for lease maturity analysis.

Notes to the Financial Statements (Continued)

For the Year Ended 31 March 2022

11. Intangible Assets

	Pascomer IP $'000	Trademarks $'000	Capitalised registration $'000	Capitalised development $'000	Patents $'000	Software $'000	Total $'000
Cost							
Balance at 01 April 2020	**12,500**	**736**	**1,897**	**9,757**	**3,014**	**533**	**28,437**
Additions	-	73	2,728	2,994	226	-	6,021
Disposals	-	-	-	-	-	-	-
Balance at 31 March 2021	**12,500**	**809**	**4,625**	**12,751**	**3,240**	**533**	**34,458**
Additions	-	152	939	3,994	551	-	5,636
Disposals	-	(3)	-	-	-	-	(3)
Reclassification	-	2	-	162	(164)	-	-
Balance at 31 March 2022	**12,500**	**960**	**5,564**	**16,907**	**3,627**	**533**	**40,091**
Accumulated amortisation							
Balance at 01 April 2020	**-**	**-**	**(70)**	**(62)**	**(822)**	**(499)**	**(1,453)**
Amortisation	-	-	(72)	(40)	(156)	(17)	(285)
Disposals	-	-	-	-	-	-	-
Balance at 31 March 2021	**-**	**-**	**(142)**	**(102)**	**(978)**	**(516)**	**(1,738)**
Amortisation	-	-	(73)	(49)	(129)	(9)	(260)
Disposals	-	-	-	-	-	-	-
Balance at 31 March 2022	**-**	**-**	**(215)**	**(151)**	**(1,107)**	**(525)**	**(1,998)**
Carrying amounts							
Balance at 31 March 2021	**12,500**	**809**	**4,483**	**12,649**	**2,262**	**17**	**32,720**
Balance at 31 March 2022	**12,500**	**960**	**5,349**	**16,756**	**2,520**	**8**	**38,093**

E

Pascomer IP

The Group acquired the remaining 50% of Dermatology Specialties Limited Partner ("DSLP") and its general partner DSGP Limited, from its joint venture partner Tardimed Sciences on 5 July 2019 and these have been fully consolidated from this date. DSLP was originally formed for the development and commercialisation of the product, Pascomer, which uses the active ingredient Rapamycin for the topical treatment of indications commencing with facial angiofibromas in tuberous sclerosis.

As a result of the transaction, the Group retained the rights to the intellectual property, future product sales and royalties.

The Group also entered into an out-license agreement with Timber Pharmaceuticals LLC, under which the Group has received revenues from the upfront milestone and expects to receive future revenues from development, registration and commercial milestones as well as product sales and royalties.

Considering the inherent uncertainties of both the successful conclusion of clinical trials and the successful registration with orphan status, the Group has recognised the Pascomer intellectual property at its fair value of $12.5m in the prior year business combination. It is being assessed for impairment on an annual basis.

During the period, the Group has assessed the progress of Pascomer and identified that the clinical trials have been progressing positively and other than for the slow down resulting from Covid19, the Group remains confident of a successful outcome to these trials, which is expected in mid-2022. In April the US Food and Drug Administration (FDA) approved a topical treatment indicated for facial angiofibroma (FA) associated with Tuberous Sclerosis Complex (TSC) developed by Japan's Nobelpharma. This means that Nobelpharma will gain exclusivity for a period of seven years in USA which will prevent AFT filing its Pascomer for this orphan indication with the FDA during this period.

The clinical trial program for non-orphan drug Pascomer indications will continue and the significant formulation patent for Pascomer has been granted in Australia until November 2040 which will form the basis of further patent filings around the world.

The Group has assessed the recoverability of Pascomer's carrying value ($12.5m) by engaging an independent registered valuer, Edison Investment Research Limited, in April 2022. The recoverable amount of Pascomer is determined based on the fair value less costs of disposal methodology, using a risk-adjusted net present value (NPV) based on a series of assumptions on the development and marketing of the product per below.

a) The period used for the discounted cash flow are broken down for two indications the drug is aiming to treat, Angiofibromas (AF) and Port Wine Stain (PWS).
   - 10 years (Europe) for AF
   - 15 years for PWS
b) The discount rate used 12.5%
c) For AF in TSF the addressable market has been taken as 74.5% of 1 in 11,000 in Europe and 1 in 6,000 in Australia.
d) Growth rates are modelled using a second order differential equation based on current penetration, distance from peak penetration, and the listed rate constant with peak penetration of 20% for AF i n TSF and 3.4.
e) For PWS the addressable market has been taken as 1.0 million patients in the USA, 3.15 million in Europe and 0.1 million in Australasia. It is assumed there is no growth in the patient base and a peak penetration of 2.5% in all markets.

These assumptions also applied in the 2021 evaluation other than for the revised PWS addressable market, peak penetration and inclusion of Australasia.

This valuation methodology uses significant inputs which are not based on observable market data, and therefore this valuation technique is classified as level 3 of the fair value hierarchy.

Subject to the successful clinical trials and registration in the US, Europe and Australasia, the valuation indicates sufficient headroom such that a reasonably possible change to the key assumptions is unlikely to result in an impairment of the Pascomer intellectual property.

Notes to the Financial Statements (Continued)

For the Year Ended 31 March 2022

AP

Research and development

Research is the original and planned investigation undertaken with the prospect of gaining new knowledge and understanding. This includes direct and overhead expenses for research, pre-clinical trials and costs associated with clinical trial activities. All research costs are expensed when incurred.

Development is the application of research findings to a plan or design for the production of new or substantially improved processes or products prior to the commencement of commercial production. When a project reaches the stage where it is reasonably certain that future expenditure can be recovered through the process or products produced, expenditure that is directly attributable or reasonably allocated to that project is recognised as a development asset. The asset will be amortised from the date of commencement of commercial production of the product to which it relates on a straight-line basis over the life of the relevant patent or period of expected benefit. Development assets are reviewed annually for any impairment in their carrying value.

Development and registration projects are regularly reviewed throughout the year by a staff committee comprising the CEO, CFO, GM Development and Financial Controller. The status of each project is measured against the requirements of NZ IAS 38 and the relevant costs incurred during the financial year are capitalised where projects meet those criteria. The criteria considered in this assessment are:

a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.
b) the Group's intention to complete the intangible asset and use or sell it.
c) the Group's ability to use or sell the intangible asset.
d) how the intangible asset will generate probable future economic benefits. Among other things,
e) the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
f) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
g) the Group's ability to measure reliably the expenditure attributable to the intangible asset during its development.

Finite useful life

Acquired patents, capitalised development costs, capitalised registration costs and software have a finite life and are carried at cost less accumulated amortisation. Patents are amortised over a useful economic life of 20 years, capitalised development costs and capitalised registration costs over the period of expected benefit which is usually between 5 and 10 years, and software over 3 to 4 years.

Indefinite useful life

Acquired trademarks are considered to have indefinite useful lives. They are carried at cost less accumulated impairment. Indefinite useful life assets are tested for impairment annually or when impairment indicators exist. The asset's carrying amount is written down immediately to it's recoverable amount if the asset's carrying amount is greater than it's estimated recoverable amount.

Impairment

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Indefinite useful life assets are tested for impairment annually and whenever there are indicators of impairment while finite useful life assets are tested only when there are indicators of impairment.

12. Income Tax

	2022 $'000	2021 $'000
a) Tax expense		
Profit before tax	**18,685**	**7,887**
Tax calculated at domestic tax rates applicable	5,260	2,208
Adjustment due to different tax rates of subsidiaries operating in different jurisdictions	64	3,818
Tax on income not assessable	-	-
Tax on expenses not deductible	(137)	(241)
Tax on losses recognised	(6,496)	(5,804)
Non-resident withholding tax	146	124
Tax expense	**(1,163)**	**105**
Comprising		
Current tax	844	124
Deferred tax	(2,007)	(19)

	2022 $'000	2021 $'000
b) Deferred tax balance		
Deferred tax asset	2,765	724
Deferred tax asset	**2,765**	**724**

Deferred tax assets relating to unused tax loss carry-forwards and to Deductible temporary differences are recognised if it is probable that they can be offset against future taxable profits or existing temporary differences. As at 31 March 2022, the Group recognised deferred tax assets on temporary differences totalling $2,765k (2021 $724k) since it was foreseeable that temporary differences could be offset against future taxable profits. On the basis of the approved business plans of subsidiaries, the Group considers it probable that temporary differences can be offset against future taxable profits. There is no expected change in capital structure in the near future which is expected to affect the recoverability of the recognised deferred tax assets

The movement in deferred tax is:

	Provisions $'000	Recognised Total Tax losses $'000	Total $'000
31 March 2020	**(210)**	**915**	**705**
Movements	19	-	19
Recognition of losses	-	-	-
31 March 2021	**(191)**	**915**	**724**
Movements	2,041	-	2,041
Recognition of losses	-	-	-
31 March 2022	**1,850**	**915**	**2,765**

	$'000
c) Imputation and franking credit available to use	
NZD	-
AUD	322

Notes to the Financial Statements (Continued)

For the Year Ended 31 March 2022

The amount of tax loss carried forward that is available for future utilization is $8,565,719 (2021: $24,220,598)

AP

Current and deferred income tax

The income tax expense or revenue for the year is the tax payable on the current period's taxable income (based on the national income tax rate for each jurisdiction) adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered, or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, a deferred tax liability is not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

13. Interest Bearing Liabilities

	2022 $'000	2021 $'000
Current lease liabilities	542	614
Non-current lease liabilities	2,766	3,242
BNZ overdraft	-	1,661
BNZ Term loans current portion	4,000	3,500
BNZ Term loans non-current portion	33,200	33,200
Total	**40,508**	**42,217**

	2022 $'000	2021 $'000
Opening balance of BNZ loan at 1 April	36,700	43,200
BNZ loans drawn down	5,000	-
Repayment of principal	(4,500)	(6,500)
Closing balance at 31 March	**37,200**	**36,700**

In March 2020, the Group entered a loan agreement with BNZ for $43.2m. The BNZ loans have a general security over the assets of the Group together with a group guarantee. The facility includes a progressive part reduction in principle over the three-year term which matures in April 2023. During May 2021 the Group entered a Business Finance Scheme (BFS) loan agreement with BNZ for $5m. Of the $5m BFS loan, $4.5m was used to fully repay the outstanding amount of the BNZ NZ ECO loan, with the remainder being used for operational cashflow. The BFS loan attracts a lower interest rate than the NZ ECO loan.

The loan attracts an effective interest rate of 5.2%.

All covenants relating to the BNZ facility have been complied with during the year.

AP

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

14. Trade and Other Payables

	2022 $'000	2021 $'000
Trade payables	12,068	14,703
GST payable	2,117	1,744
Employee entitlements	1,852	1,414
Other payables and accruals	3,123	3,468
Total	**19,160**	**21,329**

AP

The trade payables amount represents liabilities for goods and services provided to the Group prior to the end of financial period which are unpaid. These amounts are incurred and are usually paid within 30 days of recognition.

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in trade payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. The liability for employee entitlements that are not expected to be settled within 12 months is carried at the present value of estimated future cash flows.

15. Provisions

	2022 $'000	2021 $'000
Opening balance of supplier rebates at 1 April	4,461	4195
Provision utilised	(4,461)	(4,195)
Additional provisions required	4,143	4,461
Closing balance of supplier rebates at 31 March	4,143	4,461

AP

Supplier rebates are based on profit sharing arrangements with suppliers which are estimated on achieving expected set margin targets and are expected to be utilised within the next 12 months. These are included as an expense in cost of sales.

Notes to the Financial Statements (Continued)

For the Year Ended 31 March 2022

16. Share Capital

Ordinary shares and redeemable preference shares are classified as equity.

	2022 Shares	2021 Shares	2022 $'000	2021 $'000
Ordinary share capital	104,697,260	104,583,875	80,770	80,359
Less capital raising costs	-	-	(3,164)	(3,162)
Total	**104,697,260**	**104,583,875**	**77,606**	**77,197**

	2022 Shares	2021 Shares	2022 $'000	2021 $'000
Share capital at beginning of the year	104,583,875	100,639,019	77,197	63,746
Issue of ordinary shares for conversion of redeemable preference shares	-	605,856	-	1,669
Issue of ordinary shares for exercised share options	113,385	139,000	409	116
Issue of ordinary shares for new share capital	-	3,200,000	-	11,666
Total	**104,697,260**	**104,583,875**	**77,606**	**77,197**

During the previous period, all 3,300,000 redeemable preference shares issued on 24 March 2017 were converted by the holders into 3,300,000 ordinary shares with an additional 605,856 ordinary shares being issued in respect of accumulated dividends on the redeemable preference shares. CRG converted their preference shares on 20 May 2020 and Atkinson Family Trust converted their preference shares on 7 August 2020. The preference shares did not carry any right to vote except at meetings of an interest group of holders of redeemable shares.

17. Earnings Per Share

	2022 $'000	2021 $'000
Earnings used in the calculation of basic and diluted earnings per share		
Profit after tax	19,848	7,782
Less Redeemable Preference shares dividend	-	(188)
Net Profit after tax attributable to Ordinary shareholders	**19,848**	**7,594**
Effect of dilutive potential ordinary shares		
Share options vested but not yet exercised	-	288
Earnings for the purpose of diluted earnings per share	**19,848**	**7,306**
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**104,681,253**	**103,296,562**
Basic and diluted profit per share ($)	$0.19	$0.07

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Basic earnings per share is computed by dividing net earnings (after preference dividends) by the weighted average number of ordinary shares outstanding during each period.

18. Dividends Per Share

No dividends have been declared to the ordinary shareholders during the current or prior year.

19. Staff Share Options

Staff share options are exercisable at the price of $2.80 each, being the issue price of a share at the time of the Company's initial listing on NZX and ASX. The vesting period is generally up to four years from date of issue however this varies according to performance criteria. Other than in limited circumstances options are forfeited if an employee leaves the group before the options vest. The options are valued at fair value as calculated independently using the Black Scholes model.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows

	2022		2021	
	Average exercise price $ per share	Options	Average exercise price $ per share	Options
Balance at beginning of year	2.80	465,000	2.80	1,157,164
Issued	2.80	-	2.80	-
Forfeited	2.80	-	2.80	-
Exercised *	2.80	(113,385)	2.80	(140,000)
Lapsed **	2.80	(21,615)	2.80	(552,164)
Balance at end of year	**2.80**	**330,000**	**2.80**	**465,000**

* Weighted average share price for options exercised during the period $4.30 (2021: $2.37)

** Of the 330,000 outstanding options, 117,500 are currently exercisable (2021: 232,500)

Share options outstanding at the end of the year have the following expiry dates, exercise dates and exercise prices:

Expiry month	Exercisable month	Exercise price	2022	2021
June-2022	March 2019	2.80	25,000	25,000
June-2022	March 2020	2.80	175,000	220,000
June-2022	March 2022	2.80	100,000	100,000
June-2022	Various	2.80	30,000	120,000
Total share options outstanding			**330,000**	**465,000**

The weighted average remaining contractual life of options outstanding at the end of the period was 3 months, (2021 1.2 years)

Share options reserve	2022 $'000	2021 $'000
Balance at beginning of year	**(274)**	**(763)**
Current year expense	(13)	(44)
Transferred to ordinary share capital	113	116
Options lapsed	14	417
Balance at end of year	**(160)**	**(274)**

113,385 share options were exercised during the reporting period. The options outstanding at 31 March 2022 had a weighted average exercise price of $2.80 and a remaining average contractual life of 0.3 years. No options were granted during the year.

Notes to the Financial Statements (Continued)

For the Year Ended 31 March 2022

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The Company has a share option plan for employees of the Group. In accordance with the terms of the plan, as approved by the directors, employees at the time of the Company's initial NZX and ASX listing in December 2015 and again in June 2018 were granted share purchase options.

- Each employee share option converts into one ordinary share of the Company on exercise.
- No amounts are paid or payable by the recipient on receipt of the option.
- The options carry neither rights to dividends nor voting rights.
- Options may be exercised at any time from the date of vesting to the date of their expiry.
- The number of options granted is calculated in accordance with the performance-based formula approved by the directors at previous board meetings.

The formula rewards employees to the extent of the Group's and the individual's achievement judged against both qualitative and quantitative criteria including the following financial and operational measures:

- market share
- net profit
- target sales thresholds
- product registration and licensing targets

Staff share options are valued at fair value at the grant date as calculated using the Black Scholes model.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity- settled employee benefits reserve.

20. Contingent Liabilities

In December 2019, the Company renewed its guarantee of AFT Pharmaceuticals (AU) Pty Limited for its five-year lease extension contract with Investec Limited for the premises occupied in Sydney, Australia. A deposit of AUD$84,000 is held with NAB bank as security for this lease.

The Group has provided a guarantee to Robt Jones Investment Holdings Ltd of $100,000 as security over the leased office premises at 129 Hurstmere Road, Takapuna. Auckland. The Group placed NZD$75,000 on term deposit with BNZ bank as security for a guarantee issued by BNZ in favour of the NZX.

On 28 October 2020, the Company entered into a deed of cross guarantee in respect of liabilities of its subsidiary AFT Pharmaceuticals (AU) Pty Ltd. The principal purpose being to allow the parties to take advantage of the financial reporting relief available under the ASIC Corporations (Wholly owned Companies) Instrument 2016/785. The Directors consider it to be highly unlikely that any amount will be payable under this guarantee.

The Company has received notice of a potential claim from a former contractor in Southeast Asia. The Group's lawyers have advised that they do not consider that the claim has merit, and they have recommended that it be contested. No provision has been made in these financial statements as the Group's management does not consider that there is any probable loss.

21. Commitments

(a) Capital Commitments

The Group has no capital commitments at 31 March 2022 (2021: nil).

(b) Lease Commitments

Payments for leases with a term less than 12 months or a low value are charged in the income statement on a straight-line basis over the term of the lease. The maturities of the outstanding lease payment were as follows

	2022 $'000	2021 $'000
Due within one year	759	871
Due later than one year but within two years	594	718
Due later than two years but within five years	1,244	1,459
Due later than five years	1,794	2,143
	4,391	**5,191**

(c) Other Commitments

The Group has previously entered into contracts to complete clinical trials overseas. The contracts required payments to be made progressively when those stages or milestones are achieved. All amounts due under the contracts were paid during the previous year. Amount due at 31 March 2022: nil (2021: nil).

22. Financial Risk Management

(a) Managing financial risk

The Group's activities expose it to various financial risks as detailed below.

• Market risk

Management is of the opinion that the Group's exposure to market risk at balance date is defined as:

Risk Factor Description	Description	Sensitivity
Currency risk	Exposure to changes in foreign exchange rates on assets and liabilities of subsidiaries, and USD denominated borrowings	As below
Interest rate risk	Exposure to changes in interest rates on borrowings	As below
Other price risk	No commodity securities are bought, sold or traded	Nil

• Foreign exchange risk

The Group benefits from the use of derivative financial instruments to manage foreign currency exposures. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates at year end and the contract exchange rates, considered level 2 of the fair value hierarchy.

The Group purchases goods and services from overseas suppliers in several currencies, primarily AUD, USD, EUR and GBP which exposes the Group to foreign currency risk. The Group manages foreign currency risk through use of derivative arrangements, in particular forward exchange contracts. The exposure is monitored on a regular basis based on Group foreign exchange policies, which allow for up to 50% forward cover out for twelve months. Future revenues from markets outside Australasia will be denominated primarily in USD and EUR which will provide a natural hedge against these costs.

In the current year net foreign exchange gains totalled $911k (2021: $599k). The balance of gains/losses are derived from the restatement of monetary balances at the spot rate on the year-end balance date of 31 March 2022.

Notes to the Financial Statements (Continued)

For the Year Ended 31 March 2022

In total, the Group had financial assets and liabilities denominated in the following currencies:

FY 2022			FY 2021		
Assets NZD$'000	Currency	Liabilities NZD$'000	Assets NZD$'000	Currency	Liabilities NZD$'000
23,801	AUD	4,740	18,568	AUD	4,357
2,315	USD	4,787	1,436	USD	3,176
151	MYR	2	336	MYR	3
630	SGD	2	593	SGD	18
787	EUR	2,716	2,552	EUR	3,484
12	GBP	130	4	GBP	98

The following forward foreign exchange contracts were held at the end of the 2022 financial year:

Forward Foreign Exchange Contracts

Buy currency	Buy currency amount '000	Sell amount NZD$'000	Buy amount NZD$'000	Fair value NZD$'000
EUR	6,750	11,308	10,981	(327)
GBP	500	980	946	(34)
USD	2,800	3,963	4,033	70
Sell currency	**Sell currency amount $'000**	**Buy amount NZD$'000**	**Sell amount NZD$'000**	**Fair value NZD$'000**
AUD	19,100	20,718	20,688	30
Total asset as at 31 March 2022				**100**
Total liability as at 31 March 2022				**(361)**

The following forward foreign exchange contracts were held at the end of the 2021 financial year:

Forward Foreign Exchange Contracts

Buy currency	Buy currency amount '000	Sell amount NZD$'000	Buy amount NZD$'000	Fair value NZD$'000
EUR	4,430	7,694	7,466	(227)
GBP	359	694	707	13
USD	4,900	7,241	7,025	(216)
Sell currency	**Sell currency amount $'000**	**Buy amount NZD$'000**	**Sell amount 31-Mar-20**	**Fair value NZD$'000**
AUD	12,450	13,469	13,576	(107)
Total liability as at 31 March 2021				**(537)**

• Interest rate risk

Borrowings are at a mixture of floating base rates plus a margin determined by the group's performance against covenant adherence levels, which exposes the Group to cashflow interest rate risk. There are no specific derivative arrangements to manage this risk.

• Credit risk

Financial instruments, which potentially subject the Group to credit risk, principally consist of accounts receivable, and cash and cash equivalents. Regular monitoring is undertaken to ensure that the credit exposure remains within the Group's normal terms of trade.

The Group has one significant concentration of credit risk at 31 March 2022 with the largest debtor being AU$17.02m (2021: AU$11.5m). There has been no prior experience of default and no indications of default in relation to this debtor.

The Group's cash and short-term deposits are placed with high credit quality financial institutions. Accordingly, the Group has no significant concentration of credit risk other than bank deposits, with 2.72% of total assets at the Bank of New Zealand (2021: 2.2%), 3.5% at NAB Bank (2021: 0.9%), 0.5% at Bank of Ireland (2021: nil). The carrying value of financial assets represents the maximum exposure to credit risk.

• Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in raising funds at short notice to meet its commitments and arises from the need to borrow funds for working capital. The directors monitor the risk on a regular basis and actively manage the cash available to ensure the net exposure to liquidity risk is minimised.

The liquidity/maturity profile of the liabilities is as follows:

31 March 2022	< 1 year $'000	1-2 years $'000	2-5 years $'000	> 5 years $'000	TOTAL $'000
Trade and other payables	(19,160)	-	-	-	(19,160)
Borrowings	(5,604)	(28,758)	(5,230)	-	(39,592)
Derivative instruments (outbound)	(36,969)	-	-	-	(36,969)
Derivative instruments (inbound)	37,069	-	-	-	37,069
Total	**(24,664)**	**(28,758)**	**(5,230)**	**-**	**(58,652)**
31 March 2021	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Trade and other payables	(21,329)	-	-	-	(21,329)
Borrowings	(7,773)	(33,841)	-	-	(41,614)
Derivative instruments (outbound)	(29,098)	-	-	-	(29,098)
Derivative instruments (inbound)	28,561	-	-	-	28,561
Total	**(29,639)**	**(33,841)**	**-**	**-**	**(63,480)**

(b) Fair Values

The carrying value of financial assets and liabilities (trade receivables and trade payables) approximates their fair value. Trade receivables are valued net of provision and trade payables are valued at their original amounts by contract.

Borrowings are initially measured at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost using the effective interest rate method

23. Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns to its shareholders and to maintain a strong capital base to support the development of its business. The Group meets these objectives through a mix of equity capital and borrowings. The level and mix of capital is determined by the Group's internal Corporate Governance Policies.

Under the BNZ facility, there is a covenant requirement that the facility, comprising an overdraft and letter of credit facility, must not exceed the total of 70% of acceptable debtors plus 50% of acceptable stock. Additional covenants include a requirement for a minimum principle and interest cover ratio, a minimum net leverage ratio and a maximum Capex and R&D ratio. Covenant reporting is required on a quarterly basis. The Group was compliant with all BNZ covenants during the year.

Notes to the Financial Statements (Continued)

For the Year Ended 31 March 2022

24. Investment in Subsidiaries

	Interest held 2022 %	2021 %	Country of incorporation	Principal activities
AFT Pharmaceuticals (AU) Pty Ltd	100%	100%	Australia	Distribution of pharmaceuticals in Australia
AFT Pharmaceuticals Singapore Pte Ltd	100%	100%	Singapore	Registration of pharmaceuticals in Singapore
AFT Pharmaceuticals (S.E. Asia) Sdn Bhd	100%	100%	Malaysia	Registration of pharmaceuticals in Malaysia
AFT Orphan Pharmaceuticals Limited	65%	65%	New Zealand	No activity
AFT Limited Partner Limited	100%	100%	New Zealand	Sole partner in Dermatology Specialties LP
Dermatology Specialties Limited Partnership	100%	100%	New Zealand	No activity
DSGP Limited	100%	100%	New Zealand	General partner of Dermatology Specialties LP
AFT Dermatology Limited	100%	100%	New Zealand	Distribution of pharmaceuticals
AFT Pharmaceuticals (EUR) Limited	100%	100%	Ireland	Distribution of pharmaceuticals in Europe

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The consolidated financial statements incorporate the assets and liabilities and the results of the parent and its subsidiaries controlled during the period.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for the subsidiaries of the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between subsidiary companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

25. Significant Events After Balance Sheet Date

There were no events occurring after balance sheet date that required disclosure at the time these financial statements were authorized.

26. Related Parties

The Group had related party relationships with the following entities:

Related party	Nature of relationship
Atkinson Family Trust	AFT Chief Executive Officer, Hartley Atkinson, is a Trustee / Discretionary Beneficiary of Atkinson Family Trust. AFT Chief of Staff, Marree Atkinson, is a Discretionary Beneficiary of Atkinson Family Trust

Key management compensation	2022 $'000	2021 $'000
Directors fees	470	376
Executive salaries	1,337	1,190
Short term benefits	389	293
Options expense	147	14
Key management compensation	**2,343**	**1,873**

Key management includes external directors, the Chief Executive Officer, the Chief of Staff, the Chief Financial Officer and the Director of International Business Development. These positions are mainly responsible for the planning, controlling and directing the activities of the business.

Statutory Disclosures

Corporate Governance

The Board and management of AFT Pharmaceuticals Limited (AFT or the Company) are committed to ensuring that AFT maintains corporate governance practices in line with best practice and adheres to the highest ethical standards.

The Board has had regard to the NZX Listing Rules and a number of corporate governance recommendations when establishing its governance framework, including the Third and Fourth Editions of the ASX Corporate Governance Council Principles and Recommendations (notwithstanding AFT is not required to follow these recommendations because of its ASX Foreign Exempt Listing) and the current NZX Corporate Governance Code (NZX Code).

The NZX Listing Rules require AFT to formally report its compliance against the recommendations contained in the NZX Code. How AFT has implemented these recommendations is set out in AFT's Corporate Governance Statement. Except to the extent outlined in the Corporate Governance Statement, the Board considers that AFT's corporate governance structures, practices and processes have followed all of the recommendations in the NZX Code in the financial year to 31 March 2022.

AFT's Corporate Governance Statement and governance charters and policies can be found on the investor centre of the Company's website: https://investors.aftpharm.com/Investors/

AFT's corporate governance charters and policies have been approved by the Board and are regularly reviewed by the Board and amended (as appropriate) to reflect developments in corporate governance practices.

Stock Exchange Listings

AFT is listed on the NZX Main Board and on the Australian Securities Exchange (ASX) as an ASX Foreign Exempt Listing. As an ASX Foreign Exempt Listing, AFT needs to comply with the NZX Listing Rules (other than as waived by NZX) but does not need to comply with the vast majority of the ASX Listing Rule obligations.

AFT is incorporated in New Zealand.

Statutory Disclosures

Non-executive Director Remuneration

AFT's shareholders have approved a total cap of $575,000 per annum for Non-executive Directors' fees, for the purposes of the NZX Listing Rules. This annual fee pool has not been increased since it was approved by shareholders in 2015.

Additional information about the remuneration payable to Directors is set out in AFT's Corporate Governance Statement, which is located on the investor centre of the Company's website.

The Board approved Directors fee increases, effective April 1 2021 at the May 18 2021 board meeting. The current approved fixed annual fees payable to Non-executive Directors are detailed below:

	Position	Annual fees [1]
Board of Directors	Chair	$110,000
	Non-executive Director	$57,500 [2]
Audit and Risk Committee	Committee Chair	$20,000
	Committee Member	$5,000 [3]
Remuneration and Nominations Committee	Committee Chair	$7,500
	Committee Member	$5,000 [3]
Regulatory and Product Development Oversight Committee	Committee Chair	$15,000
	Committee Member	$5,000

Non-executive Directors received the following Directors' fees, remuneration and other benefits from the Company in the financial year ended 31 March 2022[1,2]:

Director	Non-executive Director board fees	Audit and Risk Committee fees	Remuneration and Nomination Committee fees	Regulatory and Product Development Oversight Committee fees	Shares and other payments or benefits	Total remuneration
Anita Baldauf	$57,500	$2,917				$60,417
Dr Jim Burns[2,3]	$40,493	$3,521	$3,521			$47,535
David Flacks (Chair)	$110,000	$5,000	$1,247			$116,247
Jon Lamb	$57,500	$20,000 (Chair)	$7,500 (Chair)			$85,000
Dr Doug Wilson	$57,500			$15,000 (Chair)		$72,500
Dr Ted Witek[2]	$80,986		$2,347	$5,869		$89,202
Total	**$403,979**	**$31,438**	**$14,616**	**$20,869**		**$470,901**

[1] In addition to Directors' fees, AFT meets costs incurred by Non-executive Directors that are incidental to the performance of their duties. This includes paying the costs of Directors' travel. As these costs are incurred by AFT to enable Directors to perform their duties, no value is attributable to them as benefits to Directors for the purposes of this table.

[2] Fees disclosed in NZD. Dr Jim Burns and Dr Ted Witek receive fees paid in USD.
These fees have been converted into NZD in the above table, calculated at an exchange rate of 1:0.711

[3] Dr Jim Burns retired from the board at the company's annual shareholders meeting on 6 August 2021

Executive Director Remuneration

The Executive Directors, Hartley Atkinson and Marree Atkinson, receive remuneration and other benefits in their respective Executive roles as Chief Executive Officer and Chief of Staff and, accordingly, do not receive Directors' fees. Their remuneration packages are set by the Board to reflect the scope and complexity of each role, with reference to comparative market data.

During the financial year ended 31 March 2022, Hartley Atkinson and Marree Atkinson's remuneration comprised a fixed cash component and an at-risk short-term incentive based on achievement of specified key performance indicators (refer below). Neither Executive Director was issued any form of long-term incentive during the financial period.

The table below sets out the total remuneration and value of other benefits earned by, or paid to, each Executive Director of AFT during, and in respect of, the financial year ended 31 March 2022:

Director	Base salary	Taxable benefits	Subtotal	Short term incentive	Long-term incentive	Total remuneration
Dr Hartley[1] Atkinson	$577,500	-	$577,500	$262,271[2]	-	$839,771
Marree Atkinson[1]	136,500	-	$136,500	$10,761[3]	-	$147,261
Total						

[1] Neither Executive Director was issued any form of long-term incentive during the financial period.

[2] The short-term incentive (STI) stated was earned in FY2021 and paid in FY2022. Hartley Atkinson earned a short-term incentive for FY2022 of $324,844 from a full potential of $433,000. This will be paid in FY2023.

[3] The short-term incentive stated was earned in FY2021 and paid in FY2022. Marree Atkinson earned a short-term incentive for FY2022 of $10,920. This will be paid in FY2023.

Hartley Atkinson's STI component for the period was based on achievement of key performance indicators relating to:

- Company revenue and profit targets;
- Key innovative product development; and
- Key product registration and licensing.

Marree Atkinson's STI component for the period was based on achievement of key performance indicators relating to:

- Company revenue and profit targets;
- Human resources objectives; and
- Overhead cost savings.

Similar criteria will be applied for assessing the performance of the Executive Directors in respect of the financial year ending 31 March 2023.

Employee Remuneration

The table below sets out the number of employees or former employees of AFT and its subsidiaries, not being Directors of AFT, who, in their capacity as employees received remuneration and other benefits during the financial year ended 31 March 2022 totalling at least $100,000 per annum. The remuneration of those employees paid outside of New Zealand has been converted into New Zealand dollars.

Remuneration Range (NZD) of Employees	of Employees
$100,001 - $110,000	10
$110,001 - $120,000	8
$120,001 - $130,000	6
$130,001 - $140,000	-
$140,001 - $150,000	-
$150,001 - $160,000	1
$160,001 - $170,000	-
$170,001 - $180,000	1
$180,001 - $190,000	4
$190,001 - $200,000	1
$200,001 - $210,000	-
$210,001 - $220,000	-
$220,001 - $230,000	-
$230,001 - $240,000	1
$250,001 - $260,000	-
$260,001 - $270,000	-
$270,001 - $280,000	1
$280,001 - $290,000	-
$320,001 - $330,000	1
$410,001 - $420,000	1
Total number of employees and former employees	35

The table includes base salaries and short-term incentives paid during the financial year ended 31 March 2022 and long-term incentives vested or exercised during the financial year ended 31 March 2022. The table does not include long-term incentives that have been granted, but which have not yet vested.

Where the individual is a KiwiSaver member, contributions of 3% of gross earnings towards that individual's KiwiSaver scheme are included in the above table. Where the individual works in Australia, contributions of 9.5% of gross earnings towards Australian Superannuation are included in the above table.

Diversity

The respective numbers and proportions of men and women at various levels within the AFT workforce as at 31 March 2021 and 31 March 2022 and the Board's assessment of AFT's performance against its Diversity and Inclusion Policy is set out in the sustainability section of this Annual Report.

Board and Committee Attendance

The table below shows the number of Board and Committee meetings each Director was eligible to attend and attended during the financial year ended 31 March 2022:

Director	Board	Audit and Risk Committee	Remuneration and Nomination Committee	Regulatory and New Product Development Oversight Committee[1]
Dr Hartley Atkinson	10/10		1/2[2]	2/2
Marree Atkinson	10/10			2/2
Anita Baldauf	10/10	3/4[3]		
David Flacks	10/10	4/4	1/2	
Jon Lamb	9/10	3/4	2/2	
Doug Wilson	10/10			2/2
Dr Ted Witek	10/10		1/2[4]	2/2[4]
Dr Jim Burns[5]	4/10	1/4	2/2	

[1] Committee members also met frequently through-out the year on an informal basis to discuss regulatory and new product development matters

[2] Dr Hartley Atkinson retired from the Remuneration and Nomination Committee on 17 September 2021

[3] Anita Baldauf was appointed 17 September 2021

[4] Ted Witek was appointed 18 May 2021

[5] Jim Burns retired as an independent Non-executive Director at the company's annual meeting on 6 August 2021.

Director Independence

As at 31 March 2022 (and the date of this Annual Report), the Board comprised seven Directors:

- David Flacks – Independent, Non-executive Director and Chairman
- Anita Baldauf – Independent, Non-executive Director
- Jon Lamb – Independent, Non-executive Director
- Dr Doug Wilson – Independent, Non-executive Director
- Dr Ted Witek – Independent, Non-executive Director
- Dr Hartley Atkinson – Executive Director and Chief Executive Officer
- Marree Atkinson – Executive Director and Chief of Staff

Non-executive Independent Director Dr Jim Burns retired from the Board at the company's annual meeting on 6 August 2021.

A biography of each Director is set out on pages 34 and 35 of this Annual Report.

The Board has determined, based on information provided by Directors regarding their interests and the criteria specified in the Board Charter, that as of 31 March 2022 (and the date of this Annual Report), each of David Flacks, Anita Baldauf, Jon Lamb, Dr Doug Wilson and Dr Ted Witek is an Independent Director.

The Board has also determined that Hartley Atkinson and Marree Atkinson are not Independent Directors owing to also being Executives of the Company; and, in Hartley Atkinson's case, he is also a trustee of a substantial product holder of the Company, and each of Hartley and Marree is a discretionary beneficiary of that substantial product holder.

Director Interest Disclosures

Shareholder, Director, officer or trustee

Directors have given general notices disclosing interests pursuant to section 140(2) of the Companies Act 1993. All of those interests (and any changes to interests) notified and recorded in the Interests Register during the financial year ended 31 March 2022 (and subsequently) are set out below:

Director	Entity	Relationship
Hartley Atkinson	- AFT Dermatology Limited	Director
	- AFT Limited Partner Limited	Director
	- AFT Orphan Pharmaceuticals Limited	Director
	- AFT Pharmaceuticals (AU) Pty Limited	Director
	- AFT Pharmaceuticals (EUR) Limited	Director
	- AFT Pharmaceuticals Singapore PTE Limited	Director
	- AFT Pharmaceuticals (SE Asia) SDN BHD	Director
	- Atkinson Family Trust	Trustee/Discretionary Beneficiary
	- Dermatology Specialties, L.P.	Director of AFT Limited Partner Limited (LP of Dermatology Specialties)
	- DSGP Limited	Director
Marree Atkinson	- Atkinson Family Trust	Discretionary Beneficiary
Anita Baldauf	- Smart Design Limited	Director
	- Future Ready NZ Ltd	Director
David Flacks	- Asteron Life Limited	Director/Appointed Chairman
	- Flacks & Wong Limited	Director
	- Todd Corporation	Director
	- Vero Insurance New Zealand Limited	Director/Appointed Chairman
	- Vero Liability Insurance New Zealand Limited	Director/Appointed Chairman
Jon Lamb	- Aurora Cannabis Ltd	Director
	- Aurora Medicinal Cannabis Ltd	Director
	- BV&RR Trustees Ltd	Director
	- Coronation Equities Limited	Director
	- Zero Waste Seas Limited	Director
	- Indica Industries NZ Limited	Director/Shareholder
	- Medreleaf NZ Limited	Director/Shareholder
	- Project X Trustee Limited	Director
	- Redvers Limited	Director
	- Rivers One Limited	Trustee
	- Rodney Road Limited	Director
	- Three Dots Limited	Director
Doug Wilson	- Mainz Consulting Limited	Director
Ted Witek	- Trudell Medical International	Director
	- Lumira Ventures	Special Advisor

No Directors have disclosed interests for the purposes of section 140(1) of the Companies Act 1993 during the financial year ended 31 March 2022.

Acquisition or Disposals of Shares in AFT

In accordance with Section 148(2) of the Companies Act 1993, Directors disclosed the following acquisitions or disposals of relevant interests in AFT ordinary shares during the financial year ended 31 March 2022:

Name	Date of acquisition or disposal	Number of shares acquired/ disposed	Nature of relevant interest	Details of acquisition/ or disposal	Consideration paid/received
Jon Lamb	17 December 2021	40,670	Power to control the exercise of the right to vote as trustee of the Rivers One Trust which holds the shares in Rivers One Limited	On market acquisition of shares	$172,310
Jon Lamb	13 January 2022	10,000	Power to control the exercise of the right to vote as trustee of the Rivers One Trust which holds the shares in Rivers One Limited	On market acquisition of shares	$44,500
Jon Lamb	13 January 2022	5,000	Power to control the exercise of the right to vote as trustee of the Rivers One Trust which holds the shares in Rivers One Limited	On market acquisition of shares	$22,200

Relevant Interests in AFT's Shares

In accordance with the NZX Listing Rules, as at 31 March 2022, Directors had a relevant interest in AFT ordinary shares as follows:

Director	Shares	% Issued shares
Hartley Atkinson	72,899,435	69.62%
Jon Lamb	303,764	0.29%
David Flacks	178,764	0.17%
Doug Wilson	56,689	0.05%

Remuneration and Other Benefits

For the purposes of Section 161 of the Companies Act 1993, the following entries were made in the Interests Register in relation to the payment of remuneration and other benefits to Directors during the financial year ended 31 March 2022:

Date	Director	Remuneration
18 May 2021	Hartley Atkinson Marree Atkinson	The payment of short-term incentive (STI) remuneration by the Company to each of Hartley Atkinson and Marree Atkinson on the terms set out in a letter of STI notification
18 May 2021	Hartley Atkinson Marree Atkinson	The payment of remuneration and the provision of other benefits by the Company to each of Hartley Atkinson and Marree Atkinson on the terms set out in a letter of amendment to the relevant employment agreement.
18 May 2021	Anita Baldauf Jim Burns David Flacks Jon Lamb Doug Wilson Ted Witek	The increase in Directors fees to take effect on 1 April 2021 on the terms set out in the May 18 board paper

Indemnity and Insurance

For the purposes of section 162 of the Companies Act 1993, an entry was made in the Interests Register in relation to insurance effected for Directors of AFT, in relation to any act or omission in their capacity as Directors.

Shareholdings

As at 30 April 2022 there were 104,707,260 ordinary shares on issue, each conferring on the registered holder the right to vote on any resolution at a meeting of shareholders, held as follows:

Size of shareholding	Holders	Proportion of total holders	Shares	Share of issued capital
1 to 1000	959	43.93%	432,554	0.41%
1,001 to 5,000	775	35.50%	2,002,753	1.91%
5,001 to 10,000	232	10.63%	1,728,952	1.65%
10,001 to 50000	173	7.92%	3,291,893	3.14%
50,001 to 100,000	17	0.78%	1,164,090	1.11%
100,001 +	27	1.24%	96,087,018	91.77%
TOTAL	**2,183**	**100.00%**	**104,707,260**	**100.00%**

As at 30 April 2022 there were 11 individuals holding a total of 330,000 options to acquire shares issued by AFT under its employee long-term incentive scheme. The options are unlisted and carry no voting rights.

Top 20 Shareholders

Set out below are details of the 20 largest holders of AFT ordinary shares as at 30 April 2022:

Name	Shares	Share of issued capital
Hartley Atkinson & Colin McKay	72,899,435	69.62%
Accident Compensation Corporation - NZCSD	4,781,084	4.57%
MMC Limited – NZCSD	3,529,569	3.37%
FNZ Custodians Limited	3,204,922	3.06%
Forsyth Barr Custodians Limited	2,276,651	2.17%
HSBC Nominees A/C NZ Superannuation Fund Nominees Limited – NZCSD	1,647,379	1.57%
BNP Paribas Nominees NZ Limited - NZCSD	1,525,077	1.46%
BNP Paribas Nominees NZ Limited – NZCSD	1,092,053	1.04%
HSBC Nominees (New Zealand) Limited – NZCSD	832,258	0.79%
New Zealand Depository Nominee Limited	700,479	0.67%
Custodial Services Limited	653,741	0.62%
FNZ Custodians Limited	614,174	0.59%
JP Morgan Nominees Australia Limited	300,000	0.29%
Rivers One Limited	221,305	0.21%
Hamish Stewart Atkinson & Karen Winifred Atkinson & Andrew John Marriott	203,333	0.19%
Forsyth Barr Custodians Limited	195,773	0.19%
Joeri Yvonne Jozef Sels	188,325	0.18%
FNZ Custodians Limited	180,510	0.17%
David Mark Flacks & Adina Rita Betty Halpern	158,764	0.15%
Citibank Nominees (New Zealand) Limited - NZCSD	154,767	0.15%

According to notices given to AFT under the Financial Markets Conduct Act 2013, the following persons were substantial product holders in AFT as at 31 March 2022 in respect of the number of quoted voting products noted below. As at the balance date 31 March 2022 there were 104,697,260 ordinary shares on issue:

Substantial Product Holder	Number of ordinary shares in which the relevant interest is held	Share of class held as at the date of last notice
Hartley Campbell Atkinson and Colin McKay as Trustees of the Atkinson Family Trust	722,899,435*	69.62%

*Includes the holdings of the Atkinson Family Trust and Hama Holdings Limited

Subsidiary Company Directors

The following fees were paid to Directors of subsidiary companies during the financial year ended 31 March 2022. No other Directors of subsidiary companies received Directors' fees:

- Donald MacKenzie received A$29,166.67 in his capacity as a Director of AFT Pharmaceuticals (AU) Pty Limited.
- Raymond McGregor received A$12,000 in his capacity as a Director of AFT Pharmaceuticals (AU) Pty Limited.
- Eddie Townsley received €18,630 in his capacity as a Director of AFT Pharmaceuticals (EUR) Limited (Ireland)

The following people held office as Directors of subsidiary companies as at 31 March 2022:

Subsidiary	Directors
AFT Pharmaceuticals (AU) Pty Limited (Australia)	Hartley Atkinson, Raymond MacGregor, Donald MacKenzie
AFT Pharmaceuticals (EUR) Limited (Ireland)	Hartley Atkinson, Eddie Townsley
AFT Pharmaceuticals (SE Asia) SDN BHD (Malaysia)	Hartley Atkinson, Diong Sing Peng
AFT Pharmaceuticals Singapore Pte Limited (Singapore)	Hartley Atkinson, Leong Wai Kuan
AFT Orphan Pharmaceuticals Limited	Hartley Atkinson, Andrew Moore, Giles Moss, Malcolm Tubby
AFT Dermatology Limited	Hartley Atkinson
Dermatology Specialties Limited Partnership	DSGP Limited
AFT Limited Partner Limited	Hartley Atkinson
DSGP Limited	Hartley Atkinson

NZX Waivers and Exercise of Powers

AFT was not granted any NZX Waivers during the financial year ending 31 March 2022, nor did it rely on waivers granted in any prior period. Similarly, NZX did not exercise any of its powers under NZX Listing Rule 9.9.3

Donations

No monetary donations were made to political parties during the financial reporting period.

Credit Rating

AFT does not currently have an external credit rating status.

Directory

AFT is a company incorporated with limited liability under the New Zealand Companies Act 1993 (Companies Office registration number 873005).

Registered Offices	Level 1, 129 Hurstmere Road, Takapuna Auckland 0622, New Zealand. +64 9 488 0232 www.aftpharm.com Mertons, Level 7, 330 Collins Street, Melbourne, Victoria 3000, Australia. +61 3 8689 999
Principal Administration Offices	Level 1, 129 Hurstmere Road, Takapuna Auckland 0622, New Zealand. +64 9 488 0232 www.aftpharm.com 113 Wicks Road, North Ryde NSW 2113, Australia. +61 2 9420 0420 ARBN: 609 017 969
Directors (As at date of this Annual Report)	Dr Hartley Atkinson Marree Atkinson Anita Baldauf David Flacks Jon Lamb Dr Douglas (Doug) Wilson Dr Ted Witek
Share Registrar	Computershare Investor Services Limited Level 2, 159 Hurstmere Road, Takapuna, Auckland 0622, New Zealand +64 9 488 8777 enquiry@computershare.co.nz Computershare Investor Services Pty Limited, Yarra Falls, 452 Johnston Street, Abbotsford VIC 3001, Australia +61 3 9415 4083 mailto: enquiry@computershare.co.nz
Auditor	Deloitte Limited, Deloitte Centre, 80 Queen Street, Auckland 1140, New Zealand. +64 9 303 0700
Legal Counsel	Harmos Horton Lusk Level 33, Vero Centre, 48 Shortland St, Auckland, 1140 New Zealand. +64 9 921 4300

Financial Calendar

Annual Meeting	August 2022
Half-year end	30 September 2022
Half-year end results announcement	November 2022
Financial year end	31 March 2023

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AFT *pharmaceuticals*
Working to improve your health