# 2023 INTERIM REPORT

Results for the half year to 30 September 2022

AFT pharmaceuticals

*Working to improve your health*

# Contents



*This report provides a summary review of AFT's operational and financial performance for the six months to 30 September 2022 and should be read in conjunction with the company's financial statements on pages 16 to 33 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 reviewed by Deloitte Limited.*

*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.

# Delivering Strong Organic Growth

## 1H FY2023 Highlights

**$65.8 million**
Half-year operating revenue grew by 18.4% from $55.5 million

**$3.5 million**
Operating profits down from $5.5 million due to lower licensing income

**$1.5 million**
Net profit after tax was down from $4.2 million

**$29.4 million**
In line with March 2022 net debt of $29.3 million

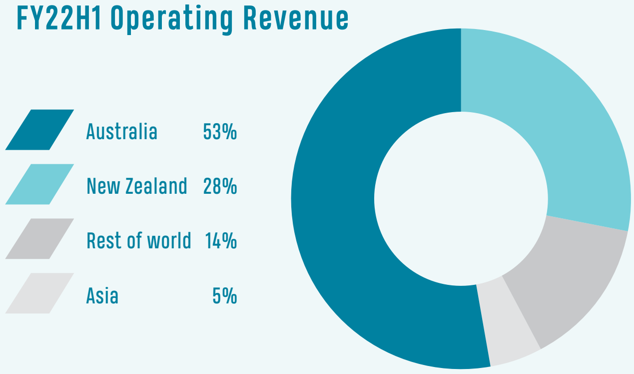
Strong growth outlook supported by a full pipeline of product launches

# Regional Performance. A Global Presence.

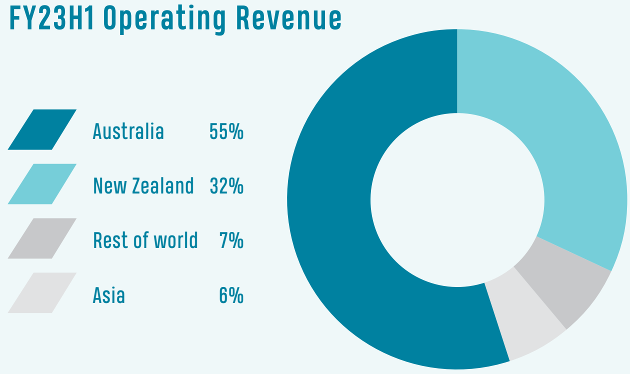
| AUSTRALIA | NEW ZEALAND | INTERNATIONAL | ASIA |
|---|---|---|---|
| Sales $36.1 million | Sales $21.3 million | Sales $4.7 million | Sales $3.7 million |
| **GROWTH 24%** | **GROWTH 34.7%** | **GROWTH -37.8%** | **GROWTH 26.1%** |
| Operating profit $3.1 million down from $3.6 million | Operating profit[1] $0.1 million up from ($1.8) million | Operating profit ($0.3) million down from $3.3 million | Operating profit $0.5 million up from $0.4 million |
| **Key drivers:** Organic growth and new product launches | **Key drivers:** Organic growth | **Key drivers:** Organic growth offset by lower licence income | **Key drivers:** Sales partnership with McPherson's, and Maxigesic sales growth |

*All comparisons are against the same half year period in the prior year.*

## FY22H1 Operating Revenue

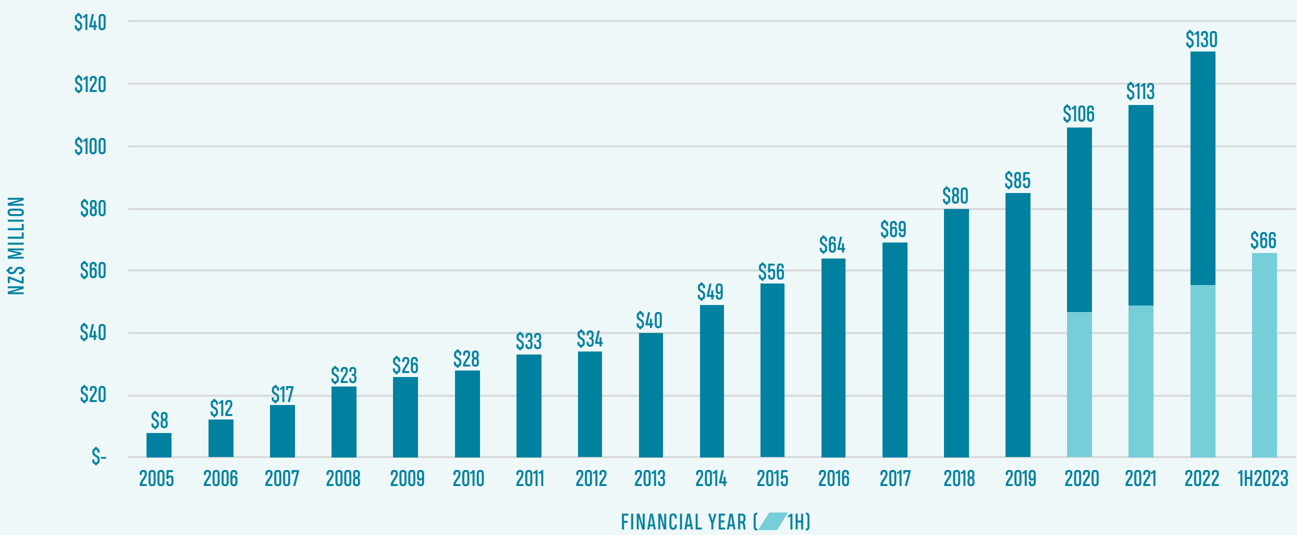



## FY23H1 Operating Revenue




# A Consistent Record of Growth

## AFT Operating Revenue




*1 Excluding head office costs*

# Innovation Driving Growth

**We expect the result for the full year to be even more skewed to the second half than normal, due to the high number of planned launches.**

Dear shareholders,

AFT Pharmaceuticals over the last six months has continued to build on the momentum achieved in the second half of the prior financial year. Trading has benefited from the easing of COVID pressures in most geographies, while the launch of new products has bolstered the already strong growth in demand for the company's portfolio of medicines.

## Financial Results

Revenue for the six months to the end of September rose to $65.8 million, a strong 18% improvement on the $55.5 million posted in the same period a year ago. Revenue from product sales and royalty income was up 30%, or nearly $15 million, but growth was diluted by lower and traditionally lumpy licensing income.

Our Australasian business made the biggest contribution to growth, adding $12.3 million in incremental revenue. The combined markets, presently our largest, grew revenue by 27.4% to $57.4 million, further demonstrating their strength and ongoing growth potential.

Our international business – which is currently focused on the commercialisation of the Maxigesic family of pain relief medicines – grew strongly with revenue from product sales and royalties rising 68% from $2.8 million to $4.7 million. Total international revenue was down on the prior year's $7.6 million, which was boosted by $4.8 million of licensing revenue.

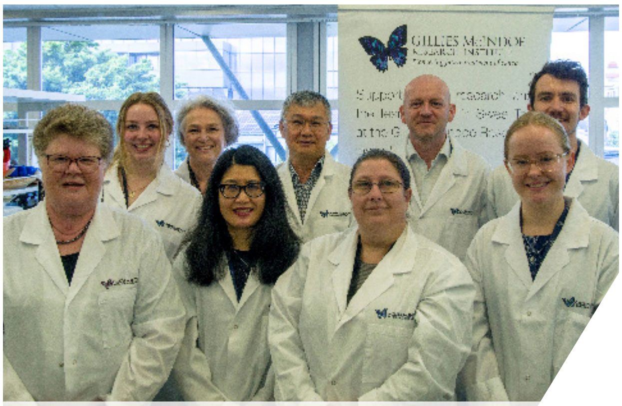
Dose forms of Maxigesic are now sold in 51 countries up from 46 at the end of March 2022 and 43 at the same time last year and we continue to advance the commercialisation of line extensions.

Our Asian business meanwhile has seen strong growth in the OTC business as the new partnership with the ASX-listed McPherson's to distribute our products in Singapore delivers on its promise. It also benefited from strong sales of Maxigesic in Malaysia and Hong Kong. The newly launched OTC products on our T-Mall site have started to contribute, but this is presently hampered by ongoing COVID restrictions in Mainland China.

Gross profit grew 7% to $28.7 million from $26.7 million. The gross profit margin decline of 4.5 percentage points to 43.6% is due to the lower license income. Gross profit from product sales and royalties grew 31% to $28.6 million from $21.9million. The margin improved by 0.5 percentage points to 43.6%. This is in spite of incurring the additional expense of airfreighting product in order to expedite product launches.

Selling and distribution expenses rose to $17.3 million from $14.2 million, at 26% of operating revenue. This increase arises from the marketing spend behind the new product launches and the move to a dedicated GP sales force, both of which we expect to drive additional sales.

Operating profit decreased to $3.5 million from $5.5 million due to lower license income. Operating profit excluding the licensing income increased to $3.4 million from $0.7 million. Net Profit after tax decreased to $1.5 million from $4.2 million, again due to the lower licensing income.



Researchers at the Gillies McIndoe Research Institute

## Research and Development

### Constraints on the availability of growth capital that have emerged from the shift in global capital market sentiment has played into the hands of cash generative companies such as AFT.

Competition for medicine development projects has eased considerably and consequently we have seized this opportunity to secure rights to medicines that offer promising long-term potential for the business.

As highlighted in early September we have teamed up with the Gillies McIndoe Research Institute and Massey Ventures to develop a topical treatment for strawberry birthmarks (infantile haemangiomas) in children.

This medicine seeks to combine two well-known blood pressure medicines (beta blockers and angiotensin-converting enzyme inhibitors) with AFT's expertise in stabilising medicines in a topical treatment.

If the development is successful, it has the potential to open up a significant global market. It is a project that is emblematic of the company's medicine development portfolio, which in total has the potential to open up significant new markets over the long term.

Research and development expenditure in the half year period was $2.8 million, largely flat on the $2.8 million in the same period of the prior year and it remains well in line with our guidance for full year spend (expensed and capitalised) of $12 million.

## New Product Development Pipeline

### We have a full portfolio of product launches for our Australasian business. During 1HFY23 we have launched five OTC products including Maxigesic hot drink sachets, and six hospital products.

In the second half of the year, we are launching a further 14 OTC products, and 1 prescription product. By the end of FY2025 we expect to have launched a total of 76 products since the start of FY2023.

| Year | 1H FY23 | 2H FY23 | 1H FY24 | 2H FY24 | FY25 |
|---|---|---|---|---|---|
| Planned Launches | 11 | 15 | 16 | 11 | 23 |


Of these, we expect 51% will be launched into the OTC channel, 37% in the hospital channel and the remaining 12% in the prescription channel, with the intellectual property coming from either in-licensing or our own drug development programs.

We are investing an additional $10 million in sales and distribution in the current financial year to support new product launches in Australia and New Zealand and to support a sales force focused on Australian General Practitioners.

## Balance Sheet

AFT remains well funded. Net debt at the end of the half year was $29.4 million in line with the $29.3 million at the end of March 2022 and lower than the $32.6 million at the same time a year ago.

We have continued to retain higher than normal inventory levels as a buffer against disruptions in global supply chains. There has been some easing in global transportation, particularly on the main routes and we expect this to slowly filter through to Australia and New Zealand.

The current BNZ facility matures in April next year and we have signed an agreed term sheet which will renew this through to April 2026 on similar terms.

*Footnote 1. Actual Launch*

## Outlook

### We see a stronger second half. If anything, we expect the result for the full year to be even more skewed to the second half than normal, due to the high number of planned launches. Strong growth in all existing markets will continue to drive overall sales and we expect our in-licensing and research and development pipeline to make a growing contribution to revenue and earnings over time.

We now expect to generate an operating profit for the year to 31 March 2023 of $18 million to $23 million.

Product sales and royalties are expected to contribute $17.5 million to $21 million to operating profit, while licensing income is expected to contribute between $0.5 million and $2.0 million

This result is lower than the guidance given in May 2022 and reflects increased investment in sales and distribution to capitalise on the growth opportunities we see and lower than expected licensing income following ongoing delays to the commercialisation of Maxigesic IV in the US.

Our target is to exceed $200 million of annual sales in the near future.

We remain confident of securing previously budgeted licensing revenue, seeing it as delayed by regulatory process.

We also continue to expect to declare a maiden dividend for the 2023 financial year after we release our results at the end of May 2023. We look forward to providing a further update in the New Year.

**David Flacks**
Chair

**Dr Hartley Atkinson**
Managing Director

*"Our Australasian business made the biggest contribution to growth, adding $12.3 million in incremental revenue."*

# Momentum Building

Sales in Australia accelerated to $36.1 million rising 24% from the $29.2 million in the same period in the prior year. The OTC channel was the standout performer growing 36.9% to $23.6 million with the hospital and prescription channels delivering steady single digit growth.

Sales benefited from the normalisation of trading to pre-COVID levels and 11 product launches. Our Maxigesic hot drink sachets - a product that we plan to roll out across our global markets - performed particularly well.

We expect momentum to accelerate in the second half of the year lifted by a number of significant new product launches that occurred late in the six-month period and the 14 new products planned to launch in the second half of the year.

Revenue also benefitted from price increases as the company was able to pass on increasing supply and operating costs to customers.

Operating profit declined slightly to $3.1 million from $3.6 million in the prior year, as we increased investment in total selling and distribution by $3.3 million. However, given the significant number of new launches, we consider this investment to be important in order to secure successful product launches.

## New Zealand Sees Broad Based Growth

Revenue in New Zealand grew across all channels rising to $21.3 million, a 35% increase on the $15.8 million in the prior year.

The New Zealand OTC business grew sales by 28.5% or $2.4 million to $11.0 million lifted by strong post Covid organic product growth and a strong contribution from the allergy and pain-relief categories.

We also saw strong growth in the prescription and hospital business of 56.9% and 16.5% respectively. Operating profits (excluding Head Office costs) rose from $2.0 million to $4.9 million as we were able to hold total selling and distribution expenses steady.

## 1H FY23 AUSTRALASIA SNAPSHOT

AUSTRALIAN REVENUE
**$36.1m**

NEW ZEALAND REVENUE
**$21.3m**

PRODUCTS
**150+**
across seven therapeutic areas: pain, eyecare, medicated vitamins, allergy, gastrointestinal health, dermatology, and hospital

DISTRIBUTION **6,800** PHARMACIES

## McPherson's lifts Asian Sales

### Sales in Asia rose to \$3.7 million up 26.1% from the \$2.9 million achieved in the same period in the prior year.

The result was lifted by a more than doubling (115%) of sales in the OTC business, a direct result of the agreement struck with the ASX-listed McPherson's to drive OTC sales in Singapore. McPherson's is distributing and marketing the tablet form of Maxigesic, our premium Liposomal Nutritional Supplements as well as a number of other pharmaceuticals.

We saw strong growth in sales of Maxigesic in Malaysia and Hong Kong.

Meanwhile, OTC sales through our new Tmall Global site, 'Kiwi Health' directly into China under the Cross Border E-Commerce regime, are still in their infancy, but we continue to see strong potential for direct sales into the Chinese mainland with the site.

## 1H FY23 ASIA SNAPSHOT

| REVENUE | DISTRIBUTION |
|---|---|
| \$3.7m | Direct, agreements McPherson's and online via T-Mall |

Our Asian hospital business also grew strongly (44.1%) building on the momentum of the second half of the prior financial year. Operating profits improved from \$0.4 million to \$0.5 million.

McPHERSON'S Est.1860


*The launch of Maxigesic IV in Panama, where it is branded Combofusiv.*

# Strong Organic International Growth

**International sales fell by 37.8% to $4.7 million from $7.6 million at the same time a year ago due mainly to the absence of licensing income, which by its nature is lumpy and unpredictable. Revenue from product sales and royalties meanwhile grew by a very strong 67.5% to $4.6 million from $2.8 million.**

We continued to progress the commercialisation of our family of Maxigesic pain relief medicines. A version of the medicine is now sold in 51 countries, up from 46 at the end of March and we remain on track to have launched the medicine in 63 countries by the end of this financial year.

Over the last half year period, the intravenous form of Maxigesic IV was licensed in Canada, Iraq, Kurdistan, Columbia, Peru, and Chile and registered in Pakistan. It was meanwhile launched in Ireland, Germany, and Indonesia and Panama. The new Maxigesic hot-drink sachet, a unique product, has been launched in Australia in two strengths.

These gains were offset by the disappointment of delays to the registration of Maxigesic IV in the US. As we announced in July, the US Food and Drug administration has requested more information on the packaging of the product, and this has delayed the receipt of expected licensing income in the current year.

We expect a slower than anticipated roll out of Maxigesic in all its dose forms in FY24 due to our withdrawal from Russia and related regulatory delays in other regions in the trading block and a slower roll out in Africa. We are now targeting to be selling the medicine in 73 countries, down from our earlier target of 90.

## 1H FY23 INTERNATIONAL SNAPSHOT

REVENUE
**$4.7m**

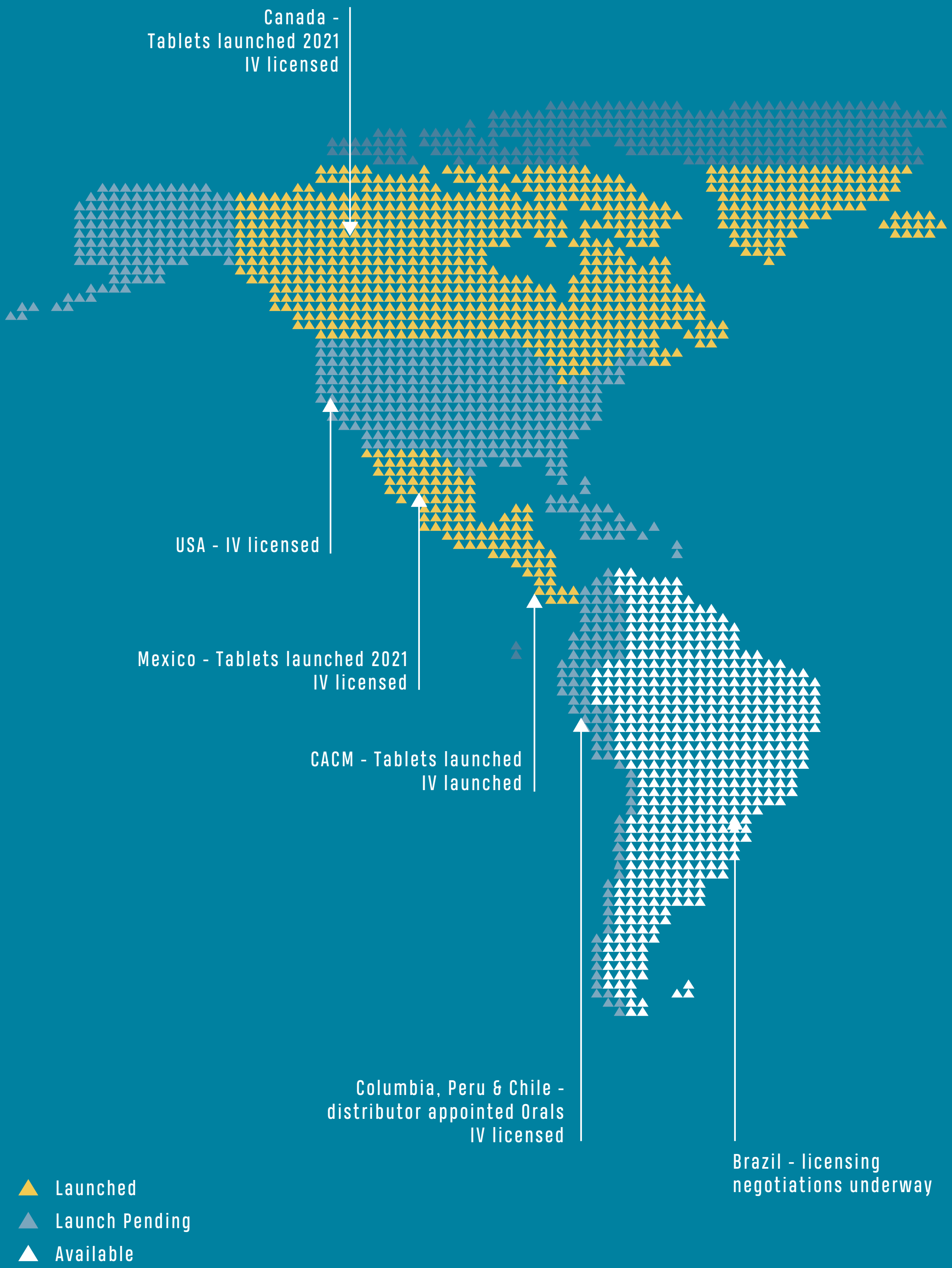
**51**
COUNTRIES WHERE OUR PRODUCTS ARE SOLD

**100+**
COUNTRIES WITH DISTRIBUTION AGREEMENTS

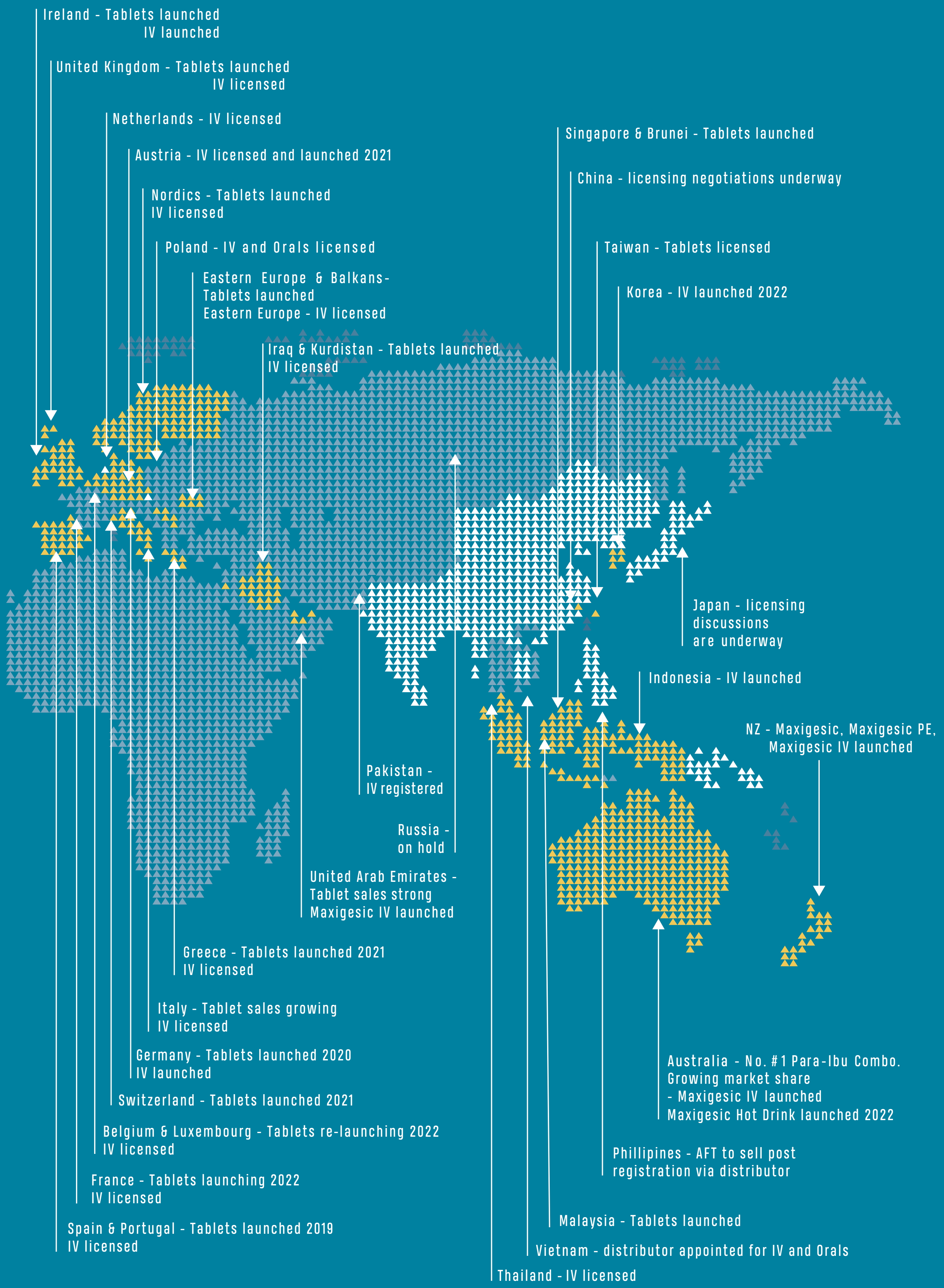
| Product | Maxigesic Tablet | | Maxigesic IV | | Maxigesic Oral Solution | | Maxigesic Hot Drink | |
|---|---|---|---|---|---|---|---|---|
| Territories | 30 Sept 2022 | 31 March 2022 | 30 Sept 2022 | 31 March 2022 | 30 Sept 2022 | 31 March 2022 | 30 Sept 2022 | 31 March 2022 |
| Licensed | 100+ | 100+ | 100+ | 100+ | 100+ | 100+ | 100+ | 100+ |
| Registered | 63 | 52 | 41 | 37 | 2 | 2 | 2 | 1 |
| Sold in | 47 | 46 | 10 | 7 | 0 | 0 | 1 | 1 |



# Maxigesic Reaching for US$59.5 Billion Market[5]




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


Ireland - Tablets launched
IV launched
United Kingdom - Tablets launched
IV licensed
Netherlands - IV licensed
Austria - IV licensed and launched 2021
Nordics - Tablets launched
IV licensed
Poland - IV and Orals licensed
Eastern Europe & Balkans-
Tablets launched
Eastern Europe - IV licensed
Iraq & Kurdistan - Tablets launched
IV licensed
Singapore & Brunei - Tablets launched
China - licensing negotiations underway
Taiwan - Tablets licensed
Korea - IV launched 2022
Japan - licensing
discussions
are underway
Indonesia - IV launched
NZ - Maxigesic, Maxigesic PE,
Maxigesic IV launched
Pakistan -
IV registered
Russia -
on hold
United Arab Emirates -
Tablet sales strong
Maxigesic IV launched
Greece - Tablets launched 2021
IV licensed
Italy - Tablet sales growing
IV licensed
Germany - Tablets launched 2020
IV launched
Switzerland - Tablets launched 2021
Belgium & Luxembourg - Tablets re-launching 2022
IV licensed
France - Tablets launching 2022
IV licensed
Spain & Portugal - Tablets launched 2019
IV licensed
Australia - No. #1 Para-Ibu Combo.
Growing market share
- Maxigesic IV launched
Maxigesic Hot Drink launched 2022
Phillipines - AFT to sell post
registration via distributor
Malaysia - Tablets launched
Vietnam - distributor appointed for IV and Orals
Thailand - IV licensed

# AFT Pharmaceuticals Limited Condensed Consolidated Interim Financial Statements

## For the Six Months Ended 30 September 2022

## Financial Statements Contents

Deloitte.

# Independent Auditor's Review Report

## To the Shareholders of AFT Pharmaceuticals Limited

### Conclusion

We have reviewed the condensed consolidated interim financial statements ('interim financial statements') of AFT Pharmaceuticals Limited and its subsidiaries ('the Group') which comprise the consolidated balance sheet as at 30 September 2022, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six months ended on that date, and a summary of significant accounting policies and other explanatory information on pages 16 to 33.

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 September 2022 and its financial performance and cash flows for the six months ended on that date in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting.

### Basis for Conclusion

We conducted our review in accordance with NZ SRE 2410 (Revised) Review of Financial Statements Performed by the Independent Auditor of the Entity ('NZ SRE 2410 (Revised)'). Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Interim Financial Statements section of our report.

We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, 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 AFT Pharmaceuticals Limited or its subsidiaries. These services have not impaired our independence as auditor of the Company and Group.

### Directors' responsibilities for the interim financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the interim financial statements in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibilities for the review of the interim financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting.

A review of the interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently do not enable us to obtain assurance that we might identify in an audit. Accordingly we do not express an audit opinion on the interim financial statements.

## Restriction on use

This report is made solely to the company's shareholders, as a body. Our review has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in a review 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 engagement, for this report, or for the conclusions we have formed.

Deloitte Limited

**Bryce Henderson, Partner**
**for Deloitte Limited**
Auckland, New Zealand
24 November 2022

*This review report relates to the unaudited condensed consolidated interim financial statements of AFT Pharmaceuticals Limited for the six months ended 30 September 2022 included on AFT Pharmaceuticals Limited's website. The Board of Directors is responsible for the maintenance and integrity of AFT Pharmaceuticals Limited's website. We have not been engaged to report on the integrity of AFT Pharmaceuticals Limited's website. We accept no responsibility for any changes that may have occurred to the unaudited condensed consolidated interim financial statements since they were initially presented on the website. The review report refers only to the unaudited condensed consolidated interim financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these unaudited condensed consolidated interim financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the unaudited condensed consolidated interim financial statements and related review report dated 24 November 2022 to confirm the information included in the unaudited condensed consolidated interim financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.*

# Consolidated Income Statement

## For the Six Months Ended 30 September 2022

| | Note | Unaudited 6 Months Ended 30 Sep 2022 $'000 | Unaudited 6 Months Ended 30 Sep 2021 $'000 |
|---|---|---|---|
| Revenue | 4 | 65,750 | 55,513 |
| Cost of sales | | (37,071) | (28,808) |
| **Gross profit** | | **28,679** | **26,705** |
| | | | |
| Other Income | | - | 123 |
| Selling and distribution expenses | | (17,312) | (14,237) |
| General and administrative expenses | | (5,127) | (4,269) |
| Research and development expenses | | (2,783) | (2,831) |
| **Operating profit** | | **3,457** | **5,491** |
| | | | |
| Finance income | | 1 | 4 |
| Interest costs | | (1,395) | (1,240) |
| Other finance gain | | 59 | 177 |
| **Profit before tax** | | **2,122** | **4,432** |
| | | | |
| Income tax expense | | (670) | (189) |
| **Profit after tax attributable to owners of the parent** | | **1,452** | **4,243** |
| | | | |
| **Earnings per share** | | | |
| Basic and diluted earnings per share ($) | | $0.01 | $0.04 |

The accompanying Notes form an integral part of the condensed consolidated interim financial statements.

# Consolidated Statement of Comprehensive Income

## For the Six Months Ended 30 September 2022

| | Note | Unaudited 6 Months Ended 30 Sep 2022 $'000 | Unaudited 6 Months Ended 30 Sep 2021 $'000 |
|---|---|---|---|
| **Profit after tax** | | **1,452** | **4,243** |
| | | | |
| **Other comprehensive income** | | | |
| Items that may be subsequently reclassified to profit and loss: | | | |
| Foreign exchange difference on translation of foreign operations | | (283) | (34) |
| **Other comprehensive loss for the year, net of tax** | | **(283)** | **(34)** |
| | | | |
| **Total comprehensive income** | | **1,169** | **4,209** |

The accompanying Notes form an integral part of the condensed consolidated interim financial statements.

# Consolidated Statement of Changes in Equity

## For the Six Months Ended 30 September 2022

| | Note | Share capital $'000 | Share options reserve $'000 | Foreign currency translation reserve $'000 | Retained earnings $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|
| **Balance 31 March 2021** | | **77,197** | **274** | **381** | **(41,264)** | **36,588** |
| | | | | | | |
| **Unaudited** | | | | | | |
| **Six months to 30 September 2021** | | | | | | |
| Profit after tax | | - | - | - | 4,243 | 4,243 |
| Other comprehensive income | | - | - | (34) | - | (34) |
| **Total comprehensive income** | | - | - | (34) | 4,243 | 4,209 |
| Issue of share capital | | 294 | - | - | - | 294 |
| Capital raising expenses | | (2) | - | - | - | (2) |
| Movement in share options reserve | | - | 7 | - | - | 7 |
| **Balance 30 September 2021** | | 77,489 | 281 | 347 | (37,021) | 41,096 |
| | | | | | | |
| **Audited** | | | | | | |
| **Year ended 31 March 2022** | | | | | | |
| Profit after tax | | - | - | - | 19,848 | 19,848 |
| Other comprehensive income | | - | - | 13 | - | 13 |
| **Total comprehensive income** | | **-** | **-** | **13** | **19,848** | **19,861** |
| Issue of share capital | 8 | 409 | (113) | - | - | 296 |
| Movement in share options reserve | | - | (1) | - | - | (1) |
| **Balance 31 March 2022** | | **77,606** | **160** | **394** | **(21,416)** | **56,744** |
| | | | | | | |
| **Unaudited** | | | | | | |
| **Six months to 30 September 2022** | | | | | | |
| Profit after tax | | - | - | - | 1,452 | 1,452 |
| Other comprehensive income | | - | - | (283) | - | (283) |
| **Total comprehensive income** | | **-** | **-** | **(283)** | **1,452** | **1,169** |
| Issue of share capital | 8 | 634 | (161) | - | - | 473 |
| Movement in share options reserve | | - | 1 | - | 34 | 35 |
| **Balance 30 September 2022** | | **78,240** | **-** | **111** | **(19,930)** | **58,421** |

The accompanying Notes form an integral part of the condensed consolidated interim financial statements.

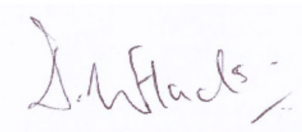
# Consolidated Balance Sheet

## As at 30 September 2022

| | Note | Unaudited as at 30 Sep 2022 $'000 | Audited as at 31 Mar 2022 $'000 | Unaudited as at 30 Sep 2021 $'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Inventories | | 39,707 | 33,500 | 34,129 |
| Trade and other receivables | | 28,180 | 36,002 | 25,705 |
| Cash and cash equivalents | | 8,795 | 7,940 | 5,907 |
| Derivative assets | | 471 | 100 | 446 |
| **Total current assets** | | **77,153** | **77,542** | **66,187** |
| | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | | 518 | 484 | 463 |
| Intangible assets | | 42,236 | 38,093 | 35,235 |
| Right of use assets | | 2,641 | 2,876 | 3,173 |
| Deferred income tax assets | | 3,755 | 2,765 | 650 |
| **Total non-current assets** | | **49,150** | **44,218** | **39,521** |
| **Total assets** | | **126,303** | **121,760** | **105,708** |
| | | | | |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | | 20,771 | 19,160 | 16,431 |
| Provisions | | 2,806 | 4,143 | 5,972 |
| Lease liabilities | 7 | 514 | 542 | 578 |
| Current income tax liability | | 2,318 | 844 | 101 |
| Derivative liabilities | 13 | 681 | 361 | 41 |
| Interest bearing liabilities | 7 | 33,200 | 4,000 | 2,299 |
| **Total current liabilities** | | **60,290** | **29,050** | **25,422** |
| | | | | |
| **Non-current liabilities** | | | | |
| Lease liabilities | 7 | 2,592 | 2,766 | 2,990 |
| Interest bearing liabilities | 7 | 5,000 | 33,200 | 36,200 |
| **Total non-current liabilities** | | **7,592** | **35,966** | **39,190** |
| **Total liabilities** | | **67,882** | **65,016** | **64,612** |
| | | | | |
| **EQUITY** | | | | |
| Share capital | 8 | 78,240 | 77,606 | 77,489 |
| Retained earnings/(losses) | | (19,930) | (21,416) | (37,021) |
| Share options reserve | 8 | - | 160 | 281 |
| Foreign currency translation reserve | | 111 | 394 | 347 |
| **Total equity** | | **58,421** | **56,744** | **41,096** |
| **Total liabilities and equity** | | **126,303** | **121,760** | **105,708** |

The accompanying Notes form an integral part of the condensed consolidated interim financial statements.

On behalf of the Board on 24 November 2022



**David Flacks**
Chair

**Dr Hartley Atkinson**
Founder and Chief Executive Officer

# Consolidated Statement of Cash Flows

## For the Six Months Ended 30 September 2022

| | Unaudited 6 Months Ended 30 Sep 2022 $'000 | Restated* Unaudited 6 Months Ended 30 Sep 2021 $'000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from customers | 74,081 | 66,764 |
| Payments to suppliers and employees | (67,850) | (59,741) |
| Interest received | 1 | 4 |
| Tax paid | (249) | (201) |
| **Net cash generated from operating activities** | **5,983** | **6,826** |
| | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of property, plant and equipment | (115) | (220) |
| Purchase of intangible assets | (4,738) | (2,550) |
| **Net cash used in investing activities** | **(4,853)** | **(2,770)** |
| | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from issue of share capital | 473 | 262 |
| Payment for lease liabilities | (302) | (321) |
| New borrowings | - | 6,000 |
| Borrowings repaid | (2,000) | (4,500) |
| Interest paid on lease liabilities | (116) | (140) |
| Interest costs paid on borrowings | (1,104) | (1,288) |
| **Net cash used in financing activities** | **(3,049)** | **13** |
| | | |
| Net increase in cash | (1,919) | 4,069 |
| Impact of foreign exchange on cash and cash equivalents | (226) | (9) |
| Opening cash and cash equivalents | 7,940 | 1,548 |
| **Closing cash and cash equivalents** | **5,795** | **5,608** |

*The Group has determined that, for the purposes of the Statement of Cash Flows, the bank overdraft should be classified as cash and cash equivalents because it forms an integral part of the Group's cash management. Movements in the bank overdraft will therefore not be shown as a financing cashflows. The prior period has been restated to conform with this presentation. As a result, net cashflows from financing activities for the six months ended 30 September 2021 have increased by $1,339k. Cash and cash equivalents comprise of cash at bank, net of outstanding bank overdrafts (30 Sept 2022: $3,000k, 30 Sept 2021: $299k).

The accompanying Notes form an integral part of the condensed consolidated interim financial statements.

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

## For the Six Months Ended 30 September 2022

| | Unaudited 6 Months Ended 30 Sep 2022 $'000 | Unaudited 6 Months Ended 30 Sep 2021 $'000 |
|---|---|---|
| **Profit after tax** | 1,452 | 4,243 |
| | | |
| **Non-cash items and items classified as financing activities** | | |
| Depreciation | 80 | 62 |
| Depreciation ROU assets | 344 | 341 |
| Amortisation | 595 | 152 |
| Impact of foreign exchange on cash and cash equivalents | (51) | (32) |
| Share options expense | - | 7 |
| Interest on lease liabilities | 116 | 140 |
| Interest and finance expense | 1,104 | 1,288 |
| Unrealised (gain)/loss on foreign currency movements | (165) | (45) |
| Provision for tax | 670 | 140 |
| Interest received | - | - |
| | | |
| **Movement in working capital** | | |
| (Increase) in inventories | (6,207) | (475) |
| Decrease in trade and other receivables and derivative assets | 7,451 | 4,888 |
| Increase/(decrease) in trade and other payables, provisions and derivative liabilities | 594 | (3,883) |
| **Net cash generated from operating activities** | **5,983** | **6,826** |

The accompanying Notes form an integral part of the condensed consolidated interim financial statements.

# Notes to the Financial Statements

For the Six Months Ended 30 September 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 condensed consolidated interim financial statements were approved by the Directors on 24 November 2022 and are not audited but have been reviewed by Deloitte Limited in accordance with the New Zealand Standard on Review Engagements 2410.

## 2. BASIS OF PREPARATION AND PRINCIPLES OF CONSOLIDATION

### Statement of compliance

These general-purpose financial statements for the six months to 30 September 2022 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with NZ IAS 34 and IAS 34, Interim Financial Reporting. The Group is a for-profit entity for the purposes of complying with NZ GAAP.

These condensed consolidated interim financial statements do not include all the notes normally included in an annual financial report. Accordingly, this report should be read in conjunction with the audited financial statements for the year ended 31 March 2022, which have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

The same accounting policies and methods of computation are followed in the condensed consolidated interim financial statements as compared to the audited financial statements for the year ended 31 March 2022, as described in those annual financial statements.

### 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, and
- 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 six-month period 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.

## Significant accounting policies

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

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

The accounting policies applied by the Group in the preparation of the condensed consolidated interim financial statements are the same as those applied by the Group in the preparation of its consolidated financial report for the year ended 31 March 2022. The accounting policies have been applied consistently throughout the Group for the purposes of this interim report.

## 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 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 CURRENT PERIOD

No significant transactions and events occurred during the current period.

# 4. REVENUE FROM OPERATIONS

| | **Unaudited 6 Months Ended 30 Sep 2022 $'000** | **Unaudited 6 Months Ended 30 Sep 2021 $'000** |
|---|---|---|
| Sale of goods | 65,419 | 50,481 |
| Royalty income | 273 | 225 |
| Licensing Income | 58 | 4,807 |
| **Total revenue from operations** | **65,750** | **55,513** |

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.

## 5. 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 income statement. 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.

## 6. SEGMENT REPORTING

| | Operating Segments | | | | |
|---|---|---|---|---|---|
| Unaudited 6 months to | Australia $'000 | New Zealand $'000 | Asia $'000 | Rest of World $'000 | Total $'000 |
| **30 September 2022** | | | | | |
| Revenue - Sale of goods | 36,068 | 21,295 | 3,664 | 4,392 | 65,419 |
| Revenue - Royalties | - | - | - | 273 | 273 |
| Revenue - Licensing | - | - | - | 58 | 58 |
| **Total revenue** | **36,068** | **21,295** | **3,664** | **4,723** | **65,750** |
| Other income | - | - | - | - | - |
| Depreciation - ROU assets | 207 | 137 | - | - | 344 |
| Depreciation - Other | 11 | 69 | - | - | 80 |
| Amortisation | - | 595 | - | - | 595 |
| **Operating profit** | **3,101** | **142** | **532** | **(318)** | **3,457** |
| Finance income | - | 1 | - | - | 1 |
| Interest expense - Loans | - | (1,279) | - | - | (1,279) |
| Interest expense - Lease liabilities | (25) | (91) | - | - | (116) |
| Other finance gains/(losses) | (2) | 61 | - | - | 59 |
| **Profit / (loss) before tax** | **3,074** | **(1,166)** | **532** | **(318)** | **2,122** |
| **Total assets** | **41,119** | **72,671** | **4** | **12,509** | **126,303** |
| ROU assets | 505 | 2,136 | - | - | 2,641 |
| Property plant and equipment | 51 | 466 | 1 | - | 518 |
| Pascomer IP | - | - | - | 12,500 | 12,500 |
| Other intangible assets | - | - | - | 29,736 | 29,736 |
| **Total liabilities** | **1,970** | **63,594** | **1,882** | **436** | **67,882** |
| **Capital expenditure *** | **10** | **4,843** | **-** | **-** | **4,853** |

** Capital expenditure includes both intangible and tangible asset additions.*

# Notes to the Financial Statements (Continued)

## For the Six Months Ended 30 September 2022

| | Operating Segments | | | | |
|---|---|---|---|---|---|
| **Unaudited 6 months to** | **Australia $'000** | **New Zealand $'000** | **Asia $'000** | **Rest of World $'000** | **Total $'000** |
| **30 September 2021** | | | | | |
| Revenue - Sale of goods | 29,201 | 15,815 | 2,905 | 2,560 | 50,481 |
| Revenue - Royalties | - | - | - | 225 | 225 |
| Revenue - Licensing | - | - | - | 4,807 | 4,807 |
| **Total revenue** | **29,201** | **15,815** | **2,905** | **7,592** | **55,513** |
| Other income | - | 130 | - | (7) | 123 |
| Depreciation - ROU assets | 196 | 145 | - | - | 341 |
| Depreciation - Other | 15 | 47 | - | - | 62 |
| Amortisation | - | 152 | - | - | 152 |
| **Operating profit** | **3,620** | **(1,807)** | **416** | **3,262** | **5,491** |
| Finance income | - | 4 | - | - | 4 |
| Interest expense - Loans | - | (1,100) | - | - | (1,100) |
| Interest expense - Lease liabilities | (41) | (99) | - | - | (140) |
| Other finance gains/(losses) | 238 | (76) | 15 | - | 177 |
| **Profit/(loss) before tax** | **3,817** | **(3,078)** | **431** | **3,262** | **4,432** |
| **Total assets** | **43,874** | **49,320** | **18** | **12,496** | **105,708** |
| ROU assets | 802 | 2,371 | - | - | 3,173 |
| Property plant and equipment | 34 | 427 | 2 | - | 463 |
| Pascomer IP | - | - | - | 12,500 | 12,500 |
| Other intangible assets | - | - | - | 22,735 | 22,735 |
| **Total liabilities** | **4,667** | **58,136** | **1,809** | **-** | **64,612** |
| **Capital expenditure *** | **5** | **2,765** | **-** | **-** | **2,770** |

** Capital expenditure includes both intangible and tangible asset additions.*

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$15.9m (6 Months to 30 September 2021: NZ$13.0m) and from one customer of the New Zealand segment (also being a licensed wholesaler) represents approximately NZ$10.8m (6 months to 30 September 2021: NZ$8.1m) of the Group's total revenues.

AP

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

Other income comprises international growth grants and other income.

**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. INTEREST BEARING LIABILITIES

| | Unaudited as at 30 Sep 2022 $'000 | Audited as at 31 Mar 2022 $'000 | Unaudited as at 30 Sep 2021 $'000 |
|---|---|---|---|
| Current lease liabilities | 514 | 542 | 578 |
| Non-current lease liabilities | 2,592 | 2,766 | 2,990 |
| BNZ overdraft | 3,000 | - | 299 |
| BNZ Term loans current portion | 30,200 | 4,000 | 2,000 |
| BNZ Term loans non-current portion | 5,000 | 33,200 | 36,200 |
| **Total** | **41,306** | **40,508** | **42,067** |
| | | | |
| **Opening balance of BNZ loan** | 37,200 | 36,700 | 36,700 |
| BNZ loans drawn down | - | 5,000 | 1,000 |
| BNZ business finance scheme loan drawn down | - | - | 5,000 |
| Repayment of principal | (2,000) | (4,500) | (4,500) |
| **Closing balance** | **35,200** | **37,200** | **38,200** |

# Notes to the Financial Statements (Continued)

## For the Six Months Ended 30 September 2022

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 principal over a three-year term.

Documentation for the renewal of the BNZ facility is in the process of being finalized and expected to be fully executed during November 2022. The renewal facility retains the term loan, working capital facility, overdraft and Business Finance Scheme Loan (BFS).

The maturity date for the new main facility is expected to be late April 2026 and the maturity date for the $5m Business Finance Scheme Loan (BFS) remains at mid May 2026. The maturity date for the existing facility is late April 2023 and the maturity date for the $5m Business Finance Scheme Loan (BFS) mid May 2026.

All covenants relating to the BNZ facility have been complied with for the six months ending 30 September 2022.

AP

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and 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.

## 8. SHARE CAPITAL

Ordinary shares are classified as equity.

| | Unaudited as at 30 Sep 2022 Shares | Audited as at 31 Mar 2022 Shares | Unaudited as at 30 Sep 2022 $'000 | Audited as at 31 Mar 2022 $'000 |
|---|---|---|---|---|
| Ordinary share capital | 104,866,260 | 104,697,260 | 81,406 | 80,770 |
| Less capital raising costs | - | - | (3,166) | (3,164) |
| **Total** | **104,866,260** | **104,697,260** | **78,240** | **77,606** |

| | Unaudited 6 months ended 30 Sep 2022 Shares | Audited 12 months ended 31 Mar 2022 Shares | Unaudited 6 months ended 30 Sep 2022 $'000 | Audited 12 months ended 31 Mar 2022 $'000 |
|---|---|---|---|---|
| Share capital at beginning of the year | 104,697,260 | 104,583,875 | 77,606 | 77,197 |
| Issue of ordinary shares for exercised share options | 169,000 | 113,385 | 634 | 409 |
| **Total** | **104,866,260** | **104,697,260** | **78,240** | **77,606** |

### Ordinary shares

169,000 exercised staff share options detailed below were the only shares issued during the current period.

### Staff share options

Staff share options were 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 was generally up to four years from date of issue, however this varies according to various performance criteria. Other than in limited circumstances options are forfeited if an employee leaves the Group before the options vest.

During the period 169,000 staff share options were exercised, raising $473k (In the six-month period to 30 September 2021, 105,000 staff share options were exercised, raising $294k).

All remaining staff share options lapsed on 30 June 2022. No staff share options exist at the period end.

AP

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 financial and non financial criteria including the following financial and operational measures:

- Market share
- Net profit
- Target sales thresholds; and
- 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.

## 9. DIVIDENDS PER SHARE

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

## 10. CONTINGENT ASSET

In April 2022, the Australian High Court turned down the application by UK based Reckitt Benckiser to appeal a judgement that found AFT was justified in making a series of claims in relation to the efficiency of its pain relief tablets. AFT has costs orders in its favour. The costs are in the process of being recovered. The inflow of economic benefits is probable, but not virtually certain and cannot be quantified at this time.

## 11. 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.

The Company is defending the High Court case brought by a former contractor in Southeast Asia, which is currently in progress. The substance of the claim is that AFT Orphan Pharmaceuticals (of which the former contractor is a 35% shareholder) rather than AFT, should have had the opportunity to pursue the drug development opportunity in respect of Pascomer. See the NZX/ASX Release 5 June 2020. The Group's lawyers advise that they consider that the claim lacks merit. No provision has been made in these financial statements as the Group does not consider that there is any probable loss. The Group is aware that there are inherent uncertainties in litigation. Given that the case is still in progress the Group's lawyers have advised that any public statements by the Group in addition to those already provided, could seriously prejudice the Group's position at this time. This is the basis for restricted disclosure under "NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets".

## 12. COMMITMENTS

### Capital Commitments

The Group has no capital commitments at 30 September 2022 (31 March 2022: nil, 30 September 2021: nil).

## 13. FINANCIAL RISK MANAGEMENT

### 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, liabilities, revenue and expenses | 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 sells and purchases goods and services to and from overseas customers and 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 an increasing natural hedge against costs.

In the current period for the six months to 30 September 2022, net foreign exchange gains totalled $58k (2021: $365k). The balance of gains/losses are derived from the restatement of monetary balances at the spot rate on the period-end balance date of 30 September 2022 and settlement of transactions throughout the period.

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

| Currency | unaudited 30 Sep 2022 | | audited 31 Mar 2022 | | unaudited 30 Sep 2021 | |
|---|---|---|---|---|---|---|
| | Assets NZD$'000 | Liabilities NZD$'000 | Assets NZD$'000 | Liabilities NZD$'000 | Assets NZD$'000 | Liabilities NZD$'000 |
| AUD | 20,196 | 4,657 | 23,801 | 4,740 | 12,264 | 2,138 |
| USD | 6,908 | 3,993 | 2,315 | 4,787 | 5,530 | 1,341 |
| MYR | 591 | - | 151 | 2 | 394 | 7 |
| SGD | 885 | 10 | 630 | 2 | 663 | 3 |
| EUR | 1,094 | 4,526 | 787 | 2,716 | 777 | 3,688 |
| GBP | 11 | 161 | 12 | 130 | 2 | 4 |
| HKD | - | 1 | - | - | - | - |

The following forward foreign exchange contracts were held at 30 Sep 2022:

| Forward Foreign Exchange Contracts | | | | |
|---|---|---|---|---|
| **Buy currency** | **Buy currency amount '000** | **Sell amount NZD$'000** | **Buy amount NZD$'000** | **Fair value NZD$'000** |
| EUR | 5,040 | 8,395 | 8,717 | 322 |
| GBP | 495 | 958 | 959 | 1 |
| USD | 600 | 901 | 1,049 | 148 |
| **Sell currency** | **Sell currency amount $'000** | **Buy amount NZD$'000** | **Sell amount NZD$'000** | **Fair value NZD$'000** |
| AUD | 18,350 | 20,178 | 20,860 | (681) |
| **Total asset as at 30 September 2022** | | | | **471** |
| **Total liability as at 30 September 2022** | | | | **(681)** |

The following forward foreign exchange contracts were held at 31 Mar 2022:

| 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 30 Sep 2021:

| Forward Foreign Exchange Contracts | | | | |
|---|---|---|---|---|
| **Buy currency** | **Buy currency amount '000** | **Sell amount NZD$'000** | **Buy amount NZD$'000** | **Fair value NZD$'000** |
| EUR | 4,575 | 7,797 | 7,756 | (41) |
| GBP | 429 | 834 | 840 | 6 |
| USD | 4,200 | 5,934 | 6,117 | 183 |
| **Sell currency** | **Sell currency amount $'000** | **Buy amount NZD$'000** | **Sell amount NZD$'000** | **Fair value NZD$'000** |
| AUD | 7,960 | 8,604 | 8,347 | 257 |
| **Total asset as at 30 September 2021** | | | | **446** |
| **Total liability as at 30 September 2021** | | | | **(41)** |

# Notes to the Financial Statements (Continued)

## For the Six Months Ended 30 September 2022

**• 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 cash flow 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. 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 30 September 2022, with the largest debtor being AU$4.65m (31 March 2022: AU$17.02m). There has been no past 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. At balance date, bank deposits at each financial institution as a percentage of total assets were as follows: Bank of New Zealand nil due to overdrawn position (31 March 2022: 2.72%), and 5.3% at NAB Bank (31 March 2022: 3.5%). 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:

| 30 September 2022 (unaudited) | < 1 year $'000 | 1-2 years $'000 | 2-5 years $'000 | > 5 years $'000 | TOTAL $'000 |
|---|---|---|---|---|---|
| Trade and other payables | (20,771) | - | - | - | (20,771) |
| Borrowings | (35,253) | (115) | (5,172) | - | (40,541) |
| Lease liabilities | (809) | (654) | (1,261) | (1,620) | (4,344) |
| Derivative instruments (outbound) | (30,432) | - | - | - | (30,432) |
| Derivative instruments (inbound) | 30,222 | - | - | - | 30,222 |
| **Total** | **(57,043)** | **(769)** | **(6,433)** | **(1,620)** | **(65,866)** |
| | | | | | |
| **31 March 2022 (audited)** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Trade and other payables | (19,160) | - | - | - | (19,160) |
| Borrowings | (5,604) | (28,758) | (5,230) | - | (39,592) |
| Lease liabilities | (803) | (651) | (1,339) | (1,795) | (4,588) |
| Derivative instruments (outbound) | (36,969) | - | - | - | (36,969) |
| Derivative instruments (inbound) * | 36,708 | - | - | - | 36,708 |
| **Total** | **(25,828)** | **(29,409)** | **(6,569)** | **(1,795)** | **(63,601)** |

** the comparative information has been restated to align with current period presentation.*

## Fair Values

The carrying values of trade receivables, trade payables and borrowings approximate their fair values because of their short terms to maturity or interest reset dates. Trade receivables are valued net of provision and trade payables are valued at their original amounts by contract.

## 14. 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 are 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 principal and interest cover ratio, a minimum net leverage ratio and a maximum capital expenditure (capex) and research and development (R&D) ratio. Covenant reporting is required on a quarterly basis. The Group was compliant with all BNZ covenants during the period.

## 15. SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

There were no significant events after balance sheet date

## 16. 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.<br>AFT Chief of Staff, Marree Atkinson, is a Discretionary Beneficiary of Atkinson Family Trust |

| Key management compensation | Unaudited 6 months ended 30 Sep 2022 $'000 | Audited 12 months ended 31 Mar 2022 $'000 | Unaudited 6 months ended 30 Sep 2021 $'000 |
|---|---|---|---|
| Directors fees | 254 | 470 | 295 |
| Executive salaries | 705 | 1,337 | 676 |
| Short term benefits | 221 | 389 | 389 |
| Options expense | - | 147 | 7 |
| **Key management compensation** | **1,180** | **2,343** | **1,367** |

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 planning, controlling and directing the activities of the business.

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

# Financial Calendar

| | |
|---|---|
| **Financial year end** | 31 March 2023 |
| **Full year results announcement** | May 2023 |

Level 1, 129 Hurstmere Road
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Auckland 0622
New Zealand

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**www.aftpharm.com**

AFT pharmaceuticals
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