

CONDENSED CONSOLIDATED
**INTERIM
FINANCIAL
STATEMENTS**
2022

FOR THE SIX MONTHS
ENDED 30 SEPTEMBER 2021

A|F|T *pharmaceuticals*
Working to improve your health





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 2021, 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 4 to 20.

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 2021 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 Company 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.

This review report relates to the unaudited condensed consolidated interim financial statements of AFT Pharmaceuticals for the six months ended 30 September 2021 included on AFT Pharmaceuticals Limited's website. The Board of Directors is responsible for the maintenance and integrity of AFT Pharmaceuticals Limited website. We have not been engaged to report on the integrity of AFT Pharmaceuticals Limited 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 18 November 2021 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.



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

Jason Stachurski, Partner
for Deloitte Limited
Auckland, New Zealand
18 November 2021

This review report relates to the unaudited condensed consolidated interim financial statements of AFT Pharmaceuticals for the six months ended 30 September 2021 included on AFT Pharmaceuticals Limited's website. The Board of Directors is responsible for the maintenance and integrity of AFT Pharmaceuticals Limited website. We have not been engaged to report on the integrity of AFT Pharmaceuticals Limited 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 18 November 2021 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 2021

	Note	Unaudited 6 Months Ended 30 Sep 2021 \$'000	Unaudited 6 Months Ended 30 Sep 2020 \$'000
Revenue	4	55,513	48,821
Cost of sales		(28,808)	(28,489)
Gross profit		26,705	20,332
Other income	5	123	230
Selling and distribution expenses		(14,237)	(12,387)
General and administrative expenses		(4,269)	(3,895)
Research and development expenses		(2,831)	(1,858)
Operating profit		5,491	2,422
Finance income		4	4
Interest costs		(1,240)	(1,796)
Other finance income		177	599
Profit before tax		4,432	1,229
Tax expense		(189)	(37)
Profit after tax attributable to owners of the parent		4,243	1,192
Earnings per share			
Basic and diluted (\$)		\$0.04	\$0.01

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 2021

	Unaudited 6 Months Ended 30 Sep 2021 \$'000	Unaudited 6 Months Ended 30 Sep 2020 \$'000
Profit after tax	4,243	1,192
Other comprehensive income		
Items that may be subsequently reclassified to profit and loss:		
Foreign exchange difference on translation of foreign operations	(34)	(63)
Other comprehensive loss for the year, net of tax	(34)	(63)
Total comprehensive income	4,209	1,129

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 2021

	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
Unaudited							
Six months to 30 September 2020							
Profit after tax		-	-	-	-	1,192	1,192
Other comprehensive income		-	-	-	(63)	-	(63)
Total comprehensive income		-	-	-	(63)	1,192	1,129
Conversion of preference shares	7	1,669	(1,669)	-	-	-	-
Issue of share capital	7	12,375	-	-	-	-	12,375
Capital raising expenses		(723)	-	-	-	-	(723)
Movement in share options reserve		-	-	(549)	-	586	37
Preference dividends paid or accumulated		-	-	-	-	(187)	(187)
Balance 30 September 2020		77,067	-	214	289	(47,684)	29,886
Audited							
Year ended 31 March 2021							
Profit after tax		-	-	-	-	7,782	7,782
Other comprehensive income		-	-	-	29	-	29
Total comprehensive income		-	-	-	29	7,782	7,811
Conversion of preference shares	7	1,669	(1,669)	-	-	-	-
Issue of share capital	7	12,389	-	-	-	-	12,389
Capital raising expenses		(723)	-	-	-	-	(723)
Movement in share options reserve		116	-	(489)	-	417	44
Preference dividends paid or accumulated		-	-	-	-	(188)	(188)
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	7	294	-	-	-	-	294
Capital raising expenses		(2)	-	-	-	-	(2)
Movement in share options reserve		-	-	7	-	-	7
Preference dividends paid		-	-	-	-	-	-
Balance 30 September 2021		77,489	-	281	347	(37,021)	41,096

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

CONSOLIDATED BALANCE SHEET

As at 30 September 2021

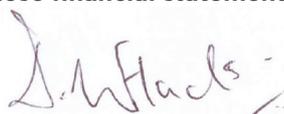
	Note	Unaudited as at 30 Sep 2021 \$'000	Audited as at 31 Mar 2021 \$'000	Unaudited as at 30 Sep 2020 \$'000
ASSETS				
Current assets				
Inventories		34,129	33,654	35,995
Trade and other receivables		25,705	31,039	16,576
Cash and cash equivalents		5,907	3,209	5,870
Derivative assets	11	446	-	108
Total current assets		66,187	67,902	58,549
Non-current assets				
Property, plant and equipment		463	305	295
Intangible assets		35,235	32,720	30,704
Right of use assets		3,173	3,481	3,722
Deferred income tax assets		650	724	713
Total non-current assets		39,521	37,230	35,434
Total assets		105,708	105,132	93,983
LIABILITIES				
Current liabilities				
Trade and other payables		16,431	21,329	18,877
Provisions		5,972	4,461	836
Lease liabilities		578	614	595
Current income tax liability		101	-	-
Derivative liabilities		41	537	193
Interest bearing liabilities		2,299	5,161	5,447
Total current liabilities		25,422	32,102	25,948
Non-current liabilities				
Lease liabilities		2,990	3,242	3,449
Interest bearing liabilities		36,200	33,200	34,700
Total non-current liabilities		39,190	36,442	38,149
Total liabilities		64,612	68,544	64,097
EQUITY				
Share capital		77,489	77,197	77,067
Retained earnings/(losses)		(37,021)	(41,264)	(47,684)
Share options reserve		281	274	214
Redeemable preference shares reserve		-	-	-
Foreign currency translation reserve		347	381	289
Total equity		41,096	36,588	29,886
Total liabilities and equity		105,708	105,132	93,983

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

For and on behalf of the Board who authorised these financial statements for issue on 18 November 2021



Hartley Atkinson
Managing Director and Chief Executive Officer



David Flacks
Chairman

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended 30 September 2021

	Unaudited 6 Months Ended 30 Sep 2021 \$'000	Unaudited 6 Months Ended 30 Sep 2020 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	66,764	58,091
Payments to suppliers and employees	(59,741)	(60,689)
Interest received	4	4
Tax paid	(201)	(146)
Net cash generated from/(used in) operating activities	6,826	(2,740)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(220)	(27)
Purchase of intangible assets	(2,550)	(3,862)
Net cash used in investing activities	(2,770)	(3,889)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital	262	12,375
Bank Overdraft	(1,339)	1,697
Capital raising cost paid	-	(723)
Dividends paid	-	(187)
Payment for lease liabilities	(321)	(204)
New borrowings	6,000	-
Borrowings repaid	(4,500)	(4,750)
Interest paid on lease liabilities	(140)	(145)
Interest costs paid on borrowings	(1,288)	(1,359)
Net cash generated from financing activities	(1,326)	6,704
Net increase in cash	2,730	75
Impact of foreign exchange on cash and cash equivalents	(32)	(324)
Opening cash and cash equivalents	3,209	6,119
Closing cash and cash equivalents	5,907	5,870

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 2021

	Unaudited 6 Months Ended 30 Sep 2021 \$'000	Unaudited 6 Months Ended 30 Sep 2020 \$'000
Profit after tax	4,243	1,192
Non-cash items and items classified as financing activities		
Depreciation	62	48
Depreciation ROU assets	341	375
Amortisation	152	141
Impact of foreign exchange on cash and cash equivalents	(32)	(318)
Share options expense	7	37
Interest on lease liabilities	140	154
Interest and finance expense	1,288	1,347
Unrealised (gain) on foreign currency movements	(45)	-
Provision for tax	140	37
Movement in working capital		
(Increase) in inventories	(475)	(13,261)
Increase in trade and other receivables and derivative assets	4,888	9,799
(Decrease) in trade and other payables, provisions and derivative liabilities	(3,883)	(2,586)
Net cash generated from/(used in) operating activities	6,826	(3,035)

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 2021

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 a company limited by shares 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, Auckland, 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 18 November 2021 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 2021 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 2021, 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 2021, 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Six Months Ended 30 September 2021

New accounting standards and amendments effective during the year

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

New and revised standards in issue but not yet effective

There are a number of standards, amendments and interpretations that have been approved but are not yet effective. The Group expects to adopt these when they become mandatory. None are expected to result in a material impact on the Group's financial statements.

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 2021. 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 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 CURRENT PERIOD

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.

4. REVENUE FROM OPERATIONS

	Unaudited 6 Months Ended 30 Sep 2021 \$'000	Unaudited 6 Months Ended 30 Sep 2020 \$'000
Sale of goods	50,481	48,428
Royalty income	225	96
Licensing Income	4,807	297
Total revenue from operations	55,513	48,821

AP

Revenue comprises the fair value for:

- The sale of goods, excluding GST and discounts, which are recognised when control of the product is transferred to the customer
- Royalties owing on the licensees' sale of product, which are recognised when the licensee has sold the product
- Licensing income, which is recognised when the Group has completed substantially all of its obligations under the licensing agreement and through until the expected finalisation of the event. 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.

5. SEGMENT REPORTING**Operating Segments**

Unaudited	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 costs - loans	-	(1,100)	-	-	(1,100)
Interest costs - 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
Taxation	(100)	(89)	-	-	(189)
Profit/(loss) after tax	3,717	(3,167)	431	3,262	4,243
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	215	-	-	220

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Six Months Ended 30 September 2021

Unaudited	Operating Segments				Total \$'000
	Australia \$'000	New Zealand \$'000	Asia \$'000	Rest of World \$'000	
30 September 2020					
Revenue - sale of goods	28,552	13,709	2,198	3,969	48,428
Revenue - royalties	-	-	-	96	96
Revenue - licensing	-	-	-	297	297
Total revenue	28,552	13,709	2,198	4,362	48,821
Other income	-	-	46	184	230
Depreciation - ROU assets	224	150	1	-	375
Depreciation - other	11	37	-	-	48
Amortisation	-	141	-	-	141
Operating profit	3,195	(1,425)	721	(69)	2,422
Finance income	-	4	-	-	4
Interest costs - loans	-	(1,642)	-	-	(1,642)
Interest costs - lease liabilities	(51)	(103)	-	-	(154)
Other finance gains/(losses)	456	246	(103)	-	599
Profit/(loss) before tax	3,600	(2,920)	618	(69)	1,229
Taxation	(37)	-	-	-	(37)
Profit/(loss) after tax	3,563	(2,920)	618	(69)	1,192
Total assets	30,961	50,482	40	12,500	93,983
ROU assets	1,126	2,596	-	-	3,722
Property plant and equipment	36	256	3	-	295
Pascomer IP	-	-	-	12,500	12,500
Other intangible assets	-	-	-	18,204	18,204
Total liabilities	5,015	59,067	15	-	64,097
Capital expenditure *	4	23	-	-	27

* Capital expenditure does not include intangible assets additions of \$2,550k during the six-month period to 30 September 2021 (additions during the period to 30 September 2020 were \$3,862k)

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 Southeast Asian market (Brunei, China, Hong Kong, Malaysia, Philippines, Singapore and Vietnam).
- **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\$13.0m (6 Months to 30 September 2020: NZ\$11.8m) and from one customer of the New Zealand segment (also being a licensed wholesaler) represents approximately NZ\$8.1m (6 months to 30 September 2020: NZ\$7.3m) 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 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.

6. INTEREST BEARING LIABILITIES

	Unaudited as at 30 Sep 2021 \$'000	Audited as at 31 Mar 2021 \$'000	Unaudited as at 30 Sep 2020 \$'000
Current lease liabilities	578	614	595
Non-current lease liabilities	2,990	3,242	3,449
BNZ overdraft	299	1,661	1,697
BNZ Term loans current portion	2,000	3,500	3,750
BNZ Term loans non-current portion	36,200	33,200	34,700
Total	42,067	42,217	44,191
Opening balance of BNZ loan	36,700	43,200	-
BNZ loans drawn down	1,000	-	38,450
BNZ business finance scheme loan drawn down	5,000	-	-
Repayment of principal	(4,500)	(6,500)	-
Closing balance of BNZ loan	38,200	36,700	38,450

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.

During May 2021, the Group signed an amended agreement with BNZ. A new \$5 million Business Finance Scheme (BFS) Loan was entered into and one of the working capital loans has been reduced by \$5 million. The new loan is a five-year interest only loan at a fixed rate of 2.30%. The existing BNZ facilities maturity date has been extended to 27 April 2023.

All covenants relating to the BNZ facility have been complied with for the six months ending 30 September 2021.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Six Months Ended 30 September 2021

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.

7. SHARE CAPITAL

Ordinary shares and redeemable preference shares are classified as equity.

Ordinary shares

The 105,000 exercised staff share options detailed below were the only shares issued during the current period.

During the six-month period ending 30 September 2020 the Group issued 2,666,667 ordinary shares at a price of \$3.75 per share and raised \$10m. This was followed with a fully subscribed Share Purchase Plan (SPP) where 533,333 ordinary shares were issued at a price of \$3.75 per share raising a further \$2m. The funds raised were applied to reducing working capital facilities and to fund future anticipated growth.

Redeemable preference shares

No redeemable preference shares remain in issue.

During the six-month period ending 30 September 2020, 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.

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 various 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 the grant date at fair value as calculated independently using the Black Scholes model. During the period 105,000 staff share options were exercised, raising \$294k (In the six month period to 30 September 2020, 134,000 staff share options were exercised, raising \$375k).

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; 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.

8. DIVIDENDS PER SHARE

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

During the previous six-month period to 30 September 2020, all holders of redeemable preference shares converted their preference shares into ordinary shares. Dividends up to the date of conversion were \$187,574 (including withholding tax) and were paid.

9. 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 has received notice of a potential claim from a former contractor in South East 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Six Months Ended 30 September 2021

10. COMMITMENTS

(a) Capital Commitments

The Group has no capital commitments at 30 September 2021 (31 March 2021: nil, 30 September 2020: nil).

(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 prior year.

11. 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 a number of 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. 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 period for the six months to 30 September 2021, net foreign exchange gains totalled \$365k (2020: \$445k). 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 2021.

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

Currency	30 Sep 2021		31 Mar 2021		30 Sep 2020	
	Assets NZD\$'000	Liabilities NZD\$'000	Assets NZD\$'000	Liabilities NZD\$'000	Assets NZD\$'000	Liabilities NZD\$'000
AUD	12,264	2,138	18,568	54,101	11,822	3,719
USD	5,530	1,341	1,436	3,176	435	16
MYR	394	7	336	3	229	50
SGD	663	3	593	18	1,336	1,002
EUR	777	3,688	2,552	3,484	2,242	1,820
GBP	2	4	4	98	1	-

The following forward foreign exchange contracts were held at 30 September 2021

Forward Foreign Exchange Contracts

Buy currency	Buy currency amount '000	Sell amount NZD\$'000	Mark to market 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				405

The following forward foreign exchange contracts were held at 31 March 2021

Forward Foreign Exchange Contracts

Buy currency	Buy currency amount '000	Sell amount NZD\$'000	Mark to market 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 NZD\$'000	Fair value NZD\$'000
AUD	12,450	13,469	13,576	(107)
Total liability as at 31 March 2021				(537)

The following forward foreign exchange contracts were held at 30 September 2020

Forward Foreign Exchange Contracts

Buy currency	Buy currency amount '000	Sell amount NZD\$'000	Mark to market NZD\$'000	Fair value NZD\$'000
EUR	3,785	6,661	6,767	106
GBP	306	597	591	(6)
USD	5,465	8,298	8,111	(187)
Sell currency	Sell currency amount \$'000	Buy amount NZD\$'000	Sell amount NZD\$'000	Fair value NZD\$'000
AUD	9,907	10,706	10,704	2
Total liability as at September 2020				(85)

• 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Six Months Ended 30 September 2021

The Group has one significant concentration of credit risk at 30 September 2021, with the largest debtor being AU\$4.4m (31 March 2021: AU\$11.5m). 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, with 0.3% of total assets at the Bank of New Zealand (2020: overdraft position), and 5.3% at NAB Bank (2020: 6.2%). 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:

	< 1 year \$'000	1-2 years \$'000	2-5 years \$'000	> 5 years \$'000	TOTAL \$'000
30 September 2021					
Trade and other payables	(16,431)	-	-	-	(16,431)
Borrowings	(4,498)	(32,290)	(5,288)	-	(42,076)
Lease liabilities	(814)	(653)	(1,335)	(1,969)	(4,771)
Derivative instruments (outbound)	(23,169)	-	-	-	(23,169)
Derivative instruments (inbound)	23,574	-	-	-	23,574
Total	(21,338)	(32,943)	(6,623)	(1,969)	(62,873)
31 March 2021	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other payables	(21,329)	-	-	-	(21,329)
Borrowings	(7,773)	(33,841)	-	-	(41,614)
Lease liabilities	(886)	(747)	(1,488)	(2,143)	(5,264)
Derivative instruments (outbound)	(29,098)	-	-	-	(29,098)
Derivative instruments (inbound)	28,561	-	-	-	28,561
Total	(30,525)	(34,588)	(1,488)	(2,143)	(68,744)

(b) Fair Values

The carrying values of these financial instruments 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.

12. 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 year.

13. SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

There were no significant events after balance sheet date

14. RELATED PARTIES

The Group had related party relationships with the following entities:

Related party	Nature of relationship
CRG (Capital Royalty Group)	AFT Non-executive Director Nate Hukill is President and Chairman of CRG, the Group that provided the loan that was repaid by the Group on 31 March 2020. CRG ceased to be a shareholder of AFT on 15 June 2020. Nate Hukill resigned as a director of AFT on 23 June 2020.
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.

The following transactions were carried out with these related parties:

	Unaudited 6 Months Ended 30 Sep 2021 \$'000	Audited As at 31 Mar 2021 \$'000	Unaudited 6 Months Ended 30 Sep 2020 \$'000
Dividends on redeemable Preference shares			
CRG	-	108	108
Atkinson Family Trust	-	80	80

	Unaudited 6 Months Ended 30 Sep 2021 \$'000	Audited As at 31 Mar 2021 \$'000	Unaudited 6 Months Ended 30 Sep 2020 \$'000
Key management compensation			
Directors' fees	295	376	148
Executive salaries	676	1,190	565
Short-term benefits	389	293	293
Options expense	7	14	38
Key management compensation	1,367	1,873	1,044

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.

Directory

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

Registered Office

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 9997

Principal Administration Office

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 the date of these financial statements.

Dr Hartley Atkinson
Marree Atkinson
Anita Baldauf
David Flacks (Chair)
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
enquiry@computershare.co.nz

Auditor

Deloitte
Deloitte Centre, 80 Queen Street, Auckland 1140, New Zealand
+64 9 303 0700

Financial Calendar

Financial year end: **31 March 2022**

Full year financial results announcement: **May 2022**

Annual shareholders meeting: **August 2022**

Financial half year end: **September 2022**

NOTES



AFT PHARMACEUTICALS LIMITED
Condensed Consolidated Interim Financial Statements