AFT pharmaceuticals

Working to improve your health

Doing.

Interim Report 2019

Contents

Financial Calendar

Half-Year End	30 September 2018
Interim Results Announcement	22 November 2018
Financial Year End	31 March 2019
Annual Results Announcement	May 2019
Annual Meeting	August 2019

Full report available online at investors.aftpharm.com
Note: $ in this report are NZ$ unless otherwise stated.

This Interim Report is dated 22 November 2018.
Signed on behalf of the Board of AFT Pharmaceuticals Limited by:

David Flacks
Chairman

Hartley Atkinson
Chief Executive Officer

Maxigesic now being sold in 15 countries

Over-the-counter operating revenues up 20% (PCP)

Achieving.

— MAXIGESIC NOW LICENSED IN 128 COUNTRIES.

— NASOSURF DEVICE US FOOD AND DRUG ADMINISTRATION PATHWAY CONFIRMED.

— NOVATEARS LAUNCHED IN NEW ZEALAND AND AUSTRALIA.

— IPO RESEARCH AND DEVELOPMENT PROGRAMME LARGELY COMPLETED.

AND THERE'S MORE TO COME.

Key Highlights

Operating revenues

Operating revenues of $38.0m for the first half of FY2019 to 30 September 2018 (H1FY2019) were up 4% over the corresponding six month period ending 30 September 2017 (H1FY2018) previous corresponding period (PCP). Operating revenues from the over-the-counter channel were up 20% over the same period.

Maxigesic

Maxigesic is now being sold in 15 countries – Australia, Brunei, El Salvador, Israel, Iraq/Kurdistan, Ireland, Italy, Malaysia, Malta, New Zealand, Nicaragua, Serbia, Singapore, United Kingdom and United Arab Emirates. Further country launches are in progress.

Maxigesic is licensed in 128 countries up from 125 in FY2018.

Clinical trials

Most of the research and development programme from the IPO has now been completed. There will be five clinical trials in progress during FY2019.

NasoSURF

NasoSURF device development has also advanced with some device redesign required following the initial human factor studies in USA and filing for Class IIA Medical Device registration in the USA is targeted for April/May 2019.

Research and development

Research and Development expensed investment in our key global products has reduced to $2.6m[1] for the six months (PCP $5.6m) and represents 7% of Operating Revenue (PCP 15%). We have now completed most of the clinical trial programme that we identified at the time of IPO. Additional dose forms such as *Maxigesic Rapid* have been developed within the existing clinical trial budget and a new *Maxigesic Cold & Flu* formulation is under development but these costs are not material.

Operating result

The operating loss of $0.1m (PCP $6.7m) has improved significantly with the strong growth in Gross profit well ahead of the Revenue growth due to margin improvement gains from the strategic shift in Revenue to the higher margin over-the counter channel and the reduction in the Research and Development expense as the clinical trial programmes are completed.

Cash available

Cash available at 30 September 2018 of $7.4m (PCP $7.1m).

1. Total Research and Development includes the equity accounting for the joint venture.

Interim Financial Results Summary

Operating revenue

Operating Revenue grew 4% to $38.0m for the six month period ended 30 September 2018 (PCP $36.6m) with the continued growth in our primary Australian market and the emerging Rest of World and Southeast Asia markets offset by the trading out of lower margin products, most noticeably in New Zealand. Operating Revenue in the over-the-counter channel grew by 20% (PCP 20%). The upside of these revenue shifts has been the 24% growth in gross profit. The implementation of the new reporting standard NZ IFRS15 has not changed the timing or amount of revenue recognised in operating revenue.

Australia revenue grew by 7% to $21.6m (PCP $20.2m) and this market now makes up 57% of Group Operating Revenue. Strong growth, up 17%, continued in its main over-the-counter channel. *Maxigesic* grew twofold over the PCP following the shift of codeine based painkillers from over-the-counter to prescription only in February 2018 and maintains its leadership of the combination product section of the market. The launch of *NovaTears* at the beginning of the year further supplements the eye care range which continued to experience good growth. The Hospital channel retracted by 10% with the trading out of lower margin products. The new Hospital products being introduced, which are at higher margins, will replace this revenue by the end of FY2019 or early in FY2020. The prescription channel grew by 10% on existing products.

New Zealand revenue declined by 11% to $12.6m (PCP $14.1m) and now represents 33% of the Group Operating Revenue. The decline is due to the trading out of lower margin products at the end of FY2018 in the Hospital channel, the ceasing of the sole supply tender prescription product *Metoprolol* with the final sales made in FY2018 and some price reductions on other tender products. The upside of this shift from lower margin product is that Gross Profit in New Zealand grew by 23%. The over-the-counter channel experienced good revenue growth, up 9%. *Maxigesic* also grew twofold in New Zealand, and also as with Australia, the launch of *NovaTears* at the beginning of the year further supplemented the eye care range which continued to experience good growth. *Vitamin C Liposachets* were launched at the beginning of the year and are selling well.

Rest of World revenue grew by 70% to $2.8m (PCP $1.6m) and now represents 7% of Group Operating Revenue. Most of the revenue is from *Maxigesic* sales and royalties with sales in this half made to Italy, Ireland, Israel, Iraq, United Arab Emirates and the Central American Common Market (CACM). Further launches are imminent and are dictated by regulatory timelines.

Southeast Asia revenue grew by 81% to $1.1m (PCP $0.6m) and represents 3% of the Group Operating Revenue. Most of this growth is from the launch of *Maxigesic* in Malaysia with the initial sell in to the distributor there and the re-launch of *Maxigesic* in Singapore with its re-classification to an over-the-counter product.

Gross margin

Gross Profit grew 24% to $17.8m (PCP $14.3m) driven by the operating revenue growth of 20% in the higher margin over-the-counter channel and the trading out of lower margin tender products in the Hospital and Prescription channels. The Gross Profit Margin accordingly improved to 47% (PCP 39%), driven by this growth of the higher margin over-the-counter products in all markets.

We expect the Gross Profit Margin to remain in this zone as the over-the-counter products particularly in Australia and Rest of World markets continue to grow.

Other income

Licensing Income comprises the upfront and milestone fees from out licensing arrangements we have in our Rest of World markets and the fees we have received from the divestment of non-core hospital products. It is classified in the Financial Statements as Other Income. These totalled $2.2m (PCP $0.8m), with a combination of new out licensing agreements commencing and milestones on existing agreements, together with the divestment fees.

The balance of Other Income of $0.2m (PCP $0.2m) is the *Callaghan Innovation* growth grant that we receive on eligible research and development expenditure.

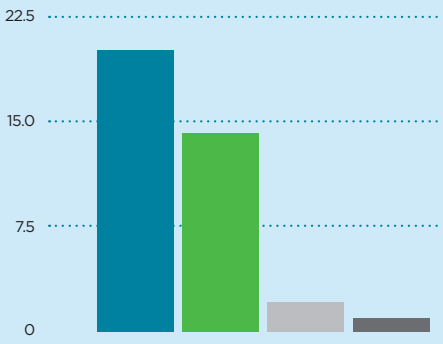
Group operating results

	Six month period ended September 30			
$NZ000's	FY2019	FY2018	Change ($)	Change (%)
Revenue	**38,045**	**36,561**	**+ 1,484**	**+ 4**
Cost of sales	(20,292)	(22,256)	- 1,964	- 9
Gross profit	**17,753**	**14,305**	**+ 3,448**	**+ 24**
Other income	2,430	1,014	+ 1,416	+ 140
Selling and distribution expenses	(14,234)	(12,771)	+ 1,463	+ 11
General and administrative expenses	(3,489)	(3,618)	- 129	- 4
Research and development expenses	(2,225)	(4,982)	- 2,757	- 55
Equity accounted loss of joint venture entity	(344)	(616)	- 272	- 44
Underlying operating loss	**(109)**	**(6,668)**	**- 6,559**	**- 98**

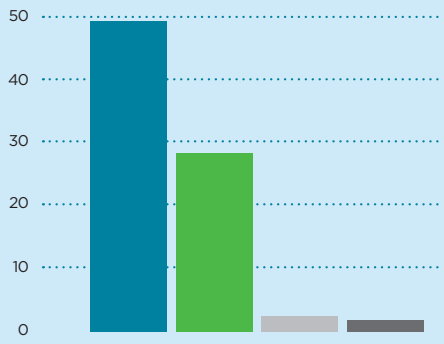
Operating revenue

The following tables set out revenues from our four markets:

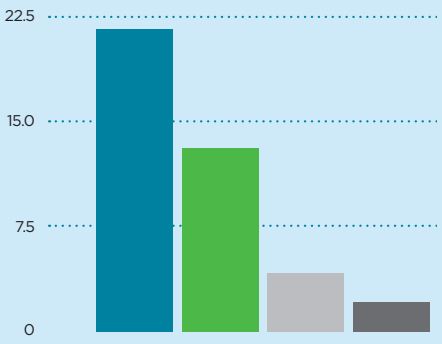
FY2018 Interim
(NZ$m)



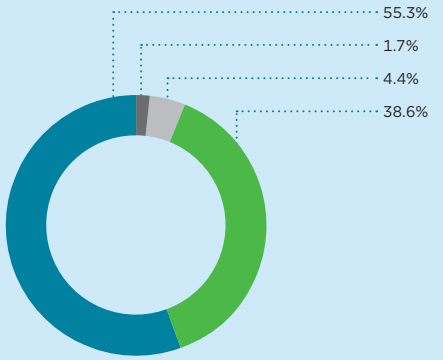
FY2018 Annual
(NZ$m)



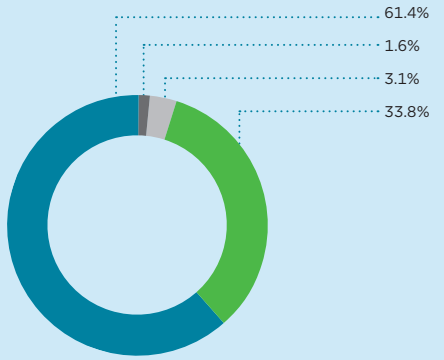
FY2019 Interim
(NZ$m)



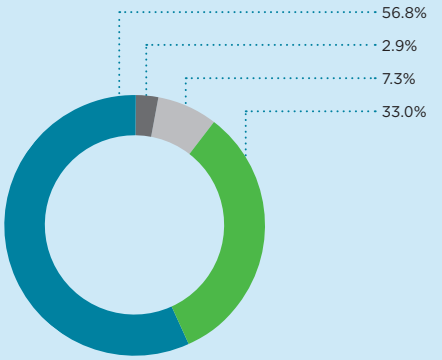
FY2018 Interim
(percentage)



FY2018 Annual
(percentage)



FY2019 Interim
(percentage)



Australia · New Zealand · Rest of World · Southeast Asia

Operating overheads

Research and development investment reduced to $2.2m (PCP $5.0m), and in addition our 50% of the spend on *Pascomer* reduced to $0.3m (PCP $0.6m). This is reported under joint venture equity accounting in the Financial Statements as required by GAAP.

We have now completed most of the clinical trial programmes that we identified at the time of IPO. This has resulted in a number of publications in scientific journals during this year. *Maxigesic 325* results have been published in the major US journal *Clinical Therapeutics*, *Maxigesic Oral Liquid* study results have resulted in two publications and the pivotal *Maxigesic IV* study has been submitted to a major US journal. A further two publications are in preparation covering pharmacokinetics of the different *Maxigesic* dose forms and a further study on consolidated safety data. This data is important to back up commercialisation and key marketing claims.

Completion of this development work has also allowed commencement of regulatory filings of both *Maxigesic IV* and Oral Liquid. Additional oral dose forms, hot drink sachets and dry stick sachets are still in development and regulatory filings are targeted to commence within the 2019 calendar year.

A pre-NDA filing meeting with FDA for *Maxigesic IV* has clarified some additional data requirements and this will result in some additional clinical trial expenditure before the USA regulatory filing which also is targeted within 2019 calendar year.

Formulation work has been completed on a fast dissolving formulation, *Maxigesic Rapid* which utilises proprietary technology in-licensed from a US company. Additionally a new product, *Maxigesic Cold & Flu* is being developed for treatment of cold & flu which will be commercially attractive for the Australian market and additional territories. The development costs for this programme are modest and not expected to contribute significantly to R&D costs.

The key aim is now to complete US registrations and to commercialise *Maxigesic* and its line extensions in major markets.

The *Pascomer* development programme has confirmed that the formulation is stable at room temperature which was challenging as the active ingredient is easily oxidised in topical formulations. A significant preclinical development programme has now been completed culminating with a successful FDA meeting to open the IND and obtain clearance to initiate clinical studies in patients. Options to fund this significant clinical development programme are currently being investigated.

NasoSURF device development has also advanced with some device redesign required following the initial human factor studies in USA. Human factors are a relatively new regulatory requirement and a further additional human factor study will be required after completion of the redesigned engineering batches.

Initial clinical distribution studies are underway in Sydney and a further study in New Zealand is to commence prior to the end of calendar Q1 2019. Class II Medical Device filing in USA is targeted for April/May 2019 which is a quarter behind schedule necessitated by the redesign features identified in the human factor studies. The key remains the initiation and completion of the clinical programme which is targeted to start during FY2020 after approval to open an IND is obtained from US FDA.

Selling and distribution expenses increased by 11% to $14.2m (PCP $12.8m) in support of the 20% revenue growth in the over-the-counter channel, particularly in Australia. We continually monitor this spend and some efficiencies have been identified which are being implemented during the H2FY19 time period in Australia and the Asian markets.

General and administration expenses reduced to $3.5m (PCP $3.6m) with cost savings made where possible.

Cash flow and balance sheet

Total Assets of $59.4m are up on the March 2018 year end's $56.6m. This is mainly due to the capitalised investment made into research and development both directly and through the joint venture.

Working Capital increased to $26.3m (PCP $24.1m) with the $4.1m increase in inventory to $27.8m (PCP $23.7m) for the stock build for the larger sales volumes during the summer months, together with the $0.2m decrease in trade payables and provisions to $14.5m (PCP $14.7m) offset by the $2.0m reduction in receivables and prepayments to $13.0m (PCP $15.0m).

Cash holdings of $7.4m are up from the $6.8m at the March 2018 year end, primarily reflecting the breakeven underlying operating result and the drawdown under the term loan facility.

The long term CRG loan of $42.0m has a maturity date of 31 March 2020. The company are working with CRG to extend the existing facility and expand the available capital to US$40-50m.

Product development

Maxigesic is now being sold in 15 countries – Australia, Brunei, El Salvador, Israel, Iraq/Kurdistan, Ireland, Italy, Malaysia, Malta, New Zealand, Nicaragua, Serbia, Singapore, United Kingdom and United Arab Emirates. The company founder personally attended launch meetings to give talks on *Maxigesic* to Healthcare Professionals in Malaysia and Ireland. Further country launches are in progress, with exact timings dependent upon multiple factors around the finalising of the regulatory processes at a country and licensee level. These are either completing registration updates or the transfer of existing registrations to local licensees in Europe. Getting to launch requires a number of steps in each country and these timings are hard to forecast. Launch planning is currently underway in a number of significant countries.

Registration in the remaining EU countries (Cyprus, Greece and Lithuania) is currently being finalised and additional filings in a number of countries in Africa and the Middle East, which are reliant upon an EU registration, are underway.

Maxigesic is now licensed in 128 countries with the recent addition of Russia, South Korea, Taiwan and Hong Kong. A few additional territories remain on our targeted list: USA, Canada, Germany and selected territories in South America with discussions underway in most of these currently.

Maxigesic IV out-licensing discussions are now underway which once achieved will contribute significantly to other income as upfronts are anticipated in general to be larger than for the oral formulations. The first out-licensing deal has recently been signed for South Korea.

Maxigesic sales in the Rest of World are starting to grow and contributions will become more significant once additional countries and dose forms are added. In following years the contribution will become significant and for the first time we have seen during H1FY2019, the sales from the Rest of the World and Southeast Asia exceeding 10% of the group operating revenue. Important features of Rest of World sales are that overhead costs are lower so more of the profit contribution is realised in the profit line.

Product clinical studies
the majority of the R&D programme highlighted in the IPO has now been completed for *Maxigesic* oral dose forms which has been a significant exercise. Additional dose forms such as *Maxigesic Rapid* have been developed within the existing clinical trial budget and a new *Maxigesic Cold & Flu* formulation is under development but these costs are not material. Additional specific *Maxigesic IV* data for the USA filing is required and this is being organised to commence during the 2019 calendar year.

Pascomer patient clinical studies are being planned and alternatives to fund this significant programme are being currently investigated.

NasoSURF
development is proceeding with the US Food and Drug Administration development pathway confirmed. Class I Medical Device has been completed. However, the major market opportunities lie in indications covered by a Class II Medical Device registration pathway which is consequently the targeted opportunity and underway. Human Factor study results required some redesign work which is well underway.

Following preclinical programme completion and final Human Factor Studies, an IND with FDA will be opened and clinical studies commence. This will be in FY2020. Consequently, some of the spend will be delayed which will offset, to some extent, the additional spend required for *Maxigesic IV*.

The company will continue to carefully run its Research and Development budgets to stay within profit targets.

Outlook

Sales continued to grow in Australia but were soft in the first quarter due to divestment of Claris Hospital Products and the effects of the planned Australian Pharmacy stocking up with *Maxigesic* prior to the 1 February 2018 re-scheduling of codeine-based painkillers from over-the-counter to prescription. However, growth is picking up again and additional Hospital products with better margins are being launched and will continue to be launched over the next few years.

Additionally, market research identified that there was a considerable amount of stock piling of codeine-based products with a significant number of consumers buying up to 12 months' worth of product. Hence there remains an ongoing opportunity to encourage consumers to switch from codeine medications. *Maxigesic* has obtained a market leadership position in Australia for paracetamol-ibuprofen combinations. We see the opportunity for significant ongoing organic growth from *Maxigesic* tablets and additional dose forms such as *Maxigesic IV* and *Maxigesic Oral Liquid* which are planned to be launched in the next 12-18 months. Further sales growth from our eye care channel is also expected together with a number of new product launches.

Top line sales declined in New Zealand due to the divestment of Claris Hospital Products and the final effects of the *Metoprolol* tender sales being lost. However, we have continued to transition sales to products in the over-the-counter market resulting in the positive growth of gross margins and overall gross profit. We expect this gross profit growth to continue in New Zealand which has been helped by organic sales growth in over-the-counter products and new product launches *Maxigesic PE*, *NovaTears* and *Vitamin C Liposachets*.

The timing of Rest of World sales still remains difficult to determine due to the multitude of countries and differing regulatory requirements and related timelines. Further launches have occurred and are ongoing with a number of significant markets being close to launch. The estimates from licensees continue to indicate that the sales will increase significantly over the next few years with new launches, growth in already launched markets, and new line extensions.

Further progress has been achieved in the out-licensing programme with the addition of a significant major market, Russia, for *Maxigesic* oral dose forms and our first significant *Maxigesic IV* deal with a licensee in South Korea. Additional discussions are currently underway for the remaining oral dose form and IV territories which once achieved will add significantly to Other Income. As commercial sales milestones are achieved under our existing out licensing programme they will provide further licence income.

The clinical trial programmes have progressed well with a significant proportion successfully completed thereby considerably reducing the clinical risk for the *Maxigesic* programme. Further R&D costs are required for the *Maxigesic IV* USA programme in addition to the two new lines, *Maxigesic Rapid* and *Maxigesic Cold & Flu*.

Market research has identified that the *NasoSURF* project represents a significant commercial opportunity. Completion of this programme in order to file the registration in major territories will become a major development focus in FY2020.

Completing additional trials within existing financial resources remains the key aim and as signalled we remain confident that we will return to profitability during the FY2019 time period. The small operating loss during H1FY19 is positive progress and we expect the second half of the financial year to generate greater revenues and profitability than the first half.

FY19

Financial Statements.

Contents

Consolidated Income Statement

For the six months ended 30 September 2018

$NZ000's	Note	Unaudited 6 months ended 30 Sep 2018	Unaudited 6 months ended 30 Sep 2017
Revenue	11	38,045	36,561
Cost of sales		(20,292)	(22,256)
Gross profit		**17,753**	**14,305**
Other income		2,430	1,014
Selling and distribution expenses		(14,234)	(12,771)
General and administrative expenses		(3,489)	(3,618)
Research and development expenses		(2,225)	(4,982)
Equity accounted loss of joint venture entity	10	(344)	(616)
Operating loss		**(109)**	**(6,668)**
Finance income		16	96
Finance costs		(2,481)	(1,590)
Other gains/(losses)		(1,690)	1,589
Loss before tax		**(4,264)**	**(6,573)**
Tax credit/(expense)		76	(300)
Loss after tax attributable to owners of the parent		**(4,188)**	**(6,873)**
Basic and diluted earnings (loss) per share ($)		(0.4)	(0.07)

Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2018

$NZ000's	Unaudited 6 months ended 30 Sep 2018	Unaudited 6 months ended 30 Sep 2017
Loss after tax	**(4,188)**	**(6,873)**
Other comprehensive (loss)/income		
May be subsequently reclassified to profit and loss:		
Foreign currency translation reserve	(224)	(10)
Other comprehensive (loss)/income for the period, net of tax	**(224)**	**(10)**
Total comprehensive loss for the period attributable to owners of the parent	**(4,412)**	**(6,883)**

Consolidated Statement of Changes in Equity

For the six months ended 30 September 2018

$NZ000's	Note	Share capital	Share options reserve	Redeemable preference share reserve	Foreign currency translation reserve	Retained earnings	Total equity
Balance as at 31 March 2017		**62,944**	**295**	**–**	**256**	**(44,025)**	**19,470**
Unaudited							
Six months to 30 September 2017							
Loss after tax		–	–	–	–	(6,873)	(6,873)
Other comprehensive loss		–	–	–	(10)	–	(10)
Movement in share options reserve		–	104	–	–	–	104
Preference dividends accumulated				291	–	–	291
Issue of ordinary shares	7	1,065	–	–	–	–	1,065
Capital raising expenses		(266)	–	–	–	–	(266)
Dividends paid and provided		–	–	–	–	(451)	(451)
Balance as at 30 September 2017		**63,743**	**399**	**291**	**246**	**(51,349)**	**13,330**
Unaudited							
Six months to 31 March 2018							
Loss after tax		–	–	–	–	(5,851)	(5,851)
Other comprehensive income		–	–	–	84	–	84
Movement in share options reserve		–	31	–	–	–	31
Preference dividends accumulated		–	–	192	–	–	192
Dividends paid and provided		–	–	–	–	(444)	(444)
Balance as at 31 March 2018		**63,743**	**430**	**483**	**330**	**(57,644)**	**7,342**
Unaudited							
Six months to 30 September 2018							
Loss after tax		–	–	–	–	(4,188)	(4,188)
Other comprehensive loss		–	–	–	(224)	–	(224)
Movement in share options reserve		–	91	–	–	–	91
Preference dividends accumulated		–	–	396	–	–	396
Dividends paid and provided		–	–	–	–	(457)	(457)
Balance as at 30 September 2018		**63,743**	**521**	**879**	**106**	**(62,289)**	**2,960**

Consolidated Balance Sheet

As at 30 September 2018

$NZ000's	Note	Unaudited as at 30 Sep 2018	Audited as at 31 Mar 2018	Unaudited restated as at 30 Sep 2017
Assets				
Current assets				
Inventories		27,815	24,412	23,697
Trade and other receivables		12,993	16,954	15,029
Cash and cash equivalents		7,400	6,770	7,122
Derivative assets	12	481	176	127
Total current assets		**48,689**	**48,312**	**45,975**
Non-current assets				
Property, plant and equipment		335	330	374
Intangible assets		7,089	5,118	2,744
Deferred income tax assets		800	708	342
Investment in joint venture entity	10	2,493	2,135	1,808
Total non-current assets		**10,717**	**8,291**	**5,268**
Total assets		**59,406**	**56,603**	**51,243**
Liabilities				
Current liabilities				
Trade and other payables		13,245	17,391	13,245
Provisions		1,263	1,098	1,424
Current income tax liability		–	118	–
Total current liabilities		**14,508**	**18,607**	**14,669**
Non-current liabilities				
Interest bearing liabilities	6	41,938	30,654	23,244
Total liabilities		**56,446**	**49,261**	**37,913**
Equity				
Share capital	7	63,743	63,743	63,743
Retained earnings/(losses)		(62,289)	(57,644)	(51,349)
Share options reserve		521	430	399
Redeemable preference share reserve		879	483	291
Foreign currency translation reserve		106	330	246
Total equity		**2,960**	**7,342**	**13,330**
Total liabilities and equity		**59,406**	**56,603**	**51,243**
Net tangible assets per ordinary share		$(0.04)	$0.02	$0.11

For and on behalf of the Board who authorised these financial statements for issue on 22 November 2018.

David Flacks
Chairman

Hartley Atkinson
Managing Director and
Chief Executive Officer

Consolidated Statement of Cash Flows

For the six months ended 30 September 2018

$NZ000's	Note	Unaudited 6 months ended 30 Sep 2018	Unaudited restated 6 months ended 30 Sep 2017
Cash flows from operating activities			
Receipts from customers		44,621	40,322
Interest received		16	96
Payments to suppliers and employees		(46,670)	(47,282)
Tax paid		(134)	(143)
Interest and finance cost paid		(1,640)	(671)
Net cash used in operating activities	9	**(3,807)**	**(7,678)**
Cash flows from investing activities			
Purchases of property, plant and equipment		(57)	(46)
Investment in joint venture	10	(702)	(1,797)
Purchases of intangible assets		(2,062)	(301)
Net cash used in investing activities		**(2,821)**	**(2,144)**
Cash flows from financing activities			
Proceeds from issue of share capital	7	–	1,065
Share issue costs		–	(188)
New borrowings		7,417	–
Dividends paid	8	–	(132)
Net cash generated from financing activities		**7,417**	**745**
Net increase/(decrease) in cash		789	(9,077)
Impact of foreign exchange on cash and cash equivalents		(159)	294
Opening cash and cash equivalents		6,770	15,905
Closing cash and cash equivalents		**7,400**	**7,122**

Notes to the Financial Statements

For the six months ended 30 September 2018

1. General information

AFT Pharmaceuticals Limited (the 'Company') is a company which is incorporated and domiciled in New Zealand. It is registered under the Companies Act 1993. These financial statements comprise AFT Pharmaceuticals Limited and its subsidiaries (together referred to as the Group). The Group is a pharmaceutical distributor and developer of pharmaceutical intellectual property.

These consolidated interim financial statements were approved by the Directors on 22 November 2018, and are not audited, but have been reviewed by Deloitte Limited in accordance with the New Zealand Standard on Review Engagement 2410.

2. Basis of preparation

These general purpose financial statements for the six months to 30 September 2018 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 2018, which have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

All accounting policies have been applied on a basis consistent with those used in the audited financial statements for the year ended 31 March 2018, as described in those annual financial statements, with the exceptions as described in notes 4 and 5.

3. Going concern assumption

At 30 September 2018, the Group has drawn an interest bearing loan of $41.9m ($30.7m at 31 March 2018) and held a cash balance of $7.4m ($6.8m as at 31 March 2018). During the period ended 31 March 2018 a new loan facility of US$10m was entered into, with US$5m drawn down in January 2018, and the remaining US$5m in August 2018. The Group incurred a net loss in the 6 months ended 30 September 2018 of $4.2m (30 September 2017 net loss of $6.9m) and had a net operating cash outflow for the period of $3.8m (30 September 2017 $7.7m).

The loan is due for repayment in full on 31 March 2020 (refer to note 6).

The Directors have a reasonable expectation that the Group will be in a position to repay this loan on or before 31 March 2020 from a combination of positive cash flows, issuance of new equity, if required, and refinancing from debt market sources. Accordingly, the Directors have adopted the going concern assumption for the purposes of the preparation of these financial statements.

The Company's listing on NZX and ASX, and resultant ready access to new capital support the Directors' confidence. The Directors have approved internal forecasts through to 31 March 2020, considered achievability of the assumptions under these forecasts, reviewed the existing working capital against Group requirements and considered forecast compliance with applicable debt covenants. The key revenue assumptions, which like all assumptions, are subject to a degree of uncertainty are:

- the ability to execute further licensing agreements for the key innovative products: *Maxigesic*, *Pascomer* and *NasoSURF*;
- the ability to generate future international revenues from the existing and potential licensing agreements for the key innovative products: *Maxigesic*, *Pascomer* and *NasoSURF*; and
- the continued Australian sales growth for *Maxigesic* due to the re-scheduling of codeine-based painkillers from over-the-counter to prescription only from 1 February 2018 (*Maxigesic* is codeine-free and is therefore exempt and remains available over-the-counter).

Notes to the Financial Statements (continued)

For the six months ended 30 September 2018

4. IFRS 9: Financial Instruments

This new accounting standard came into effect on 1 April 2018 and has been applied by the Group since then. As the Group does not apply hedge accounting, no reporting changes have been identified under the adoption of this standard.

5. IFRS 15: Revenue From Contracts With Customers

The Group implemented the new standard effective 1 April 2018. The new standard replaced NZ IAS 18 'Revenue' and NZ IAS 11 'Construction Contracts'. NZ IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The core principle in that framework is that revenue is recognised dependent on the transfer of promised goods or services to the customer for an amount that reflects the consideration which is expected to be received in exchange for those goods or services. The objective of the standard is to provide a five-step approach to revenue recognition that includes identifying contracts with customers, identifying performance obligations, determining transaction prices, allocating transaction prices to performance obligations, and recognising revenue when or as performance obligations are satisfied. Judgement is applied, including making estimates and assumptions for multiple-element contracts in identifying performance obligations, in constraining estimates of variable consideration and in allocating the transaction price to each performance obligation and to lease components (if any).

Changes introduced by the standard relevant to AFT

The new standard provides new requirements and additional guidance that are relevant to the AFT Group, notably in the following areas:

- "Sale of goods" are derived from the sale of pharmaceuticals where control transfers to our customer and our performance obligations are satisfied at the time of shipment to or receipt of the products by the customer.

  The revenue is recognised at the time of shipment to or receipt of the products by the customer. NZ IFRS 15 does not change the timing or amount of revenue recognised under these agreements.

- "Royalty income" consists of royalty income from the out-licensing of intellectual property (IP), which is due to the Group when the licensee has sold the product in their market.

  The revenue is recognised as it is earned based on the sales reports provided by the licensees or estimates based on previous sales reports provided by the licensees. NZ IFRS 15 has a royalty exception which applies to these revenues and it does not change the timing or amount of revenue recognised under these agreements.

  The exemption for sales-based royalties for licenses of intellectual property requires the royalty revenue to be recognised as the underlying licensee sale has been made and consequently there is no material change to amount of license income recognised under these agreements.

The Group is also developing its accounting policy for licensing income, which while currently insignificant, is expected to become increasingly important in future accounting periods.

Transition approach and use of practical expedients.

The Group has applied the full retrospective method for the transition. Certain practical expedients permitted by the standard during the transition have also been used, notably the relief to not restate contracts that began and were completed in FY2018 or were completed before 1 April 2017 and to not provide in FY2019 the disclosure requirement as per NZ IFRS 15 paragraph 120 for the comparative FY2018 period ('amount of the transaction price allocated to the remaining performance obligations').

Since the new standard, including the use of practical expedients, has not materially modified the timing or amounts of revenue recognised for FY2018 no restatement is necessary.

6. Interest bearing liabilities

$NZ000's	Unaudited as at 30 Sep 2018	Audited as at 31 Mar 2018	Unaudited as at 30 Sep 2017
CRG (Capital Royalty Group) loans	41,938	30,654	23,244

The term loan agreement with CRG commenced in May 2014 and had a facility draw down of up to USD$30 million by October 2016. USD$15 million was drawn down. Initially this facility was for a six year term with the first four years being interest only, and the principal to be repaid in equal quarterly instalments in years five and six.

In September 2017, a new loan facility of USD$10 million was entered into, which includes a minimum mandatory drawdown of USD$5 million on or before 31 March 2018. This was drawn in December 2017, and a second drawdown for the balance was made in August 2018.

The repayment terms for all facilities were amended in September 2017 to interest only until maturity, and the principal to be repaid in full on 31 March 2020.

The loans have a general security over the assets of the Group together with a group guarantee. Interest is fixed at 13.5% p.a. The loans are denominated in United States dollars (USD) and during the period NZD$3.064m was recognised as unrealised foreign exchange loss. The carrying amount of the CRG loans are substantially in line with the fair market value as at balance sheet date. At 30 September 2018 the loan balance owing was USD$27.751m (2017 USD$16.759m).

7. Share capital

FY2018:

In May 2017, the Company issued 473,181 Ordinary shares at $2.25 (AUD$2.11) each pursuant to the share purchasing plan offered to existing shareholders. This share issue raised $1.065million of additional Ordinary share equity.

FY2019:

No ordinary or preference shares have been issued in the 6 months ended 30 September 2018.

Unlisted options to acquire ordinary shares were issued under the AFT Long Term Incentive Plan. 525,000 options issued have an exercise price being $2.80. Reason for issue is to incentivise employees to grow the share price of the Company and to attract, motivate and retain employees. The options are issued on the terms of the LTI plan. Therefore vesting dates and conditions vary dependent on option holder.

8. Dividends paid

Ordinary shares

No dividends have been paid or declared for the ordinary shares.

Redeemable preference shares

The redeemable preference shares issued on 24 March 2017 attract a dividend rate of 9.4% per annum, or 25.8 cents per share per annum and fall due on a quarterly basis. For the 30 June 2018 and 30 September 2018 quarter ends, no dividends were paid and accordingly the dividends net of withholding taxes have been accumulated in the Redeemable Preference Share Reserve.

Notes to the Financial Statements (continued)

For the six months ended 30 September 2018

9. Reconciliation of loss after tax with net cash flow from operating activities

$NZ000's	Unaudited as at 30 Sep 2018	Unaudited restated as at 30 Sep 2017
Loss after tax	(4,188)	(6,873)
Non-cash items:		
Depreciation	51	60
Amortisation	90	105
Impact of Foreign Exchange on cash and cash equivalents	(159)	(209)
Share options expense	91	103
Interest costs capitalised to loan	804	532
Unrealised FX gains/(losses)	1,986	(699)
Share of JV Loss	344	616
Movement in working capital:		
Decrease/(increase) in inventories	(3,404)	(4,979)
Decrease/(increase) in trade and other receivables	4,709	4,145
Increase/(decrease) in trade and other payables	(4,014)	(636)
Increase/(decrease) in income tax	(117)	157
Net cash used in operating activities	**(3,807)**	**(7,678)**

10. Investment in joint venture partnership

$NZ000's	Unaudited as at 30 Sep 2018	Unaudited as at 30 Sep 2017
Interest in joint venture company at cost	5,046	3,140
Equity accounted earnings of joint venture partnership	(2,553)	(1,332)
Net equity investment in joint venture partnership	**2,493**	**1,808**

The joint venture partnership of the Group and its activities are as follows:

	% interest held	
Dermatology Specialties LP	50%	50%

Principal activities: Development and distribution of pharmaceuticals

Dermatology Specialties LP was incorporated on 22 June 2015. Movements in investment in the joint venture partnership during the 6 months comprise:

$NZ000's		
Balance at start of period	2,135	627
Investment during the period	702	1,797
Share of current period loss	(344)	(616)
Balance at end of period	**2,493**	**1,808**

The following table summarises the financial information relating to the Group's joint venture partnership, and represents 100% of the joint venture partnership net assets, revenues and net profits.

$NZ000's		
Extracts from joint venture partnership balance sheet (unaudited)		
Current assets	–	–
Non-current assets	2,202	2,178
Current liabilities	(96)	(181)
Non-current liabilities	–	–
Net assets	**2,106**	**1,997**

$NZ000's		
Extracts from joint venture partnership income statement (unaudited)		
Revenue	–	–
Net loss after taxation	(688)	**(1,232)**

The joint venture did not have any contingent liabilities or capital commitments at balance date (H1FY2018: nil).

Notes to the Financial Statements (continued)

For the six months ended 30 September 2018

11. Segment reporting

Unaudited September 2018 $NZ000's	Operating Segments				
	Australia	New Zealand	Southeast Asia	Rest of World	Total
Revenue – sale of goods	21,601	12,566	1,118	2,659	37,944
Revenue – royalty income	–	–	–	101	101
Revenue	**21,601**	**12,566**	**1,118**	**2,760**	**38,045**
Other income	1,860	–	–	570	2,430
Depreciation and amortisation	(10)	(128)	(3)	–	(141)
Equity accounted loss of joint venture entity	–	–	–	(344)	(344)
Loss before tax	**(519)**	**(2,862)**	**(152)**	**(731)**	**(4,264)**
Finance income	–	16	–	–	16
Finance costs	–	(2,481)	–	–	(2,481)
Other gains/(losses)	(447)	(1,278)	35	–	(1,690)
Total assets	**23,659**	**33,158**	**96**	**2,493**	**59,406**
Property, plant and equipment	51	269	15	–	335
Intangible assets	–	7,089	–	–	7,089
Investment in joint venture entity	–	–	–	2,493	2,493
Capital expenditure	**21**	**2,098**	**–**	**–**	**2,119**

Unaudited restated September 2017 $NZ000's	Australia	New Zealand	Southeast Asia	Rest of World	Total
Revenue – sale of goods	20,206	14,113	618	1,565	36,499
Revenue – royalty income	–	–	–	62	62
Revenue	**20,206**	**14,113**	**618**	**1,627**	**36,561**
Other income	–	–	–	1,014	1,014
Depreciation and amortisation	(10)	(152)	(3)	–	(165)
Equity accounted loss of joint venture entity	–	–	–	(616)	(616)
Loss before tax	**(171)**	**(2,294)**	**(371)**	**(3,737)**	**(6,573)**
Finance income	2	94	–	–	96
Finance costs	–	(1,590)	–	–	(1,590)
Other gains/(losses)	(66)	1,637	18	–	1,589
Total assets	**21,151**	**29,782**	**310**	**–**	**51,243**
Property, plant and equipment	45	309	20	–	374
Intangible assets	–	2,744	–	–	2,744
Investment in joint venture entity	–	–	–	1,808	1,808
Capital expenditure	**2**	**336**	**9**	**–**	**347**

12. 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	Sensitivity
(i) Currency risk	Exposure to changes in foreign exchange rates on assets and liabilities of the subsidiary, and USD denominated borrowings	As below
(ii) Interest rate risk	Exposure to changes in interest rates on borrowings	As below
(iii) 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 period 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 and has borrowings that are denominated in US dollar amounts. This 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 2018 (H1FY2019) net foreign exchange losses totalled $1,700,357 (H1FY2018: $1,575,660 gain) of which $3,063,766 (H1FY2018: $699,000 gain) were unrealised losses on the USD denominated CRG loan. Future revenues from markets outside Australasia will be derived in USD which will be used towards repaying this debt as it falls due. The balance of the gains/losses are derived from the restatement of the cash balances at the spot rate on the period end balance date of 30 September 2018 and the change in spot rates during the time between when expenses are recorded in the general ledger and when they are paid.

In total, the group had assets and liabilities denominated in the following currencies, as at 30 September 2018.

Assets $NZ000's	Currency	Liabilities $NZ000's
11,814	AUD	3,247
858	USD	43,233
523	MYR	62
397	SGD	58
247	EUR	2,462
2	GBP	36

A 1% increase or decrease in foreign exchange rates on assets and liabilities will reduce/increase equity by $352,000 (H1FY2018: $172,000) and reduce/increase the profit or loss by $202,000 (H1FY2018: $57,000).

Notes to the Financial Statements (continued)

For the six months ended 30 September 2018

12. Financial risk management (continued)

The following forward foreign exchange contracts were held at 30 September 2018:

Forward Foreign Exchange Contracts				
Buy currency	Buy currency amount (000's)	Sell amount $NZ000's	Mark to market 30 Sep 2018 Sell amount $NZ000's	Fair value $NZ000's
EUR	2,250	3,886	4,001	115
GBP	123	239	244	5
USD	3,070	4,250	4,570	320

Sell currency	Sell currency amount (000's)	Buy amount $NZ000's	Mark to market 30 Sep 2018 Buy amount $NZ000's	Fair value $NZ000's
AUD	2,000	2,224	2,265	41
Total benefit as at 30 September 2018:				**481**

All contracts mature within one year from 30 September 2018.

The following forward foreign exchange contracts were held at the end of the 2018 financial year:

Forward Foreign Exchange Contracts				
Buy currency	Buy currency amount (000's)	Sell amount $NZ000's	Mark to market 31 Mar 2018 Sell amount $NZ000's	Fair value $NZ000's
EUR	2,550	4,290	4,394	104
GBP	197	365	387	22
USD	6,000	8,268	8,318	50
Total benefit as at 31 March 2018:				**176**

All contracts mature within one year from 31 March 2018.

The following forward foreign exchange contracts were held at 30 September 2017:

Forward Foreign Exchange Contracts				
Buy currency	Buy currency amount (000's)	Sell amount $NZ000's	Mark to market 30 Sep 2017 Sell amount $NZ000's	Fair value $NZ000's
EUR	3,316	5,302	5,454	152
GBP	524	949	980	31
USD	5,080	7,118	7,062	(56)
Total benefit as at 30 September 2017:				**127**

All contracts mature within one year from 30 September 2017.

Interest rate risk

Borrowings are at a fixed interest rate, which exposes the Group to fair value 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 2018 with the largest debtor being $3,604,000 (H1FY2018: $3,131,000). There has been no past experience of default and no indications of default in relation to this debtor. There are no impaired receivables at 30 September 2018 (H1FY2018: nil).

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 11.4% of total assets at the Bank of New Zealand (H1FY2018: 26.5%), 1.1% at NAB Bank (H1FY2018: 3.3%) and 0% with ANZ (H1FY2018: 0%). 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. Since May 2014, there has been a $1m BNZ overdraft immediately available.

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

	Liquidity profile				
$NZ000's	< 1 year	1-2 years	2-5 years	> 5 years	Total
30 September 2018					
Trade and other payables	(13,245)	–	–	–	(13,245)
Borrowings	(3,785)	(48,776)	–	–	(52,561)
Derivative instruments (outbound)	(8,375)	–	–	–	(8,375)
Derivative instruments (inbound)	8,815	–	–	–	8,815
Totals	**(16,590)**	**(48,776)**	**–**	**–**	**(65,366)**

$NZ000's					
30 September 2017					
Trade and other payables	(13,245)	–	–	–	(13,245)
Borrowings	(2,098)	(2,176)	(28,271)	–	(32,545)
Derivative instruments (outbound)	(13,369)	–	–	–	(13,369)
Derivative instruments (inbound)	13,496	–	–	–	13,496
Totals	**(15,216)**	**(2,176)**	**(28,271)**	**–**	**(45,663)**

(b) Fair values

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

Notes to the Financial Statements (continued)

For the six months ended 30 September 2018

13. Related parties

The Group had related party relationships with the following entities:

Related party	Nature of relationship
CRG (Capital Royalty Group)	Shareholder

The following transactions were carried out with these related parties:

(i) Loans

$NZ000's	Note	Unaudited as at 30 Sep 2018	Audited as at 31 Mar 2018	Unaudited as at 30 Sep 2017
CRG (Capital Royalty Group)	6	41,938	30,654	23,244
Total loan balances		**41,938**	**30,654**	**23,244**

(ii) Key management compensation

$NZ000's	Unaudited as at 30 Sep 2018	Audited as at 31 Mar 2018	Unaudited as at 30 Sep 2017
Directors' fees	146	286	143
Executive salaries	540	1,084	527
Short term benefits	187	127	134
Share options expense	15	29	30
Key management compensation	**888**	**1,526**	**834**

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. The Chief of Staff is the spouse of the Chief Executive Officer.

14. Correction of error and change in classification

During 2018, the Group modified the classification of provisions for customer rebates from "Provisions" to "Trade and other receivables" to reflect more appropriately the receipts expected from customers.

Comparative amounts in the Balance Sheet were restated for consistency. As a result, as at 30 September 2017, $1,686k was reclassified from 'Provisions' to 'Trade and other receivables".

During 2018, the Group determined that goods in transit should be accounted for according to Incoterms, other than for specific ownership terms in the contracts. Previously, the Group recognised inventory once it had inspected and accepted the goods as per its rights under the contracts. As a result of this change, as at 30 September 2017 there was $2,560k of goods in transit which had not been recorded. As a consequence, inventories and trade and other payables were understated. The change has been recorded in these financial statements by restating each of the affected financial statement line items for prior periods.

The following table summarises the impact of the above changes on the Group's consolidated financial statements.

Consolidated balance sheet

	Impact of correction of error		
	As previously reported	Adjustments	As restated
30 September 2017			
Inventories	21,137	2,560	23,697
Trade and other receivables	16,640	(1,611)	15,029
Cash	7,197	(75)	7,122
Derivative assets	127	–	127
Total current assets	**45,101**	**874**	**45,975**
Total assets	**50,369**	**874**	**51,243**
Trade and other payables	10,685	2,560	13,245
Provisions	3,110	(1,686)	1,424
Total current liabilities	**13,795**	**874**	**14,669**
Total liabilities	**37,039**	**874**	**37,913**

There is no impact on the Group's total equity, basic or diluted earnings per share, net tangible assets per ordinary share, total comprehensive loss or cash flows for the year ended 30 September 2017.

15. Contingent liabilities

In May 2015, AFT Pharmaceuticals Ltd signed as guarantor of AFT Pharmaceuticals Pty Ltd for its 5-year lease contract for the premises occupied in Sydney, Australia. AFT Pharmaceuticals Pty Ltd has placed AUD$75,000 on term deposit with NAB in favour of the landlord of the business premises to support this guarantee. The company has placed NZD$75,000 on term deposit with the BNZ. This sum is security for a guarantee issued by the BNZ in favour of the NZX, should the company ever default on any of its payment obligations to NZX.

16. Capital commitments

The Group has no capital commitments at 30 September 2018 (31 March 2018: nil: 30 September 2017: nil).

17. Subsequent events

There were no material events occurring after balance date and before the date of approval of the financial statements requiring recognition or disclosure.

Deloitte.

INDEPENDENT REVIEW REPORT
TO THE SHAREHOLDERS OF AFT PHARMACEUTICALS LIMITED

We have reviewed the condensed consolidated interim financial statements of AFT Pharmaceuticals Limited and its subsidiaries ('the Group') which comprise the consolidated balance sheet as at 30 September 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 9 to 23.

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 opinions we have formed.

Board of Directors' Responsibilities

The Board of Directors are responsible for the preparation and fair presentation of the condensed consolidated 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 Board of Directors determine is necessary to enable the preparation and fair presentation of the condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Our Responsibilities

Our responsibility is to express a conclusion on the condensed consolidated interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ('NZ SRE 2410'). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated 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*. As the auditor of AFT Pharmaceuticals Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of the condensed consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs 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). Accordingly we do not express an audit opinion on those financial statements.

Other than in our capacity as auditor and the provision of taxation services, 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 September 2018 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*.

Deloitte Limited

Chartered Accountants
Auckland, New Zealand
22 November 2018

This review report relates to the unaudited condensed consolidated interim financial statements of AFT Pharmaceuticals Limited for the six months ended 30 September 2018 included on AFT Pharmaceuticals Limited's website. The Board 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 22 November 2018 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.

NZX WAIVER

On 21 December 2015, NZX granted the Company a waiver (Original Waiver) from NZX Main Board Listing Rule 5.2.3 in respect of its quoted shares (Shares) for a period of 12 months to the extent the Rule required the Company to have at least 25% of Shares held by Members of the Public holding at least a Minimum Holding (as that term is defined in the NZX Main Board Listing Rules). The Original Waiver has expired. On 21 December 2016, a further waiver from NZX Main Board Listing Rule 5.2.3 was granted to AFT for an additional 12 month period. This waiver was renewed by NZX Regulation for a further 12 month period on 20 December 2017.

The waiver was granted on the following conditions:

- NZX receives an undertaking from the Atkinson Family Trust (AF Trust) that it will not increase its holding in AFT during the term of the waiver, otherwise than as a result of an allotment pursuant to an offer or issue of shares that is made pro-rata to all AFT shareholders;
- At least 10% of shares are held by more than 500 Members of the Public, with each Member of the Public holding at least a Minimum Holding;
- AFT clearly and prominently discloses this waiver, its conditions, and its implications in AFT's half year and annual reports, and in any Offer Documents relating to any offer of shares undertaken by AFT, during the period of the waiver;
- AFT consistently monitors the total number of Members of the Public holding shares and the percentage of shares held by Members of the Public holding at least a Minimum Holding;
- AFT notifies NZX as soon as practicable if there is any material reduction to the total number of Members of the Public holding at least a Minimum Holding of shares, and/or the percentage of shares held by Members of the Public holding at least a Minimum Holding; and
- AFT provides NZX with a written quarterly update of the total number of Members of the Public holding shares holding at least a Minimum Holding and the percentage of shares held by Members of the Public holding at least a Minimum Holding. The quarterly updates are from the date the waiver is granted, for the period of the waiver. The updates are to be provided to NZX within ten business days of the end of each quarter.
- AFT provides NZX, with the second quarterly update, an update on the proposed initiatives AFT intends to undertake to materially increase the percentage of shares held by Members of the Public before the expiry of the waiver.

The implication of the waiver is that the Shares may not be widely held and that there may be reduced liquidity in the Shares following quotation. A copy of each waiver can be viewed at www.aftpharm.com.

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 date of this Interim Report)	Dr Hartley Atkinson Marree Atkinson Dr James (Jim) Burns David Flacks Nathan (Nate) Hukill Jon Lamb Dr Douglas (Doug) Wilson
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 3067, Australia +61 3 9415 4083 enquiry@computershare.co.nz
Auditor	Deloitte Deloitte Centre, 80 Queen Street, Auckland 1140, New Zealand +64 9 303 0700

AFT *pharmaceuticals*

Working to improve your health