



Condensed Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED
30 SEPTEMBER 2019



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 2019, and 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 24.

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 these 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 2019 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*.

This review report relates to the unaudited condensed consolidated interim financial statements of AFT Pharmaceuticals Limited for the six months ended 30 September 2019 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 the entity'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 21 November 2019 to confirm the information included in

**Material uncertainty related to going concern**

We draw attention to the going concern disclosure in note 3 in the condensed consolidated interim financial statements, which indicates there is a material uncertainty concerning the Group's ability to repay its existing interest bearing liabilities which mature on 31 March 2020. Note 3 sets out the Group's plans to repay these interest bearing liabilities through a combination of new financing, generating sufficient operating cash flows and raising additional funds from issuing new shares if necessary. As stated in note 3, these events or conditions, along with other matters as set forth in note 3, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Deloitte Limited

**Jason Stachurski, Partner
for Deloitte Limited**
Auckland, New Zealand
21 November 2019

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Consolidated Income Statement

For the Six Months Ended 30 September 2019

\$NZ000's	Note	Unaudited 6 Mths Ended 30-Sep-19	Unaudited 6 Mths Ended 30-Sep-18
Revenue	13	46,946	38,441
Cost of sales		(25,598)	(20,292)
Gross Profit		21,348	18,149
Other income		336	2,034
Selling and distribution expenses		(12,938)	(14,234)
General and administrative expenses		(4,536)	(3,489)
Research and development expenses		(223)	(2,225)
Equity accounted loss of joint venture entity	12	(81)	(344)
Gain on derecognition of equity accounted investment and recognition of net assets acquired at fair value in a step acquisition	4	9,785	-
Operating Profit/(Loss)		13,691	(109)
Finance income		14	16
Interest expense		(3,425)	(2,481)
Other finance costs		(369)	(1,690)
Profit/(Loss) before tax		9,911	(4,264)
Tax credit / (expense)		(5)	76
Profit/(Loss) after tax attributable to owners of the parent		9,906	(4,188)
Basic and diluted earnings/(loss) per share (\$)		0.10	(0.04)

Consolidated Statement of Comprehensive Income

For the Six Months Ended 30 September 2019

	Unaudited 6 Mths Ended 30-Sep-19	Unaudited 6 Mths Ended 30-Sep-18
\$NZ000's		
Profit/(Loss) after tax	9,906	(4,188)
Other comprehensive (loss)/income		
May be subsequently reclassified to profit and loss:		
Foreign currency translation reserve	(245)	(224)
Other comprehensive profit/(loss) for the period, net of tax	(245)	(224)
Total comprehensive profit/(loss) for the period attributable to owners of the parent	9,661	(4,412)

Consolidated Statement of Changes in Equity

For the Six Months Ended 30 September 2019

\$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 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
Unaudited							
Six months to 31 March 2019							
Profit after tax		-	-	-	-	1,761	1,761
Other comprehensive income		-	-	-	325	-	325
Movement in share options reserve		-	161	-	-	-	161
Preference dividends accumulated		-	-	362	-	-	362
Dividends paid and provided*		-	-	-	-	(478)	(478)
Balance as at 31 March 2019		63,743	682	1,241	431	(61,006)	5,091
Unaudited							
Six months to 30 September 2019							
Profit after tax		-	-	-	-	9,906	9,906
Other comprehensive loss		-	-	-	(245)	-	(245)
Movement in share options reserve		-	68	-	-	-	68
Preference dividends accumulated		-	-	254	-	-	254
Dividends paid and provided*	11	-	-	-	-	(492)	(492)
Balance as at 30 September 2019		63,743	750	1,495	186	(51,592)	14,582

* Dividends paid and provided relate to the Redeemable preference shares

Consolidated Balance Sheet

As at 30 September 2019

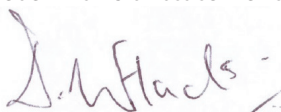
\$NZ000's	Note	Unaudited As at 30-Sep-19	Audited As at 31-Mar-19	Unaudited As at 30-Sep-18
ASSETS				
Current assets				
Inventories		26,835	25,158	27,815
Trade and other receivables		19,998	19,187	12,993
Cash and cash equivalents		7,308	6,916	7,400
Derivative assets	14	665	-	481
Total current assets		54,806	51,261	48,689
Non-current assets				
Property, plant and equipment		350	357	335
Intangible assets	4	23,410	8,239	7,089
Right of use assets	5	3,954	-	-
Deferred income tax assets		710	705	800
Investment in joint venture entity	12	-	3,033	2,493
Total non-current assets		28,424	12,334	10,717
Total assets		83,230	63,595	59,406
LIABILITIES				
Current liabilities				
Trade and other payables		16,071	15,098	13,245
Provisions		2,602	1,270	1,263
Lease liabilities		534	-	-
Current income tax liability		-	145	-
Derivative liabilities	14	-	241	-
Interest bearing liabilities	8	45,808	41,750	-
Total current liabilities		65,015	58,504	14,508
Non-current liabilities				
Lease liabilities		3,633	-	-
Interest bearing liabilities	8	-	-	41,938
Total liabilities		68,648	58,504	56,446
EQUITY				
Share capital	9	63,743	63,743	63,743
Retained earnings/(losses)		(51,592)	(61,006)	(62,289)
Share options reserve		750	682	521
Redeemable preference share reserve		1,495	1,241	879
Foreign currency translation reserve		186	431	106
Total equity		14,582	5,091	2,960
Total liabilities and equity		83,230	63,595	59,406
Net tangible assets per ordinary share		(\$0.09)	(\$0.03)	(\$0.04)

For and on behalf of the Board who authorised these financial statements for issue on 21 November 2019



Hartley Atkinson

Managing Director and Chief Executive Officer



David Flacks

Chairman

Consolidated Statement of Cash Flows

For the Six Months Ended 30 September 2019

\$NZ000's	Note	Unaudited 6 Mths Ended 30-Sep-19	Unaudited 6 Mths Ended 30-Sep-18
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		46,833	44,621
Payments to suppliers and employees		(40,548)	(46,670)
Tax paid		(150)	(134)
Net cash from/(used in) operating activities	11	6,135	(2,183)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(50)	(57)
Investment in Joint Venture	12	-	(702)
Investment in intangible assets		(2,720)	(2,062)
Net cash used in investing activities		(2,770)	(2,821)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest received		14	16
Interest and finance cost paid	5	(2,618)	(1,640)
Right of use lease interest paid	5	(152)	-
Right of use lease liability paid	5	(292)	-
Borrowings repaid	8	(14,493)	-
New Borrowings	8	15,000	7,417
Dividends paid	10	(237)	-
Net cash from/(used in) financing activities		(2,778)	5,793
Net increase/(decrease) in cash		587	789
Impact of foreign exchange on cash and cash equivalents		(195)	(159)
Opening cash and cash equivalents		6,916	6,770
Closing cash and cash equivalents		7,308	7,400

Notes to the Financial Statements

For the Six Months Ended 30 September 2019

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 condensed consolidated interim financial statements were approved by the Directors on 21 November 2019, 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

These general purpose financial statements for the six months to 30 September 2019 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 2019, 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 financial statements as compared to the audited financial statements for the year ended 31 March 2019, as described in those annual financial statements, with the exception of the treatment of lease contracts as required under the adoption of NZ IFRS 16 Leases. Further detail is presented in note 5

3. GOING CONCERN ASSUMPTION

At 30 September 2019, the Group has an interest bearing loan from CRG of \$30.8m (\$41.8m at 31 March 2019), an interest bearing loan of \$15.0m from Bank of New Zealand (BNZ) (\$Nil at 31 March 2019) and held a cash balance of \$7.3m (\$6.9m as at 31 March 2019). The movements in the CRG loan during the year came from a repayment of \$14.5m, capitalised interest of \$0.7m and the balance from movement in foreign currency exchange rates. The borrowing from BNZ was used for the principal repayment amount of the CRG loan.

The Group generated an operating profit for the 6 months ended 30 September 2019 of \$13.7m, (30 September 2018, loss of \$0.1m) and a net operating cash inflow for the 6 months ended 30 September 2019 of \$6.1m (30 September 2018, outflow of \$2.2m).

The CRG and BNZ loans are due for repayment in full on 31 March 2020 (refer to note 8).

The Directors have a reasonable expectation that the Group will be in a position to repay these loans on or before 31 March 2020 from a combination of positive operating cash flows, refinancing from debt market sources and issuance of new equity, if required. Accordingly, the Directors have adopted the going concern assumption for the purposes of the preparation of these financial statements. The directors are conscious that their reasonable expectations are based on what they consider to be the likely outcomes of these

Notes to the Financial Statements (continued)

For the Six Months Ended 30 September 2019

GOING CONCERN ASSUMPTION (continued)

future events and for this reason they consider that a material uncertainty exists which may cast significant doubt on the Group's ability to continue as a going concern and therefore may result in the Group's inability to realise its assets and settle its liabilities in the normal course of business.

Positive operating cash flows

The Directors have approved internal forecasts for the 18 months through to 31 March 2021, considered achievability of the assumptions under these forecasts, tested for sensitivity, reviewed the existing working capital against Group requirements and considered forecast compliance with applicable and anticipated debt covenants. The forecasts for both financial years 2020 and 2021 indicate the continuation of positive operating cash flow surpluses and profit after tax. The key revenue assumptions, which like all assumptions, are subject to a degree of uncertainty are:

- The launch of Maxigesic into further new licensed markets. It is currently sold in 24 countries and there are currently confirmed orders for a further nine countries. It is licensed for 125+ countries.
- the continued sales growth for the Group's range of products in Australia. Sales growth in Australia for the six months ended 30 September 2019 was 19%.

In addition, the Group is confident of its ability to execute further licensing agreements and to generate future international revenues for the key innovative products: Maxigesic, Pascomer and NasoSurf. Given the uncertainty on the timing of these, they have not been included in the forecast assumptions other than for a small amount of upfront license income for Maxigesic.

Refinancing from debt market sources

The Group expects to have a new long term facility in place with a local commercial bank prior to or on 31 March 2020 which, together with the positive operating cash flow surpluses, will enable full repayment of the CRG & BNZ loans on 31 March 2020. The Group is currently in discussion with local commercial banks, and has received indicative term sheets.

As an interim step towards this and in order to reduce the cost of interest, the Group on 21 May 2019 established a \$15m interim facility, which matures on 31 March 2020, from the BNZ utilising the existing security arrangements and has repaid \$14.5m (US\$9.5m) of the CRG loan, as noted above in discussing the movements in the CRG loan.

Issuance of new equity

The Directors are confident that having raised capital most recently in May 2017, new capital could be accessed through the Company's listing on NZX and ASX, if required.

4. SIGNIFICANT TRANSACTIONS AND EVENTS FOR THE CURRENT PERIOD

The joint venture, Dermatology Specialties Limited Partner ("DSLPL"), was originally formed in June 2015 for the development and commercialisation of the product, Pascomer, which uses the active ingredient Rapamycin for the topical treatment of indications commencing with facial angiofibromas in tuberous sclerosis. DSLPL has been equity accounted prior to acquisition with the investment at 31 March 2019 being carried at \$3.0m.

The Group acquired the remaining 50% of DSLP and its general partner DSGP Limited, from its joint venture partner Tardimed Sciences LLC on 5 July 2019 and these have been fully consolidated from this date.

As a result of the transaction, the Group retained the rights to the intellectual property, future product sales and royalties. Timber Pharmaceuticals LLC (“Timber”), of which Tardimed Sciences LLC is the shareholder, acquired the North-American distribution rights. This transaction did not require any cash payment by the Group.

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

The Group has engaged external independent valuers to assist in determining the fair value of the Pascomer intellectual property. Taking into account the inherent uncertainties of both the successful conclusion of clinical trials and the successful registration with orphan status, the Group has determined the provisional fair value of the Pascomer intellectual property to be \$12.5m.

The following provisional fair values have been recognised in the consolidated condensed interim financial statements in respect of DSLP:

Intangible asset – Pascomer IP	\$12.5m
Inventory	\$0.3m
Trade marks	\$0.1m
Gain on derecognition of equity accounted investment and recognition of net assets acquired at fair value in a step acquisition	\$9.8m

As a result of this transaction, intangible assets have increased by \$12.5m. The remaining increase in intangible assets relate to capitalised registration and development costs, patents and trademarks acquired which are not connected with the transaction described above.

5. ADOPTION OF NEW AND REVISED STANDARDS

NZ IFRS 16: LEASES

General impact of the new NZ IFRS 16

NZ IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. NZ IFRS 16 supersedes the previous lease guidance including NZ IAS 17 Leases and the related interpretations when it became effective for accounting periods beginning on or after 1 January 2019. The date of initial application of NZ IFRS 16 for the Group was 1 April 2019.

The Group has chosen not to adopt the full retrospective application of NZ IFRS 16 in accordance with NZ IFRS 16:C5(a). Consequently, the Group will not restate the comparative information. For the adoption of NZ IFRS 16 the Group has used practical expedients to not reassess whether a contract is, or contains, a lease at the date of initial application. Also it made use of the practical expedient to not make any adjustment on transition for leases for which the underlying assets are of low value.

Notes to the Financial Statements (continued)

For the Six Months Ended 30 September 2019

SIGNIFICANT TRANSACTIONS AND EVENTS FOR THE CURRENT PERIOD (continued)

Impact of the new NZ IFRS 16 definition of a lease

The change in definition of a lease mainly relates to the concept of control. NZ IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has, throughout the period of use

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

Impact on Lessee Accounting

NZ IFRS 16 changes how the Group accounts for leases previously classified as operating leases under NZ IAS 17, which were off-balance sheet.

At transition date, the Group recorded right-of-use assets of \$4,119k (at balance date \$3,954k) and lease liabilities of \$4,260k (at balance date \$4,167), with the previously held lease incentive of \$141k written off against the right-of-use assets. There was no impact on retained earnings.

On initial application of NZ IFRS 16, for all leases (except as noted below), the Group has:

- a) Recognised right-of-use assets and lease liabilities in the consolidated balance sheet, initially measured at the present value of the future lease payments;
- b) Recognised depreciation of right-of-use assets and interest on lease liabilities in the consolidated income statement;
- c) Separated the total amount of cash paid into a principal portion and interest, both presented within financing activities in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) have been recognised as part of the measurement of the right-of-use assets whereas under NZ IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under NZ IFRS 16, right-of-use assets are tested for impairment in accordance with NZ IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group has opted to recognise a lease expense on a straight-line basis as permitted by NZ IFRS 16. This expense is presented within general and administrative expenses in the consolidated income statement.

The table below shows the amount of adjustment for each financial statement line item affected by the application of NZ IFRS 16 for the current reporting period.

Unaudited 6
months ended
30-Sep-19

\$NZ000's

Impact on income statement

Impact on profit (loss) for the period

Increase/(decrease) in general and administration expenses	(80)
Increase/(decrease) in interest expense	152
Increase (decrease) in profit for the year	<u>(72)</u>

Impact on earnings per share

<i>Basic</i>	-
<i>Diluted</i>	-

The application of NZ IFRS 16 has an impact on the consolidated statement of cash flows of the Group. Under NZ IFRS 16:

- Payments for short-term leases and leases of low-value assets and variable leases payments not included in the measurement of the lease liability have been included in payments to suppliers and employees within the operating activities.
- Cash payments for the interest portion of lease liability are included as part of financing activities.
- Cash payments for the principal portion of lease liability are included as part of financing activities.

Under NZ IAS 17, all lease payments for operating leases were presented as part of cash flows from operating activities. Consequently, the net cash generated by operating activities has increased by \$444,000 and net cash used in financing activities has increased by the same amount.

AFT have examined its current borrowing structure and taken into account both current and forecast economic conditions, costs of capital and a premium for its risk profile. This has resulted in differing Incremental borrowing rates (IBR) for premises and other leases, and different rates in NZ and AU, as per the following table:

NZ – Buildings	– 7.00%
NZ – Vehicles and equipment	– 8.00%
AU – Buildings	– 7.30%
AU – Vehicles and equipment	– 8.50%

These IBR were used by the Group to calculate the lease liability at the date of initial application. The Group used different rates due to the difference in nature of the assets and their geographic location. The weighted average incremental borrowing rate is 7.27%.

Notes to the Financial Statements (continued)

For the Six Months Ended 30 September 2019

SIGNIFICANT TRANSACTIONS AND EVENTS FOR THE CURRENT PERIOD

The Group has used the practical expedient of applying a single discount rate to a portfolio of assets in each country where it holds right-of-use assets. In determining the discount rate to use, Management reviewed publicly available rates for Government bonds, BNZ Swap rates and Treasury risk free discount rates and then applied an adjustment to these rates to allow for a company specific credit risk. The Group does not consider any of its leases to be onerous.

At 31 March 2019, AFT disclosed lease commitments of \$3,243,000. As at 1 April 2019, the value of leases discounted at the incremental borrowing rate at the date of initial application was \$4,119,000. The IFRS inclusion of likely future lease renewals has impacted due to a longer lease being envisaged.

6. SIGNIFICANT ACCOUNTING POLICIES

The Group as lessee

The following accounting policy has been adopted since 1 April 2019.

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

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

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

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

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

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

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

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

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

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

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

The Group applies NZ IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the “property, plant and equipment” policy in the financial statements dated 31 March 2019.

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

7. SEASONALITY OF OPERATIONS

The Group currently earns most of its incomes from the Australian and New Zealand markets. Seasonal factors means that revenues and operating profits are expected to be higher in the second half, than those of the first 6 months. In the financial year ended 31 March 2019, 45% of revenues accumulated in the first half and 55% accumulated in the second half.

Notes to the Financial Statements (continued)

For the Six Months Ended 30 September 2019

8. INTEREST BEARING LIABILITIES

\$NZ000's	Unaudited As at 30-Sep-19	Audited As at 31-Mar-19	Unaudited As at 30-Sep-18
Bank of New Zealand	15,000	-	-
CRG (Capital Royalty Group) loans	30,808	41,750	41,938
Total	45,808	41,750	41,938

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

In May 2019, the Group entered a term loan agreement with BNZ for \$15.0m, repayable on 31 March 2020. This enabled the Group to repay \$14.5m (US\$9.5m) of the CRG principal owed.

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. on the CRG loan, and at base + margin for the BNZ loan which floats every renewal period (generally two months). The CRG loans are denominated in United States dollars (USD) and during the period NZ\$2.876m 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 2019 the CRG loan balance owing was \$30.808m (H1 FY2019 \$41.938m).

9. SHARE CAPITAL

Ordinary shares

No ordinary or redeemable preference shares have been issued in the six months ended 30 September 2019.

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 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. The options vest over up to four years from date of issue.

Redeemable preference shares

The redeemable preference shares, issued in March 2017, attract a dividend of 9.4% accruing quarterly, which may be satisfied in cash either in full or in part or deferred indefinitely at the Company's absolute discretion.

They do not carry any right to vote except at meetings of an 'interest group' of holders of redeemable shares.

They may be redeemed at the option of the Company at any time two years or more after issue. On redemption, the Company would pay the issue price plus unpaid dividends accrued to the date of

redemption. The redemption can only be settled in cash.

After three years from issue, they may be converted to ordinary shares at the option of the holder in multiples of 100,000. The holder would receive one ordinary share for every redeemable share held and a number of ordinary shares calculated by dividing the amount of any accumulated dividends by the issue price. Conversion of the redeemable preference shares may only be settled through the issuance of shares. Once the holder has elected to convert, neither the issuer nor the holder can be obligated to settle in any other manner.

10. 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 2019 and 30 September 2019 quarter ends, a total of \$237,310 of dividends were paid (inclusive of withholding taxes) and \$254,716 has been accumulated in the Redeemable Preference Share Reserve.

11. RECONCILIATION OF LOSS AFTER TAX WITH NET CASH FLOW FROM OPERATING ACTIVITIES

	Unaudited As at 30-Sep-19	Unaudited As at 30-Sep-18
\$NZ000's		
Profit/(Loss) after tax	9,906	(4,188)
Non-cash items:		
Depreciation	417	51
Amortisation	109	90
Impact of Foreign Exchange on cash and cash equivalents	195	159
Share options expense	68	91
Interest and finance expenses	3,425	2,470
Unrealised FX (gains) / losses	2,824	2,236
Share of JV Loss	81	344
Gain on derecognition of equity accounted investment and recognition of net assets acquired at fair value in a step acquisition	(9,785)	-
Interest income	(14)	(16)
Movement in working capital:		
Decrease/(increase) in inventories	(1,678)	(3,404)
Decrease/(increase) in trade and other receivables	(1,477)	3,996
Increase/(decrease) in trade and other payables	2,063	(4,014)
Net cash from/(used in) operating activities	6,134	(2,183)

Notes to the Financial Statements (continued)

For the Six Months Ended 30 September 2019

12. INVESTMENT IN JOINT VENTURE PARTNERSHIP

\$NZ000's	Unaudited As at 30-Sep-19	Unaudited As at 30-Sep-18
Interest in joint venture company at cost	-	5,046
Equity accounted earnings of joint venture partnership	-	(2,553)
Net equity investment in joint venture partnership	-	2,493

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

	% Interest Held	% Interest Held
Dermatology Specialties LP	100%	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:

Balance at start of period	3,033	2,135
Investment during the period		702
Share of current period loss	(81)	(344)
Derecognition on acquisition of controlling interest	(2,952)	-
Balance at end of period	-	2,493

13. OPERATING SEGMENTS

\$NZ000's	Australia	New Zealand	Southeast Asia	Rest of World	TOTAL
Unaudited					
Sep-19					
Revenue - sale of goods	25,697	13,691	2,369	2,533	44,290
Revenue - royalty income	-	-	-	124	124
Revenue - licensing	-	-	-	2,532	2,532
Revenue	25,697	13,691	2,369	5,189	46,946
Other income	-	142	-	194	336
Depreciation and amortisation	(232)	(292)	(2)	-	(526)
Equity accounted loss of joint venture entity	-	-	-	(80)	(80)
Gain on derecognition of equity accounted investment and recognition of net assets acquired at fair value in a step acquisition	-	-	-	9,784	9,784
Operating profit/(loss)	1,861	1,651	98	10,081	13,691
Finance income	-	14	-	-	14
Interest expense	(43)	(3,382)	-	-	(3,425)
Other gains/(losses)	(744)	273	102	-	(369)
Gain / (Loss) before tax	1,074	(1,444)	200	10,081	9,911
Total Assets	22,957	47,558	215	12,500	83,230
Property, plant and equipment	46	291	13	-	350
Intangible assets	-	10,910	-	12,500	23,410
RTU assets	1,086	2,868	-	-	3,954
Investment in joint venture entity	-	-	-	-	-
Capital expenditure	7	2,760	3	-	2,770
Unaudited					
Sep-18					
Revenue - sale of goods	21,601	12,566	1,118	2,659	37,944
Revenue - royalty income	-	-	-	101	101
Revenue - licensing	-	-	-	396	396
Revenue	21,601	12,566	1,118	3,156	38,441
Other income	1,860	-	-	174	2,034
Depreciation and amortisation	(10)	(128)	(3)	-	(141)
Equity accounted loss of joint venture entity	-	-	-	(344)	(344)
Operating profit/(loss)	(72)	881	(187)	(731)	(109)
Finance income	-	16	-	-	16
Interest expense	-	(2,481)	-	-	(2,481)
Other gains/(losses)	(447)	(1,278)	35	-	(1,690)
Gain / (Loss) before tax	(519)	(2,862)	(152)	(731)	(4,264)
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

Notes to the Financial Statements (continued)

For the Six Months Ended 30 September 2019

14. 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) Foreign exchange 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 2019 (H1 FY2020) net foreign exchange losses totaled \$368,637 (H1 FY2019: \$1,700,357 gain) of which \$2,875,747 (H1 FY2019: \$3,063,766 gain) were unrealised losses on the USD denominated CRG loan. Future revenues derived in USD and EUR 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 2019 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 2019:

Assets NZD\$'000	Currency	Liabilities NZD\$'000
8,771	AUD	2,009
4,768	USD	32,169
700	MYR	1
1,618	SGD	227
1,095	EUR	1,707
-	GBP	128

The following forward foreign exchange contracts were held at 30 September 2019:

Forward Foreign Exchange Contracts				
Buy Currency	Buy Currency Amount ('000)	Sell Amount NZD ('000)	Mark to Market 30/9/19 Sell amount NZD ('000)	Fair Value NZD ('000)
EUR	3,665	6,372	6,302	70
GBP	252	486	476	10
USD	6,590	9,304	8,719	585
Total benefit as at 30 September 2019:				665

All contracts mature within one year from 30 September 2019.

The following forward foreign exchange contracts were held at 31 March 2019:

Forward Foreign Exchange Contracts				
Buy Currency	Buy Currency Amount ('000)	Sell Amount NZD ('000)	Mark to Market 31/3/19 Sell amount NZD ('000)	Fair Value NZD ('000)
EUR	3,300	5,735	5,963	(228)
GBP	155	302	305	(3)
USD	4,205	6,192	6,202	(10)
Total liability as at 31 March 2019:				(241)

All contracts mature within one year from 31 March 2019.

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

Forward Foreign Exchange Contracts				
Buy Currency	Buy Currency Amount ('000)	Sell Amount NZD ('000)	Mark to Market 30/9/18 Sell amount NZD ('000)	Fair Value NZD ('000)
EUR	2,250	3,886	3,771	115
GBP	123	239	234	5
USD	3,070	4,250	3,930	320
Sell Currency	Sell Currency Amount ('000)	Buy Amount NZD ('000)	Mark to Market 30/9/18 Sell amount NZD ('000)	Fair Value NZD ('000)
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.

Notes to the Financial Statements (continued)

For the Six Months Ended 30 September 2019

FINANCIAL RISK MANAGEMENT (continued)

- **Interest rate risk**

USD 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. The BNZ loan is priced at base + margin which floats every renewal period (generally two months).

- **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 2019 with the largest debtor being \$2,966,000 (H1 FY 2019: \$3,604,000). 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 4.3% of total assets at the Bank of New Zealand (H1 FY2019: 11.4%), 4.3% at NAB Bank (H1 FY2019: 1.1%). 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:

Liquidity profile					
	< 1 year	1-2 years	2-5 years	> 5 years	TOTAL
30 September 2019	\$000	\$000	\$000	\$000	\$000
Trade and other payables	(18,673)	-	-	-	(18,673)
Lease liabilities	(534)	(438)	(1,065)	(2,130)	(4,167)
Borrowings (including interest)	(47,640)	-	-	-	(47,640)
Derivative instruments (outbound)	(16,162)	-	-	-	(16,162)
Derivative instruments (inbound)	16,827	-	-	-	16,827
Totals	(66,182)	(438)	(1,065)	(2,130)	(69,815)
30 September 2018	\$000	\$000	\$000	\$000	\$000
Trade and other payables	(14,508)	-	-	-	(14,508)
Borrowings (including interest)	(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)

(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.

15. RELATED PARTIES

The Group had related party relationships with the following entities:

<u>Related party</u>	<u>Nature of relationship</u>
CRG (Capital Royalty Group)	Shareholder of both ordinary and redeemable preference shares
Atkinson Family Trust	Shareholder of both ordinary and redeemable preference shares

The following transactions were carried out with these related parties:

		Unaudited As at 30-Sep-19	Audited As at 31-Mar-19	Unaudited As at 30-Sep-18
(i) Loans				
<u>\$NZ000's</u>	<u>Note</u>			
CRG	8	30,808	41,750	41,938
Total loan balances		30,808	41,750	41,938
(ii) Interest expense				
CRG	8	2,803	5,238	2,481
(iii) Dividends on redeemable preference shares				
CRG		383	726	356
Atkinson Family Trust		108	209	101
(iv) Key management compensation				
		Unaudited As at 30-Sep-19	Audited As at 31-Mar-19	Unaudited As at 30-Sep-18
<u>\$NZ000's</u>				
Directors fees		146	292	146
Executive salaries		551	1,078	540
Short term benefits		230	190	187
Share Options Expense		16	126	15
Key management compensation		943	1,686	888

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.

16. 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 AU\$75,000 on term deposit with NAB in favour of the landlord of the business premises to support this guarantee. The company has placed NZ\$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.

Notes to the Financial Statements (continued)

For the Six Months Ended 30 September 2019

17. CAPITAL COMMITMENTS

The Group has no capital commitments at 30 September 2019 (31 March 2019: nil; 30 September 2018: nil).

18. 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.

