

AFT PHARMACEUTICALS LIMITED

# Interim Report 2018

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**Full report available online  
at [investors.aftpharm.com](https://investors.aftpharm.com)**

**Note: \$ in this report are NZ\$  
unless otherwise stated.**

# Financial Calendar

<b>Half-Year End</b>	30 September 2017
<b>Interim Results Announcement</b>	23 November 2017
<b>Financial Year End</b>	31 March 2018
<b>Annual Results Announcement</b>	May 2018
<b>Annual Meeting</b>	August 2018

This Interim Report is dated 23 November 2017.

Signed on behalf of the Board of  
AFT Pharmaceuticals Limited by:



**David Flacks**  
Chairman



**Hartley Atkinson**  
Managing Director and  
Chief Executive Officer

# Key Highlights



## Operating Revenues

Operating Revenues of \$36.6m for the first half of FY2018 to 30 September 2017 (H1FY18) were up 23% over the corresponding six month period ended 30 September 2016 (H1FY17) previous corresponding period (PCP).



## Maxigesic

*Maxigesic* is now being sold in ten countries – Australia, Brunei, Israel, Italy, Malta, New Zealand, Serbia, Singapore, United Kingdom and United Arab Emirates. Further country launches are in progress.

*Maxigesic* is licensed in 124 countries up from 110 in FY2017.



## Clinical Studies

Product clinical studies on track with ten being conducted in FY2018.



## NasoSURF

*NasoSURF* development is on track with Class I Medical Device completed in the key US market and the Class II FDA development pathway now confirmed. Pilot production batches are about to commence.



## Research and Development

Research and Development investment in our key global products has increased to \$5.6m<sup>1</sup> for the six months (PCP \$4.5m) and represents 15% of Operating Revenue (PCP 15%). We have successfully concluded our largest clinical trial, the Phase 3 for the intravenous (IV) form of *Maxigesic*. The completion of this study along with the *Maxigesic* Oral Liquid study represents a significant amount of our clinical trial expenditure planned at IPO.



## Operating Loss

The Operating Loss of \$6.7m (PCP \$8.4m) has reduced with the growth in Operating Revenues and an improved Gross profit margin partially offset by the increased investment in Research and Development.



## Cash Available

Cash available at 30 September 2017 of \$7.2m following investment in Research and Development. In addition we have a US\$10m facility available with CRG.



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

# Interim Financial Results Summary

## OPERATING REVENUE

Operating Revenue grew 23% to \$36.6m for the six month period ended 30 September 2017 (PCP \$29.8m) due primarily to the continued growth in our primary Australian market and the emerging Rest of World market.

### Australia Operating Revenue

grew by 38% to \$20.2m (PCP \$14.6m) and this market now makes up 55% of Group Operating Revenue. Strong growth in its main over-the-counter channel, with all products now available following the previous supply issues. *Maxigesic* continues to grow as the market prepares for 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). It is apparent that the shift away from codeine is accelerating as the rescheduling date approaches. The speed of this shift and the relative market share gained by *Maxigesic* will contribute to the second half FY18 and onwards. The Hospital channel also had strong growth with successes in all of the significant state and private tenders.

### New Zealand Operating Revenue

grew by 5% to \$14.1m (PCP \$13.5m) and represents 39% of the Group Operating Revenue. Good growth in the over the counter market, which included the launch of *Crystawash* and *Crystasoothe* as extensions to the market leading *Crystaderm*. The Hospital channel also experienced good growth with the addition of several new products. Prescription declined as we finish the transition away from the low margin *Metoprolol* tender.

### Rest of World Operating Revenue

grew by 38% to \$1.6m (PCP \$1.2m) and now represents 4% of Group Operating Revenue. *Maxigesic* sales were made to Italy, United Arab Emirates and United Kingdom together with sales to Israel for the launch in that market. Additional small markets have been added such as Malta and Brunei.

### Southeast Asia Operating Revenue

grew by 14% to \$0.6m (PCP \$0.5m) and represents 2% of the Group Operating Revenue. The main market continues to be Singapore with over-the-counter growth.

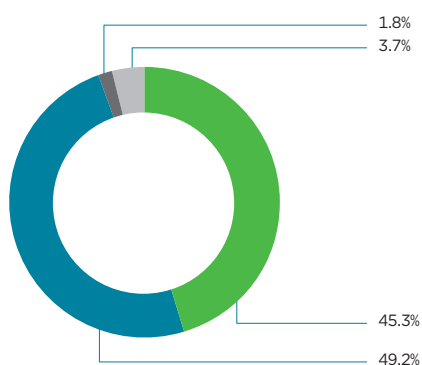
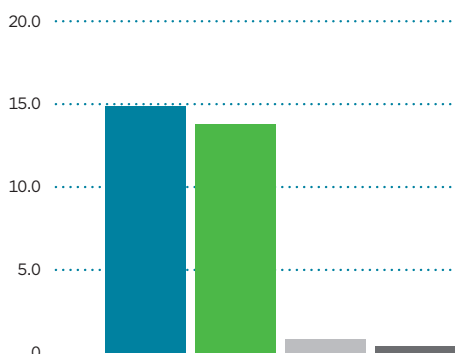
## GROUP OPERATING RESULTS

\$NZ000's	Six month period ended 30 September		Change (\$)	Change (%)
	FY2018	FY2017		
<b>Revenue</b>	<b>36,561</b>	<b>29,787</b>	<b>+6,774</b>	<b>+23</b>
Cost of Sales	(22,256)	(19,018)	+3,238	+17
<b>Gross Profit</b>	<b>14,305</b>	<b>10,769</b>	<b>+3,536</b>	<b>+33</b>
Other income	1,014	1,007	+7	+1
Selling and distribution expenses	(12,771)	(12,575)	+196	+2
General and administrative expenses	(3,618)	(3,135)	+483	+15
Research and development expenses	(4,982)	(4,276)	+706	+17
Equity accounted loss of joint venture entity	(616)	(210)	+406	+193
<b>Operating loss</b>	<b>(6,668)</b>	<b>(8,420)</b>	<b>-1,752</b>	<b>-21</b>

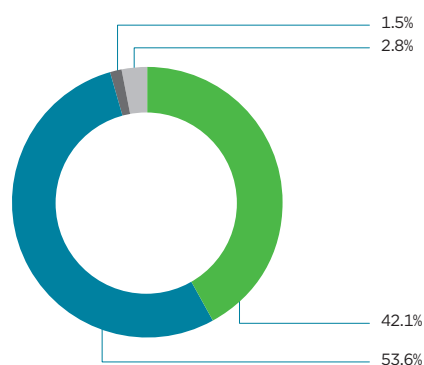
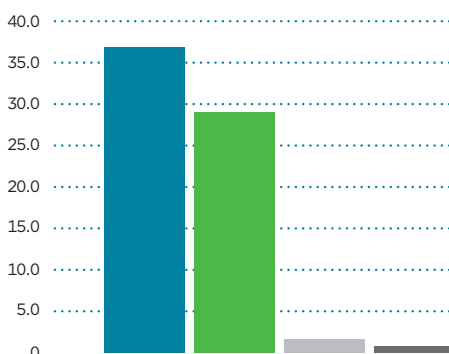
## OPERATING REVENUE

The following tables set out revenues from our four markets:

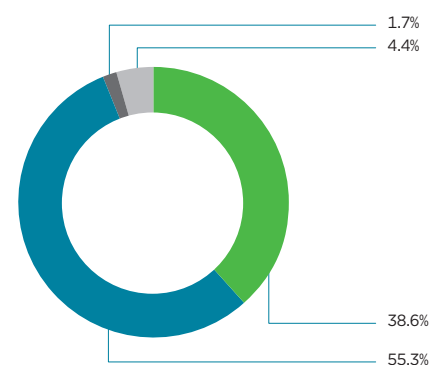
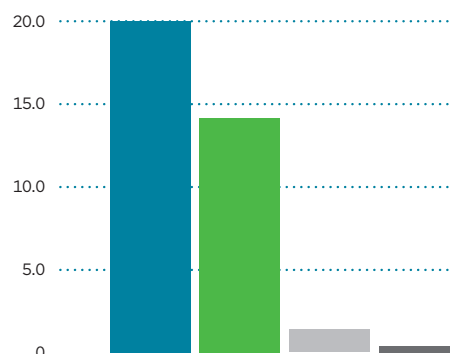
**FY2017 Interim**  
(NZ\$m)



**FY2017 Annual**  
(NZ\$m)



**FY2018 Interim**  
(NZ\$m)



■ Australia
 ■ New Zealand
 ■ Rest of the World
 ■ Southeast Asia

### Gross Margin

Gross Profit grew 33% to \$14.3m (PCP \$10.8m) driven by the operating revenue growth primarily in Australia and supported by growth in Rest of World and New Zealand.

The Gross Profit Margin improved to 39% (PCP 36%), driven by the growth of the higher margin over-the-counter products particularly in Australia and Rest of World. New Zealand also contributed with the growth in over-the-counter products at higher margins and the reduction in Prescription revenues at lower margins.

We expect the Gross Profit Margin to continue to improve as the strategy to increase the sales of over-the-counter products particularly in Australia and Rest of World markets continue to grow.

The NZ\$ has been relatively stable on average over both the periods against our primary purchasing currencies of US\$ at around 71.0 to 71.5 cents and Euro at around 62.0 to 62.5 cents and therefore has not significantly influenced margins in Australia, New Zealand or Southeast Asia. Rest of World sales are predominately in the purchasing currency creating a natural hedge to protect Gross Profit Margin. This contribution will become more significant as the additional launches in the remaining 114 countries occur over the next 2-3 years and drive sales growth in Rest of the World.

### Other Income

Licensing Income, which are the milestone payments received from the out-licensing agreements we have in our Rest of World markets, are classified in the Financial Statements as Other Income. This was \$0.8m (PCP \$0.7m) with a combination of new out-licensing agreements commencing and milestone payments on existing agreements.

The balance of Other Income of \$0.2m (PCP \$0.3m) is the *Callaghan Innovation* growth grant that we receive on eligible Research and Development expenditure.

### Operating Overheads

- **Research and Development** investment increased to \$5.0m (PCP \$4.3m), and in addition our 50% of the spend on *Pascomer* increased to \$0.6m (PCP \$0.2m). This is reported under joint venture equity accounting in the Financial Statements as required by GAAP.

We are now well advanced in the clinical trial programme we identified at the time of IPO and, as recently announced, we have successfully concluded our most significant clinical trial which was the Phase 3 for *Maxigesic IV*. The completion of this study, along with the *Maxigesic Oral Liquid* study, represents a significant amount of our clinical trial expenditure planned at IPO.

- **Selling and Distribution** expenses increased marginally to \$12.8m (PCP \$12.6m) in support of the strong revenue growth we are seeing in the over-the-counter channel in Australia.

- **General and Administration** expenses increased to \$3.6m (PCP \$3.1m) with increased international travel and legal fees primarily relating to out-licensing discussions, together with some additional increases in information technology which drive efficiencies.

### Cash Flow and Balance Sheet

Total Assets of \$50.4m are down on the March 2017 year end's \$58.2m. This is mainly due to the investment made into research and development both directly and through the joint venture reducing the cash balance.

Working Capital increased slightly to \$23.9m (PCP \$23.1m) with the \$2.4m increase in inventory to \$21.1m (PCP \$18.7m) for the stock build for the larger sales volumes during the summer months together, with the \$1.2m reduction in trade payables and provisions to \$13.8m (PCP \$15.0m) which was largely offset by the \$2.8m reduction in receivables to \$16.6m (PCP \$19.4m).

Cash holdings of \$7.2m are down from the \$16m at the March 2017 year end, primarily reflecting the investment made into research and development.

The long term CRG loan of \$23.2m has a maturity date of 31 March 2020. There is a further draw down available of US\$10m, with a mandatory US\$5m to be drawn down on or before 31 March 2018, and the balance available to be drawn at the option of the company on or before 30 September 2018.

### Product Development

- **Maxigesic** is now being sold in ten countries - Australia, Brunei, Israel, Italy, Malta, New Zealand, Serbia, Singapore, United Kingdom and United Arab Emirates. 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 registrations or 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.

Registration across almost all of Europe has been confirmed following referral procedure at the European Medicines Agency (EMA). The remaining EU countries (Cyprus, Greece and Lithuania) will be finalised within the next six months. This is a significant achievement as it removes a large amount of regulatory risk from many of the remaining countries which in turn primarily rely upon the EU registration.

*Maxigesic* is now licensed in 124 countries up from 110 in FY2017. Additional significant markets such as France - the second largest potential market in the world - have been added. Further countries are under negotiation which we anticipate will increase this number further.

Although the sales of *Maxigesic* are yet to make a significant contribution to the sales revenue line, a significant number of key regulatory and licensing steps have been achieved over the last six months. These steps represent an essential precursor to sales.

Clinical studies have progressed with successful completion of the key *Maxigesic IV* (intravenous dose form) study in USA and the *Maxigesic Oral*



Liquid study in Australia, Mexico and New Zealand. Preliminary analysis of the *Maxigesic IV* study has confirmed that the study met the primary endpoints with a high degree of clinical and statistical significance. This is a significant achievement and has reduced the clinical trial risk for this product, which is a key factor for any pharmaceutical company involved in drug development. Dossier preparation is underway for both of these dose forms to meet filing targets.

Development of three new *Maxigesic* formulations, in two cases utilising additional in-licensed technology, are currently well underway with these additional filings targeted within the FY19 year.

- **Product clinical studies** are on track with ten being conducted in FY2018. Four studies have been completed, one study is ongoing and five studies planned to commence during the second half of FY18. The majority of the Research and Development programme flagged in the original IPO document has now been completed, with the remainder about to commence.
- **NasoSURF** development is proceeding with the US Food and Drug Administration development pathway recently confirmed. Last year registration as a Class I Medical Device was completed. However the major market opportunities lie in indications covered by a Class II Medical Device registration pathway which is consequently the targeted opportunity.

Manufacturing development work is also proceeding to plan.

This FY2018 year, the clinical study programme is well underway with one study completed in the US, one study underway, and a further two studies to start in the second half FY2018. A further two clinical studies will be required during FY2019 in order to move towards completion of the development programme.

## Outlook

Sales have grown well in the home market of Australia during the first half of the year. We anticipate Australia will continue to experience strong growth, particularly with the re-scheduling of codeine based painkillers from over-the-counter to prescription only from 1 February 2018. We anticipate the most significant changes to occur around the transition date although there is the potential for a degree of patient stock piling of codeine, which could delay the uptake of alternative analgesic products such as *Maxigesic*.

Although growth has been lower in New Zealand we have continued to transition sales to products in the over-the-counter market. We also expect growth to continue in New Zealand with some additional over-the-counter launches such as the newly registered *Maxigesic PE* which is a dose form of *Maxigesic* designed specifically to treat colds and flu. The loss of Metoprolol tender sales will, however, suppress this during the second half of the year.

The timing of Rest of World sales remains difficult to determine due to the multitude of countries and differing regulatory requirements and related timelines. There will be further launches prior to our March 2018 year end, although this number will be lower than previously thought due to slower regulatory transfers of the EU licenses, meaning that the revenue will be pushed into the FY2019 year. The estimates from licensees continues to indicate that the sales will increase significantly over the next 2-4 years with new launches, growth in already launched markets, and new line extensions.

The out-licensing programme is proceeding well with the key parameters being to increase registrations and launches in rest of world territories. Negotiations continue at term sheet and due diligence stages and a number of these are for more significant markets than previous agreements. Successful conclusion will generate

significant upfront and milestone payments. It is not possible to predict exact timing accurately, but it is noted that AFT has a strong record in closing licensing deals.

The clinical trial programmes are progressing well and remain on track, notably with the successful conclusion of the significant *Maxigesic IV* trial. The successful and timely completion of the remaining significant trials remains an important factor for the company. However the major *Maxigesic* tablet, IV and Oral Liquid studies have all been successfully completed lowering the associated clinical risk as these products will make up the bulk of the *Maxigesic* product sales going forward.

Although a number of studies are planned during the second half of FY2018 the costs are relatively lower, and again lower in FY2019 unless additional programmes are pursued. However the focus is on completing already shadowed developments and achieving commercialisation prior to additional development programmes.

Market research has identified that the *NasoSURF* project represents significant commercial opportunity. The device design and first manufacturing runs have been successfully completed, the development programme confirmed with FDA, the first study completed and others underway. Completion of this programme in order to file the registration in major territories is now a major development focus given that the majority of the *Maxigesic* development has been completed.

We remain confident that we will return to profitability during the FY2018 or FY2019 time period. Timing will be dependent upon finalisation of a number of significant out-licensing agreements currently under negotiation.

# Financial Statements

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## CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2017

\$NZ000's	Note	Unaudited 6 months ended 30 Sep 2017	Unaudited 6 months ended 30 Sep 2016
Revenue		36,561	29,787
Cost of sales		(22,256)	(19,018)
<b>Gross profit</b>		<b>14,305</b>	<b>10,769</b>
Other income		1,014	1,007
Selling and distribution expenses		(12,771)	(12,575)
General and administrative expenses		(3,618)	(3,135)
Research and development expenses		(4,982)	(4,276)
Equity accounted loss of joint venture entity	8	(616)	(210)
<b>Operating loss</b>		<b>(6,668)</b>	<b>(8,420)</b>
Finance income		96	291
Finance costs		(1,590)	(1,560)
Other gains/(losses)		1,589	(1,260)
<b>Loss before tax</b>		<b>(6,573)</b>	<b>(10,949)</b>
Tax expense		(300)	(51)
<b>Loss after tax attributable to owners of the parent</b>		<b>(6,873)</b>	<b>(11,000)</b>
Basic and diluted earnings per share (\$)		(0.07)	(0.40)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2017

\$NZ000's	Unaudited 6 months ended 30 Sep 2017	Unaudited 6 months ended 30 Sep 2016
<b>Loss after tax</b>	<b>(6,873)</b>	<b>(11,000)</b>
<b>Other comprehensive income/(loss)</b>		
May be subsequently reclassified to profit and loss:		
Foreign currency translation reserve	(10)	707
<b>Other comprehensive income/(loss) for the period, net of tax</b>	<b>(10)</b>	<b>707</b>
<b>Total comprehensive loss for the period attributable to owners of the parent</b>	<b>(6,883)</b>	<b>(10,293)</b>



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30 September 2017

<b>\$NZ000's</b>	Note	Share capital	Share options reserve	Redeemable preference share reserve	Foreign currency translation reserve	Retained earnings	<b>Total equity</b>
<b>Balance as at 31 March 2016</b>		<b>53,902</b>	<b>65</b>	<b>-</b>	<b>(100)</b>	<b>(25,637)</b>	<b>28,230</b>
<b>Unaudited</b>							
Loss after tax		-	-	-	-	(11,000)	(11,000)
Other comprehensive income		-	-	-	707	-	707
Movement in share options reserve		-	117	-	-	-	117
<b>Balance as at 30 September 2016</b>		<b>53,902</b>	<b>182</b>	<b>-</b>	<b>607</b>	<b>(36,637)</b>	<b>18,054</b>
<b>Audited</b>							
Loss after tax		-	-	-	-	(7,388)	(7,388)
Other comprehensive income/(loss)		-	-	-	(351)	-	(351)
Issue of redeemable preference shares	5	9,124	-	-	-	-	9,124
Movement in share options reserve		-	113	-	-	-	113
Capital raising expenses		(82)	-	-	-	-	(82)
<b>Balance as at 31 March 2017</b>		<b>62,944</b>	<b>295</b>	<b>-</b>	<b>256</b>	<b>(44,025)</b>	<b>19,470</b>
<b>Unaudited</b>							
Loss after tax		-	-	-	-	(6,873)	(6,873)
Other comprehensive income/(loss)		-	-	-	(10)	-	(10)
Movement in share options reserve		-	104	-	-	-	104
Movement in redeemable preference shares reserve		-	-	291	-	-	291
Issue of ordinary shares	5	1,065	-	-	-	-	1,065
Capital raising expenses		(266)	-	-	-	-	(266)
Dividends paid and provided		-	-	-	-	(451)	(451)
<b>Balance as at 30 September 2017</b>		<b>63,743</b>	<b>399</b>	<b>291</b>	<b>246</b>	<b>(51,349)</b>	<b>13,330</b>

## CONSOLIDATED BALANCE SHEET

As at 30 September 2017

\$NZ000's	Note	Unaudited as at 30 Sep 2017	Audited as at 31 Mar 2017	Unaudited as at 30 Sep 2016
<b>ASSETS</b>				
<b>Current assets</b>				
Inventories		21,137	18,718	21,451
Trade and other receivables		16,640	19,362	12,748
Cash and cash equivalents		7,197	15,980	16,054
Current income tax asset		-	-	19
Derivative assets	10	127	-	-
<b>Total current assets</b>		<b>45,101</b>	<b>54,060</b>	<b>50,272</b>
<b>Non-current assets</b>				
Property, plant and equipment		374	386	421
Intangible assets		2,744	2,548	2,450
Deferred income tax assets		342	610	490
Investment in joint venture entity	8	1,808	627	177
<b>Total non-current assets</b>		<b>5,268</b>	<b>4,171</b>	<b>3,538</b>
<b>Total assets</b>		<b>50,369</b>	<b>58,231</b>	<b>53,810</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		10,685	11,069	11,131
Provisions		3,110	3,950	1,841
Current income tax liability		-	112	-
Derivative liabilities	10	-	204	745
<b>Total current liabilities</b>		<b>13,795</b>	<b>15,335</b>	<b>13,717</b>
<b>Non-current liabilities</b>				
Interest bearing liabilities	4	23,244	23,426	22,039
<b>Total liabilities</b>		<b>37,039</b>	<b>38,761</b>	<b>35,756</b>
<b>EQUITY</b>				
Share capital	5	63,743	62,944	53,902
Retained earnings/(losses)		(51,349)	(44,025)	(36,637)
Share options reserve		399	295	182
Redeemable preference share reserve		291	-	-
Foreign currency translation reserve		246	256	607
<b>Total equity</b>		<b>13,330</b>	<b>19,470</b>	<b>18,054</b>
<b>Total liabilities and equity</b>		<b>50,369</b>	<b>58,231</b>	<b>53,810</b>
<b>Net tangible assets per ordinary share</b>		<b>\$0.11</b>	<b>\$0.17</b>	<b>\$0.16</b>

For and on behalf of the Board who authorised these Financial Statements for issue on 23 November 2017.



**David Flacks**  
Chairman



**Hartley Atkinson**  
Managing Director and  
Chief Executive Officer

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the six months ended 30 September 2017

\$NZ000's	Note	Unaudited 6 months ended 30 Sep 2017	Unaudited 6 months ended 30 Sep 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		40,322	33,422
Interest received		96	186
Payments to suppliers and employees		(47,282)	(42,051)
Tax paid		(143)	(4)
Interest and finance cost paid		(671)	(1,823)
<b>Net cash used in operating activities</b>	7	<b>(7,678)</b>	<b>(10,270)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property, plant and equipment		(46)	(72)
Investment in joint venture	8	(1,797)	(201)
Purchases of intangible assets		(301)	(413)
<b>Net cash used in investing activities</b>		<b>(2,144)</b>	<b>(686)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of share capital	5	1,065	-
Share issue costs		(188)	-
Dividends paid	6	(132)	-
<b>Net cash generated from financing activities</b>		<b>745</b>	<b>-</b>
Net decrease in cash		(9,077)	(10,956)
Impact of foreign exchange on cash and cash equivalents		294	(1,045)
Opening cash and cash equivalents		15,980	28,055
<b>Closing cash and cash equivalents</b>		<b>7,197</b>	<b>16,054</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 September 2017

### 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 23 November 2017, and are not audited, but reviewed by PricewaterhouseCoopers 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 2017 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 2017, 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 2017, as described in those annual financial statements.

### 3. GOING CONCERN ASSUMPTION

At 30 September 2017, the Group has drawn an interest bearing loan of \$23.2m (\$23.4m at 31 March 2017) and held a cash balance of \$7.2m (\$16.0m as at 31 March 2017). During the period ended 30 September 2017 a new loan facility of US\$10m was entered into which is available for drawdown and \$1m of additional share capital was raised (refer to notes 4 and 5). The Group incurred a net loss in the period of \$6.9m (30 September 2016 net loss of \$11.0m) and had a net operating cash outflow for the period of \$7.7m (30 September 2016 \$10.3m).

The loan is due for repayment in full on 31 March 2020 (refer to note 4).

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 flow, 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 2019, 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* as the market prepares for 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).

In respect of each matter identified above:

- The Directors are confident that with the successful clinical trial program for *Maxigesic* tablets, oral liquid and Intravenous (IV) now completed and in place and with the state of current negotiations for licensing arrangements, further and significant licensing agreements and income will be secured for further *Maxigesic* and *Maxigesic IV* territories and potentially newer development projects such as *Pascomer*. Historically in the Pharmaceutical industry significant upfront payments to the licensor are attained for prescription products such as *Maxigesic IV*. The timing, structure and up front component for the completion of these licensing agreements is uncertain.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the six months ended 30 September 2017

**3. GOING CONCERN ASSUMPTION (Continued)**

- There are 124 countries licensed for *Maxigesic* and sales are currently being made in 10 countries. The timing and amount of sales for the remaining licensed countries and potential countries is uncertain due to the regulatory requirements and related timelines for each of the countries, and the ability to secure market share in each country. Registrations of *Maxigesic* have been achieved in the challenging EU regulatory jurisdiction and most of the remaining licensed countries rely upon the EU as a reference which has reduced regulatory risk.
- The analgesic market in Australia is currently in a significant transition with the re-scheduling of codeine-based painkillers from over-the-counter to prescription only from 1 February 2018. The current codeine market is large and there is potential to significantly increase *Maxigesic* sales. The number of patients that will, post 1 February 2018, go to their Doctors for codeine-based painkiller prescriptions and the number that will switch to over-the-counter codeine-free painkillers such as *Maxigesic*, cannot be predicted with any degree of certainty. There are also uncertainties as to the market shares that will be achieved by *Maxigesic* with its unique and patented ratio of Paracetamol: Ibuprofen and the other codeine-free Paracetamol and Ibuprofen combinations which are generic and have a different Paracetamol: Ibuprofen ratio to *Maxigesic*.

The Directors actively monitor and manage these key revenue growth plans, together with their associated uncertainties, and have also taken into account the ability of the Group to significantly reduce and or defer forecast development and marketing spend should this be required, in order to preserve funds.

After considering the uncertainties and mitigations described above, the directors have a reasonable expectation that the Company will be in a position to repay the loan on or before 31 March 2020 and to establish a replacement debt facility if required. CRG have confirmed that they would be willing to provide an extension of the maturity date or refinancing of the existing term loan arrangement with a similar or equivalent sized debt facility that would extend the maturity date at least another year. This refinancing or extension would be subject to investment committee approval similar to all other CRG financings. Should circumstances change and the directors expect that the Company will not be in a position to repay the loan on or before 31 March 2020 nor to be able to re-negotiate the facility on the basis of a partial repayment or establish a replacement debt facility then a further share capital raise would be considered by the directors.

**4. INTEREST BEARING LIABILITIES**

\$NZ000's	Unaudited as at 30 Sep 2017	Audited as at 31 Mar 2017	Unaudited as at 30 Sep 2016
CRG (Capital Royalty Group) loans	23,244	23,426	22,039

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. A second drawdown for the balance is available at the Company's option on or before 30 September 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\$699,000 was recognised as unrealised foreign exchange gains. The carrying amount of the CRG loans are substantially in line with the fair market value as at balance sheet date.

**5. SHARE CAPITAL****FY 2017:**

On 24 March 2017, the Company issued 3,330,000 redeemable preference shares at \$2.74 each. These shares attract a dividend of 9.4% accruing quarterly which may be satisfied in cash or with additional redeemable preference shares at the Company's option.



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 dividends accrued to the date of redemption.

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.

Optional conversion events arise if one of a number of conditions occur. These conditions were notified to NZX and ASX at the time of issue of the redeemable preference shares, and are available on the Company website.

## FY 2018:

On 16 June 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 \$1.06 million of additional ordinary share equity.

## 6. 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. For the 31 March 2017 and 30 June 2017 quarter ends, 50% of the dividend was paid in cash, a total of \$132k. For the 30 September quarter end no dividends were paid. The remaining 50% of dividends net of withholding taxes for the 31 March 2017 and 30 June 2017 quarter ends together with all of the dividends net of withholding taxes for the 30 September 2017 quarter end have been accumulated in the redeemable preference share reserve.

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

\$NZ000's	Unaudited as at 30 Sep 2017	Unaudited as at 30 Sep 2016
Loss after tax	(6,873)	(11,000)
<b>Non-cash items:</b>		
Depreciation	60	66
Amortisation	105	74
Unrealised foreign exchange	(909)	87
Share options expense	104	117
Interest costs capitalized to loan	532	-
Share of JV loss	616	210
<b>Movement in working capital:</b>		
Decrease/(increase) in inventories	(2,419)	(3,765)
Decrease/(increase) in trade and other receivables	2,460	4,212
Increase/(decrease) in trade and other payables	(1,511)	(350)
Increase/(decrease) in income tax	157	79
<b>Net cash used in operating activities</b>	<b>(7,678)</b>	<b>(10,270)</b>

Note - there have been some classification changes to the H1 FY 2017 comparatives above to align with the current period disclosures.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the six months ended 30 September 2017

**8. INVESTMENT IN JOINT VENTURE PARTNERSHIP**

<b>\$NZ000's</b>	<b>Unaudited as at 30 Sep 2017</b>	Unaudited as at 30 Sep 2016
Interest in joint venture company at cost	3,140	387
Equity accounted earnings of joint venture partnership	(1,332)	(210)
<b>Net equity investment in joint venture partnership</b>	<b>1,808</b>	177

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

<b>% interest held</b>		
Dermatology Specialties LP	50%	50%
<i>Principal activities: Development and distribution of pharmaceuticals</i>		

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

<b>\$NZ000's</b>		
Balance at start of period	627	186
Investment during the period	1,797	201
Share of current period loss	(616)	(210)
Dividend received	-	-
<b>Balance at end of period</b>	<b>1,808</b>	177

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.

<b>\$NZ000's</b>		
<b>Extracts from joint venture partnership balance sheet (unaudited)</b>		
Current assets	-	-
Non-current assets	2,178	2,175
Current liabilities	(181)	(340)
Non-current liabilities	-	-
Net assets	<b>1,997</b>	1,835
<b>\$NZ000's</b>		
<b>Extracts from joint venture partnership income statement (unaudited)</b>		
Revenue	-	-
Net loss after taxation	<b>(1,232)</b>	<b>(420)</b>

The joint venture did not have any contingent liabilities or capital commitments at balance date (H1 2017: nil).

## 9. SEGMENT REPORTING

### Operating Segments

<b>Unaudited September 2017 \$NZ000's</b>	<b>Australia</b>	<b>New Zealand</b>	<b>Asia</b>	<b>Rest of World</b>	<b>Total</b>
<b>Revenue</b>	<b>20,206</b>	<b>14,113</b>	<b>618</b>	<b>1,624</b>	<b>36,561</b>
Other income	-	-	-	1,014	1,014
Depreciation and amortisation	(10)	(152)	(3)	-	(165)
<b>Loss before tax</b>	<b>(171)</b>	<b>(2,294)</b>	<b>(371)</b>	<b>(3,737)</b>	<b>(6,573)</b>
Finance income	2	94	-	-	96
Finance costs	-	(1,590)	-	-	(1,590)
Other (gains)/losses	(66)	1,637	18	-	1,589
<b>Total assets</b>	<b>22,836</b>	<b>27,223</b>	<b>310</b>	<b>-</b>	<b>50,369</b>
Property, plant and equipment	45	309	20	-	374
Intangible assets	-	2,744	-	-	2,744
<b>Capital expenditure</b>	<b>2</b>	<b>336</b>	<b>9</b>	<b>-</b>	<b>347</b>

<b>Unaudited September 2016 \$NZ000's</b>	<b>Australia</b>	<b>New Zealand</b>	<b>Asia</b>	<b>Rest of World</b>	<b>Total</b>
<b>Revenue</b>	<b>14,569</b>	<b>13,498</b>	<b>543</b>	<b>1,177</b>	<b>29,787</b>
Other income	-	-	-	1,007	1,007
Depreciation and amortisation	(12)	(125)	(3)	-	(140)
<b>Loss before tax</b>	<b>(2,831)</b>	<b>(4,493)</b>	<b>(664)</b>	<b>(2,961)</b>	<b>(10,949)</b>
Finance income	-	291	-	-	291
Finance costs	(2)	(1,558)	-	-	(1,560)
Other (gains)/losses	(357)	(801)	(102)	-	(1,260)
<b>Total assets</b>	<b>10,143</b>	<b>44,560</b>	<b>(893)</b>	<b>-</b>	<b>53,810</b>
Property, plant and equipment	57	349	15	-	421
Intangible assets	-	2,450	-	-	2,450
<b>Capital expenditure</b>	<b>2</b>	<b>478</b>	<b>5</b>	<b>-</b>	<b>485</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the six months ended 30 September 2017

**10. FOREIGN EXCHANGE RISK**

The Group purchases goods and services from overseas suppliers in a number of currencies, primarily NZD, AUD, USD, EUR and GBP and has borrowings which are denominated in US Dollar amounts. This exposes the Group to foreign currency risk. The Group manages foreign currency risk through use of forward exchange contracts (derivative arrangements). 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.

Forward foreign exchange contracts are entered into to reduce exposure to risk associated with foreign exchange volatility:

<b>Forward Foreign Exchange Contracts</b>				
<b>Buy currency</b>	<b>Buy currency amount ('000)</b>	<b>Sell amount NZD ('000)</b>	<b>30 Sep 2017 value NZD ('000)</b>	<b>Fair value NZD ('000)</b>
EUR	3,316	5,302	5,454	152
GBP	524	949	980	31
USD	5,080	7,118	7,062	(56)
<b>Total as at 30 September 2017:</b>				<b>127</b>

All contracts mature within one year from 30 September 2017.

<b>Forward Foreign Exchange Contracts</b>				
<b>Buy currency</b>	<b>Buy currency amount ('000)</b>	<b>Sell amount NZD ('000)</b>	<b>31 Mar 2017 value NZD ('000)</b>	<b>Fair value NZD ('000)</b>
EUR	3,012	4,806	4,656	(150)
GBP	544	1,027	979	(48)
USD	2,730	3,902	3,909	7
AUD	(750)	(807)	(794)	(13)
<b>Total as at 31 March 2017:</b>				<b>(204)</b>

All contracts mature within one year from 31 March 2017.

<b>Forward Foreign Exchange Contracts</b>				
<b>Buy currency</b>	<b>Buy currency amount ('000)</b>	<b>Sell amount NZD ('000)</b>	<b>30 Sep 2016 value NZD ('000)</b>	<b>Fair value NZD ('000)</b>
EUR	3,136	5,212	4,902	(310)
GBP	556	1,163	1,003	(160)
USD	3,280	4,825	4,550	(275)
<b>Total as at 30 September 2016:</b>				<b>(745)</b>

All contracts mature within one year from 30 September 2016.

## 11. 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 2017	Audited as at 31 Mar 2017	Unaudited as at 30 Sep 2016
CRG (Capital Royalty Group)	4	23,244	23,426	22,039
<b>Total loan balances</b>		<b>23,244</b>	<b>23,426</b>	<b>22,039</b>

### (ii) Key management compensation

\$NZ000's	Unaudited as at 30 Sep 2017	Audited as at 31 Mar 2017	Unaudited as at 30 Sep 2016
Directors' fees	143	289	138
Executive salaries	527	1,092	827
Short term benefits	134	238	40
<b>Key management compensation</b>	<b>804</b>	<b>1,619</b>	<b>1,005</b>

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

## 12. 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\$71,939 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.

## 13. CAPITAL COMMITMENTS

The Group has no capital commitments at 30 September 2017 (31 March 2017: nil; 30 September 2016: nil).

## 14. 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.



## INDEPENDENT REVIEW REPORT

to the shareholders of AFT Pharmaceuticals Limited

### REPORT ON THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

We have reviewed the accompanying condensed consolidated interim financial statements (“financial statements”) of AFT Pharmaceuticals limited (“the Company”) and its subsidiaries (“the Group”) on pages 9 to 19, which comprise the consolidated balance sheet as at 30 September 2017, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period ended on that date, and selected explanatory notes.

### DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible on behalf of the Company for the preparation and presentation of these financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### OUR RESPONSIBILITY

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 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 financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34. As the auditor of the Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of 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) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

We are independent of the Group. Other than in our capacity as auditors and providers of other assurance services relating to Callaghan grants, we have no relationship with, or interests in, the Group.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that these financial statements of the Group are not prepared, in all material respects, in accordance with NZ IAS 34.

### WHO WE REPORT TO

This report is made solely to the Company’s shareholders, as a body. Our review work has been undertaken so that we might state to the Company’s shareholders those matters which we are required to state to them in our 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 shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

A stylized, handwritten signature of PricewaterhouseCoopers in black ink.

Chartered Accountants

23 November 2017

Auckland

## NZX WAIVERS

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 subsequently expired. On 21 December 2016, a further waiver from NZX Main Board Listing Rule 5.2.3 was granted to AFT for a further 12 month period.

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:
  - o 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; and
  - o the intentions of the parties under the Escrow Arrangements in respect of their ongoing holding or sale of any of the shares released from escrow during the waiver period (following engagement by AFT with such parties).

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 the waiver can be viewed at [www.aftpharm.com](http://www.aftpharm.com).

## DIRECTORY

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

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www.aftpharm.com

Mertons, Level 7, 330 Collins Street, Melbourne, Victoria 3000, Australia  
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ARBN: 609 017 969

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**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

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**Share Registrar**      Computershare Investor Services Limited  
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**Auditor**      PricewaterhouseCoopers  
Level 22, PwC Tower, 188 Quay Street, Auckland 1010, New Zealand  
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## NOTES

## **NOTES**



