A|F|T pharmaceuticals

Working to improve your health

AFT PHARMACEUTICALS LIMITED

Annual Report 2017

Contents

Full report available online at investors.aftpharm.com

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

AFT CONTINUES TO DRIVE GROWTH AND MAXIMISE OPPORTUNITIES IN LOCAL AND INTERNATIONAL MARKETS WITH A FOCUS ON HIGHER MARGIN OVER THE COUNTER PRODUCTS.

This Annual Report is dated 9 June 2017.

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

David Flacks	**Hartley Atkinson**
Chairman	Chief Executive Officer

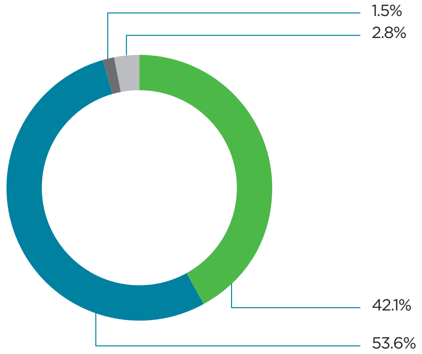
AFT at a glance

OVERALL REVENUE GREW 8% WITH AUSTRALIA, OUR LARGEST MARKET, GROWING 19% TO $37.1m

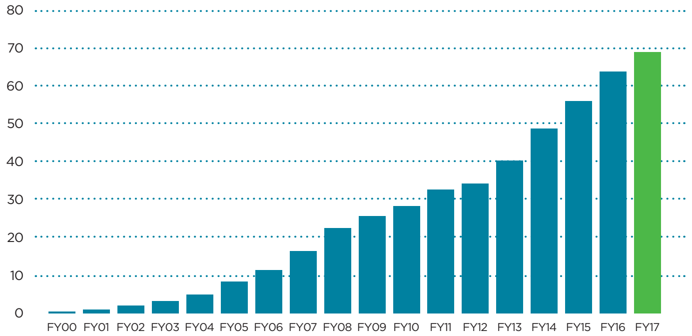
Total Operating Revenue

$69.2m

Overall Revenue by Market
(Percentage)



Total Operating Revenue FY2017
(NZ$m)



AUSTRALIA

Operating Revenue

$37.1m

Number of products

55

Growth drivers

- Over the counter (OTC) products; *Maxigesic*, *Hylo* Eye Drops and *Ferro* Range. Build on new launches; *Crystaderm, RestoraNail* and *ZoRub.* Additional OTC launches to extend *Ferro* Range and selected new OTCs.
- The rescheduling of codeine, occurring February 2018, provides a significant opportunity for increased *Maxigesic* sales, involving a potential target of 750 million tablets.
- Margin planned to grow as OTC product sales increase and offset the initial promotional and launch costs primarily incurred during FY2017. Significant sales growth and growth in profit is planned in FY2018 and onwards.

NEW ZEALAND

Operating Revenue

$29.2m

Number of products

102

Growth drivers

- Ongoing growth of higher margin OTC products to reduce reliance of sales from lower margin tender products.
- It is anticipated that sales will be, at best, flat in New Zealand during FY2018 but margins will improve.

SOUTHEAST ASIA

Operating Revenue

$1.0m

Number of products

8

Growth drivers

- Continued growth from products launched during FY2017.
- Launch *Maxigesic* in Malaysia and grow sales in Singapore and Malaysia during FY2018.
- A total of 17 products are now approved across Singapore and Malaysia.
- 23 applications for regulatory approval filed across Singapore and Malaysia.

REST OF WORLD

Operating Revenue

$2.0m

Number of products

4

Growth drivers

- Further increase sales of *Maxigesic* through growth in existing markets and additional registrations followed by new launches during FY2018 and the following financial years.
- Additional regulatory filings of new dose forms of *Maxigesic* during FY2018.
- Sales of *Maxigesic* are expected to grow significantly over the next few years, driven by new launches but it is important to note that there is a lag in these sales from the time of an out-licensing agreement due to registration timelines which vary widely country to country and are difficult to estimate with accuracy.

OUR KEY PRODUCTS

Maxigesic

Completion of developments of existing dose forms and additionally the two new formulations, dry powder sachet and a novel proprietary formulation, which we believe will result in additional clinical benefits. Regulatory filings for both the existing tablet formulation and new dose forms across a significant number of countries to complete registrations and start sales in more territories.

NasoSURF

Initial Class I registration completed on schedule Dec 2016 in the United States. First clinical studies are underway in Australia and New Zealand and a pre-Investigational New Drug (IND) application will be made to FDA in the United States with the intention of opening the IND this calendar year to enable out-licensing negotiations to commence during FY2018.

Crystaderm

Build on Australian sales, and following successful clinical study results in Russia, file in that country for registration. Further launches in markets in the Middle East.

Maxiclear PE

Further out-licensing agreements concluded in a further 16 countries to add to the initial five Nordic countries. The pivotal clinical study was not completed in Cardiff by the end of the European cold and flu season so will be transferred to New Zealand to complete during our winter.

Key Highlights

Financial Highlights
(NZ$)

Total Income
$70.8m

Operating Loss
($14.8m)

Operating Revenue
$69.2m

Cash Available at 31 March 2017
$16.0m

Licensing Income
$1.6m

Maxigesic

110 countries
Maxigesic currently licensed in or distributed

8 countries
Maxigesic sold and launched in Australia, Brunei, Italy, New Zealand, Serbia, Singapore, United Arab Emirates and the United Kingdom

Clinical Trial Programme FY2018

5 countries
Australia, New Zealand, Russia, United Kingdom, United States

12 studies

1,300+ patients

Chairman and CEO's report

WE ARE PLEASED TO HAVE COMPLETED OUR FIRST FULL FINANCIAL YEAR AS A LISTED COMPANY AND TO HAVE MADE SIGNIFICANT PROGRESS ON BOTH OUR KEY INNOVATIVE PRODUCTS AND AUSTRALASIAN BUSINESS.

Our Operating Revenues grew 8% to $69.2m, with our largest market, Australia, growing at 19%.

In our combined local markets of Australia and New Zealand, we have continued to improve sales of higher margin OTC products. The top line sales growth has been offset by a decline in some lower margin tender products such as metoprolol which accounts for most of the reduced sales in New Zealand. In Australia we were still impacted by shortages of a high volume OTC product which have now been addressed by additional manufacturing facilities to increase supplies and this will contribute to FY2018 sales in Australia.

The single largest opportunity for our local markets arises from pursuit of some 750 million tablets of OTC codeine products which will be impacted by rescheduling to prescription in Australia in February 2018. Our market research shows that around 40-47% of this volume i.e. around 300-350 million tablets will be a potential target for conversion to *Maxigesic*. Although clearly we cannot expect to capture all of this potential market even a small share will significantly increase our current *Maxigesic* sales in Australia so this is a key project for this FY2018 financial year.

A number of important advancements have been made and although these did not immediately show in the FY2017 income, they are very important building blocks being put in place.

Our strategy remains consistent with focus on expansion of our local Australasian business, advancement of development, registration and launches of our Key Innovative Products and then growing sales in our International markets through our network of licensees and distributors.

MAXIGESIC

Additional out-licensing agreements have been made for *Maxigesic* during the year and it is expected that some further larger markets will be licensed in the coming 12 months which in turn will generate more significant upfront milestones than seen in the past.

The key efforts will now shift towards product launches in the out-licensed territories. The timing of these product launches is dictated by registration timelines and these vary considerably country by country. Many are also dependent upon registering first in key European Union (EU) territories such as Germany which creates an additional time lag. As a result the income flow from out-licensing deals is not immediate but nevertheless we have seen an escalation in tablet sales from 21 million to 74 million tablets (FY2016 vs FY2017) and we anticipate that this will accelerate as both sales grow in existing markets and new registrations in additional countries allow further new launches. This is expected to continue to roll out over the next four to five years with the following approximate launch schedule: around one-third in FY2018, around one-quarter in both FY2019 and FY2020, and the balance in FY2021.

Maxigesic tablets have now been filed in the United States which was a significant exercise involving 23,000 pages of data and over 1,200 files. The FDA has subsequently confirmed acceptance of the registration file as suitable for evaluation which is a significant milestone in the registration process. The expertise gained from this first filing in the United States has significantly expanded the capabilities within our company to handle complex regulatory tasks. Additional good news was the confirmation of registrations in a further nine EU member states which includes large markets such as France, Germany and Belgium. The United States and France are especially important as they are the two largest markets in the world for paracetamol and ibuprofen tablets.

Maxigesic IV development continues to progress well with the pivotal study in the United States being completed to the planned schedule and provided the results are successful then this will allow filing of the regulatory applications during this FY2018 year which would represent significant progress for this Key Innovative Product.

Development continues for further dose forms: *Maxigesic* Oral Suspension, Sachets and *Maxigesic* PE formulations. The regulatory filings for these have been slower than planned but this has been primarily due to the addition of dual manufacturing sources to minimise risks of supply disruptions.

NASOSURF

Development work with other Key Innovative Products has proceeded well with preparation underway for the first major indication for *NasoSURF*. This follows on from the successful registration as a Class I Medical Device with FDA in December 2016. We continue to target the pivotal task of opening our Investigational New Drug Application (IND) with the FDA and resultant full clinical studies during this FY2018 year. Once achieved and underway, then in turn, this will allow initiation of formal out-licensing negotiations. Market research in the United States and United Kingdom identified that our first targeted indication has a potential market of US$1.2 billion in the United States alone. Hence this is a key focus and we are pleased that to date we have significantly advanced our development programme.

PASCOMER

Our *Pascomer* (previously *Pascoderm*) Key Innovative Product project is also progressing well with completion of a successful initial meeting with FDA in March 2017. A market study has indicated a significant potential market of around $600-800m sales in the United States/EU and out-licensing discussions with interested companies have already been initiated and we aim to complete an agreement this FY2018 which would also involve significant upfront and milestone payments as the development proceeds.

We have maintained tight overhead control on fixed costs such as staff numbers and completed the year with a cash balance of approximately $16m with many of our expensive clinical trials completed. The cash balance was derived from existing resources of $7m and the additional capital raised. We have had some additional spend on launching new OTC products in Australia and also development of two previously unplanned dose forms of *Maxigesic*. Consequently we did move in March to increase our available cash from an issue of $9.2m Redeemable Preference Shares (RPS). It is important to point out that these are not necessarily dilutionary to our ordinary shares as they may be redeemed by the company as opposed to converting in to ordinary shares. If they do get converted, the dilutionary impact on existing shareholders is small i.e. circa 3.5%. They also are not listed and on conversion are not able to be sold for a 12 month period. We took this opportunity to raise additional capital as opposed to drawing upon additional debt facilities at a higher interest rate as our board considered that it was prudent to maintain a significant cash balance to get us through to break-even which is still planned to be FY2018 or early FY2019. Break-even will depend upon the rate of sales growth in existing markets, additional larger licensing deal payments and new launches by licensees and distributors in International markets. Given the significant number of variables, the exact timing is difficult to forecast with an acceptable degree of accuracy.

We highly value the support of our shareholders, many of whom we know personally or who are AFT customers that we are able to speak with at the various trade displays in Australasia. We have also offered shareholders a Share Purchase Scheme at a discount to the Redeemable Preference Share issue price so that shareholders also have an opportunity to increase holdings in AFT should they wish to.

We remain highly committed to commercialising our Key Innovative Products which once achieved will create significant sales and profits. As with all pharmaceutical development projects there is a development and regulatory phase prior to sales starting and then growing.

We would like to thank all shareholders, staff and other stakeholders in our business and reconfirm that our company and directors are working very hard to achieve our potential.

David Flacks
Chairman

Hartley Atkinson
Founder and CEO

OUR FIRST TARGETED INDICATION HAS A POTENTIAL MARKET OF US$1.2 BILLION IN THE UNITED STATES ALONE

A TIMELY DECISION

Late last year, Australia's Therapeutic Goods Association (TGA) confirmed an interim decision that will shift codeine based painkillers from being an over the counter (OTC) product in Australia to a prescription only product. This change will commence on 1 February 2018.

Around the time this decision was being made, many Australians told personal stories of their difficulties with codeine addiction through the media. Some of the stories were from well-known Australians.

In January 2016, ARIA award-winning Australian rapper '360' released a song in which he detailed how his life had spun out of control through his addiction to codeine-based painkillers. Through his music, he criticised the OTC status of codeine painkillers, and their impact on his personal and professional life.[1]

The parents of the late Australian actor, Heath Ledger, spoke at public meetings across Australia and New Zealand talking about the impact of their son's misuse of codeine painkillers and other OTC products.[2] Heath's father, Kim Ledger, went on to establish and lead Scriptwise, a non-profit aimed at raising awareness around the misuse of prescription drugs.

In addition, a former mayor openly spoke of his addiction to codeine painkillers,[3] as did a former NRL rugby league star.[4]

But many of the voices in the media were not well known. They were ordinary Australians telling their stories of addiction, or those of family members. Some of the stories were from parents whose children had been addicted to codeine at the time of their suicide.[5]

Others talked about how their entry into addiction was often innocuous, starting with painkillers after surgery for tooth extraction[6] or minor headaches.[7]

For founder and CEO of AFT Pharmaceuticals, Dr Hartley Atkinson, these stories underscore why he invented codeine-free *Maxigesic*.

"In many respects, codeine is an outdated ingredient in painkiller products," says Dr Atkinson. "The evidence clearly indicates that it carries significant risks of addiction. Ironically, many drug experts will tell you that codeine actually gives relatively little positive benefit in terms of pain relief when it's included in a combination analgesic.

"We saw some time ago that there would be a market for a safer alternative painkiller. That's basically why we created *Maxigesic* as a paracetamol-ibuprofen combination. I'm really proud to say we now have a product that is licensed in countries right around the world that gives people an alternative to the traditional codeine-based analgesic."

"And if you read their report, that's pretty much the message the TGA was sending in its decision. There is no need to expose the public of Australia to this level of risk from an OTC product given that there are safer options, like *Maxigesic*, available to them."

WE NOW HAVE A PRODUCT THAT IS LICENSED IN COUNTRIES RIGHT AROUND THE WORLD THAT GIVES PEOPLE AN ALTERNATIVE TO THE TRADITIONAL CODEINE-BASED ANALGESIC.

Dr Hartley Atkinson

[1] "Rapper 360's codeine addiction admission prompts calls for stricter regulations on over-the-counter medications" (11 January 2016) ABC News.

[2] "Star's dad brings drug misuse message to NZ" (20 August 2016) NZ Herald.

[3] "Former mayor speaks out about battle with addiction" (6 April 2017) The Standard

[4] "Matt Cooper sends out warning message, as doctors reveal painkiller addiction is worse than heroin" (15 December 2016) The Daily Telegraph

[5] 'We were powerless to save him': Australia's losing battle with prescription drugs" (20 December 2016) The Guardian. Also "Paracetamol poisoning: how addiction to over-the-counter medication took Imogen Cunningham's life" (3 May 2015) Sydney Morning Herald.

[6] "Pharmaceutical opioid addiction: patients delay treatment due to stigma" (27 July 2016) Sydney Morning Herald.

[7] "Stressed mums are becoming accidental drug addicts" (7 June 2015) The Courier Mail (Brisbane)

NASOSURF DEVICE MOVES TOWARDS COMMERCIALISATION

Nasal delivery is used to administer topical treatment for local diseases in the nose and paranasal sinuses, such as rhinitis (inflammation inside the nose) and sinusitis (inflammation of the sinuses). The *NasoSURF* device, shown below, has been developed by AFT to be highly efficient at generating an aerosol of suitable size for drug delivery to the nose. It has the potential to be used as a delivery system in the treatment of chronic sinusitis and in postoperative care in patients who have undergone endoscopic sinus surgery (ESS).

The purpose of the clinical research project, aimed to commence in May 2017, is to see where aerosol generated from the *NasoSURF* device will land in the sinus regions of the nose under different device settings (continuous vs. pulsative flow). To do this, an orange fluorescent dye (fluorescein) will be added to the salt water solution (saline) delivered by the device so that the aerosol will be easily detected within the nasal cavity via endoscopy. This research will determine the optimum device settings to efficiently target the sinus cavities in the nose and will provide the platform for future treatments that target these regions.

The study will be conducted by the Investigators at Mauranui Clinic, Epsom, New Zealand under the direct supervision of Associate Professor Dr. Richard Douglas, who is a world-renowned specialist ORL surgeon, member of the American Rhinologic Society and Australasian Society of Clinical Immunology and Allergy.

It is a great opportunity to be able to undertake the first-in man clinical studies with the *NasoSURF* device in New Zealand and benefit from the high-quality New Zealand clinical research that is undertaken in nasal, sinus and medial skull base conditions.

ELIDA ILIEVSKA, MEDICAL DEVICE ANALYST

AFT has worked hard over the years to bring on and train new staff from our local community here on the North Shore of Auckland, New Zealand. We had recently employed a locally based mother to assist with repacking in our Medsafe approved packaging facility on a part-time basis.

Interestingly it came to our attention that Elida was in fact qualified as a mechanical engineer, having a BSc Mechanical Engineering from University of Saints Cyril and Methodius of Skopje, Macedonia prior to emigrating to New Zealand some years ago.

With the *NasoSURF* devices under initial manufacture and subsequent testing and research work in our New Zealand based laboratory in Takapuna, our Medical Device workload was expanding significantly. To us it seemed ludicrous to have such a well-qualified person working in our packing unit, when we could utilise her skills more effectively. And so we were able to develop a part-time position as a Medical Device Analyst suited to Elida's requirements for both work and as a mother of two school age children. This is a real win-win for all parties involved and a great example of us developing positions for local residents.

MAXIGESIC DEVELOPMENTS

Development work continues with significant progress made during the last FY2017 year.

We have undertaken development work for two additional dose forms:

- A dry powder sachet that enables the dose to be taken without water which has utility in a number of our licensed territories such as the Middle East and North Africa where these dose forms are popular
- A new dose form utilising technology licensed from a United States company that we believe will result in improved clinical benefits and an additional long dated IP position

These dose forms have resulted in some additional expenditure to date and there will be further development expenditure until they are able to be registered, assuming successful completion of the development work. These developments are planned to be ready for filing for registration at the start of the FY2019 year. Although this may seem some time away it is also important to build out the *Maxigesic* product range as this will help to further grow sales as the brand matures.

Maxigesic IV development has proceeded to plan with the IND opened last year and the first clinical study completed at CSST in Christchurch, New Zealand. The pivotal clinical study in Texas and Maryland enrolled 275 patients in 6 months. Pending successful results from the study, regulatory application will commence within this FY2018 time period with sales anticipated before the end of FY2019. Successful licensing negotiations in larger markets are underway and would also be expected to yield more significant upfront and milestone payments than achieved to date and these are expected within the FY2018 financial year. Additionally completion and filing will start to trigger some additional milestone payments from existing licensees.

Maxigesic Oral Liquid pivotal study has also been completed with enrolment of 250 patients from centers in New Zealand, Australia and Mexico. A further manufacturing site is being commissioned in Spain to enable two manufacturers for supply to customers. Although this will delay filing until later in this calendar year, the additional site is important to ensure supply reliability.

Maxigesic sachets are being prepared for filing along with the addition of an extra manufacturing site to ensure reliability of supply. Filing is planned within this FY2018 period.

Maxigesic PE development is progressing with the pivotal clinical study underway and patient enrolment completed at the Cardiff site and the study is now planned to be completed in New Zealand by the end of the New Zealand cold & flu season in August/September 2017.

THIS CURRENT FY2018 AND FY2019 TIME PERIOD IS AN EXCITING ALMOST ONCE IN A LIFETIME OPPORTUNITY TO SIGNIFICANTLY INCREASE *MAXIGESIC* SALES IN AUSTRALIA.

MAXIGESIC OPPORTUNITY IN AUSTRALIA

Maxigesic sales have grown by 133% in Australia in this current FY2017 time period. This has been driven by rescheduling of *Maxigesic* from S3, where it sat behind the pharmacy counter, to S2 where in most states it now sits in front of the counter and additionally can be advertised directly to consumers.

This change in turn did result in some additional expenditure during FY2017 over and above that originally foreseen. However growing market share at this initial stage is important and the consumer marketing including TV advertising has assisted with this aim.

In addition to the rescheduling of *Maxigesic*, a significant opportunity has arisen with the Australian regulator, TGA (Therapeutic Goods Administrator) confirming in late December 2016 that codeine containing analgesics would all be up-scheduled on 1 February 2018 to prescription medicines. These products to date have been a major competitor to *Maxigesic* and some 750 million tablets per annum are sold in Australia. A significant number of these patients will not wish to visit their doctor and would be expected to consider alternative treatments such as *Maxigesic*.

AFT commissioned market research which identified that some 40-47% of these patients would be potentially switchable to *Maxigesic* as they primarily use their current codeine combination analgesics for short term pain and also visit pharmacies as opposed to doctors.

Given that *Maxigesic* currently sells around 13 million tablets in Australia then even a very modest share of the estimated tablets available would represent a significant increase in sales.

We have initiated a promotional programme with a significant competition called “*Maxigesic* Chance to Win A Million” whereby consumers have to answer a promotional question on *Maxigesic* and enter a draw to be in with a chance to win 1 million dollars. We fully ensure the chance of winning the 1 million dollars. The competition offers AFT the chance to work across all the major Pharmacy groups in Australia which is an excellent promotional drive for both AFT and *Maxigesic*.

Hence we believe that this current FY2018 and FY2019 time period is an exciting almost once in a lifetime opportunity to significantly increase *Maxigesic* sales in Australia.

MAXIGESIC IN REST OF WORLD

As already reported we have achieved out-licensing agreements in a significant number of countries around the world and further negotiations are underway for a number of larger territories. Our original target was 100 countries but we plan around 120 countries.

The key focus presently is to increase the number of countries in which *Maxigesic* is sold in parallel with increasing *Maxigesic* tablet sales. Total sales of *Maxigesic* tablets have grown 339% to 74 million tablets annually. We would again anticipate further significant growth in *Maxigesic* tablet sales this FY2018 year and in to future years as launches and sales grow in parallel.

Sales in existing markets such as Italy, United Kingdom and United Arab Emirates have exceeded expectations with the key now to launch in further markets which is underway in FY2018 and FY2019. We agreed 69 countries with Acino which we addressed in our annual report last year. A key determinant to launching in these countries is the registration of *Maxigesic* and this in turn relies upon obtaining certain regulatory documents. For a significant number of the Acino countries CPP regulatory documents are required, and these in turn rely on the completion of registrations in Germany which are still underway. Completion of registrations will narrow the gap between the number of countries where *Maxigesic* is launched in and the number of out-licensed territories.

NASOSURF: COMMERCIALISATION PROGRESS

We hit our target of registration of *NasoSURF* with Class I medical device registration, achieving this in the United States in December 2016.

Manufacturing and engineering pilot batches of the *NasoSURF* device have proceeded with ongoing refining of the manufacturing process and designs. Key staff have been employed to support the current development. Again this has been done carefully with an eye to cost containment with the addition of a PhD qualified scientist and reassignment of an existing internal regulatory staff member.

The most attractive commercialisation was identified through market research in United States and United Kingdom which indicated a potential market size of US$1.2 billion in United States alone and consequently we have initiated this development as the first targeted indication which will be a Class IIA regulatory pathway. The initial drug distribution studies in Australia and New Zealand and human factor studies in United States are underway. In parallel a pre-IND application with the United States FDA is underway which is planned to lead to initiation of the development this FY2018. Once the pathway is confirmed with FDA, the full IND opened and sufficient data generated, we will initiate out-licensing discussions again intended to start in FY2018.

There are a number of additional indications possible for the *NasoSURF* device. Initial small scale studies are underway to evaluate the effectiveness in delivery to the sinus cavity in patients both pre and post sinus surgery. Additional prototype simpler devices more suited to mass market indications of chronic sinusitis are also subject to some development work. However the key focus is on delivering an initial commercialisation result while gathering preliminary data to allow additional indications to be developed in the near future.

Board of Directors

AFT has an experienced and balanced Board with a diverse range of skills. The Board comprises an independent Chairman, three other independent directors, one non-executive director and two executive directors. Their names and information about their skills, experience and background are set out below.

David Flacks

Chairman and Independent Director
Appointed 22 June 2015

David has a number of governance roles and is also a corporate lawyer with boutique corporate law firm Flacks & Wong. David is chair of Harmoney Corp and biotech start up Upside Biotechnologies, and is a director of the Vero NZ group companies and NZ Venture Investment Fund.

David has been chair of the NZX Markets Disciplinary Tribunal (until June 2017) and has recently retired as a member of the Takeovers Panel. He also holds a number of pro bono directorships.

David was for many years a senior corporate partner at Bell Gully and was general counsel and company secretary of Carter Holt Harvey during the 1990's. He is a law graduate from Cambridge University.

Dr Hartley Atkinson

Founder, Executive Director and Chief Executive Officer
Appointed 4 September 1997

Hartley founded AFT in 1997. Before founding AFT, Hartley worked at Swiss multinational pharmaceutical company, Roche, for eight years where he held positions as Sales & Marketing Director, Medical Director, Product Manager and Medical Manager. Prior to his work at Roche, Hartley was a Drug Information Pharmacist and Researcher at the Department of Clinical Pharmacology, Christchurch Hospital. Hartley is the author of a number of scientific publications. Hartley's work has been published in the prestigious The New England Journal of Medicine.

Hartley holds a doctorate in Pharmacology, a Masters in Pharmaceutical Chemistry with distinction, and a Degree in Pharmacy, all from the University of Otago.

Marree Atkinson

Executive Director and Chief of Staff
Appointed 4 September 2012

Marree has been involved in all aspects of AFT's business since its establishment in 1997, including roles in sales, regulatory affairs, customer services and logistics. Marree's role as Chief of Staff sees her involved in the day-to-day running of AFT's head office including managing staffing requirements and special projects involving AFT's head office. Marree is the liaison between AFT's staff and the Board.

Marree is a registered nurse previously practising at Waikato Hospital.

Nathan (Nate) Hukill

Non-Executive Director
Appointed 14 May 2014

Nate is the President of CRG, a US-based investment management firm focussed on the healthcare industry. He is also Chairman of CRG's investment committee. Nate joined CRG in 2009, bringing more than 16 years of investing experience. Prior to joining CRG, he was a Portfolio Manager at Highland Capital, where he invested and managed approximately $4.5 billion in the healthcare, consumer products, and technology sectors. Before Highland Capital, Nate co-founded a pharmaceutical-focussed enterprise software company called OpenQ, Inc. He started his career as a credit investor at Salomon Smith Barney where he managed a portfolio of approximately $800 million.

Nate holds a Bachelor of Science in business administration from the University of Colorado and an M.B.A. from the Darden Graduate School of Business at the University of Virginia.

Jon Lamb

Independent Director
Appointed 4 September 2012

Jon has led the strategic planning, marketing and restructuring of various companies throughout his career. He has held various roles at Beecham (a multinational pharmaceutical company that would later merge with a predecessor company to GlaxoSmithKline) including CEO in New Zealand and Marketing Manager in both Australia and South Africa. He has also held roles as CEO of Nylex in New Zealand, Managing Director within the Rural Division of Fletcher Challenge, Director of Southland Frozen Meats and Marketing Director of the New Zealand Kiwifruit Marketing Board (where he was responsible for creating the Zespri brand of kiwifruit, and restructuring Zespri into a retail focussed operation).

More recently, Jon was a Director of Virionyx, a New Zealand company that developed an antiviral drug designed to combat AIDS. He was Deputy Chair of Australian diagnostic company ATF Group that developed a real time tool for measuring the Hepatitis B virus in individual patients.

Jon has been involved with AFT since 2004, firstly as a consultant, and then in his current capacity as a director. Jon is a Member of the Institute of Directors and has a Diploma from the Marketing Institute of the UK (now the Chartered Institute of Marketing).

Dr John Douglas (Doug) Wilson

Independent Director
Appointed 4 September 2012

Doug was an Associate Professor at the Auckland Medical School before taking a role as Senior Vice President and Head of Medicine and Regulatory Affairs in the US for German drug company Boehringer Ingelheim Pharmaceuticals. He then carried these same responsibilities to Boehringer's worldwide medical research group in Germany, overseeing all research and drug development programmes. He supervised ten drugs to the US market through FDA and many other into global markets. Since his return to New Zealand, Doug has been a consultant to pharmaceutical and biotech companies in New Zealand, Australia, Italy, the UK, Ireland and New York. He has been a director of Neuren Pharmaceuticals, of a drug discovery company Phylogica in Perth Australia, and until last year Chairman of Adherium - a medical device company. He is currently Chief Medical Officer of Ferghana Partners, an investment bank in the health care space In New York and London.

Doug has a medical degree from New Zealand, is a Fellow of the Royal Australian College of Physicians, a Fellow of the College of Pathologists of Australia and has a PhD from the University of London.

Dr James (Jim) Burns

Independent Director
Appointed 17 September 2015

James S. Burns has extensive executive experience in pharmaceuticals, biotechnology, medical devices, and diagnostics. Jim has served in leadership roles at large multinational corporations, early-stage companies, venture capital funds and private equity. From 2009-2016, Jim served as Chairman of the Board, Executive Chairman and Chief Executive Officer of Assurex Health, a precision medicine company focused on neuropsychiatric and pain disorders. Previous roles include President of MedPointe Pharmaceuticals, a specialty pharmaceutical company; President & CEO of biotechnology company Osiris Therapeutics; General Partner of Healthcare Ventures; Group President of Becton Dickinson, a global medical device company; and Partner at Booz & Company, an international consulting firm. Jim is a Board Leadership Fellow of the National Association of Corporate Directors (NACD), a Director of Vermillion (NASDAQ), and a Director of Sano Informed Prescribing. Jim earned B.S. and M.S. degrees in biological sciences from the University of Illinois, an M.B.A. from DePaul University, and a D.L.S. from Georgetown University.

Full Year Financial Results Summary

The FY2017 results reflect the ongoing strategy of expanding our presence in our home markets of Australia, New Zealand and Southeast Asia, while continuing the investment in Research and Development of our key products to also grow our international revenues.

Operating Revenues grew 8% to $69.2m. Australia, our largest market, grew by 19%. New Zealand recovered a little in the second half to end the year 6% down. Southeast Asia grew 55% and Rest of World again doubled.

Gross Margin improved by 1% to 38%. The main driver was from the growth in over the counter (OTC) revenues, however these were partially offset by the one off supply issues with Metoprolol in New Zealand.

Licensing Income, which comprises the milestone payments received from out licensing arrangements we have in our Rest of World markets, are classified in the Financial Statements as Other Income. This remained in the same range at $1.6m (PCP $1.8m), with a combination of new out licensing agreements commencing and milestone payments on existing agreements.

Research and Development increased to 16% of Revenues as we complete the development program of our key products. Selling and Distribution increased to 38% of revenue primarily supporting the launch of new OTC products in Australia and Southeast Asia. In total, Operating Expenses represented 63% of Revenue (54% on FY2016). These factors culminated in the Operating Loss for the year of $14.8m.

OPERATING REVENUE

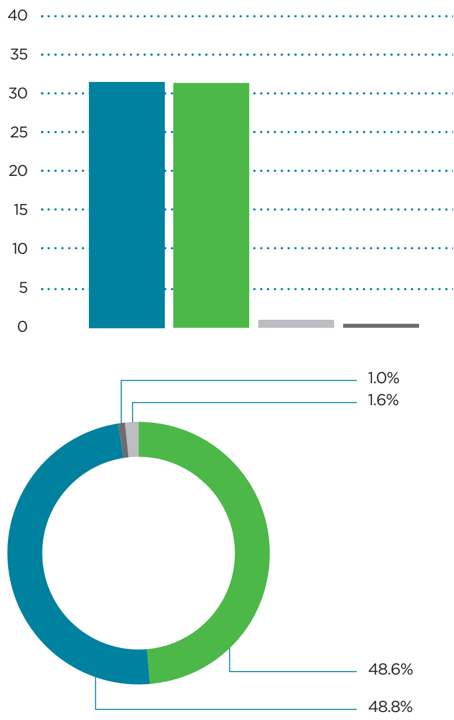
Operating Revenue grew 8% to $69.2m for the year ended 31 March 2017 from $64.0m for the year ended 31 March 2016 due primarily to the growth in our primary Australian market and the emerging Rest of World market. The tables on the opposite page set out the revenues from our four markets.

Australia Revenue grew by 19% to $37.1m (PCP $31.2m) and this market now makes up 54% of Group Operating Revenue. With strong growth in its main OTC channel, *Maxigesic* revenues more than doubled with the targeted post rescheduling advertising in the second half of the year. The newly launched products, *Crystaderm* and *RestoraNail* are showing good growth. The Hospital channel also had strong growth and these two channels drove an underlying growth rate of 26%. This was pulled back to the 19% overall growth rate due to the low levels of supply for a significant product in the first half of the year. The additional plant added last year improved volumes to some extent through the second half of the year and we expect further improvements in volumes going forward.

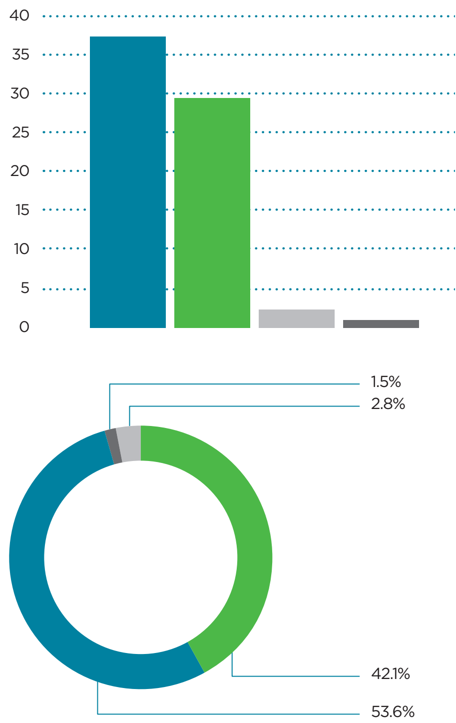
SUMMARY FINANCIAL RESULTS
(For the year ended 31 March 2017)

$NZ000's	2017	2016
Revenue	69,205	**64,014**
Cost of Sales	43,207	(40,435)
Gross Profit	25,998	23,579
Other income	2,659	2,295
Selling and distribution expenses	(25,964)	(19,634)
General and administrative expenses	(5,851)	(6,804)
Research and development expenses	(11,227)	(8,092)
Equity Accounted Loss of joint venture entity	(414)	(302)
Operating Loss	**(14,799)**	**(8,958)**

Net Revenue FY2016
(NZ$000 and percentage)



Net Revenue FY2017
(NZ$000 and percentage)



Operating Revenues FY2017

+8% to $69.2m

Australia
New Zealand
Rest of World
Southeast Asia

New Zealand Revenue recovered a little in the second half to end the year 6% down at $29.2m (PCP $31.1m) and now represents 42% of the Group Operating Revenue. 3%, or half, of this decline was due to the manufacturing supply issues with the sole supply tender product Metoprolol. AFT will cease to supply this product mid way through FY2018. This is a satisfactory outcome and AFT are pleased to have been able to ensure that continuity of supply to patients was achieved through this difficult period. The remaining 3% decline is due to the weaker sales in the Pharmacy channel. There was a pronounced decline in the first half of the year, and this did recover to a flat second half of the year albeit with a disappointing allergy season due to the wet weather. Market data on total retail sales in Pharmacy indicates that the market is around 1.5% down for the year. Moving forward we see further growth of higher margin OTC product sales which are growing despite some weakness as noted in the Pharmacy channel.

Southeast Asia Revenue grew by 55% to $1.0m (PCP $0.6m) and this market now makes up 1.5% of Group Operating Revenue. Sales were predominantly in the Singapore market where product registration is generally quicker to obtain. *Maxigesic*, *Crystaderm*, *RestoraNail* and *Ferro* have been launched in Singapore.

Rest of World Revenue again doubled to $2.0m (PCP $1.0m) and this market now makes up 2.8% of the Group Operating Revenue. Most of the revenues are coming from sales and royalties of *Maxigesic*. United Arab Emirates sales have trebled; sales to Italy have increased sixfold; sales to the United Kingdom were stalled due to the delayed launch by the Licensees however now launched, they report sales ahead of expectations; we have made our first sales to Serbia and further launches will occur in this FY2018 period. Launches are also dictated by regulatory timelines which influence the new market timelines.

GROSS MARGIN

Gross Margin of 38% for FY2017 improved by 1% from 37% for FY2016. The main drivers for the improvement were from the growth in OTC revenues primarily in Australia and the emerging Rest of World. The gross margin was negatively impacted 2% ($1.5m) by the additional costs incurred during the Metoprolol supply shortage in New Zealand. This includes writing off $0.8m of stock damaged in transit. We have made a $0.55m recovery against this, which is included in Other Income. Without these one off costs our underlying Gross Margin would have improved to 40% consistent with increased sales of OTC products. We expect the positive impact on Gross Margin to become more significant as the Australian and Rest of World OTC revenues grow.

OTHER INCOME

Licensing income, which comprises the milestone payments received from the out licensing arrangements we have in our Rest of World markets, are classified in the Financial Statements as Other Income. This was $1.6m for the period (PCP $1.8m), with a combination of new out licensing agreements commencing and milestone payments on existing agreements.

Also included in Other Income is the $0.55m recovery on stock damaged in transit and the Callaghan Innovation research and development grant of $0.5m (PCP $0.5m) to bring total Other Income to $2.7m (PCP $2.3m).

UNITED ARAB EMIRATES SALES HAVE TREBLED AND SALES TO ITALY HAVE INCREASED SIXFOLD.

Total research and development investment

$11.6m

OPERATING OVERHEADS

Total Research and Development investment increased to $11.6m (PCP $8.4m). This includes the $0.4m spend on Pascomer which under IFRS accounting standards we are required to record as joint venture equity accounted loss in the consolidated income statement. A large portion of total research and development spend was on the *Maxigesic* IV clinical trial in the United States which has progressed well and is now nearing completion.

Selling and Distribution expenses increased to $25.9m (PCP $19.6m) driven primarily by the launch of OTC products in the Australian and Singapore markets plus the advertising of *Maxigesic* in Australia after the scheduling change which occurred on 1 July 2016.

General and Administration expenses reduced to $5.9m (PCP $6.8m) due to one off costs incurred in FY2016 relating to the company's IPO and listing and the reclassification of some overheads from general and administration into selling and distribution.

BALANCE SHEET

Total Assets of $58.2m (PCP $65.3m) have reduced primarily due to the investment made into research and development and the launch of primarily established OTC products into Australia and Singapore. Working Capital requirements increased with the $2.2m increase in Inventory to $18.7m in line with the revenue growth, together with the $1.9m increase in Debtors which was also primarily in line with the revenue growth, offset by the $1.5m increase in current liabilities.

The cash position of $16.0m at 31 March 2016 (PCP $28.0m) reflects the $18.0m loss due to the investment into research and development and product launches, the $2.6m increase in working capital and the $9.1m equity raise of redeemable preference shares in March.

The Balance Sheet is primarily working capital driven with the only intangible asset of any significance being the $2.5m of capitalised patents and trademarks. At this stage of our key innovative products' lives, no development costs have been eligible under accounting standards to be capitalised.

The Company is pleased to note that, given their satisfaction with the progress of the company, CRG the holder of the long term loan to AFT has removed the requirement for revenue covenants for the remaining two financial years – FY2018 and FY2019.

Financial Statements

Contents

INDEPENDENT AUDITORS' REPORT

to the shareholders of AFT Pharmaceuticals Limited

The consolidated financial statements comprise:

- the consolidated balance sheet as at 31 March 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements of AFT Pharmaceuticals Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

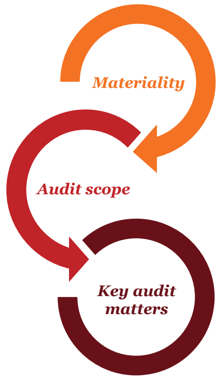
We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Group.

Our audit approach



Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall group materiality: $900,000, which represents 5% of loss before tax.

We chose loss before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is measured by users, and is a generally accepted benchmark.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above $40,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

We have identified one key audit matter being the accounting treatment of research and development costs.

INDEPENDENT AUDITORS' REPORT (CONTINUED)
to the shareholders of AFT Pharmaceuticals Limited

Materiality
The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Audit scope
We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Full scope audits were conducted on the Australian and New Zealand operating segments. The remaining segments were subject to audit procedures that were considered appropriate for the size and nature of those segments.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Treatment of research and development costs

As disclosed in note 6, the Group is involved in the research and development of new products and variants of existing products in order to expand their commercial offerings.

All research and development costs incurred during the year to 31 March 2017, totalling $11.2m, have been expensed through the Income Statement.

Our audit focussed on this area due to the value of the research and development costs incurred, and the fact that there is judgment involved in assessing whether the criteria set out in the accounting standards for expensing or capitalising these costs has been met. In particular, a key consideration that impacts whether costs should be capitalised is the technical feasibility of completing the development of a new product. Typically, a key element of demonstrating technical feasibility is the approval of the product by the relevant market regulatory authority.

Management assesses the status of each project based on progress against clinical trial contracts and the relevant regulatory approval process to determine the appropriate accounting treatment.

How our audit addressed the key audit matter

Our audit procedures included:

- Gaining an understanding of the business process undertaken by management to assess the appropriate accounting treatment for each project.
- Assessing whether the Group's accounting policies in relation to the treatment of research and development expenditure were consistent with requirements of the relevant accounting standards.
- Obtaining an analysis from management as to the status of each individual project, corroborating these status assessments with the operational management team (as distinct from the financial management function).
- Testing a sample of costs expensed to supporting documentation such as clinical trial agreements, contracts and invoices, and payment records to verify the amounts being expensed and the status of the project.
- Challenging whether managements treatment of expensing the costs was appropriate based on the results of the audit work performed over each of the related projects.

The results of our procedures did not identify any inconsistencies in management's treatment of the research and development costs.

Information other than the financial statements and auditor's report
The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard, except that not all other information was available to us at the date of our signing.

Responsibilities of the Directors for the consolidated financial statements
The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our auditor's report.

Who we report to
This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's 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 and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Pip Cameron.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants Auckland

24 May 2017

CONSOLIDATED INCOME STATEMENT
For the year ended 31 March 2017

$NZ000's	Note	2017	2016
Revenue	4	69,205	64,014
Cost of sales		(43,207)	(40,435)
Gross Profit		**25,998**	**23,579**
Other income	5	2,659	2,295
Selling and distribution expenses	6(a)	(25,964)	(19,634)
General and administrative expenses	6(a)	(5,851)	(6,804)
Research and development expenses	6(a)	(11,227)	(8,092)
Equity accounted loss of joint venture entity	13(b)	(414)	(302)
Operating Loss		**(14,799)**	**(8,958)**
Finance income		347	291
Finance costs	6(a)	(3,878)	(2,019)
IPO, listing and capital raising costs		-	(2,623)
Loss before tax	6,7	**(18,330)**	**(13,309)**
Tax benefit/(expense)	7	(58)	42
Loss after tax attributable to owners of the parent		**(18,388)**	**(13,267)**
Basic and diluted earnings per share ($)	25	(0.19)	(0.48)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2017

$NZ000's	2017	2016
Loss after tax	**(18,388)**	**(13,267)**
Other comprehensive income		
May be subsequently reclassified to profit and loss:		
Foreign currency translation reserve	356	(530)
Other comprehensive income/(loss) for the year, net of tax	**356**	**(530)**
Total comprehensive loss for the year attributable to owners of the parent	**(18,032)**	**(13,797)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2017

$NZ000's	Note	Share capital	Cash flow hedge reserve	Share options reserve	Foreign currency translation reserve	Retained earnings	Total equity
Balance 31 March 2015		**12,892**	**(305)**	**-**	**166**	**(10,732)**	**2,021**
Loss after tax		-	-	-	-	(13,267)	(13,267)
Reclassification of FCTR to retained earnings		-	-	-	264	(264)	-
Transfer to current year earnings		-	305	-	-	-	305
Other comprehensive income		-	-	-	(530)	-	(530)
Issue of share capital	17	42,067	-	-	-	-	42,067
Movement in share options reserve		-	-	65	-	-	65
Capital raising expenses	17	(1,057)	-	-	-	-	(1,057)
Dividends paid and provided		-	-	-	-	(1,374)	(1,374)
Balance 31 March 2016		**53,902**	**-**	**65**	**(100)**	**(25,637)**	**28,230**
Loss after tax		-	-	-	-	(18,388)	(18,388)
Other comprehensive income		-	-	-	356	-	356
Issue of redeemable preference shares	17	9,124	-	-	-	-	9,124
Capital Raising Expenses	17	(82)	-	-	-	-	(82)
Movement in share options reserve		-	-	230	-	-	230
Balance 31 March 2017		**62,944**	**-**	**295**	**256**	**(44,025)**	**19,470**

CONSOLIDATED BALANCE SHEET

As at 31 March 2017

$NZ000's	Note	2017	2016
ASSETS			
Current assets			
Inventories	8	18,718	16,499
Trade and other receivables	9	19,362	17,475
Cash and cash equivalents	10	15,980	28,055
Current income tax asset		-	26
Total current assets		**54,060**	**62,055**
Non-current assets			
Property, plant and equipment	11	386	407
Intangible assets	12	2,548	2,111
Deferred income tax assets	7	610	546
Investment in joint venture entity	13(b)	627	185
Total assets		**58,231**	**65,304**
LIABILITIES			
Current liabilities			
Trade and other payables	14	11,069	10,428
Provisions	15	3,950	3,083
Current income tax liability		112	-
Derivative liabilities	20	204	402
Total current liabilities		**15,335**	**13,913**
Non-current liabilities			
Interest bearing liabilities	16	23,426	23,161
Total liabilities		**38,761**	**37,074**
EQUITY			
Share capital	17	62,944	53,902
Retained earnings		(44,025)	(25,637)
Share options reserve	19(b)	295	65
Foreign currency translation reserve		256	(100)
Total equity		**19,470**	**28,230**
Total liabilities and equity		**58,231**	**65,304**
Net tangible assets per ordinary share		$0.17	$0.95

For and on behalf of the Board who authorised these financial statements for issue on 24 May 2017.

David Flacks
Chairman

Hartley Atkinson
Managing Director and
Chief Executive Officer

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 March 2017

$NZ000's	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		69,877	63,237
Interest received		347	241
Payments to suppliers and employees		(86,429)	(74,679)
Tax received		16	47
Interest and finance cost paid		(2,873)	(2,788)
Net cash used in operating activities	18	**(19,062)**	**(13,942)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(122)	(148)
Sale of property, plant and equipment		-	10
Purchases of intangible assets		(620)	(556)
Investment in joint venture		(856)	(487)
Net cash used in investing activities		**(1,598)**	**(1,181)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		9,124	42,037
Share issue costs		(82)	(3,680)
Dividends paid		-	(1,652)
Net cash generated from financing activities		**9,042**	**36,705**
Net (decrease)/increase in cash		(11,618)	21,582
Impact of foreign exchange on cash and cash equivalents		(457)	1,773
Opening cash and cash equivalents		28,055	4,700
Closing cash and cash equivalents		**15,980**	**28,055**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 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.

The financial statements of the Group have been prepared in accordance with the requirements of the Companies Act 1993, Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013. As group financial statements are prepared and presented for AFT Pharmaceuticals Ltd and its subsidiaries, separate financial statements for AFT Pharmaceuticals Ltd are not required to be prepared under the Companies Act 1993.

These financial statements are authorised for issue on 24 May 2017 by the Directors.

2. STATEMENT OF ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention with the exception of derivative instruments revalued to fair value.

(a) Basis of preparation

The consolidated financial statements of the group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The group is a for-profit entity for the purposes of complying with NZ GAAP. The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS), and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS.

The accounting policies presented below have been applied consistently to all periods presented in these consolidated financial statements.

The reporting currency used in the preparation of these consolidated financial statements is New Zealand dollars, rounded where necessary to the nearest thousand dollars.

Certain FY2016 comparatives have been reclassified to conform to the current period presentation. Refer to note 9 and note 18.

(b) Principles of consolidation

SUBSIDIARIES

The consolidated financial statements incorporate the assets and liabilities of the parent and the results of its subsidiaries controlled at year end.

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for the subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the statements of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between subsidiary company are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

JOINT VENTURE

Where the company does not hold a controlling stake in a Joint venture, the principles of Equity accounting are adopted. In these cases, the company's investment is recognised in the balance sheet and its share of after tax profits less losses of the joint venture are recognised in the Profit and Loss, with the value of the company's investment carrying value adjusted accordingly.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2017

2. STATEMENT OF ACCOUNTING POLICIES (Continued)

(c) Critical accounting estimates and judgements

In preparing these financial statements the Group made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations or future events that are believed to be reasonable under the circumstances. The main critical estimate and judgement used is the recognition of deferred tax, detailed within Note 7. It is not expected that this estimate and judgement will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(d) Foreign currency translation

(I) FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of the subsidiaries' operations are measured using the currency of the primary economic environment in which it operates (the 'functional currency'). The consolidated financial statements are presented in New Zealand dollars, which is the Company's functional currency and the Group's presentation currency.

(II) TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement.

(III) FOREIGN OPERATIONS

The results and balance sheets of all foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from New Zealand dollars are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of comprehensive income are translated at average exchange rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions.

(e) Revenue recognition

Revenue comprises the fair value for the sale of goods and royalties due, excluding Goods and Services Tax, rebates and discounts.

- The sales of goods are recognised when the product is delivered to customers.
- Royalties are recognised when licencees have made sales of product which attract royalties to the company.

(f) Other income recognition

Other income comprises of research and development grant and licensing income:

• RESEARCH AND DEVELOPMENT GRANT

Research and development grant income is recognised when eligible research and development expenses are incurred and conditions relating to the grant are satisfied.

• LICENCING INCOME

Licencing income comprises milestone payments due under out-licencing agreements. Milestone payments represent a minor portion of the economic benefits of the out-licencing agreements (the primary benefits being the sale of product and royalties earned on licensee sales). The milestones are recognised as income depending on the terms of each out-licencing agreement.

(g) Finance income recognition

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

(h) Property, plant & equipment

All plant and equipment is stated at historical cost less depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the diminishing value method which is apportions the cost of the assets over their useful lives. The Group has the following classes of property, plant & equipment and depreciation rates:

Category	Depreciation Rate (%)
Plant & machinery	21% to 80%
Fixtures & fittings	9% to 60%
Vehicles	26% to 36%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing proceeds to carrying amounts and are included in the statements of comprehensive income.

(i) Intangible assets

FINITE USEFUL LIFE

Acquired patents have a finite life and are carried at cost less accumulated amortisation. Patents are amortised over a useful economic life of 20 years.

INDEFINITE USEFUL LIFE

Acquired trademarks are considered to have an indefinite useful life whilst they continue to protect revenue streams. Trademarks are carried at cost less accumulated impairment. Indefinite useful life assets are tested for impairment annually or when impairment indicators exist. The assets' carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount.

(j) Goods & services tax

The Income Statement and the Statement of Comprehensive Income have been prepared so that all components are stated exclusive of New Zealand, Australian and Malaysian GST. All items in the Balance Sheet are stated net of GST, with the exception of accounts receivable and payable which include GST invoiced. All components of Statement of Cash Flows are stated exclusive of GST.

(k) Income tax

The income tax expense recognised for the period is based on the accounting profit or loss, adjusted for non-taxable and non-deductible differences.

Current tax is calculated by reference to the amount of income tax payable calculated using tax laws that are enacted or substantively enacted at balance date.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset or liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2017

2. STATEMENT OF ACCOUNTING POLICIES (Continued)

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average cost basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Leased assets

Operating leases are those in which all the risks and rewards are substantially retained by the lessor. Lease payments are charged in the income statement on a straight line basis over the term of the lease.

(n) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Bad debts are written off in the year in which they are identified. Collectability of trade receivables is reviewed on an on-going basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statements of Comprehensive Income.

(o) Trade payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. These amounts are incurred and are usually paid within 30 days of recognition.

(p) Borrowings

Borrowings are initially recognised at fair value plus transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (plus transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowing costs are expensed as incurred.

(q) Share capital

Ordinary shares are classified as equity. Preferred shares are classified as equity, they attract a dividend yield and do not have ordinary share voting rights.

(r) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term investments with original maturities of twelve months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(s) Employee entitlements

Liabilities for wages and salaries, including non monetary benefits, annual leave, and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in trade payables or provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. The liability for employee entitlements is carried at the present value of estimated future cash flows. Staff share options are valued at fair value as calculated independently using the Black Scholes model.

(t) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Indefinite useful life assets are tested for impairment annually and whenever there are indicators of impairment while finite useful life assets are tested only when there are indicators of impairment.

(u) Derivative financial instruments

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 for contracts in place and the actual exchange rate at year-end, considered level 2 of the fair value hierarchy.

For the purposes of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss is recognised in the Income Statement.

(v) Research and development

Research is the original and planned investigation undertaken with the prospect of gaining new knowledge and understanding. This includes: direct and overhead expenses for research, pre-clinical trials and costs associated with clinical trial activities. All research costs are expensed when incurred.

Development is the application of research findings to a plan or design for the production of new or substantially improved processes or products prior to the commencement of commercial production. When a project reaches the stage where it is reasonably certain that future expenditure can be recovered through the process or products produced, expenditure that is directly attributable or reasonably allocated to that project is recognised as a development asset. The asset will be amortised from the date of commencement of commercial production of the product to which is relates on a straight line basis over the period of expected benefit. Development assets are reviewed annually for any impairment in their carrying value.

(w) Earnings per share

Basic earnings per share is computed by dividing net earnings by the weighted average number of ordinary shares outstanding during each period. Preferred shares are considered to be anti-dilutive for the earnings per share calculation.

Diluted earnings per share is computed by dividing net earnings adjusted for the share options cost, by the diluted weighted average number of ordinary shares (as if all options have been exercised).

3. STANDARDS OR INTERPRETATIONS NOT YET EFFECTIVE

No new standards that have been issued and are effective for the periods beginning 1 April 2016 are considered to materially impact the recognition, measurement or disclosure of these financial statements. The below are new standards and amendment that have been issued that are not yet effective:

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2017

3. STANDARDS OR INTERPRETATIONS NOT YET EFFECTIVE (Continued)

There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The group intends to adopt NZ IFRS 9 on its effective date however no impact is expected as no derivatives used by the company currently qualify for hedge accounting.

NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The group intends to adopt NZ IFRS 15 on its effective date but does not believe there will be any material impact.

IFRS 16 'Leases' was issued by The International Standards Board in January 2016 and replaces the previous leases Standard, IAS 17 Leases, and related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. As a result all leases are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments as an asset. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. As such the most significant effect of the new requirements in IFRS 16 will be an increase in the lease assets and liabilities. IFRS 16 is effective from 1 January 2019 with early adoption allowable if IFRS 15 also adopted. The group intends to adopt NZ IFRS 16 on its effective date but has not yet quantified the estimated impact of adoption.

There are no other NZ IFRSs or NZ IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

4. REVENUE FROM OPERATIONS

$NZ000's	2017	2016
Sale of goods	69,047	64,014
Royalty income	158	-
Total revenue	**69,205**	**64,014**

5. OTHER INCOME

$NZ000's	2017	2016
Research and development grant	512	465
Licensing income	1,597	1,830
Insurance recovery	550	-
Total other income	**2,659**	**2,295**

The company purchased emergency supplies of Metoprolol at a cost of $823,000, which was damaged in transit and written off as part of Cost of Sales during the year. An insurance recovery of $550,000 has been made against this cost which is required to be reported as other income.

6(a). NET OPERATING PROFIT

$NZ000's	Note	2017	2016
Loss before tax		**(18,330)**	**(13,309)**
After charging the following specific expenses:			
Finished goods material component of cost of goods sold		41,671	39,817
Inventory write off		1,536	618
Audit fees and review of financial statements	6(b)	149	134
Rental expense		502	532
Operating leases		422	382
Share options expense		230	65
Short term employee emoluments:			
Selling and distribution expenses		6,233	6,046
General and administrative expenses		1,594	2,084
Research and development expenses		1,362	1,113
		9,189	9,243
Research and development expenses:			
Product development		9,222	5,867
New market development		2,005	2,225
		11,227	8,092
Depreciation:			
Plant and machinery		99	103
Furniture and fixtures		29	29
Vehicles		15	22
		143	154
Amortisation:			
Patents		99	91
Software		84	23
		183	114
Finance costs:			
Interest		3,186	3,436
Foreign exchange losses/(gains)		710	(1,405)
Other financing costs		(18)	(12)
		3,878	2,019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2017

6(b). FEES PAID TO AUDITORS

$NZ000's	2017	2016
Audit of financial statements		
Audit of annual financial statements – PwC	126	93
Review of half year financial statements – PwC	23	41
Total fees for audit services	**149**	**134**
Other services		
Performed by PwC:		
Tax due diligence services	-	28
Assurance report on ASX pro forma balance sheet	-	18
IPO and capital raising assurance services and accounting advice	-	160
Total other services	**-**	**206**
Total fees paid to auditor	**149**	**340**

In 2017, no fees (2016:$160k) were paid to PricewaterhouseCoopers in relation to IPO and capital raising assurance services. Of these costs nil (2016:$141k) were included within IPO, Listing and Capital raising costs expense in that year with none (2016:$19k) being attributed to the cost of issue of shares and offset in contributed equity.

7. INCOME TAX

$NZ000's	2017	2016
(a) Tax expense		
Loss before tax	**(18,330)**	**(13,309)**
Tax calculated at domestic tax rates applicable	(5,049)	(3,752)
Expenses not deductible	84	830
Current year losses not recognised	5,094	2,715
Previous year losses now recognised	(197)	-
NRWT expense	121	-
Prior year adjustment	5	165
Tax expense/(benefit)	**58**	**(42)**
Comprising:		
Current tax	117	96
Deferred tax	(59)	(138)
	58	**(42)**

$NZ000's	2017	2016
(b) Deferred tax balance		
Provisions	610	546
	610	**546**

Deferred tax assets relating to unused tax loss carry-forwards and to deductible temporary differences are recognised if it is probable that they can be offset against future taxable profits or existing temporary differences. As at 31 March 2017, the Group recognised deferred tax assets on temporary differences totalling $610,000 (2016: $546,000) since it was foreseeable that temporary differences could be offset against future taxable profits. On the basis of the approved business plans of subsidiaries, AFT Pharmaceuticals Limited considers it probable that temporary differences can be offset against future taxable profits. There is no expected change in capital structure in the near future which is expected to affect the recoverability of the recognised deferred tax assets.

The amount of tax losses carried forward that is available for future utilization is $39,815,000 (FY2016: $21,531,000). No deferred tax asset has been recognized in relation to these losses.

$NZ000's	2017	2016
(c) Imputation and franking credits available for use		
NZD	600	600
AUD	319	319

8. INVENTORIES

$NZ000's	2017	2016
Inventory on hand	19,046	16,930
Provision for obsolescence	(328)	(431)
	18,718	**16,499**

Inventory on hand comprises pharmaceutical goods ready for resale.

The value of inventory is transferred to cost of sales in the income statement when sold.

9. TRADE AND OTHER RECEIVABLES

$NZ000's	2017	2016
Trade receivables (see note below)	17,403	15,446
Prepayments (see note below)	1,959	2,029
	19,362	**17,475**

Ageing of overdue trade debtors but not considered impaired

$NZ000's	1-30 Days	31-60 Days	61-90 Days	90+ Days	Total
31 March 2017	323	167	3	-	**493**
31 March 2016	2,641	87	-	31	**2,759**

All balances are expected to be settled within the next 12 months.

Note: FY2016 comparatives have been reclassified $1,187,000 from inventory to reflect stock purchase deposits as prepayments.

10. CASH AND CASH EQUIVALENTS

$NZ000's	2017	2016
Cash at bank	15,876	7,936
Cash on hand	29	44
	15,905	**7,980**
Cash on term deposit	75	20,075
Total cash	**15,980**	**28,055**

Cash at bank earns on average less than 1% of interest.

Term deposits are at various interest rates and maturity dates, all within 12 months.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 March 2017

11. PROPERTY PLANT & EQUIPMENT

$NZ000's	Plant and Machinery	Furniture and Fixtures	Vehicles	Total
(a) Cost				
Balance 31 March 2015	**576**	**362**	**267**	**1,205**
Additions	118	34	-	152
Disposals	-	-	(49)	(49)
Balance 31 March 2016	**694**	**396**	**218**	**1,308**
Additions	104	18	-	122
Disposals	-	-	-	-
Balance 31 March 2017	**798**	**414**	**218**	**1,430**
(b) Depreciation				
Balance 31 March 2015	**(434)**	**(163)**	**(197)**	**(794)**
Depreciation	(103)	(29)	(22)	(154)
Disposals	-	-	47	47
Balance 31 March 2016	**(537)**	**(192)**	**(172)**	**(901)**
Depreciation	(99)	(29)	(15)	(143)
Disposals	-	-	-	-
Balance 31 March 2017	**(636)**	**(221)**	**(187)**	**(1,044)**
(c) Carrying amounts				
Balance 31 March 2016	**157**	**204**	**46**	**407**
Balance 31 March 2017	**162**	**193**	**31**	**386**

12. INTANGIBLE ASSETS

$NZ000's	Trademarks	Patents	Software	Total
(a) Cost				
Balance 31 March 2015	**278**	**1,602**	**241**	**2,121**
Additions	161	377	19	557
Disposals	-	(1)	-	(1)
Balance 31 March 2016	**439**	**1,978**	**260**	**2,677**
Additions	171	204	254	629
Disposals	-	(9)	-	(9)
Balance 31 March 2017	**610**	**2,173**	**514**	**3,297**
(b) Amortisation				
Balance 31 March 2015	**-**	**(247)**	**(205)**	**(452)**
Amortisation		(91)	(23)	(114)
Disposals	-	-	-	-
Balance 31 March 2016	**-**	**(338)**	**(228)**	**(566)**
Amortisation	-	(99)	(84)	(183)
Disposals	-	-	-	-
Balance 31 March 2017	**-**	**(437)**	**(312)**	**(749)**
(c) Carrying amounts				
Balance 31 March 2016	**439**	**1,640**	**32**	**2,111**
Balance 31 March 2017	**610**	**1,736**	**202**	**2,548**

Trademarks are acquired to protect the current and future revenue streams of the group.
They are considered to have an indefinite useful life whilst they continue to protect revenue streams.

13(a). INVESTMENT IN SUBSIDIARIES

	Interest Held			
	2017%	2016%	Country of Incorporation	Principal Activities
AFT Pharmaceuticals (AU) Pty Ltd	100%	100%	Australia	Distribution of pharmaceuticals in Australia
AFT Pharmaceuticals Singapore Pte Ltd	100%	100%	Singapore	Registration of pharmaceuticals in Singapore
AFT Pharmaceuticals (S.E. Asia) Sdn Bhd	100%	100%	Malaysia	Distribution of pharmaceuticals in Malaysia
AFT Orphan Pharmaceuticals Limited	65%	65%	New Zealand	No activity
AFT Limited Partner Limited	100%	100%	New Zealand	Partner in Dermatology Specialties LP
AFT Dermatology Limited	100%	100%	New Zealand	Distribution of pharmaceuticals

Investment comprises ordinary shares held at cost.
All subsidiaries have a balance date of 31 March.

13(b). INVESTMENT IN JOINT VENTURE PARTNERSHIP

$NZ000's	2017	2016
Interest in joint venture company, at cost	1,343	487
Equity accounted earnings of joint venture partnership	(716)	(302)
Net equity investment in joint venture partnership	**627**	**185**

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

	2017 % Interest held	2016 % Interest held
Dermatology Specialties LP	50%	50%

Principal activities: Development and distribution of pharmaceuticals

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

$NZ000's	2017	2016
Balance at start of year	185	-
Investment during the year	856	487
Share of current year loss	(414)	(302)
Dividend received	-	-
Balance at end of year	**627**	**185**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2017

13(b). INVESTMENT IN JOINT VENTURE PARTNERSHIP (Continued)

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

$NZ000's	2017	2016
Extracts from joint venture partnership balance sheet (unaudited)		
Current assets	-	-
Non-current assets	2,175	2,169
Current liabilities	(95)	(117)
Non-current liabilities	-	-
Net assets	**2,080**	**2,052**
Extracts from joint venture partnership income statement (unaudited)		
Revenue	-	-
Net profit after taxation	(828)	(604)

The joint venture did not have any contingent liabilities or capital commitments at balance date (2016: nil).

14. TRADE AND OTHER PAYABLES

$NZ000's	2017	2016
Trade payables	7,348	8,140
GST payable	1,161	616
Employee entitlements	615	621
Other payables	1,945	1,051
	11,069	**10,428**

15. PROVISIONS

$NZ000's	2017	Additional Provisions	Utilised	2016	Additional Provisions	Utilised	2015
Customer rebates	3,386	3,386	(2,422)	2,422	2,422	(998)	998
Supplier rebates	564	564	(661)	661	661	(892)	892
	3,950	**3,950**	**(3,083)**	**3,083**	**3,083**	**(1,890)**	**1,890**

Customer rebates are based on the customers' ability to achieve certain sales targets and are computed using the expected rebate percentage for sales made during the period.

Supplier rebates are based on profit sharing arrangements with suppliers which are estimated on achieving expected set margin targets, and are expected to be utilised within the next 12 months.

16. INTEREST BEARING LIABILITIES

$NZ000's	2017	2016
CRG (Capital Royalty Partners) loans	23,426	23,161
	23,426	**23,161**

The term loan agreement with CRG commenced in May 2014 and has a facility to be drawn down up to US$30million. It is for a six year term for which the first four years only interest is payable, some of which may be compounded, with the principal to be repaid in equal quarterly instalments in years five and six.

The loan has a general security over the assets of the Group together with a group guarantee. Interest is fixed at 13.5% p.a. Details of the two covenants relevant to the loan are in note 24 Management of Capital.

The carrying amount of the CRG loan is substantially in line with the fair market value as per balance sheet date. The interest rate of the contract is in line with the market interest rate.

17. SHARE CAPITAL

	2017 Number	2016 Number	2017 $'000	2016 $'000
Ordinary share capital	96,834,838	96,834,838	55,994	55,994
Less capital raising costs	-	-	(2,174)	(2,092)
Redeemable Preference Shares	3,330,000	-	9,124	-
	100,164,838	**96,834,838**	**62,944**	**53,902**

$NZ000's	2017 $'000	2016 $'000
Share capital at beginning of the year	53,902	12,892
Issue of Redeemable Preference Shares	9,124	-
Issue of Series B Preferred Shares	-	9,392
IPO	-	32,675
Less capital raising costs	(82)	(1,057)
	62,944	**53,902**

FY2016

During May, June and July 2015 the Group issued 54,120 new Series B Preferred Shares at US$129 each to existing shareholders, Directors and a group of specialist pharmaceutical investors. These were fully subscribed and increased equity by NZD$9.4million. The series B Preferred shares carried a yield of net 5% payable in cash quarterly.

The Series B Preferred Shares converted 1:1 automatically immediately before the closing of the public offering of shares in the company which resulted in a market capitalisation of the company of at least US$150million. The Series B Preferred Shares did not carry voting rights other than on class matters particular to the Series B Preferred Shares.

In December 2015, the company completed an Initial Public Offering (IPO), culminating with dual listing on both the New Zealand Stock Exchange (NZX) and the Australian Stock Exchange (ASX) on 22 December 2015. This IPO involved raising $32.6m of new equity, all being Ordinary shares, the conversion of all Preference shares (both A and B) to Ordinary shares, and the sell down by the Atkinson Family Trust of 1.07 million shares. In addition 7,700 Ordinary shares were issued to staff at nil consideration.

At 31 March 2016 there were 96,834,838 Ordinary shares on issue.

In addition, staff of AFT Pharmaceuticals Limited were issued with 861,000 options to purchase one ordinary share per option in the company at the issue price of NZ$2.80 per share. 166,963 of these options may be exercised after 22 December 2017 with the balance exercisable on 22 December 2018 or later.

FY2017

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 Preferences Shares, and are available on the company website.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2017

18. RECONCILIATION OF PROFIT AFTER TAX WITH NET CASH FLOW FROM OPERATING ACTIVITIES

$NZ000's	2017	2016
Loss after tax	(18,388)	(13,267)
Non-cash items:		
Depreciation	143	154
Amortisation	183	114
Impact of foreign exchange on cash and cash equivalents	456	(1,773)
Share options expense (see note below)	230	65
Movement in working capital:		
(Increase)/Decrease in inventories	(2,219)	(200)
(Increase)/Decrease in trade and other receivables	(1,887)	(6,409)
Increase/(Decrease) in trade and other payables (see note below)	2,282	7,450
Increase/(Decrease) in income tax	138	(76)
Net cash used in operating activities	**(19,062)**	**(13,942)**

Note : In FY2016 , the share options expense was included in other payables.

19. RELATED PARTIES

The Group had related party relationships with the following entities:

Related party	Nature of relationship
Redvers Limited	Common Director
Mainz Consulting Limited	Common Director
CRG (Capital Royalty Partners)	Shareholder

The following transactions were carried out with these related parties:

(I) CONSULTATION FEES

$NZ000's	2017	2016
Redvers Limited	-	113
Mainz Consulting Limited	-	21
Total consultation fees	**-**	**134**

(II) LOANS

$NZ000's	2017	2016
CRG (Capital Royalty Partners) – refer to note 16	23,426	23,161
Total loan balances	**23,426**	**23,161**

(III) KEY MANAGEMENT COMPENSATION

$NZ000's	2017	2016
Directors' fees	289	187
Other Director remuneration	-	134
Executive salaries	1,092	1,067
Short term benefits	238	39
Key management compensation	**1,619**	**1,427**

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.

19(b). STAFF SHARE OPTIONS

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2017		2016	
	Average exercise price $ per share	Options '000's	Average exercise price $ per share	Options '000's
Balance at beginning of year	2.80	861	-	-
Issued	-	-	2.80	861
Forfeited	-	(11)	-	-
Exercised	-	-	-	-
Lapsed	-	-	-	-
Balance at end of year	**2.80**	**850**	**2.80**	**861**

Weighted average share price for options exercised during the period $nil (2016: $nil).

Of the 850,000 outstanding options, nil are currently exercisable (2016: nil)

Share options outstanding at the end of the year have the following expiry dates, exercise dates and exercise prices:

Expiry Month	Exercise Month	Exercise Price	2017	2016
April 2020	December 2017	2.80	151,629	155,296
April 2020	December 2018	2.80	698,371	705,704
Total share options outstanding			**850,000**	**861,000**

The weighted average remaining contractual life of options outstanding at the end of the period was 3 years (2016: 4 years)

SHARE OPTIONS RESERVE

$NZ000's	2017	2016
Balance at beginning of year	(65)	-
Current year amortisation	(230)	(65)
Balance at end of year	**(295)**	**(65)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2017

20. FINANCIAL RISK MANAGEMENT

(a) Managing financial risk

The Company's activities expose it to various financial risks as detailed below.

• MARKET RISK

Management is of the opinion that the Group's exposure to market risk at balance date is defined as:

Risk Factor	Description	Sensitivity
(i)Currency risk	Exposure to changes in foreign exchange rates on assets and liabilities of the subsidiary	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 purchase 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 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 year (FY2017) Foreign Exchange losses totaled $710k (2016 -$1,405k gain) of which $260k (2016: -$1,614k losses) were unrealised gains on the USD denominated CRG loan. Future revenues from markets outside Australasia will be derived in USD which will be used towards repaying this debt as it falls due. The balance of the losses are derived from the restatement of the cash balances at the spot rate on the year end balance date of 31 March 2017 and the change in spot rates during the time between when expenses are recorded in the general ledger and when they are paid.

A 1% increase or decrease in foreign exchange rates on assets and liabilities will reduce/increase equity by $53,000 (2016: $113,000) and reduce/increase the profit or loss by $341,000 (2016: $296,330).

The following forward foreign exchange contracts were held at the end of the 2017 financial year:

Forward Foreign Exchange Contracts				
Buy Currency	Buy Currency Amount ('000)	Sell Amount $NZ000's	Buy Amount 31-Mar-17 $NZ000's	Fair Value $NZ000's
EUR	3,012	4,806	4,956	(150)
GBP	544	1,027	1,075	(48)
USD	2,730	3,902	3,895	7
AUD	(750)	(807)	(794)	(13)
Total exposure as at 31 March 2017				**(204)**

All contracts mature within one year from 31 March 2017.

The following forward foreign exchange contracts were held at the end of the 2016 financial year:

Forward Foreign Exchange Contracts				
Buy Currency	Buy Currency Amount ('000)	Sell Amount $NZ000's	Buy Amount 31-Mar-16 $NZ000's	Fair Value $NZ000's
EUR	3,500	5,914	5,815	(99)
GBP	610	1,358	1,278	(80)
USD	5,755	8,626	8,403	(223)
Total exposure as at 31 March 2016				**(402)**

All contracts matured within one year from 31 March 2016.

• INTEREST RATE RISK

Borrowings are at a fixed interest rate which exposes the group to fair value interest rate risk. There are no specific derivative arrangements to manage this risk

• CREDIT RISK

Financial instruments which potentially subject the Group to credit risk principally consist of accounts receivable. Regular monitoring is undertaken to ensure that the credit exposure remains within the Group's normal terms of trade.

The Group has one significant concentration of credit risk at 31 March 2017 with the largest debtor being $7,640,667 (2016: $4,525,638). There has been no past experience of default and no indications of default in relation to this debtor. There are no impaired receivables at 31 March 2017 (2016: nil). Refer to Note 21.

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 23.9% of total assets at the Bank of New Zealand (2016: 32.3%), 3.3% at NAB Bank (2016: 2.7%) and 0% with ANZ (2016: 7.6%). The carrying value of financial assets represents the maximum exposure to credit risk.

• LIQUIDITY RISK

Liquidity risk is the risk that the Group may encounter difficulty in raising funds at short notice to meet its commitments and arises from the need to borrow funds for working capital. The Directors monitor the risk on a regular basis and actively manage the cash available to ensure the net exposure to liquidity risk is minimised. Since May 2014, there has been a $1million BNZ overdraft immediately available.

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

Liquidity Profile					
$NZ000's 31 March 2017	< 1 Year	1-2 Years	2-5 Years	> 5 Years	Total
Trade and other payables	(11,069)	-	-	-	(11,069)
Borrowings	(2,144)	(14,454)	(13,283)	-	(29,881)
Derivative liabilities (outbound)	(9,132)	-	-	-	(9,132)
Derivative liabilities (inbound)	8,928	-	-	-	8,928
Totals	**(13,417)**	**(14,454)**	**(13,282)**	**-**	**(41,154)**
31 March 2016					
Trade and other payables	(11,220)	-	-	-	(11,220)
Borrowings	(2,623)	(2,168)	(28,529)	-	(33,320)
Derivative liabilities (outbound)	(15,496)	-	-	-	(15,496)
Derivative liabilities (inbound)	15,094	-	-	-	15,094
Totals	**(14,245)**	**(2,168)**	**(28,529)**	**-**	**(44,942)**

(b) Fair Values

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 March 2017

21. SEGMENT REPORTING

	Operating Segments				
$NZ000's 31 March 2017	**Australia**	**New Zealand**	**Asia**	**Rest of World**	**Total**
Revenue	**37,064**	**29,168**	**1,005**	**1,968**	**69,205**
Other income	-	550	-	2,109	2,659
Depreciation and amortisation	25	294	7	-	326
Loss before tax	**(3,633)**	**(5,782)**	**(689)**	**(8,226)**	**(18,330)**
Finance income	-	347	-	-	347
Finance costs	(2)	(3,184)	-	-	(3,186)
Other gains/(losses)	(24)	(544)	(124)	-	(692)
Total assets	**22,837**	**33,774**	**1,620**	**-**	**58,231**
Property, plant and equipment	54	317	15	-	386
Intangible assets	-	2,548	-	-	2,548
Capital expenditure	**19**	**722**	**10**	**-**	**751**
31 March 2016					
Revenue	**31,224**	**31,135**	**648**	**1,007**	**64,014**
Other income	-	1	-	2,294	2,295
Depreciation and amortisation	30	233	5	-	268
Loss before tax	**(3,233)**	**(4,902)**	**(1,015)**	**(4,159)**	**(13,309)**
Finance income	-	291	-	-	291
Finance costs	(13)	(3,424)	-	-	(3,437)
Other gains/(losses)	-	1,412	6	-	1,418
Total assets	**18,578**	**46,515**	**211**	**-**	**65,304**
Property, plant and equipment	61	334	11	1	407
Intangible assets	-	2,111	-	-	2,111
Capital expenditure	**54**	**648**	**2**	**-**	**704**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). For the purposes of NZ IFRS 8 the CODM is a group comprising the Board of Directors together with the Chief Executive Officer, the Chief of Staff, the Chief Financial Officer and the Director of International Business Development. This has been determined on the basis that it is this group which determines the allocation of the resources to segments and assesses their performance.

The Group has four operating segments based on geographical location reportable under NZ IFRS 8, as described below, which are the Group's strategic groupings of business units. The following summary describes the operations in each of the Group's reporting segments:

New Zealand – Includes the Head Office function for the Group, supplier relationships and procurement of all stock for the group, all regulatory activity, all marketing activity and all finance activity. The sales and distribution activity principally relates to the New Zealand market.

Australia – Includes the sales and distribution activity relating to the Australian market.

Asia – Includes the sales and distribution activity relating to the Asian market (Brunei, Hong Kong, Malaysia, Philippines, Singapore and Vietnam).

Rest of World – Includes the out licensing of IP developments to markets in which AFT does not have a presence and the export of products to export markets (Balkans, Iraq, Pacific Islands, Saudi Arabia, UAE). The costs of research and development and new market development activity not specific to the other segments are expensed to this segment.

Major Customers – Revenues from one customer of the Australian segment (being a licensed wholesaler) represent approximately NZ$15.5million (2016: NZ$11.99million) and from one customer of the New Zealand segment (also being a licensed wholesaler) represent approximately $13.9million (2016: $12.91million) of the Group's total revenues.

22. CONTINGENT LIABILITIES

In May 2015, AFT Pharmaceuticals Ltd signed as guarantor of AFT Pharmaceuticals Pty Ltd for its 5-year lease contract with Shannon Wicks Pty Ltd for the premises occupied in Sydney, Australia. 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.

23. COMMITMENTS

(a) Capital Commitments

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

(b) Lease Commitments

$NZ000's	2017	2016
Due within one year	890	888
Due later than one year but within five years	2,261	643
Due later than 5 years	1,750	-
	4,901	**1,531**

The above includes leases for property, vehicles and equipment.

(c) Other Commitments

The company has entered into contracts to complete clinical trials overseas. These contracts call for stage or milestone payments to be made progressively when those stages or milestones are achieved. Certain conditions allow for the termination of the trials, with future obligations extinguished. The aggregate expected amounts likely to be paid under these contracts is NZ$4.0million (2016: $9.8million).

The Group leases the business premises in Takapuna, Auckland, New Zealand for $421,000 plus GST (including operating expenses) per annum. The lease has been renewed with final expiry on 12 April 2026. The Group also leases premises in North Ryde, Sydney Australia for AUD$106,177 (including operating expenses) per annum. It has an initial term of 5 years which will expire on 15 May 2020 with one right of renewal for another 5 years with final expiry on 14 May 2025. The Group also leases a number of motor vehicles and office equipment which all have a final expiry date not exceeding 3 years 9 months.

24. MANAGEMENT OF CAPITAL

The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns to its shareholders, and
- to maintain a strong capital base to support the development of its business.

The Group meets these objectives through a mix of equity capital and borrowings. The level and mix of capital is determined by the Group's internal Corporate Governance Policies.

The long term debt in the form of the CRG Loan was used to replace the trade facility from the BNZ in May 2014.

Under the CRG Loan Agreement there are two covenants. The first requires a minimum bank balance of NZ$4million at each month end and a minimum balance of NZ$1million at any one time. The second is for Revenues (inclusive of Licensing income) to exceed NZ$67.75million for the 2017 financial year (2016: NZ$64.5million). This revenue covenant was reduced from its previous level of $74.5m in November 2016. On 24 May 2017, CRG removed the revenue covenants from the loan agreement for 2018 and 2019. Under the BNZ facility there is a covenant requirement that the facility comprising an overdraft and letter of credit facility must not exceed the total of 70% of acceptable debtors plus 40% of acceptable stock.

The Group has complied with both the CRG and BNZ covenants during the 2017 financial year.

In May 2015 the group raised $9.4m of further equity through the issuance of Preference B Shares. In December 2015 a further $32.6m was raised through an initial public offering of shares which are jointly listed on both the NZX and ASX. In March 2017 the Group issued 3,330,000 Redeemable Preference Shares raising $9.1m. Details are covered in Note 17.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2017

25. EARNINGS PER SHARE

$NZ000's	2017	2016
Loss after tax	(18,388)	(13,267)
Weighted average ordinary shares	97,112,340	27,573,214
Basic and diluted earnings/(loss) per share ($)	(0.19)	(0.48)

Basic earnings per share is computed by dividing net earnings by the weighted average number of ordinary shares outstanding during each period (assuming that Redeemable Preference Shares have converted to ordinary shares). For FY2016 Preferred shares are considered to be anti-dilutive for the earnings per share calculation.

Diluted earnings per share is computed by dividing net earnings adjusted for the share options cost, by the diluted weighted average number of ordinary shares (as if all options have been exercised).

26. DIVIDENDS PER SHARE

No dividends have been declared to the ordinary shareholders of the parent company during the current year, nor in the FY2016.

27. SUBSEQUENT EVENTS

On 24 May 2017, the directors confirmed an offer to existing shareholders to subscribe for up to NZ$15,000 of new shares at a price discounted from market price. This is expected to raise up to NZ$1.25 million.

On 24 May 2017, CRG removed the revenue covenants from the loan agreement for 2018 and 2019.

CORPORATE GOVERNANCE STATEMENT

The Board and management of AFT Pharmaceuticals Limited (AFT or the Company) are committed to ensuring that AFT maintains corporate governance practices in line with current best practice and adheres to the highest ethical standards.

AFT is listed on the New Zealand stock exchange (NZX Main Board) and on the Australian stock exchange as an ASX Foreign Exempt Listing. As an ASX Foreign Exempt Listing, AFT needs to comply with the NZX Listing Rules (other than as waived by NZX) and with the ASX Listing Rules only to the extent specified in ASX Listing Rule 1.15.

Corporate governance principles and guidelines have been introduced in both New Zealand and Australia. These include the Australian Securities Exchange (ASX) Corporate Governance Council Corporate Governance Principles and Recommendations (3rd Edition), the New Zealand Stock Exchange Listing Rules relating to corporate governance, the NZX Corporate Governance Best Practice Code, and the Financial Markets Authority Handbook 'Corporate Governance in New Zealand Principles and Guidelines' (collectively, the 'Principles').

The Governance Manual for the Company consists of various charters and policies which document AFT's governance practices. The Board considers that the Company's corporate governance practices and procedures substantially reflect the Principles. In this Corporate Governance Statement, we report on how the Company has followed the recommendations set out in the Principles.

The full content of the Company's corporate governance policies can be found on the corporate governance section of the Company's website – www.aftpharm.com

ETHICAL STANDARDS

Code of Ethics and Culture

The Board recognises that high ethical standards and behaviours are central to good corporate governance and has implemented a Code of Ethics to guide the behaviour of its directors, senior managers and employees.

AFT's Code of Ethics establishes the framework by which directors and staff of AFT are expected to conduct their professional lives by facilitating behaviour and decision-making that meets AFT's business goals and is consistent with AFT's values, policies and legal obligations. AFT's Code of Ethics is available on AFT's intranet and forms part of the induction process for new employees. To date there have been no instances raised with either the Board or management around any alleged breaches of the Code of Ethics. AFT encourages staff to report any concerns they have about compliance with the Code of Ethics, AFT policies or legal obligations via staff-wide communications on the Code and has established a designated email address accessible only by non-executive directors for staff to confidentially raise any concerns they may have.

The Code of Ethics addresses:

- AFT's values and commitments to establishing an inclusive culture
- Conflicts of interest
- Receipt of gifts
- Corporate opportunities
- Confidentiality
- Behaviours and responsibilities
- Proper use of AFT property and information
- Compliance with laws and AFT policies
- Reporting issues regarding breaches of the Code, legal obligations or other AFT policies; and
- Additional director responsibilities.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Securities Trading Policy

The Company is committed to complying with legal and statutory requirements with respect to ensuring directors and employees do not trade AFT shares while in possession of inside information.

AFT's Securities Trading Policy and Guidelines apply to all directors, officers, and employees of AFT and its subsidiaries. This Policy seeks to ensure that those subject to the Policy do not trade in AFT securities if they hold undisclosed price-sensitive information. The Policy sets out additional rules, which includes the requirement to seek company consent before trading and prescribes certain black-out periods during which trading is prohibited.

Compliance with the Securities Trading Policy is monitored through the consent process, through education and via notification by AFT's share registrar when any director or senior manager trades in AFT securities. All trading by directors and senior managers (as defined by the Financial Markets Conduct Act 2013) is required to be reported to NZX and the ASX and recorded in AFT's securities trading registers.

In addition to the restrictions outlined above, each director and senior manager who held shares in AFT at the date of AFT's initial public offering (IPO) (21 December 2015) entered into an escrow deed with AFT (May 2017 Escrow Shares). Under these arrangements, with the exception of the Selling Shareholder (Hartley Atkinson and Colin McKay as trustees of the Atkinson Family Trust), each escrowed shareholder agreed not to sell or otherwise dispose of any of the escrowed shares until the first business day after AFT's preliminary announcement was released in respect of its financial results for the year ending 31 March 2017 (on 24 May 2017). Since 23 June 2016, the Selling Shareholder (Hartley Atkinson and Colin McKay as trustees of the Atkinson Family Trust) has been permitted to, but to date has chosen not to, dispose of 15% of the escrowed shares held by it. From 25 May 2017, the Selling Shareholder is permitted to sell the remainder of its escrowed shares on the NZX Main Board, although as at the date of this Annual Report does not intend to do so.

Certain sale and transfer restrictions apply to any ordinary shares issued to redeemable preference shareholders for any accrued dividends or in connection with a capital change event, as detailed in the relevant market release dated 17 March 2017.

AFT's Securities Trading Policy is available on the Company's website.

BOARD OF DIRECTORS

Role of the Board

The business and affairs of the Company are managed under the direction of the Board of Directors. At a general level, the Board is elected by shareholders to:

- Build sustainable value for shareholders
- Establish the Company's objectives
- Develop major strategies for achieving the Company's objectives
- Manage risks
- Determine the overall policy framework within which the Business and Company is operated; and
- Monitor management's performance with respect to these matters.

The Board has adopted a Board Charter that regulates internal Board procedure and describes the Board's specific role and responsibilities. The Board delegates management of the day-to-day affairs and responsibilities of the Company to the Management Team under the leadership of the Chief Executive Officer, to deliver the strategic direction and goals determined by the Board. The Chief Executive Officer has, in some cases, formally delegated certain authorities to his direct reports within set limits. The Board regularly monitors and reviews management's performance in the execution of its delegated responsibilities and the appropriateness of its delegated authority policy.

The Board met for ten regularly scheduled meetings during the financial year. There were also separate meetings of the Board Committees during the year. The Board intends to meet at least eight times during the year ending 31 March 2018.

The Board and management also met during the year to undertake strategic planning for the business.

Board Membership, Size and Composition

The NZX Listing Rules state that the number of directors must not be fewer than three and a Board must have at least two independent directors. Subject to this limitation, and in accordance with the provisions of AFT's constitution and the Board Charter, the size of the Board is determined by the Board from time to time.

As at 31 March 2017 (and the date of this Annual Report), the Board comprised seven directors, consisting of four independent directors (being David Flacks, Jon Lamb, Doug Wilson and Jim Burns) and three non-independent directors (being Nate Hukill (Non-Executive Director), and Hartley Atkinson and Marree Atkinson (both Executive Directors)).

A biography of each director is set out on pages 16 and 17 of this Annual Report.

The Board has delegated to the Remuneration and Nominations Committee the responsibility for recommending candidates to be nominated as a director. When recommending candidates to act as director, the Committee will take into account factors as it deems appropriate, including the diversity of background, experience and qualifications of the candidate. When appointing directors, the Board undertakes appropriate background checks.

As AFT operates in specialised markets, the Board believes that it is important to have directors with a broad range of experience and skills, both locally and internationally, that are appropriate to meet its objectives. The Board considers skills and experience in marketing, finance, people development, public companies, governance/legal and the global pharmaceutical industry to be particularly relevant.

Independence of Directors

A majority of AFT's directors are independent. The factors the Company takes into account when assessing the independence of its directors are set out in the Board Charter. Generally speaking, a director is considered to be independent if that director is not an executive of AFT and if the director has no direct or indirect interest or relationship that could reasonably influence, in a material way, the director's decisions in relation to AFT.

The Board has determined that four out of the five non-executive directors are independent directors for the purposes of the NZX Listing Rules and in accordance with the Board Charter criteria.

The Board will review any determination it makes on a director's independence on becoming aware of any new information that may affect that director's independence. For this purpose, directors are required to ensure they immediately advise AFT of any new or changed relationship that may affect their independence or result in a conflict of interest.

The Board supports the separation of the role of Chairman and Chief Executive Officer. The current Chairman has been elected by the Board from the independent directors, in accordance with the terms of the Board Charter. The Chairman's role is to manage and provide leadership to the Board and to facilitate the Board's interface with the Chief Executive Officer.

Board Appointment, Training and Evaluation

At the time of appointment, each director receives a copy of AFT's Corporate Governance Manual (comprising all AFT's core governance documents) and is introduced to the business through a specifically tailored induction programme. All directors are regularly updated on relevant industry and Company issues and are expected to undertake training to remain current on how to best perform their duties as directors of AFT. During the Board's annual evaluation process, training needs are considered to assist directors to remain upskilled on the business, industry and legislative developments.

The procedure for the appointment and removal of directors is ultimately governed by the Company's constitution. A director is appointed by ordinary resolution of the shareholders although the Board may fill a casual vacancy. Every director appointed by the Board must submit himself or herself for reappointment by shareholders at the next annual meeting following his or her appointment. Directors are subject to the rotation requirements set out in the NZX Listing Rules.

All directors have access to senior management to discuss issues or obtain information on specific areas or items to be considered at the Board meeting or other areas they consider appropriate. The Board, Board committees and each director have the right to seek independent professional advice at AFT's expense to assist them in carrying out their responsibilities.

During the financial period ended 31 March 2017, the Board undertook a review of its own and its committees' performance to ensure AFT has the right composition and appropriate skills, qualifications, experience and background to effectively govern AFT and to monitor AFT's performance in the interests of shareholders.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Conflicts of Interest

The Board is conscious of its obligations to ensure that directors avoid conflicts of interest (both real and perceived) between their duty to AFT and their own interests. The Board Charter outlines the Board's policy on conflicts of interest. AFT maintains an interests' register in which relevant disclosures of interest and securities dealings by the directors are recorded.

Company Secretary

The Company Secretary, Malcolm Tubby, is responsible for supporting the effectiveness of the Board by ensuring that its policies and procedures are followed and for coordinating the completion and dispatch of the Board agendas and papers. The Company Secretary is accountable to the Board, via the Chair, on all governance matters.

BOARD COMMITTEES

The Board uses committees to deal with issues requiring detailed consideration, thereby enhancing the efficiency and effectiveness of the Board. However, the Board retains ultimate responsibility for the functions of its committees and determines each committee's roles and responsibilities. The current committees of the Board are:

- Audit and Risk Committee
- Remuneration and Nominations Committee
- Regulatory and Product Development Oversight Committee

Details of the roles and responsibilities of these committees are described in their respective charters and summarised below. The Committee Charters are available on AFT's website.

From time to time, the Board may constitute an ad-hoc committee to deal with a particular issue that requires specialised knowledge and experience.

Proceedings of each committee meeting is reported back to the Board to allow other directors to question committee members and to keep apprised on matters being considered by each committee.

Audit and Risk Committee

The primary function of the Audit and Risk Committee is to assist the Board in fulfilling its oversight responsibilities relating to the Company's risk management and internal control framework, the integrity of its financial reporting and the Company's auditing processes and activities. The Audit and Risk Committee held four formal Committee meetings during the year ended 31 March 2017.

Under the Audit and Risk Committee Charter, the Committee must be comprised of a minimum of three members who are each a non-executive director, the majority of whom are also independent directors and at least one director with an accounting or financial background. Further the Chairman of the Committee is required to be independent and not be the chairperson of the Board.

The current members of the Committee are Jon Lamb (Chair), Jim Burns and David Flacks. All members are independent, non-executive directors. Their qualifications and experience are set out on pages 16 and 17. Jim Burns is considered to be a financial expert for the purposes of the NZX Listing Rules.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee's role is to oversee remuneration policies and practices at AFT, oversee management succession planning, consider the composition of the Board and recommend candidates to fill Board vacancies as and when they arise. The Committee is also tasked with annually monitoring and evaluating the Company's performance with respect to its diversity policy. The Remuneration and Nominations Committee held three meetings during the year ending 31 March 2017.

Under the Remuneration and Nominations Committee Charter, the Committee must be comprised of a minimum of three members, a majority of whom are independent directors. The chairperson of the Committee is required to be independent.

The current members of the Committee are Jon Lamb (Chair), Jim Burns and Hartley Atkinson.

Regulatory and Product Development Oversight Committee

The Regulatory and Product Development Oversight Committee's role is to oversee the Company's regulatory risk management framework relating to product development; oversee the Company's key clinical and product development projects and monitor the Company's compliance with applicable regulations regarding the sale and distribution of pharmaceutical products. The Regulatory and Product Development Oversight Committee meets on an ad-hoc basis, as required, to fulfill its role.

Under the Regulatory and Product Development Oversight Committee Charter, the Committee must be comprised of a minimum of three members.

The current members of the Committee are Doug Wilson (Chair), Hartley Atkinson and Marree Atkinson.

Board and Committee Attendance

The table below shows the number of Board and Committee meetings each director was eligible to attend and attended during the year ended 31 March 2017:

Director	Board	Audit & Risk Committee	Remuneration & Nominations Committee
Total Number of Meetings Held During Financial Period	**10**	**4**	**3**
Hartley Atkinson	10	3	3
Marree Atkinson	10	-	2
Jim Burns	10	4	3
David Flacks	10	4	-
Nate Hukill	8	-	-
Jon Lamb	10	4	3
Doug Wilson	8	-	-

- Indicates the director is not a member of the Committee.

The Regulatory & Product Development Oversight Committee did not meet formally during the year but management engaged with the Chairman of the Committee informally through-out the year on various regulatory and product development matters.

REPORTING AND DISCLOSURE

Market Disclosure Policy

AFT is committed to the promotion of investor confidence by ensuring that the trading of Company shares takes place in an efficient, competitive and informed market. The Company's Market Disclosure Policy establishes the Company's policies for meeting the continuous disclosure requirements of both the NZX Main Board and the ASX. A copy of the Market Disclosure Policy is available on the Company's website. In addition to the procedures set out in that Policy, directors and management consider at each meeting whether there are any issues that require disclosure to the market.

Financial Reporting

The Board is responsible for ensuring the integrity of its financial reporting. As noted above under Board Committees, the Audit and Risk Committee closely monitors financial reporting risks in relation to the preparation of the financial statements. The Audit and Risk Committee, with the assistance of management, works to ensure that the financial statements are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. As part of this process, the Chief Executive Officer and Chief Financial Officer are required to state in writing to the Board that, to the best of their knowledge, the Company's financial reports present a true and fair view of the Company's financial condition and operational results and are in accordance with the relevant accounting standards and those reports are founded on a sound system of risk management and internal control that is operating effectively.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

REMUNERATION

AFT is committed to remunerating its non-executive directors, executive directors and employees fairly, transparently and reasonably.

Non-Executive Director Remuneration

The current maximum total monetary sum permitted to be paid by the Company by way of non-executive directors' fees is $575,000 per annum. This sum has not been increased since it was approved by shareholders in 2015. The current approved director fees payable are set out in the below table. It is currently not intended that AFT pay non-executive directors' fees exceeding, in aggregate, approximately $300,000[(1)]. The additional level of directors' fees is intended to provide flexibility for AFT to appoint additional non-executive directors in the future and allow for an increase in directors' fees in future years.

Committee fees are payable to directors, as detailed in the below table.

Non-executive directors do not take a portion of their remuneration under an equity security plan but directors may hold shares in the Company, details of which are set out in the Director Interest Disclosures section below. It is the Company's policy to encourage directors to hold shares in the Company.

The non-executive directors are entitled to be reimbursed for all reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at Board or shareholder meetings or otherwise in connection with AFT's business. No retirement allowances will be paid to the non-executive directors on their retirement.

There is no intention to change or vary director fees for FY2018 from those paid in FY2017.

Approved Director Remuneration for FY2018:

	Position	Fees (Per Annum)
Board	Chair	$95,000
	Non-Executive Director	$40,000[1]
Committee	Chair	$7,500
	Member	$5,000[2]

[1] Note that Jim Burns receives $US50,000 to bring him more in line with the US market rates.

[2] Jim Burns committee fees are also paid in USD. All other director fees are paid in NZD.

Non-executive directors received the following directors' fees, remuneration and other benefits from the Company in the year ended 31 March 2017:

Director	Annual Director Fees[1]	Committee Fees[2]
David Flacks (Chairman)	$95,000	$5,000
Nate Hukill[3]	-	-
Jon Lamb	$40,000	$15,000
Doug Wilson	$40,000	$7,500
Jim Burns	US$50,000	US$10,000

[1] Fees disclosed in New Zealand Dollars, except where indicated.

[2] Committee membership is detailed on pages 54 and 55 of this Annual Report.

[3] Nate Hukill agreed not to receive any directors' fees during the financial year ended 31 March 2017.

(1) Subject to exchange rate fluctuations

Executive Director Remuneration

The executive directors, Hartley Atkinson and Marree Atkinson, receive remuneration and other benefits in their respective executive roles as Chief Executive Officer and Chief of Staff and, accordingly, do not receive director fees.

Hartley, in his capacity as Chief Executive Officer, receives a base salary of $408,000 per annum. He is also eligible to receive a performance-based, at-risk, short-term incentive payment if pre-determined individual and Company performance criteria are met.

During the period ended 31 March 2017, Hartley was responsible for contributing to key performance indicators relating to:

- company revenue and profit targets;
- key innovative product development; and
- key product registration and licensing;

Delivery of these KPIs was used to determine the short-term incentive payable for Hartley during the FY2017 year.

Marree Atkinson, in her capacity as Chief of Staff, receives a base salary of $112,200 per annum. She is also eligible to receive a performance-based, at-risk, short-term incentive payment if pre-determined individual and company performance criteria is met.

During the period ended 31 March 2017, Marree was responsible for contributing to key performance indicators relating to:

- Health and Safety policy, adherence and targets
- other human resource objectives.

The executive directors' performance is reviewed by the Board annually. During the financial period ended 31 March 2017, performance reviews took place in accordance with that process.

No termination payments are payable to the executive directors in the event of serious misconduct.

Details of the total remuneration earned by or paid to each Executive Director of AFT during the financial year ended 31 March 2017 was as follows:

	FY2017		
	Base Salary	Short-term Incentives[2]	Long-term Incentive[3]
Hartley Atkinson	$418,468[1]	$75,480	-
Marree Atkinson	$112,200	$11,220	-

No executive director receives any directors' fees.

[1] Base salary includes a car allowance.

[2] The short-term incentive stated was earned in FY2017 and will be paid in FY2018. During the financial period, Hartley also received a short-term incentive of $127,872, which was earned in FY2016 and paid in FY2017. Marree did not receive an incentive for FY2016.

[3] Neither executive director was issued any form of long-term incentive during the financial period.

Senior Manager & Employee Remuneration

The remuneration policy for senior management is designed to attract, reward and retain high quality employees who will enable the Company to achieve its short and long-term objectives.

The remuneration packages of senior management consist of a combination of a fixed remuneration, a variable performance-based short-term incentive component (if pre-determined Company and individual performance objectives are met) and a discretionary long-term incentive component. Each year a review is carried out to benchmark salaries with market increases and adjustments are made accordingly.

AFT recently introduced a long-term incentive for senior managers and eligible employees, in the form of an option scheme (LTI Plan). This is designed to attract and retain senior managers within the business and to align the interests of management with shareholders' interests. Under the LTI Plan, participants are granted options to acquire ordinary shares in AFT. One option will give the participant the right to subscribe for (or otherwise purchase) one ordinary share, subject to meeting any vesting conditions set by the Board and payment of the exercise price. The Board has an absolute discretion to invite employees to participate in the LTI Plan and to set the terms and conditions of options at the time they are granted, including the number of options to be granted, any consideration payable for the grant of options, any vesting conditions, the exercise price and the expiry date for the options.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

REMUNERATION (Continued)

The maximum aggregate number of options which may be granted under the LTI Plan is 5% of the total number of ordinary AFT shares on issue immediately after the issue of options, unless shareholder approval is obtained. With respect to AFT's LTI Plan, no director or employee is permitted to enter into financial products or arrangements which operate to limit the economic risk of their vested or unvested entitlements.

The Remuneration and Nominations Committee is responsible for reviewing the remuneration of the Company's senior management in consultation with the Chief Executive Officer. The Company's senior executives are subject to regular performance reviews. The performance of senior executives is reviewed by the Chief Executive Officer who meets with each senior executive to discuss their performance, as measured against key performance targets (both financial and non-financial) previously established and agreed with that executive. During the year ended 31 March 2017, performance reviews took place in accordance with that process.

At the time of the IPO, AFT issued 100 shares to all staff by way of a bonus. These shares were issued subject to escrow. Under these arrangements, each employee has agreed not to sell or otherwise dispose of any of the escrowed shares until 22 December 2017.

The table below sets out the number of employees or former employees of AFT and its subsidiaries, not being directors of AFT, who, in their capacity as employees received remuneration and other benefits during the period ended 31 March 2017 totaling at least $100,000 per annum. The remuneration of those employees paid outside of New Zealand has been converted into New Zealand dollars.

Remuneration Range (NZ$)	Number of Employees
100,000 - 110,000	10
110,001 - 120,000	11
120,001 - 130,000	4
130,001 - 140,000	3
140,001 - 150,000	1
150,001 - 160,000	-
160,001 - 170,000	1
170,001 - 180,000	-
180,001 - 190,000	2
190,001 - 200,000	1
200,001 - 210,000	-
210,001 - 220,000	2
220,001 - 230,000	1
310,001 - 320,000	1
350,001 - 360,000	1

The table includes base salaries and short-term incentives paid during FY2017 and long-term incentives vested or exercised during FY2017. The table does not include long-term incentives that have been granted and have not yet vested. Where the individual is a KiwiSaver member, contributions of 3% of gross earnings towards that individual's KiwiSaver scheme are included in the above table. Where the individual works in Australia contributions of 9.5% of gross earnings towards Australian Superannuation are included in the above table.

DIVERSITY & INCLUSION

The Board is committed to providing equal employment opportunities and, as such, has a workforce consisting of many individuals with diverse skills, values, backgrounds, ethnicity and experiences. The Company works to ensure that its selection processes for recruitment and employee development opportunities are free from bias and are based on merit.

The Board recognises that building diversity across AFT will deliver enhanced business performance. AFT has adopted a Diversity Policy and is committed to achieving diversity in the skills, attributes and experience of its Board members, management and staff across a broad range of criteria (including, but not limited to, culture, gender and age). The Board as a whole is responsible for overseeing and implementing the Diversity Policy but has delegated to the Remuneration and Nominations Committee the responsibility to develop and to recommend measurable objectives to the Board that are designed to adhere to AFT's diversity policy.

AFT's Diversity and Inclusion Policy is implemented by way of promoting the following principles:

- Reviewing progress against diversity objectives and initiatives developed by AFT Pharmaceuticals to deliver outcomes against the diversity policy;
- Promoting a working environment free from discrimination, harassment and victimisation;
- Emphasising the accountability of its leaders to cultivate a culture of inclusion in which the strengths of every individual are recognised and valued;
- Raising employee awareness of workplace diversity by designing, delivering, and measuring the effectiveness of programmes that promote workforce diversity, and gender equity;
- Striving to ensure that all employees and contractors receive equal and fair treatment in all aspects of the Company's employment policies and practices;
- Promoting a culture that empowers employees to act in accordance with this policy; and
- Regularly benchmarking our diversity standpoint, status and objectives against appropriate external comparators

The Board has conducted its first annual assessment of its diversity objectives and the company's progress towards achieving these objectives in respect of the year ended 31 March 2017. During the year under review AFT took the following steps to continue to develop a diverse and inclusive working environment:

- With input from staff, AFT developed company-wide values to support its diversity and inclusion initiatives. These have been incorporated into its Code of Ethics and Culture and communicated to AFT's employees.
- AFT established training which educates AFT's managers on the importance of creating a diverse and inclusive environment and providing awareness of the potential for unconscious bias in people management processes.
- AFT started monitoring and measuring gender and cultural diversity by department and will review the reasons for any significant deviations from company averages and targets to seek to address any unconscious bias that may be occurring. These deviations will be reported to the Board.
- AFT has incorporated diversity and Code of Ethics and Culture training in its induction programme for new staff and refresher training for existing staff.
- AFT has undertaken steps to promote its Work Life Flexibility programme and is setting up processes for recognising religious and other personal belief systems within AFT.
- AFT undertook an annual merits-based remuneration review, which provided visibility to management in relation to parity of working conditions and pay across its workforce.

In the year ahead the Company will:

- Continue to actively monitor and review diversity metrics across the business;
- Undertake a gender pay audit to examine that employees doing the same job are remunerated equally regardless of gender; and
- Implement a wellness program and include free sessions for general health and wellbeing including Mental Health Awareness and general health assessments.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

DIVERSITY & INCLUSION (Continued)

GENDER COMPOSITION OF OUR WORKFORCE

The respective numbers and proportions of men and women at various levels within the AFT workforce as at 31 March 2016 and 31 March 2017 are set out in the table below:

	Female				Male			
	2016		2017		2016		2017	
	No.	%	No.	%	No.	%	No.	%
Directors	1	14%	1	14%	6	86%	6	86%
Senior Executives[1]	2	20%	3	27%	8	80%	8	73%
Senior Employees[2]	3	38%	2	33%	5	62%	4	66%
Overall workforce	50	57%	49	56%	38	43%	39	44%

[1] Senior Executives are considered to be the CEO and his direct reports (Management Team). Note that CEO, Hartley Atkinson, and Chief of Staff, Marree Atkinson are included in the number of Directors and Senior Executives reported.

[2] Direct reports to Senior Executives.

RISK MANAGEMENT

Risk Management Framework

Like other businesses, AFT manages a range of risks that have the potential to impact its performance, reputation and customer's safety. While some risks can never be eliminated, AFT works hard to identify their significance and manage them.

AFT has designed and implemented a risk framework for the oversight and management of financial and non-financial business risks, as well as related internal compliance systems that are designed to:

- Optimise the return to, and protect the interests of stakeholders;
- Safeguard the Company's assets and maintain its reputation;
- Improve the Company's operating performance;
- Fulfill the Company's strategic objectives; and
- Manage the risks associated with the sale and distribution of pharmaceutical products.

The Board ultimately has responsibility for internal compliance and internal control processes. The Audit and Risk Committee and Regulatory and Product Development Oversight Committee assists the Board in discharging its responsibilities. The Audit and Risk Committee monitors compliance with the overarching risk and compliance framework, while the Regulatory and Product Development Oversight Committee oversees the Company's regulatory risk management framework regarding the development, quality assurance, and sale and distribution of pharmaceutical products.

The Audit and Risk Committee, in conjunction with management, regularly reports to the Board on the effectiveness of the Company's management of its material business risks and whether the risk management framework and systems of internal compliance and control are operating effectively and efficiently in all material respects. The Audit and Risk Committee conducts six monthly reviews of AFT's risk management framework and principal risks register and satisfies itself that AFT's approach to risk is sound.

Principal risks for the AFT Group include:

- Delay or failure in the development, manufacture, commercialization or regulatory approval process for AFT products
- Competition and failure to retain/obtain new supply contract tenders
- IP infringement and protection for AFT products
- Reliance on third parties for the manufacture, distribution and licensing of AFT products
- Product liability and risks associated with conducting clinical trials
- Failure to execute growth strategy
- Meeting financial covenants
- Key personnel loss

AFT has in place mitigation strategies for managing each of these risks.

AFT does not have a dedicated internal auditor, instead internal controls are managed on a day-to-day basis by the finance team. Compliance with internal controls is reviewed annually by AFT's auditors.

Health and Safety

AFT has recently updated its Health and Safety Policy and both the Board and management are committed to promoting a safe and healthy working environment for everyone working in or interacting with AFT's business. The Health and Safety Policy requires AFT people to endeavour to take all practicable steps to provide a working environment that promotes health and wellbeing, while minimising the potential for any risk, personal injury, ill health or damage. The Board has agreed a detailed programme of work, which aims to ensure AFT remains compliant with its Health and Safety obligations. The Board is updated on Health and Safety matters at each meeting and there is a review each quarter.

AUDITORS

Auditor Independence

AFT has adopted an Auditor Independence Policy that requires, and sets out the criteria for, the external auditors to be independent. The Policy recognises the importance of facilitating frank dialogue between the Audit and Risk Committee, the auditor and management.

The Policy requires that the lead and client service audit partners are rotated after a maximum of five years so that no such persons shall be engaged in an audit of AFT for more than five consecutive years.

The Audit and Risk Committee Charter requires the Committee to facilitate the continuing independence of the external auditor by assessing the external auditor's independence and qualifications, and overseeing and monitoring its performance. This involves monitoring all aspects of the external audit, including the appointment of the auditor, the nature and scope of its audit, and reviewing the auditor's service delivery plan.

In carrying out these responsibilities the Audit and Risk Committee meets regularly with the auditor without executive directors or management present.

The auditor is restricted in the non-audit work it may perform, as detailed in the Auditor Independence Policy. In the last financial year, the audit firm has undertaken specific non-audit work. None of that non-audit work is considered to have compromised (or been seen to have compromised) the independence of the auditor. For further details on the audit and non-audit fees paid and work undertaken during the period, refer to Note 6(b) of the Financial Statements. The Audit and Risk Committee regularly monitors the ratio of fees for audit to non-audit work.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

SHAREHOLDER RELATIONS

AFT is committed to maintaining a full and open dialogue with its shareholders. The Company has in place an investor relations programme to facilitate effective two-way communication with investors.

The aim of the Company's communication programme is to provide shareholders with information about the Company and to enable shareholders to actively engage with the Company and exercise their rights as shareholders in an informed manner. The Company facilitates communication with shareholders through written and electronic communication, and by facilitating shareholder access to directors, management and the Company's auditors.

The Company provides shareholders with communication through the following channels:

- The investor section of the Company's website
- The annual report
- The interim report
- The annual shareholders' meeting
- Regular disclosures on Company performance and news via the NZX and ASX online disclosure platforms; and
- Disclosure of presentations provided to analysts and investors during regular briefings.

The Company's website is an important part of the Company's communication programme. Included on the website is a range of information relevant to shareholders and others concerning the operation of the Company and its subsidiaries, including information about the Company and its history, biographies of the Company's directors and senior management, the Company's constitution Board Charter (and the charters of the various committees) and other corporate governance policies of the Company.

Shareholders may, at any time, direct questions or requests for information to directors or management through the Company's website or by contacting the Company's Chief Financial Officer, the contact details for whom are available on the Company's website.

The Company provides shareholders with the option to receive communications from, and send communications to, the Company and its share registrar electronically. A large number of AFT shareholders have elected to receive electronic communications.

Annual Shareholders' Meeting

AFT's 2017 Annual Shareholders' Meeting will be held in Auckland on August 4th 2017. Shareholders will be given an opportunity at the meeting to ask questions and comment on relevant matters. In addition, the auditors, PwC, will be available to answer any questions about their audit report. A Notice of Meeting will be sent to shareholders in advance of the meeting.

Share Register

AFT's share register is audited annually for accuracy.

DIRECTOR INTEREST DISCLOSURES

In accordance with Section 140(1) of the Companies Act 1993, directors disclosed the following interests in transactions with AFT during the financial year ending 31 March 2017:

Director	Nature of Director's Interest in Transaction
Hartley Atkinson Marree Atkinson	Gave notice to the Board that they are interested in letters of amendment to their employment agreements entered into with AFT Pharmaceuticals Limited.

Directors have given general notices disclosing interests pursuant to section 140(2) of the Companies Act 1993. Those interests (or changes to interests) notified and recorded in AFT's Interests Register during the financial year ended 31 March 2017 are set out below:

Director	Entity	Relationship
David Flacks	Upside Biotechnologies Limited	Appointed Chairman
Nathan Hukill	Valeritas Inc	Appointed Director

In accordance with Section 148(2) of the Companies Act 1993, directors disclosed the following acquisitions or disposals of relevant interests in AFT ordinary shares during the financial year ended 31 March 2017:

Name	Date of Acquisition/ Disposal	Number of Shares Acquired/ (Disposed)	Nature of Relevant Interest	Consideration Paid/Received (NZD)
Doug Wilson	17-Jan-17	14,000 ordinary shares	Joint registered holder and beneficial owner as trustee of AJJD Trust	$38,500.00
Hartley Atkinson	24-Mar-17	730,000 redeemable preference shares (unlisted)	Joint registered holder and beneficial owner of ordinary shares as trustee of the Atkinson Family Trust. Has the power to exercise a vote attached to, and dispose of, the shares.	$2,000,200.00
James Burns	27-Feb-17	2,817 ordinary shares	Registered holder and beneficial owner of ordinary shares	$7,605.90
	28-Feb-17	8,183 ordinary shares	Registered holder and beneficial owner of ordinary shares	$23,730.70
	28-Feb-17	700 ordinary shares	Registered holder and beneficial owner of ordinary shares	$1,960.00

In accordance with the NZX Listing Rules, as at 31 March 2017, directors had a relevant interest in AFT ordinary shares as follows:

Name	Relevant Interest	Percentage
Hartley Atkinson[1]	72,964,942	75.350%
James Burns	59,750	0.062%
David Flacks	83,764	0.087%
Jon Lamb	201,305	0.208%
Doug Wilson	50,022	0.052%

[1] Hartley Atkinson also has a relevant interest in 730,000 redeemable preference shares (21.9% of the total redeemable preference shares on issue), which may in the future convert into ordinary shares.

For the purposes of section 161 of the Companies Act 1993, the following entries were made in the Interests Register in relation to the payment of remuneration and other benefits to directors:

Date	Director	Particulars of Board Authorisation
9-May-16	Hartley Atkinson Marree Atkinson	The payment of remuneration and the provision of other benefits by the Company to each of Hartley Atkinson and Marree Atkinson on the terms set out in a letter of amendment to the relevant employment agreement.
17-Sep-16	Hartley Atkinson Marree Atkinson	The payment of remuneration and the provision of other benefits by the Company to each of Hartley Atkinson and Marree Atkinson on the terms set out in a letter of amendment to the relevant employment agreement.

For the purposes of section 162 of the Companies Act 1993, an entry was made in the Interests Register in relation to insurance effected for directors of AFT, in relation to any act or omission in their capacity as directors.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

SHAREHOLDINGS

As at 2 May 2017 there were 96,834,838 AFT ordinary shares on issue, each conferring on the registered holder the right to vote on any resolution at a meeting of shareholders, held as follows:

Size of shareholding	Number of Ordinary Shareholders		Number of Ordinary Shares	
1 - 1,000	351	40.2%	162,985	0.2%
1,001 - 5,000	351	40.2%	929,200	1.0%
5,001 - 10,000	88	10.1%	662,713	0.7%
10,001 - 50,000	63	7.2%	1,380,102	1.4%
50,001 - 100,000	7	0.8%	451,995	0.5%
100,001 and over	13	1.5%	93,247,843	96.2%
TOTAL	**873**	**100.0%**	**96,834,838**	**100.0%**

As at 2 May 2017, there were 57 individuals holding a total of 849,000 options to acquire shares issued by AFT under its employee long-term incentive scheme. The options are unlisted and carry no voting rights.

As at 2 May 2017, there were 5 shareholders holding a total of 3,330,000 redeemable preference shares issued by AFT. The redeemable preference shares may convert into ordinary shares in certain circumstances. The redeemable preference shares are unlisted and do not carry any right to vote except at meetings of an "interest group" of holders of Redeemable Shares.

There is currently no on-market buy-back of the Company's ordinary shares.

Set out below are details of the 20 largest holders of AFT ordinary shares as at 2 May 2017:

	Shareholder[1]	Number of Ordinary Shares Held	%
1	Hartley Atkinson + Colin Mckay	72,964,942	75.36%
2	Capital Royalty Partners II - Parallel Fund B (Cayman) L.P.	6,499,508	6.71%
3	National Nominees New Zealand Limited - NZCSD	3,462,143	3.58%
4	Capital Royalty Partners II - Parallel Fund A L.P.	3,285,589	3.39%
5	Capital Royalty Partners II L.P.	2,444,415	2.52%
6	JP Morgan Chase Bank Na Nz Branch-Segregated Clients Acct - NZCSD	1,298,029	1.34%
7	HSBC Nominees A/C NZ Superannuation Fund Nominees Limited - NZCSD	1,000,000	1.03%
8	Capital Royalty Partners II (Cayman) L.P.	769,503	0.79%
9	First NZ Capital Securities Limited	556,290	0.57%
10	FNZ Custodians Limited	330,968	0.34%
11	Citibank Nominees (New Zealand) Limited - NZCSD	245,151	0.25%
12	Rivers One Limited	201,305	0.21%
13	Hamish Stewart Atkinson + Karen Winifred Atkinson + Andrew John Marriott	190,000	0.20%
14	David Mark Flacks + Adina Rita Betty Halpern	83,764	0.09%
15	Barbara Tubby + Colin Tubby + Malcolm Tubby	72,106	0.07%
16	Custodial Services Limited	66,500	0.07%
17	Phillip Thwaite	60,000	0.06%
18	BNP Paribas Nominees Pty Ltd	59,805	0.06%
19	Forsyth Barr Custodians Limited	59,400	0.06%
20	Andrew William Harmos + Gregory Bernard Horton	50,420	0.05%

[1] The shareholding of New Zealand Central Securities Depository Limited (custodian for members trading through NZClear) has been re-allocated to the applicable members.

According to notices given to AFT under the Financial Markets Conduct Act 2013, the following persons were substantial product holders in AFT as at 31 March 2017 in respect of the number of quoted voting products noted below. As at the balance date (31 March 2017) there were 96,834,838 ordinary shares on issue.

Substantial Product Holder	Number of Ordinary Shares in which Relevant Interest is held	% Of Class Held at Date of Last Notice
AFT Pharmaceuticals Limited	70,046,535	72.34%
Capital Royalty Partners Funds[1]	12,999,015	13.42%
Hartley Campbell Atkinson & Colin McKay as Trustees of the Atkinson Family Trust	72,964,942	75.35%

[1] Funds detailed in the substantial product holder notice.

SUBSIDIARY COMPANY DIRECTORS

The following fees were paid to directors of subsidiary companies during the year ended 31 March 2017. No other directors of subsidiary companies received director fees:

- Raymond McGregor received A$12,000 during the financial year ended 31 March 2017 in his capacity as a director of AFT Pharmaceuticals (AU) Pty Limited.

The following people held office as directors of subsidiary companies at 31 March 2017:

Subsidiary	Directors
AFT Pharmaceuticals (AU) Pty Limited (Australia)	Hartley Atkinson, Raymond MacGregor
AFT Pharmaceuticals (SE Asia) SDN BHD (Malaysia)[1]	Hartley Atkinson, Khafnena Binti Khanafiah, Irdawati Binti Mohamad
AFT Pharmaceuticals Singapore Pte Limited (Singapore)[2]	Hartley Atkinson, Chia Lai Kuan
AFT Orphan Pharmaceuticals Limited	Hartley Atkinson, Andrew Moore, Giles Moss, Malcolm Tubby
AFT Dermatology Limited	Hartley Atkinson
AFT Limited Partner Limited	Hartley Atkinson
DSGP Limited	Hartley Atkinson, Michael Derby

[1] Giles Moss and Mohammad Bin Abdullah ceased to be director's of AFT Pharmaceuticals (SE Asia) SDN BHD during the financial year ended 31 March 2017.
[2] Giles Moss ceased to be a director of AFT Pharmaceuticals Singapore Pte Limited during the financial year ended 31 March 2017.

There were no entries made in the subsidiary company Interest Registers during the financial reporting period.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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:
  - 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
  - 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 each waiver can be viewed at www.aftpharm.com.

STOCK EXCHANGE LISTINGS

The Company's shares were listed on the NZX Main Board and ASX on 22 December 2015.

None of the NZX, the ASX or the Financial Markets Authority has taken any disciplinary action against AFT during the financial year ending 31 March 2017.

DONATIONS

AFT made no donations during the financial reporting period.

CREDIT RATING

AFT does not currently have an external credit rating status.

DIRECTORY

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

Registered Office	Level 1, 129 Hurstmere Road, Takapuna, Auckland 0622, New Zealand +64 9 488 0232 www.aftpharm.com Mertons, Level 7, 330 Collins Street, Melbourne, Victoria 3000, Australia +61 3 8689 9997
Principal Administration Office	Level 1, 129 Hurstmere Road, Takapuna, Auckland 0622, New Zealand +64 9 488 0232 www.aftpharm.com 113 Wick Road, North Ryde NSW 2113, Australia +61 2 9420 0420 ARBN: 609 017 969
Directors (as at date of this annual report)	Dr Hartley Atkinson Marree Atkinson Dr James (Jim) Burns David Flacks Nathan (Nate) Hukill Jon Lamb Dr Douglas (Doug) Wilson
Share Registrar	Computershare Investor Services Limited Level 2, 159 Hurstmere Road, Takapuna, Auckland 0622, New Zealand +64 9 488 8777 enquiry@computershare.co.nz Computershare Investor Services Pty Limited Yarra Falls, 452 Johnston Street, Abbotsford VIC 3001, Australia +61 3 9415 4083 enquiry@computershare.co.nz
Auditor	PricewaterhouseCoopers Level 22, PwC Tower, 188 Quay Street, Auckland 1010, New Zealand +64 9 355 8000

FINANCIAL CALENDAR

Annual Meeting	4 August 2017
Half-Year End	30 September 2017
Interim Results Announcement	November 2017
Financial Year End	31 March 2018

NOTES

AFT pharmaceuticals

Working to improve your health