Formerly Algae. Tec Limited

2018 Annual Report

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Company Details

Directors

Malcolm James	Executive Chairman/Managing Director (appointed 28 November 2017)
Earl McConchie	Executive Director
Peter Hatfull	Executive Director
Jonathan Lim	Non-Executive Director (Resigned 7 February 2018)
Ramasamy Venkatesh	Non-Executive Director (Appointed 15 August 2017)
Jith Veeravalli	Non-Executive Director – Alternate (Appointed 15 August 2017)
Allan Tan	Non-Executive Director (Appointed 7 February 2018)

Company Secretary
Peter Hatfull

Principal Registered Office in Australia
Unit 2, 100 Railway Road
Subiaco WA 6008

Share Register
Computershare Investor Services Pty Limited
Level 11, 172 St George's
Terrace
Perth WA 6000

Auditors
Bentleys
London House
Level 3, 216 St George's
Terrace
Perth WA 6000

Bankers
Commonwealth Bank of Australia
Business and Private Banking
Level 1, 38 Adelaide Street
Fremantle WA 6160

Wells Fargo Bank
464 California Street
San Francisco
USA

Securities Exchange
Australian Securities Exchange
ASX
Level 5, 20 Bridge Street
Sydney NSW 2000
AEB

Frankfurt Stock Exchange
FSE
60485 Frankfurt am Maim
Germany
GZA:GR

New York Stock Exchange
NYSE
11 Wall Street
New York NY 10005
ALGXY:US

Directors Report

For the year ended 30 June 2018

Directors

The Directors of the Group at any time during or since the end of the financial year unless otherwise stated are:

Malcolm James
Executive Chairman/Managing Director (appointed 28 November 2017)

Mr Malcolm James has been Non-Executive Chairman of the Company since 16 September 2014 and on 28 November 2017 was appointed as the Company's Executive Chairman and Managing Director.

Mr James has over 27 years' experience in finance, project development and public company management. During this period Malcolm James has worked in several countries and been involved in over $2 billion in capital and debt raisings. He is currently the principal of MRJ Advisors, a boutique investment, advisory and project development organisation with offices in Perth and New York, and is the Non-Executive Chairman of Anova Minerals Ltd. Mr James is well known for his philanthropic work in Australia and overseas and was the inaugural CEO of the Australian Employment Covenant, an organisation set up to promote long term employment for Indigenous Australians.

Mr James currently holds directorships in Anova Metals Ltd as Non-Executive Chairman and Non-Executive Director of Vimy Resources.

Malcolm James currently holds 200,000 ordinary shares in Affinity Energy and Health Limited, 37,000,000 unlisted options and 50,000 listed options.

Peter Ernest Hatfull
Executive Director/Company Secretary

Mr Hatfull has over 30 years' experience in a range of senior executive positions with Australian and International companies. He has an extensive skill-set in the areas of business optimisation, capital raising and company restructuring.

Prior to joining Affinity Energy and Health Limited, Mr Hatfull held senior financial and Board positions in Australia, Africa and the UK. He has particular experience in revitalising business plans, attracting investor funding, and implementing profitable strategies. Mr Hatfull graduated as a Chartered Accountant in the United Kingdom, where he worked for Coopers and Lybrand (now PriceWaterhouseCoopers), and subsequently moved to Africa, where he spent 8 years in Malawi.

Peter Hatfull was appointed as Director of Affinity Energy and Health Limited on 18 January 2010 and also holds the position of Company Secretary.

Peter Hatfull is also Non-Executive Director of Raffaella Resources Limited.

Peter Hatfull currently holds 10,210,936 ordinary shares in Affinity Energy and Health Limited, 7,000,000 unlisted options and 868,379 listed options.

Earl McConchie
Executive Director

Mr McConchie has over 35 years' experience over a broad field of chemistry and associated technologies, including global markets, bulk chemicals and plastics, differentiated commodities and intermediates, specialty chemicals, polymers and interaction with environmental sectors. Mr McConchie's field experience includes international business management, plant operations, and project engineering in the US, Europe (especially Germany, Holland, Switzerland, UK and CIS), Latin America (Brazil, Argentina and Mexico) and Asia (Korea, China and Australia).

Mr McConchie was employed with Dow Chemical Company for 25 years. Mr McConchie has over 10 years of specific technical and business experience in the biodiesel and glycerine industry sectors. He is a founding director and controlling shareholder of Teco.Bio LLC, and is based in Atlanta, Georgia where he has co-ordinated the microalgae development.

Earl McConchie was appointed as Director of Affinity Energy and Health Limited on 18 August 2008. Earl McConchie, controls Dot.Bio Inc which owns 100% of Teco.Bio LLC which now holds 175,000,001 shares in Affinity Energy and Health Limited, additionally 4,070,000 shares are held by the immediate family of Earl McConchie.

Earl McConchie currently holds nil options. Earl McConchie is also a Director of Dot.Bio Inc and Teco.Bio LLC and he has not held any other directorships with any other public entities in the past three years.

Ramasamy V Venkatesh
Non – Executive Director

Mr R.V.Venkatesh is one of the founders and Managing Director of Gencor Pacific Limited, part of the Gencor group worldwide, which is Affinity Energy and Health's offtake partner for algae oils. He is a chemist with over 30 years' experience in key industries namely Healthcare, Pharmaceuticals and Nutraceuticals. He has extensive experience in International Business in the Pharmaceutical and Nutraceutical sectors worldwide, having done business in over 70 countries. His expertise includes R&D Management, scientific reviews, product development, clinical trials, product branding, strategic partnerships and he has a track record of successful nutraceutical product launches worldwide.

Mr R.V. Venkatesh was appointed as Non-Executive Director on 15 August 2017.

Mr R.V Venkatesh is also a director of Gencor Pacific Ltd (a registered holder of Affinity shares) and may be in a position to control the manner in which Gencor Pacific Ltd exercises its rights as a shareholder.

Gencor Pacific currently holds 64,102,542 shares and 32,068,146 listed options.

Jonathan Lim
Non – Executive Director (resigned 7 February 2018)

Mr. Lim is an entrepreneur who founded Romar Positioning Equipment Pte Ltd in 1984 and grew Romar into a leading global heavy automation equipment manufacturer, principally in the energy, alternative energy, and oil & gas sector.

Mr Lim was appointed as Non-Executive Director on 15 August 2017.

Allan Tan
Non – Executive Director (appointed 7 February 2018)

Mr Tan is a lawyer with 22 years of corporate and regulatory experience. He is currently lead independent director of Nico Steel Holdings Limited and independent director of CNMC Goldmine Holdings Limited, both listed on the Singapore Stock Exchange. Mr Tan was appointed as Alternate Non-Executive Director on 15 August 2017.

Mr Allan Tan was appointed Non-Executive Director replacing Mr Lim on 7 February 2018.

Jith Veeravalli
Alternate Non – Executive Director

Mr Veeravalli has advanced degrees in Engineering and Management and over 40 years of experience in evolving technologies. He is a serial entrepreneur and is the founder and President of Gencor, a boutique nutraceutical and pharmaceutical company based in Irvine, California. He is also very active in giving back to society and is involved in the eye and general nutrition of children with malnutrition around the world.

Mr Jith Veeravalli was appointed as Alternate Non-Executive Director on 15 August 2017.

Directors' Report

For the year ended 30 June 2018

Meetings of Directors

The following table sets out the number of directors' meetings held during the financial year and the number of meetings attended by each Director.

Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
Mr Malcolm James	10	10				
Mr Peter Ernest Hatfull	10	10	2	2	2	2
Mr Garnet Earl McConchie	10	10				
Mr Ramasamy V Venkatesh	9	8	2	2	2	2
Mr Jonathan Lim (resigned 7 February 2018)	5	1				
Mr Allan Tan (appointed 7 February 2018)	9	8	2	2	2	2
Mr Jith Veeravalli	9	8				

A - Number of meetings held during the time the director held office during the year
B – Number of meetings attended

Principal Activities

Affinity Energy and Health Limited is a leading diversified plant-based health and wellbeing company.

The Company's primary focus is on developing industry-leading growing technology to produce commercial quantities of algae and medicinal cannabis for supply to four key markets:

- Algae-based nutraceuticals
- Animal feed and aquaculture markets
- Medicinal cannabis
- Biofuels

Overview of the Group

The year under review has been a year in which the Company has worked actively, and successfully, to build on the proprietary technology that has been developed.

The Company has completed the majority of the equipment delivery phase of the contract with Reliance Industries (a +US$100 billion Indian Company) and has now entered the commissioning phase. Based on current plans commissioning will be completed during the last quarter of C18.

As a result of the progress to commissioning on the Reliance contract, where revenue is received upon completion, combined with a focus on increasing the capacity of the Atlanta Product Development Plant (algae products) there has been a temporary decline in revenue. With the activities undertaken by the Company during the year, revenue will increase during the current year and continue to build to substantial levels.

Within the health and wellbeing sector, one of the fastest growing markets internationally, the Company has expanded its activities to cover both algae-based products and medicinal cannabis – with a global reach.

In Atlanta, the Product Development Plant has produced over 10 tonnes of algae biomass and is operating at full capacity on an annualized basis. The biomass is utilized in the aquarist (aquarium) market through our strategic relationship with Seachem, North America's largest distributor of aquarist products. Currently we have four products on the market with another two scheduled for release this quarter. The new products will open up the export market with products that have a long shelve life, thus enabling transportation internationally.

Initial testing of the Radient Technologies Inc microwave assisted processing (MAP™) to extract high quality algae oil for the nutraceutical markets has returned extremely positive results. Phase two of the testing is now being developed. Upon completion, the Company will supply high quality algae oil to Gencor under the offtake agreement.

On the medicinal cannabis front the Company has secured access to heirloom cultivars in Australia (with Medical Cannabis Ltd) and internationally with Ma Genetics and Auberna (Uruguay). The Company has also submitted an application for an Australian medicinal cannabis licence and is in the final stages of that process. We have secured suitable premises and designed the layout and production process for immediate construction on receipt of the Australian licence.

The Company has continued discussions and negotiations with several prominent research institutions, industry bodies and private enterprise to develop (in the first instance) products focused on livestock and companion animals. The Company is targeting common ailments with animals as well as pain, stress and anxiety issues.

We are excited about the current year, a year in which the foundations established by the Company will deliver value for all stakeholders.

Review of financial position

The consolidated loss of the Group amounted to $8,099,853 (2017: loss of $3,787,794) after including a tax refund due for R & D activities in the financial year of $2,509,465 (2017: $2,116,586).

Net cash outflows from operating activities for the financial year were $4,781,740 a 71% increase on the $2,799,237 outflow in the prior year.

Revenue derived from the provision of services and equipment is a result of the agreement with the Reliance Group of India for the research and development of algae species and the supply of a pilot plant.

Major events during the year were as follows:

AEB Secures Funding to Fast-Track Development

On 8 June 2018, the company provided an update with a A$7 million finance facility to drive key operational developments within algae and medicinal cannabis divisions respectively. The update included finalising the proposed spin-off of Uruguay medicinal cannabis interests via in specie distribution to shareholders.

Partnership with Canadian-based Radient Technologies Inc.

On 10 May 2018, the Company announced that it had entered into a Research Agreement with Radient Technologies Inc (RTI). Under the agreement, the Company will utilise RTI's market-leading extraction technology as the final step in the production of its high-value algae-based products for supply into the rapidly growing global nutraceutical market. The key focus will be on the extraction of high-quality lipid content from AEB's algae powders, with initial algae samples having already being shipped to Radient's state-of-the-art facility in Edmonton, Canada. First results from this extraction testing are expected to be received by Q3 CY 18.

AEB Aqua Feed Division Update

On 23 April 2018, the Company provided updates on the Company's aqua feed division with the approval to use the Company's **FeedMe™** product range in the Georgia Aquarium, one of the largest aquariums globally, housing more than a hundred thousand animals representing several thousand species. The Company had collaborated with the Georgia Aquarium to provide refine algae-based products to support the nutritional and health needs of the marine animals and sea life, both in fresh and salt water environments. This has now provided the Company the operational flexibility to boost production of its aqua feed products in North America.

AEB Sign Distribution Agreement with USA Market Leader

On 19 February 2018, the Company announced that it had entered into an exclusive commercial supply and collaboration agreement with North America's largest aquarist supplier Seachem Laboratories Inc. Under the agreement, the Company will manufacture and package an exclusive line of aquarist products for sale through Seachem's established and large network of distribution outlets and retail customers in North America, and internationally. Also, under the agreement, the Company has the right of first offer to supply Seachem for all other products that may be used in Seachem formulations. The Company and Seachem have established the Collaboration Program for joint development and commercialisation of new products for supply into global aquarist and aqua fee markets respectively.

AEB to Exclusively License Pharmaceutical Delivery Platform

On 12 February 2018, the Company announced that it had entered into a binding Heads of Agreement to acquire significant interest in private Australian-based pharmaceutical delivery company NS Technologies Pty Ltd.

AEB Funding and Operational Update

The Company announced on 25 January 2018 that it had completed $2.5 million capital raising to advance existing nutraceutical and medicinal cannabis operations.

AEB to develop Cannabis veterinary medications

On 22 December 2017, the Boards of Queensland Bauxite Limited and Affinity Energy and Health Limited announced an agreement whereby the Company will exclusively license Medical Cannabis Limited's Low THC Delta 9 Cannabis cultivars from the unique Australian Cannabis seed bank owned by Medical Cannabis Limited. MCL's license to the Company is in order to establish a breeding program to identify cultivars for use in cannabinoid product development to research and develop stock and veterinary medications, supplements and sophisticated animal therapeutics.

AEB Submits Australian License Application

The Company submitted an application on 12 December 2017, to the Office of Drug Control for a license to cultivate and produce medicinal cannabis in Australia.

Appointment of Executive Chairman / Managing Director

The Company advised that on 28 November 2017, Mr Malcolm James was appointed Executive Chairman and Managing Director.

AEB to Invest in Medicinal Cannabis Partner

On 22 November 2017, the Company entered into a Heads of Agreement with Auberna SA (trading as Biogenics "BioU") to acquire a direct 25% equity interest in Auberna.

The HOA represents the commercialisation phase of the collaboration agreement with Jardin de Invierno S.A. in May 2017. Under the HOA, the Company will further invest US$1,000,000 which will maintain the Company's 75% profit share in the first 10-acre crop, with the balance to be injected over a six-month period. Upon completion, the agreement will provide the Company with direct equity in a federally licensed commercial cannabis business in Uruguay, facilitating access to a number of key export markets globally.

Strong Take-up of AEB FeedMe™ Product in North America

On 24 August 2017, the Company updated on the sales and product development initiatives for its FeedMe™ algae product range. Since its launch in April 2017, the product had established a reputation as trusted, high quality brand in the growing North American aquarist market. The Company's high omega-3 products are currently on –the-shelf in five retail stores in the Southeast and over 50 additional retail stores had been supplied and are undergoing product testing and evaluations. The Company is targeting significant revenue growth in the 2018 calendar year from sales of FeedMe™ algae products in to the North American aquarist market.

AEB Appoints New Strategic Directors and Consultant

On 15 August 2017, the Company announced the appointment of Mr Jonathan Lim and Mr R.V. Venkatesh to the Board of Affinity Energy and Health Limited as Non-Executive Directors. The Company also announced the appointment of Mr James Vosper as Medical Marijuana consultant. These appointments of expertise support the roll out of the collaboration and licensing agreement with Wintergarden Bioscienes and the development, production and sale of cannabis and algae products.

In addition, Mr Allan Tan and Mr Jith Veeravalli were appointed alternate directors to Mr Jonathan Lim and Mr R.V. Venkatesh respectively.

AEB Announces $8 million Rights Issue

On 3 July 2017, the Company announced a renounceable pro-rate entitlement issue to eligible shareholders to raise up to approximate $8.0 million.

On 12 October 2017, the Company announced that it had completed the placement oversubscribed raising over $8 million.

Proceeds from the placement will be deployed towards scaling up the Company's vertically integrated cannabis business and algae growing operations respectively.

Environmental regulation

Affinity Energy and Health Limited will not be subjected to significant environmental regulations under both the Commonwealth and State legislation.

Significant Changes in State of Affairs

There have been no significant changes in the state of affairs of the Group during the financial year.

Dividends

No dividends were paid or recommended by the Directors.

Events subsequent to reporting date

Subsequent to the end of the financial year, the following events took place:
On 3 July 2018 the issue of 7,000,000 unlisted options to Neirin Technologies Limited exercisable at $0.025 and expiring 3 July 2023.

On the 12th of July 2018, Malcolm James' service agreement was amended and the key terms of the amended agreement are:

- Term is to 31 December 2020.
- Contract fee USD30,000 per month.
- The agreement can be terminated upon six months written notice to the consultant.
- Provision of a motor vehicle to the value of AUD35,000 for the consultants use provided the consultant pays any applicable taxes.
- In the event of a change of control (change in more than 20% of the voting rights of the Company) and the consultants services are no longer required or the consultant no longer wants to continue providing services he will be entitled to be paid 12 months of the contract fee.

An EGM was held on 3 August 2018 with the following resolutions approved:

- Approval of the Magna Convertible Note facility as per Note 16 (v). This also gave rise to a further draw down of A$1,000,000 on 10 August 2018 and the issue of 2,923,977 commitment fee shares.
- The issue of up to 30,000,000 incentive options to Mr Malcolm James exercisable at $0.05 and expiring 3 August 2022.
- The Change of Name of the Company to Affinity Energy and Health Limited

On 30 August 2018 the Company announced an R&D partnership with The University of Sydney to drive its medicinal cannabis strategy.

Subsequent to the year end, a total of US$198,000 (A$270,427.99) had been converted by Magna for a total of 20,588,490 shares.

Likely developments

Information regarding the likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is included in the Review of Operations on pages 8 and 9, which forms part of the Directors' report.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

Directors' interest

The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the companies within the Group and other related bodies corporate, as notified by directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report are as follows:

	Affinity Energy and Health Limited	
	Ordinary Shares	Options over ordinary shares
Peter Hatfull	10,210,936	7,868,379
Malcolm James	200,000	37,050,000
Earl McConchie[1]	175,000,001	-
Ramasamy V Venkatesh *(appointed 15 August 2017)*	64,102,542	32,068,146
Jonathan Lim *(resigned 7 February 2018)*	-	-
Jith Veeravalli *(Alternate – appointed 15 August 2017)*	-	-
Allan Tan *(appointed 7 February 2018)*	-	-

1. *By virtue of Section 608(3) of the Corporations Act, as Mr McConchie controls Dot-Bio Inc which holds 100% of Teco.Bio LLC which in turn holds 175 million Shares. Related parties of Mr McConchie together hold 4.07 million Shares.*

Options and Rights in existence this financial year

Number of options	Issued to	Class
28,728,607	The Reliance Group	Options exercisable at $0.1636 on or before 20 January 2019
16,000,000	Employees/Directors	Options exercisable at $0.09 on or before 30 June 2019
26,978,188	Medical Cannabis Ltd	Options exercisable at $0.075 on or before 31 December 2020
210,092,326	Various	Options exercisable at $0.05 on or before 28 July 2020
7,000,000	Consultant	Options exercisable at $0.025 on or before 3 July 2020

Indemnification and Insurance of Officers, Executives and Auditors

Indemnification

The Group has agreed to indemnify current directors of the Group, against all liabilities to another person (other than the Group or a related body corporate) that may arise from their position as directors of the Group and its controlled entity, except where the liability arises out of conduct involving lack of good faith. The agreement stipulates that the Group will meet the full amount of any such liabilities, including costs and expenses.

The Group has also agreed to indemnify senior executive for all liabilities to another person (other than the Group or related body corporate) that may arise from their position in the Group and its controlled entity, except where the liability arises out of conduct involving lack of good faith. The agreement stipulates that the Group will meet the full amount of any such liabilities.

There is no indemnification of auditors.

Insurance premiums

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses' insurance contracts, as such disclosure is prohibited under the terms of the contract.

Corporate Governance

The Company's Corporate Governance Statement can be found at:

https://www.affinityenergyandhealth.com.au/about-us/corporate-governance/

Non-Audit services

During the year Bentleys, undertook some tax related services in addition to the audit and review of financial statements. This amounted to $1,925. We are satisfied that this work does not affect the independence of the auditors.

Proceedings on behalf of the Group

There are no proceedings currently being undertaken on behalf of the Group.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 58.

Remuneration Report – *audited*

Principles of compensation – audited

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001.
Key management personnel disclosed in this report are:

Malcolm James
Peter Hatfull
Earl McConchie
Allan Tan

Whilst the other directors would be considered key management personnel, they do not receive any remuneration for their services and are therefore not included in the remuneration report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group, including directors of the Group and other executives. Key management personnel comprise of the Group directors.

Compensation levels for key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- The capability and experience of the key management personnel
- The key management personnel's ability to control the relevant segments' performance; and
- The Group's performance including:
    - The Group's earnings;
    - The growth in share price and delivering constant returns on shareholders wealth; and
    - The amount of incentives within each key management person's compensation.

Compensation packages include a mix of fixed and variable compensation, and short and long-term performance-based incentives.

Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles) as well as leave entitlements and employer contribution to superannuation funds.

Compensation levels are reviewed annually by the Board through a process that considers individual, segment and overall performance of the Group.

Additional information

The table below sets out the performance of the Group and the consequences of performances on shareholders' wealth for the past four financial years.	2018	2017	2016	2015
Quoted price of ordinary shares at period end (cents)	0.002	0.045	0.05	0.06
Profit/(loss) per share	(0.01)	(0.01)	(0.01)	(0.01)

No remuneration consultants were used during the year.

As the Group is still in the Research and Development phase, there is no direct link between the financial performance of the Group and remuneration.

Remuneration Report – *audited (continued)*

Principles of compensation – audited (continued)

Service contracts

Managing Director

Set out below are the key terms of the employment contract of the Managing Director, **Peter Hatfull** *(resigned as Managing Director 28 November 2017)*

Term	From 1 October 2010 to 28 November 2017: a. The Group gives the Managing Director one month written notice; b. The Managing Director gives the Group one month written notice; or c. The Group terminates the contract due to actions of the Managing Director such as serious misconduct, dishonesty and bankruptcy.
Payments on Termination	If the contract is terminated under (a) or (b) above, the Group is obliged to pay the Managing Director equivalent amount of Remuneration in lieu of notice. If the contract is terminated under (c) above, the Group is only obliged to pay the Managing Director any accrued remuneration, including superannuation and leave entitlements.
Remuneration	Fixed annual remuneration: $300,000 base salary per annum, plus superannuation contributions at the rate stipulated under the Australian Government SG and benefits as allocated by the Managing Director in accordance with the Group's policies. From April 2017, Peter Hatfull agreed to temporarily forego 50% payment of his salary to assist with the cash position of the Group. The 50% is still accrued on a monthly basis and will be paid at a later date. All of his other entitlements are still calculated on the full salary. On 28 November 2017 Peter Hatfull resigned as Managing Director but remained as Executive Director. Review of remuneration: The remuneration will be reviewed at least annually, with any increase at the absolute discretion of the Board. Annual leave: Four weeks annual leave per annum (in addition to public holidays).

Remuneration Report – *audited (continued)*

Principles of compensation – audited (continued)

Service contracts (continued)

Executive Chairman/Managing Director *(appointed 28 November 2017)*

Set out below are the key terms of consultant agreement of the Executive Chairman/Managing Director, Malcolm James:

Term

It was agreed on the 7 December 2017 (the consultant rate was applied retrospectively to 1 August 2017 that the agreement would expire 31 December 2018. This was amended on 12 July 2018 to expire on 31 December 2020.

a. Either party may cancel this agreement on 6 months written notice.

b. The Group can terminate the agreement due to actions of the Consultant such as serious misconduct, dishonesty and bankruptcy.

Payments on Termination

If the contract is terminated under (a) above, the Group is obliged to pay the Consultant equivalent amount in lieu of notice.

Remuneration

The Consultant was paid an annual rate of AUD$30,000 per calendar month for work performed in accordance with the agreement dated 7 December 2017.

The service agreement was amended on 12 July 2018 with the term to run from commencement to 31 December 2020. The contract fee amended to USD$30,000 per calendar month.

The Group and Consultant agree that the Consultant will act as an independent contractor and is responsible for payment of all taxes.

The Consultant is entitled to receive a total of 30,000,000 options in addition to the contract fee, subject to obtaining all necessary shareholder, regulatory and third-party approvals pursuant to the ASX listing rules and Corporations Act.

A vehicle to the value of A$35,000 would be purchased in his name (or nominee). This was purchased 27 August 2018 (A$34,399).

Bonus

The consultant will be paid upon achievement of milestones linked bonuses:

- Upon the first sale of algae products produced by the Company (or related parties) to Gencor under the Gencor offtake agreement with Gencor - US$25,000;
- The first revenue from the Uruguay cannabis crop – US$25,000
- The granting of the Australian Cultivation and Production Licence to the Company – A$10,000; and
- The Company share price trading at $0.075 for five (5) consecutive trading days on the Australian Stock Exchange – A$30,000

Remuneration Report – *audited (continued)*

Principles of compensation – audited (continued)

Service contracts (continued)

Executive Director

Set out below are the key terms of the employment contract of the Executive Director, Algae Energy, **Earl McConchie**:

Term	From 1 October 2010 until one of the following occurs: a. The Group gives the Executive Director one months' written notice; b The Executive Director gives the Group one months' written notice; c. The Group terminates the contract due to actions of the Executive Director such as serious misconduct, dishonesty and bankruptcy.
Payments on Termination	If the contract is terminated under (a) or (b) above, the Group is obliged to pay the Executive Director equivalent amount of Remuneration in lieu of notice. If the contract is terminated under (c) above, the Group is only obliged to pay the Executive Director any accrued remuneration, including superannuation and leave entitlements.
Remuneration	**Fixed annual remuneration:** US$360,000 gross salary per annum not inclusive of superannuation and health insurance benefits. From April 2017, Earl McConchie agreed to temporarily forego 44% payment of his salary to assist with the cash position of the Group. The 44% is still accrued on a monthly basis and will be paid at a later date. All of his other entitlements are still calculated on the full salary. **Review of remuneration:** The remuneration will be reviewed at least annually, with any increase at the absolute discretion of the Group. **Annual leave:** Six weeks annual leave per annum (in addition to public holidays).

Non-executive directors

Fees and payments to Non-Executive Directors reflect the demand which are made to, and the responsibilities of, the Non-Executive Directors'. Non-Executives Directors' fees and payments are reviewed annually by the Board.

The Group's Constitution provides that the remuneration of non-executive Directors will be not more than the aggregate fixed sum determined by a general meeting. The aggregate remuneration for non-executive Directors has been set at an amount not to exceed $150,000 per annum. Non-executive directors do not receive performance-related compensation. Non-executive directors are not provided with retirement benefits apart from statutory superannuation.

Remuneration Report – *audited (continued)*

Key management personnel remuneration

Only the Directors listed below in the renumeration schedule receive any payment for their services.

Details of the nature of remuneration of each of the paid Directors of the Group, and other key management personnel of the consolidated entity are:

		Short-term				Post-employment	Other long term		Share-based payments	
AUD		Salary & fees $	Non-monetary benefits $	Unused annual leave	Total $	Superannuation benefits $	$	Termination benefits $	Options and rights $	Total $
Directors										
Executive Directors										
Peter Hatfull*	2017	305,769	-	23,070	328,839	27,404	7,500	-	69,515	433,258
	2018	302,885	-	23,070	325,955	28,774	7,500	-	69,516	431,745
Earl McConchie*	2017	410,640	14,025	-	424,665	19,712	-	-	-	444,377
	2018	467,253	21,127	-	488,380	31,169	-	-	-	519,549
Malcolm James	2017	-	-	-	-	-	-	-	-	-
	2018	336,000	-	-	336,000	-	-	-	69,515	405,515
Sub-total executive directors' remuneration	2017	716,409	14,025	23,070	753,504	47,116	7,500	-	69,515	877,635
	2018	1,106,138	21,127	23,070	1,150,335	59,943	7,500	-	139,031	1,356,809
Non- executive directors Remuneration										
Malcolm James	2017	72,000	-	-	72,000	-	-	-	69,516	141,516
	2018	-	-	-	-	-	-	-	-	-
Allan Tan	2017	-	-	-	-	-	-	-	-	-
	2018	20,000	-	-	20,000	-	-	-	-	20,000
Total directors' remuneration	2017	788,409	14,025	23,070	825,504	47,116	7,500	-	139,030	1,019,151
	2018	1,126,138	21,127	23,070	1,170,335	59,943	7,500	-	139,031	1,376,809
Total key management personnel remuneration	2017	788,409	14,025	23,070	825,504	47,116	7,500	-	139,030	1,019,151
	2018	1,126,138	21,127	23,070	1,170,335	59,943	7,500	-	139,031	1,376,809

Notes in relation to the table of directors' and executive officer's remuneration

No short-term incentive bonus was awarded during the respective financial year.

No long-term incentive was issued during the respective financial year.

Unused annual leave is accrued at the rate per the individuals' current employment contracts and not at any temporary reduced payment of salaries.

The unused annual leave represents the value of annual leave accrual during the period but not yet taken or paid. It is assumed that all accrued leave will be taken before the end of the next financial year or that such entitlements will be paid out in lieu.

The "other long term" relates to the take up of long service leave benefits to which the person is now entitled.

7,000,000 options were issued to Peter Hatfull and 7,000,000 options to Malcolm James. These options are exercisable at $0.09 on or before 30 June 2019.

*Peter Hatfull and Earl McConchie both took a voluntary reduction in payment of salary from April 2017 until such time as the Group is generating cash from sales income. This is reflected in the salary and fees numbers above. An accrual in the accounts has therefore been made for this underpayment (including superannuation benefits and which is included in the table above) in the amount of $222,620 for Hatfull (2018: $167,409, 2017: $55,211) and $289,051 for McConchie (2018: $228,783, 2017: $60,268) with a view to the reduction being reimbursed at a later date.

Remuneration Report – *audited (continued)*

Key management personnel transactions - audited

Loans to key management personal and their related parties

There are no loans outstanding at the end of the reporting period to key management personnel and their related parties in the reporting period.

Movement in shares

The movement during the reporting period in the number of ordinary shares in Affinity Energy and Health Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows.

	Malcolm James		Peter Hatfull		Earl McConchie		R.V Venkatesh	
	Options	Shares	Options	Shares	Options	Shares	Options	Shares
Opening balance - beginning of period	7,000,000	100,000	7,000,000	10,474,178	-	179,070,001	-	-
Granted as compensation	-	-	-	-	-	-	-	-
Received on exercise of options	-	-	-	-	-	-	-	-
Exercised/Acquired	50,000	100,000	868,379	1,736,758	-	-	32,068,146	64,102,542
Disposed	-	-	-	2,000,000	-	-	-	-
Other changes	-	-	-	-	-	-	-	-
Closing balance at reporting date	7,050,000	200,000	7,868,379	10,210,936	-	179,070,001	32,068,146	64,102,542

By virtue of Section 608 (3) of the Corporations Act, as at 30 June 2018 Mr McConchie controlled Dot Bio Inc which held 100% of Teco. Bio LLC which in turns holds 175,000,001 shares. Related parties of Mr McConchie together hold 4.07 million shares.

Other related party transactions

Four members of Mr. Earl McConchie's immediate family were employed by Algae Energy Inc. during the year. The Group paid the family members a total of A$517,074 (US$398,871) compared to A$515,108 (US$414,198) in 2017 as salaries, wages and benefits.

Two office furniture and equipment leases (perpetual) existed with Dot Bio Inc which is wholly owned by Mr Earl McConchie and family members. The cost of these leases amounted to US$2,000 per month. At 30 June 2018, the amount owing (unpaid) would have been US$58,593 including interest and delinquent fee charges on the unpaid amounts. On 9 May 2018, it was agreed to terminate the lease agreements and transfer ownership of all the equipment and furniture to Algae Energy Inc. in return for one full and final payment of US$90,000 (A$116,671).

At 31 December 2017, Mr Garnet Earl McConchie, a director of Affinity Energy and Health Limited, had advanced funds of $120,723 (US$98,450) to the Group on a short-term basis. US$90,000 was advanced with interest payable at a rate of 5% per annum and accrued to the value of US$8,450 at 31 December 2017. This was fully repaid in February 2018.

Use of remuneration consultants

The Group did not use remuneration consultants during the year.

Voting at the Group's 2017 Annual General Meeting

The Company received 88% of proxy votes in favour (12% against) of its 2017 remuneration report at the 2017 Annual General Meeting. The Company did not receive any specific feedback at the Annual General Meeting or throughout the year on its remuneration practices.

End of Audited Remuneration Report

Signed at Perth, in accordance with a resolution of the directors, pursuant to Section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors

Peter Hatfull
Executive Director
28 September 2018

Consolidated statement of financial position

As at 30 June 2018

	Notes	30 June 2018	30 June 2017
Assets		$	$
Cash and cash equivalents	12	886,256	102,882
Trade and other receivables	8	3,466,944	2,547,866
Prepayments	9	66,947	80,414
Total current assets		4,420,147	2,731,162
Property, plant and equipment	6	244,158	423,759
Prepayments	10	1,267,904	-
Intangible Assets	11	3,952,490	-
Deferred tax assets	7	675,491	649,372
Total non-current assets		6,140,043	1,073,131
Total assets		10,560,190	3,804,293
Liabilities			
Trade and other payables	19	1,622,939	901,921
Loans and borrowings	16	4,244,376	6,183,971
Provisions	18	281,119	244,208
Total current liabilities		6,148,434	7,330,100
Total liabilities		6,148,434	7,330,100
Net assets/(liabilities)		4,411,756	(3,525,807)
Equity			
Contributed equity	14	36,438,940	20,745,945
Reserves	14	857,181	512,760
Accumulated losses		(32,884,365)	(24,784,512)
Total equity		4,411,756	(3,525,807)

The notes of pages 24 to 54 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2018

	Notes	30 June 2018	30 June 2017
Revenue from operating activities		$	$
Provision of services and equipment		119,462	665,813
Interest		9,709	5,505
Other income			
R & D Tax incentive		2,509,465	2,116,586
		2,638,636	2,787,904
Expenditure			
Employee benefits		(3,471,167)	(3,066,975)
Directors share based payments	14	(139,031)	(139,030)
Depreciation expense		(202,504)	(213,475)
Amortisation Expense		(1,004,500)	-
Property, rent & lease expenses		(362,423)	(347,446)
Consultancy expenses		(1,428,205)	(126,245)
Consultancy share based payment	14	(240,000)	-
Insurance expenses		(131,761)	(126,633)
Materials and supplies		(909,988)	(639,849)
Professional fees		(723,180)	(568,794)
Travel expenses		(481,300)	(246,095)
Finance costs		(517,923)	(679,772)
Net foreign exchange gain/(loss)		(365,642)	70,833
Administration expenses		(478,961)	(145,841)
Other expenses		(241,034)	(282,579)
Bad debts expense		(5,000)	(116,925)
Loss before income tax		(8,063,983)	(3,840,922)
Income tax (expense)/benefit		(35,870)	53,128
Net loss attributable to members of the company		(8,099,853)	(3,787,794)
Other comprehensive income/(loss)			
Items that may be reclassified to the profit and loss			
Effect of exchange rate translation		167,949	(69,755)
Other comprehensive income/(loss) for the year		167,949	(69,755)
Total comprehensive income/(loss) for the year attributable to members of the company		(7,931,904)	(3,857,549)
Earnings per share			
Basic loss per share (cents per share)	15	(1.16)	(1.09)

The notes of pages 24 to 54 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2018	Note	Contributed Equity $	Accumulated losses $	Foreign exchange reserve $	Share based payment reserve $	Equity other reserve $	Total equity $
Balance at 1 July 2017		20,745,945	(24,784,512)	(112,781)	376,586	248,955	(3,525,807)
Loss for the period		-	(8,099,853)	-	-	-	(8,099,853)
Other comprehensive loss		-	-	167,949	-	-	167,949
Total comprehensive loss for the year		-	(8,099,853)	167,949	-	-	(7,931,904)
Transactions with owners in their capacity as owners							
Share issued during the period	14	16,332,481	-	-	-	-	16,332,481
Capital raising cost		(639,486)	-	-	-	-	(639,486)
Equity component of convertible notes issued		-	-	-	-	(248,955)	(248,955)
Value of share options issued	14(i)	-	-	-	425,427	-	425,427
Balance at 30 June 2018		**36,438,940**	**(32,884,365)**	**55,168**	**802,013**	**-**	**4,411,756**

	Contributed Equity $	Accumulated losses $	Foreign exchange reserve $	Share based payment reserve $	Equity other reserve $	Total equity $
Balance at 1 July 2016	20,156,981	(20,996,718)	(43,026)	237,555	-	(645,208)
Loss for the period	-	(3,787,794)	-	-	-	(3,787,794)
Other comprehensive loss	-	-	(69,755)	-	-	(69,755)
Total comprehensive loss for the year	-	(3,787,794)	(69,755)	-	-	(3,857,549)
Transactions with owners in their capacity as owners						
Share issued during the period	588,964	-	-	-	-	588,964
Equity component of convertible notes issued					248,955	248,955
Value of share options issued	-	-	-	139,031	-	139,031
Balance at 30 June 2017	**20,745,945**	**(24,784,512)**	**(112,781)**	**376,586**	**248,955**	**(3,525,807)**

The notes of pages 24 to 54 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2018

	Notes	2018 $	2017 $
Cash flow from operating activities			
Cash receipts from customers		236,534	338,156
Cash paid to suppliers and employees		(6,814,441)	(5,299,369)
Interest paid		(326,244)	(266,457)
Interest received		4,709	505
Income taxes R & D refund		2,117,702	2,427,928
Net cash inflows/(outflows) from operating activities	13	(4,781,740)	(2,799,237)
Cash flows from investing activities			
Purchases of property, plant and equipment		(15,456)	(51,156)
Prepaid Licence cost		(100,000)	-
Prepaid Investments		(927,939)	-
Net cash inflows\(outflows) from investing activities		(1,043,395)	(51,156)
Cash flows from financing activities			
Proceeds from issue of share capital		6,488,911	-
Share Issue Cost		(626,986)	-
Proceeds from borrowings		3,412,550	4,742,484
Repayment of borrowings		(2,670,091)	(2,053,990)
Net cash inflow/(outflow) in financing activities		6,604,384	2,688,494
Net increase/(decrease) in cash and cash equivalents		779,249	(161,899)
Cash and cash equivalents at beginning of financial period		102,882	269,796
Effect of exchange rate fluctuations on cash held		4,125	(5,015)
Cash and cash equivalents at end of financial period	12	886,256	102,882

The notes of pages 24 to 54 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the year ended 30 June 2018

1. Reporting entity

Affinity Energy and Health Limited (formerly Algae.Tec Limited) is a company domiciled in Australia. The address of the Group's registered office Unit 2, Spectrum Offices, 100-104 Railway Road, Subiaco WA 6008. The consolidated financial statement of the Group as at and for the year ended 30 June 2018 comprises of the Company and its subsidiary (together referred to as the 'Group'). The Group is a for-profit entity and primarily involved in the cultivation of algae for the production of biofuels and high-quality nutraceuticals.

2. Basis of accounting

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorized for issue by the Board of Directors on 28 September 2018.

Going concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group incurred a loss after tax for the year of $8,099,853 (2017: $3,787,794) and net cash outflows from operating activities of $4,781,740 (2017: $2,799,237).

As at 30 June 2018, the Group had a working capital deficit of $1,728,287 (2017: deficit of $4,598,938). Current liabilities include convertible notes of $2,008,584 (2017: $4,382,183).

This indicates a material uncertainty that may cast significant doubt about the ability of an entity to continue as a going concern.

The following events occurred subsequent to year end:

An EGM was held on 3 August 2018 with the following resolutions approved:

Approval of the Magna Convertible Note facility as per Note 16 (v). This also gave rise to a further draw down of A$1,000,000 on 10 August 2018.

A total of US$198,000 (A$270,427.99) has been converted by Magna for a total of 20,588,490 shares.

On 30 August 2018 the Company announced an R&D partnership with The University of Sydney to drive medicinal cannabis strategy.

The directors have prepared a cash flow forecast, which indicates that the Group will have sufficient cash flows to meet all commitments and working capital requirements for the 12-month period from the date of signing this financial report.

The ability of the Group to continue as a going concern is principally dependent upon the following:

Achieving forecasted cash flows from its sale of nutraceutical and medicinal marijuana products;

The Group continuing to receive refunds under the Research and Development ("R&D") tax incentive scheme; and

The Group securing a funding provider for its R&D claim for the 2019 financial year.

In the event the above matters are not achieved, the Group will be required to raise funds for working capital from debt or equity sources.

2. Basis of accounting *(continued)*

Going concern (continued)

Based on the cash flow forecasts and other factors referred to above, the directors are satisfied that the going concern basis of preparation is appropriate.

Should the Group be unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or to the amount and classification of liabilities that might result should the Group be unable to continue as a going concern and meet its debts as and when they fall due.

Basis of measurement

The consolidated financial statements have been prepared on the accruals basis, and on the basis of historical cost except for the revaluation of financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. Comparative information is reclassified where appropriate to enhance comparability.

(a) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

(b) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(c) New or revised standards and interpretations that are first effective in the current reporting period

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group during the financial year.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

New Accounting Standards for Application in Future Periods

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

AASB 9: Financial Instruments and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).

The Standard will be applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Based on preliminary analysis the directors anticipate that the adoption of AASB 9 is unlikely to have a material impact on the Group's financial instruments.

2. Basis of accounting *(continued)*

(c) New or revised standards and interpretations that are first effective in the current reporting period (continued)

New Accounting Standards for Application in Future Periods (continued)

AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods beginning on or after 1 January 2018,).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Apart from a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.
AASB 16: Leases (applicable to annual reporting periods beginning on or after 1 January 2019).

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard are as follows: recognition of a right-of-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets); depreciation of right-of-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components; inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date; application of a practical expedient to permit a lessee to elect not to separate non-lease components and instead account for all components as a lease; and inclusion of additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

Although the directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact. Refer to note 21 for the Group’s operating leases which will be recognised on the balance sheet under AASB16.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Certain comparative amounts in the consolidated statement of profit or loss and other comprehensive income have been reclassified to conform to the current year's presentation.

(a) Basis of consolidation

(i) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognitions under AASB3 'Business Combinations' are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB5 'Non-current Assets Held for Sale and Discontinued Operations' which are recognized and measured at fair value less cost of sale.

The Group measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Group at exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency is retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognized in profit or loss. However, foreign currency differences arising from the retranslation of the following items are recognized in other comprehensive income.

Available for sale equity investments (except on impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss).

3. Significant accounting policies *(continued)*

(b) Foreign currency (continued)

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences arising from the translation above are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the foreign operation is a non-wholly-owned subsidiary, then the relevant proportion of the translation difference is allocated to the non-controlling interest.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the Group dispose of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests, when the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such items are considered to form part of the net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

(c) Financial instruments

(i) Non-derivative financial assets

The Group initially recognizes loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends whether to settle them on a net basis or to realize the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories:

Financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents and, trade and other receivables.

3. Significant accounting policies *(continued)*

(c) Financial instruments (continued)

Cash and Cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(ii) Non-derivative financial liabilities

The Group initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, debt securities issued and trade and other payables.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

(iv) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest related to the financial liability is recognized in profit or loss. On conversion the financial liability is reclassified to equity and no gain or loss is recognized.

Convertible notes that can be converted to share capital at the option of the holder and where the number of shares is variable, contains an embedded derivative liability. The embedded derivative liability is calculated (at fair value) first and the residual value is assigned to the debt host contract. The embedded derivative is subsequently measured at fair values and movements are reflected in the profit and loss.

Some convertible notes issued by the Group include embedded derivatives (option to convert to variable number of shares in the Group). These convertible notes are recognized as financial liabilities at fair value through profit or loss. On initial recognition, the fair value of the convertible note will equate to the proceeds received and subsequently the liability is measured at fair value at each reporting period until settlement. The fair value movements are recognized on the profit and loss as finance costs.

3. Significant accounting policies *(continued)*

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- The cost of materials and direct labour.
- Any other costs directly attributable to bringing the assets to a working condition for their intended use,
- When the Group has an obligation to remove the assets or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located, and
- Capitalized borrowing costs.

Cost includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchase of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is generally recognized in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonable certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative year of significant items of property, plant and equipment are as follows:

• Computer Equipment	20% to 50%	(2 – 5 years)	Straight Line
• Computer Software	25%	(4 years)	Straight Line
• Office Equipment	20%	(5 years)	Straight Line
• Furniture & Fittings	14.3%	(7 years)	Straight Line
• Facility Improvements	14.3%	(7 years)	Straight Line
• Plant and equipment	14.3%	(7 years)	Straight Line
• Laboratory Systems	14.3%	(7 years)	Straight Line
• Motor Vehicles	22.5%		Reducing Balance

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3. Significant accounting policies *(continued)*

(e) Intangible assets and goodwill

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is presented with intangible assets.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity accounted investee as a whole.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(iv) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(v) Amortization

Amortization is assessed on each transaction and will be applied upon the life of the individual item.

(f) Employee benefits

(i) Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognized in current liabilities 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.

(ii) Long-service leave

The liability for long service leave is recognized in the provision for employees' benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expect future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the reporting date of national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

3. Significant accounting policies *(continued)*

(f) Employee benefits (continued)

(iii) Share-based payment transactions

The Group has provided payment to service providers and related parties in the form of share-based compensation, whereby services are rendered in exchange for shares or rights over shares ('equity –settled transactions'). The cost of these equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined using an appropriate option valuation model for services provided or where the fair value of the shares received cannot be reliably estimated.

For goods and services received where the fair value can be determined reliably the goods and services and the corresponding increase in equity are measured at that fair value.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance date, the entity revises its estimates of the number of options that are expected become exercisable.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant parties become fully entitled to the award ("vesting date").

The cumulative expense recognized for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of The Group, will ultimately vest. This opinion is formed based on the best available information at balance date. Not adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Affinity Energy and Health Limited has not entered into any cash settled equity transactions during or since the reporting period.

(g) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment losses on the assets associated with that contract.

(h) Revenue

(i) Sale of goods

Revenue from sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

3. Significant accounting policies *(continued)*

(h) Revenue (continued)

(ii) Rendering of services

Revenue from rendering of services is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. Consulting services are performed by the parent for the Group's controlled entity. Revenue is recognized by reference to the actual labour hours delivered at standard rates and direct expenses incurred.

(iii) Research and development claims

Research and development income is accrued on a monthly basis, thus bringing the income into account in the same period that the related expenditure is incurred.

The Group is able to accurately estimate accrued research and development income and has successfully received previous claims made.

(i) Leases

(i) *Leased assets*

Assets held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Group's statement of financial position.

(ii) *Lease payments*

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(j) Finance income

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, fair value gains on financial assets at fair value through profit or loss, gains on the re-measurement to fair value of any pre-existing interest in an acquiree in a business combination, gains on hedging instruments that are recognized in profit or loss and reclassifications of net gains previously recognized in other comprehensive income. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

(k) Finance costs

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, fair value losses on financial assets at fair value through profit or loss and contingent consideration, impairment losses recognized on financial (other than trade receivables), losses on hedging instrument that are recognized in profit or loss using the effective interest method.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as wither finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

3. Significant accounting policies *(continued)*

(l) Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from declaration of dividends.

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects either neither accounting nor taxable profit or loss.
- Temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future
- Taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxed levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.
A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(iii) Tax exposures

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that caused the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(iv) GST

GST is accounted for on an accrual basis.

(m) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

4. Critical accounting judgments and key sources of estimation uncertainty

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Income taxes

The group is subject to income taxes in Australia and the USA. The group estimates its tax liabilities based on the understanding of the tax laws and advice from tax experts. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period such determinations are made.

In addition, the group has recognized deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilized.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Research & Development Income and Receivables

Research and development expenditure during the research phase of a project is recognized as an expense when incurred. Development costs are capitalized only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.
Research and development income is recognized in the same period as the related expenditure.

Share-based Payments

The group measures the cost of equity settled transactions by reference to the fair value of the equity instrument at the date at which they are granted (for employees) or their measurement date (for other service providers). For Options, the fair value is determined by an internal valuation using a Black Scholes option pricing model. The valuation relies on the use of certain assumptions. If the assumptions were to change, there may by an impact on the amounts reported. For ordinary shares which are traded on the stock exchange, the fair value is determined by reference to the closing price of the security on the measurement date.

5. Operating segments

The Group operates in the environmental energy industry. The Group operates in two geographical locations being Australia and USA. This internal reporting framework is the most relevant to assist the Board with making decisions

	2018	2017
Information about reportable segments	$	$
USA Profit/(loss)	351,677	5,235
Australia Profit /(loss)	(4,412,663)	(1,806,199)
Reportable segment Profit/(Loss)	(4,060,986)	(1,800,964)
Interest	9,709	5,505
Net foreign exchange gain/(loss)	(365,642)	70,833
Corporate expenses	(3,647,064)	(2,116,296)
Loss before tax	(8,063,983)	(3,840,922)
Reportable segment assets		
Australia	9,010,423	2,571,206
USA	1,549,767	1,233,087
	10,560,190	3,804,293
Reportable segment liabilities		
Australia	4,603,593	6,828,633
USA	1,544,841	501,467
	6,148,434	7,330,100
Revenue by geographical segment		
India	4%	23%
Australia	96%	77%
USA	0%	0%

The significant revenues for the Group are received from Reliance Industries (India) and from the Australian Government in the form of research and development grants.

6. Property, plant and equipment

	2018 $	2017 $
Plant and Equipment – P&E		
Plant and Equipment - at cost	1,215,194	1,166,345
Less: Accumulated depreciation	(1,007,806)	(802,680)
	207,388	**363,665**
Computer Equipment – C&E		
Computer Equipment - at cost	106,723	99,677
Less: Accumulated depreciation	(101,061)	(95,749)
	5,662	**3,928**
Office Equipment – O&E		
Office Equipment - at cost	84,666	78,412
Less: Accumulated depreciation	(77,031)	(65,885)
	7,635	**12,527**
Facility Improvements – F&I		
Facility Improvements - at cost	192,785	182,181
Less: Accumulated depreciation	(173,686)	(139,650)
	19,099	**42,531**
Laboratory Systems – L&S		
Laboratory Systems - at cost	8,610	8,259
Less: Accumulated depreciation	(8,610)	(7,151)
	-	**1,108**
Furnishings - F		
Furnishings - at cost	16,038	16,038
Less: Accumulated depreciation	(16,038)	(16,038)
	-	-
Motor Vehicles - MV		
Motor Vehicles - at cost	4,646	-
Less: Accumulated depreciation	(272)	-
	4,374	-
Totals		
Asset - at cost	1,628,662	1,550,912
Less: Accumulated depreciation	(1,384,504)	(1,127,153)
	244,158	**423,759**

6. Property, plant and equipment *(continued)*

	Total	P&E	C&E	O&E	F&I	L&S	MV	F
	$	$	$	$	$	$	$	$
Carrying amount of 1 July 2017	423,759	363,665	3,928	12,527	42,531	1,108	-	-
Additions	15,456	-	4,324	3,604	2,882	-	4,646	-
Disposals	-	-	-	-	-	-	-	-
Depreciation	(202,504)	(163,136)	(2,684)	(8,578)	(26,734)	(1,100)	(272)	-
Foreign currency exchange reserve effect	7,447	6,859	94	82	420	(8)	-	-
Carrying amount at 30 June 2018	**244,158**	**207,388**	**5,662**	**7,635**	**19,099**	**-**	**4,374**	**-**

	Total	P&E	C&E	O&E	F&I	L&S	MV	F
	$	$	$	$	$	$	$	$
Carrying amount of 1 July 2016	601,229	494,532	8,609	23,027	72,094	2,368	-	599
Additions	51,156	49,529	1,355	272	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Depreciation	(213,475)	(167,791)	(5,870)	(10,246)	(27,763)	(1,206)	-	(599)
Foreign currency exchange reserve effect	(15,151)	(12,605)	(166)	(526)	(1,800)	(54)	-	-
Carrying amount at 30 June 2017	**423,759**	**363,665**	**3,928**	**12,527**	**42,531**	**1,108**	**-**	**-**

7. Tax

(a) Income tax expense / (benefit)

	2018 $	2017 $
Current tax expense/(benefit)	(34,530)	(12,645)
Deferred tax expense / (benefit)	(1,340)	65,773
Tax expense/(benefit) from continuing operations	(35,870)	53,128

(b) Reconciliation of effective tax rate

The prima facie tax payable on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:

	2018	2018	2017	2017
Profit/(Loss) from continuing operations before income tax expense	-	(8,063,983)	-	(3,840,922)
The prima facie tax payable/(refundable) on profit/(loss)				
from ordinary activities before income tax:	27.5%	(2,217,595)	27.5%	(1,056,254)
Add / (Less) Tax effect of:				
Effect of tax in foreign jurisdictions	-	-	-	33,531
Deductible expenses	-	(50,568)	-	(187,605)
Non-deductible expenses	-	388,127	-	299,247
Research and development claim refund	-	617,735	-	636,494
Others	-	-	-	12,083
Current year losses for which no deferred tax asset was	-		-	
recognised	-	1,298,172	-	209,376
Total income tax expense/(benefit)	-	35,870	-	(53,128)

(c) Deferred tax assets

	2018	2017
Net deductible temporary differences	999,974	891,473
Tax Losses	2,936,898	1,689,170
Deferred tax assets not recognised	(3,261,381)	(1,931,271)
	675,491	649,372

7. Tax *(continued)*

(c) Deferred tax assets *(continued)*

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
Property, plant and equipment	-	-	(16,596)	(76,757)	(16,596)	(76,757)
Employee benefits	82,955	67,928			82,955	67,928
Provisions & accruals	271,000	180,614			271,000	180,614
Other items	663,340	723,813	(725)	(4,125)	662,615	719,688
Tax loss carry-forwards	2,936,898	1,689,170			2,936,898	1,689,170
Tax assets (liabilities)	3,954,193	2,661,525	(17,321)	(80,882)	3,936,872	2,580,643
Deferred tax assets not recognised	(3,261,381)	(1,931,269)			(3,261,381)	(1,931,269)
Net tax assets (liabilities)	692,812	730,256	(17,321)	(80,882)	675,491	649,374

(d) Tax Losses

	2018	2,017
Unused tax losses for which no deferred tax asset has been recognised	10,679,630	-
Potential tax benefit @ 27.5% (2017:27.5%)	2,936,898	-

The benefit for tax losses will only be obtained if:

(a) The company and consolidated entity derive future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the losses to be realised;

(b) The company and the consolidated entity continue to comply with the conditions for deductibility imposed by law; and

(c) No changes in tax legislation adversely affect the ability of the Company and consolidated entity to realise these benefits.

8. Trade and other receivables

Current	2018 $	2017 $
Trade receivables	211,933	319,923
R & D incentives	2,509,465	2,116,586
GST refund	34,430	15,512
Other receivables	711,116	95,845
Total receivables	3,466,944	2,547,866

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

A receivable from Phoenix Energy in the amount of $121,925 (being principal and interest) is past due. Whilst Affinity Energy and Health Limited believe that this debt will be repaid within the next 12 months the accounts provide 100% provision against non-payment at 30th June 2018. Interest continues to accrue on the principal at 5% per annum.

Included in other receivables is the sum of US$500,000 (A$648,172) being an amount owed by Gencor for the purchase of shares issued but as yet unpaid.

9. Current Prepayments

	2018 $	2017 $
Prepaid rent	9,592	4,770
Prepaid insurance	54,382	37,060
Prepaid interest	2,969	38,584
	66,947	**80,414**

10. Non Current Prepayments

	2018 $	2017 $
NS Technologies (i)	347,500	-
Jardin de Invierno (ii)	920,404	-
	1,267,904	-

(i) On 12 February 2018 the Group entered into a Heads of Agreement with NS Technologies for the licensing of any pharmaceutical products developed by Affinity Energy and Health using the NS Technologies delivery platform subject to various milestones. Upon signing of this agreement, Affinity Energy and Health paid NS Technologies A$100,000 and issued 7,500,000 shares valued at A$247,500.

Finalisation of this agreement will occur upon the granting of the US patent application to NS Technologies.

(ii) As part of the collaboration and licencing agreement with Jardin de Invierno SA, US$710,000 (A$920,404) has been advanced towards finalisation of the agreement. Upon completion of due diligence, the total amount payable to Jardin de Invierno is US$1,500,000 and the US$710,000 already paid will be deducted from this.

11. Intangible assets

	Development costs $	Patents and licences with definite useful life $	Licences with indefinite useful life $	Goodwill $	Total $
Cost					
At 1 July 2016	-	-	-	-	-
Additions - internally developed	-	-	-	-	-
At 30 June 2017	**-**	**-**	**-**	**-**	**-**
Additions - internally developed	-	-	-	-	-
Acquisition of a licence Auberna (i)	-	1,808,100	-	-	1,808,100
Acquisition of a licence MCL (ii)	-	-	3,148,890	-	3,148,890
Assets held for sale	-	-	-	-	-
At 30 June 2018	**-**	1,808,100	3,148,890	**-**	4,956,990
Amortisation and impairment					
At 1 July 2016	-	-	-	-	-
Amortisation	-	-	-	-	-
At 30 June 2017	**-**	**-**	**-**	**-**	**-**
Amortisation Auberna (i)	-	(1,004,500)	-	-	(1,004,500)
Impairment	-	-	-	-	-
At 30 June 2018	**-**	(1,004,500)	-	-	(1,004,500)
Net book value					
At 30 June 2018	-	**803,600**	**3,148,890**	**-**	**3,952,490**

11. Intangible assets *(continued)*

(i) As part of a Collaboration and Licence Agreement with Jardin De Invierno SA, on 28 August 2017 the company issued 63,347,270 shares equivalent to US$1,500,000 (A$1,808,100) for the exclusive right of use of the IP globally and distribution rights for any products associated within the Asia Pacific and African continents for a period of 18 months from the time of issue of the shares. The amount is amortised on a straight-line basis over the 18 months of the licence.

(ii) In December 2017 the company entered into a Heads of Agreement with Medical Cannabis Limited (MCL) and Queensland Bauxite Limited (QBL) to acquire a worldwide, exclusive and perpetual license for MCL cultivars for use in all animal-based applications.

In return for this licence the following occurred:

- On the 6th of April 2018 134,890,940 shares were issued valued at A$3,102,492 based on their grant date.
- On the 6th of April 2018 26,978,188 options were issued with an exercise price of $0.075 and an expiry of 31 December 2020. The options vested immediately and were valued at $46,397 using the Black – Scholes Options Pricing Model.
- There are further potential payments to be made contingent on certain events which have been disclosed in Note 21.
- The licence has been recorded at the fair value of the consideration issued
- The licence has been determined as having an indefinite useful life given the agreement provides it perpetually and the Group intends to utilise it for the foreseeable future.

12. Cash and cash equivalents

	2018 $	2017 $
Bank balances	886,256	102,882
Cash and cash equivalents in the statement of cash flows	886,256	102,882

Refer to note 20, financial risk management.

13. Reconciliation of cash flows from operating activities

Cash flows from operating activities	2018 $	2017 $
Loss for the year before tax	(8,063,983)	(3,787,794)
Adjustments to reconcile profit before tax to net cash flows from operating activities:		
Depreciation and Amortization	1,207,004	213,475
Share based payments	379,031	298,430
Finance cost	517,923	-
Net foreign exchange differences	365,642	(55,990)
Movement in valuation of convertible note	248,955	191,246
	(5,345,428)	(3,140,633)
(Increase)/Decrease in trade and other receivables	(919,078)	72,496
(Increase)/Decrease in other current assets	13,467	21,432
Increase/(Decrease) in trade and other payables	1,396,518	301,395
Increase/(Decrease) in provisions and employee benefits	36,911	(41,282)
Cash generated from operating activities	(4,817,610)	(2,786,592)
Income taxes	35,870	(12,645)
Net cash from operating activities	(4,781,740)	(2,799,237)

Conversion of debt to shares pursuant to conversion notice as shown in Note 16.

14. Capital and reserves

Share capital

	2018 $	2018 Number	2017 $	2017 Number
Movements in capital during the year were as follow:				
Issued capital at the beginning of the financial year	20,745,945	353,105,158	20,156,981	339,879,095
Issue of shares pursuant of Conversion notice	219,748	8,646,577	429,564	10,000,310
Issue of shares pursuant to placement	9,837,628	307,979,621	-	-
Issue of shares pursuant to Auberna Collaboration	1,808,100	63,347,270	-	-
Issue of shares pursuant to NS Technologies Agreement	247,500	7,500,000	-	-
Issue of shares pursuant to MCL Collaboration	3,102,492	134,890,940	-	-
Issue of shares pursuant to exercise of options	3,473	69,453	-	-
Issue of shares via Conversion of Interest	23,125	770,831	92,500	1,887,753
Issue of shares in exchange for services provided	1,032,706	31,551,516	66,900	1,338,000
Transfer from Equity Other Reserve	57,709	-	-	-
Capital Raising Costs	(639,486)	-	-	-
	36,438,940	907,861,366	20,745,945	353,105,158

(i) Share options granted at year end

Number of options	Issued to	Class
28,728,607	The Reliance Group	Options exercisable at $0.1636 on or before 20 January 2019
16,000,000	Employees/Directors	Options exercisable at $0.09 on or before 30 June 2019
26,978,188	Medical Cannabis Ltd	Options exercisable at $0.075 on or before 31 December 2020
210,092,326	Various	Options exercisable at $0.05 on or before 28 July 2020 (Listed)
7,000,000	Consultant	Options exercisable at $0.025 on or before 3 July 2020 (issued 3 July 2018)

(ii) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation.

	2018 $	2017 $
Foreign exchange reserve	55,168	(112,781)

(iii) Share option reserve

	2018 $	2017 $
Share option reserve	802,013	376,586

The share option reserve arises on the grant of shares options to employees, directors and consultants (share based payments) and to record issue, exercise and lapsing of listed options.

(iv) Other reserve

	2018 $	2017 $
Other reserve	-	248,955

The other reserve has arisen following the issue of convertible notes issued with a fixed conversion rate for debt to equity, representing the equity component of the convertible note. The convertible notes to which this refers were converted to shares during the period.

14. Capital and reserves (continued)

Share based payments

Directors

7,000,000 options were issued to Mr Peter Hatfull and 7,000,000 options to Mr Malcolm James during the financial year ended 30 June 2015. The options were valued at $556,122 using the Black and Scholes model.

- Grant Date of Options was 29 June 2015
- Expiry Date is 4 years after date of issue
- Exercise price of the options is $0.09 per share
- The Share Based Payment expense has been split evenly between the Directors as follows;

o Expense for Year end 30 June 2015	$	1,523.62
o Expense for Year end 30 June 2016	$	139,030.50
o Expense for Year end 30 June 2017	$	139,030.50
o Expense for Year end 30 June 2018	$	139,030.50
o Expense for Year end 30 June 2019	$	137,506.88

The expected volatility during the term of the options is based around assessments of the volatility of similar-sized listed, including newly listed entities in similar industries at grant date. For the purposes of the Black and Scholes valuation a 0% dividend yield has been used as a model input. At this time the Group does not have a dividend policy.

The options issued in return for goods or services during 2018 (2017: nil) were as follows:

Consultants

On 9 May 2018, the company entered into an agreement with a consultant for corporate, strategic and administrative services. As part of this agreement 25,000,000 options were granted with 7,000,000 options vesting immediately, with further tranches of 5,500,000 and 12,500,000 vesting subject to future milestones. A share-based payment expense of A$240,000 has been recorded in relation to the grant of the options. This has been calculated using the Black – Scholes Options Pricing Model with the below inputs:

- o Grant date of options 9 May 2018
- o Volatility 56%
- o Risk free rate 2.32%
- o 0% dividend yield
- o Exercise price of the options is $0.025 per share
- o Expiry date is 5 years from date of issue (3 July 2023)

Licence Acquisition - MCL

In December 2017 the company entered into a Heads of Agreement with Medical Cannabis Limited (MCL) and Queensland Bauxite Limited (QBL) to acquire a worldwide, exclusive and perpetual license for MCL cultivars for use in all animal-based applications.

In return for this licence the following occurred:

- On the 6th of April 2018 26,978,188 options were issued which were valued at $46,397 using the Black – Scholes Options Pricing Model with the following inputs:
  - o Grant date of options 22 December 2017
  - o Volatility 56%
  - o Risk free rate 2.32%
  - o 0% dividend yield
  - o Exercise price of the options is $0.075 per share
  - o Expiry date 31 December 2020
- On the 6th of April 134,890,940 shares were issued with a fair value of $3,102,493.

14. Capital and reserves *(continued)*

Share based payments *(continued)*

Licence Acquisition – Jardin De Invierno SA

As part of a Collaboration and Licence Agreement with Jardin De Invierno SA, on 28 August 2017 the company issued 63,347,270 shares equivalent to US$1,500,000 (A$1,808,100) for the exclusive right of use of the IP globally and distribution rights for any products associated within the Asia Pacific and African continents for a period of 18 months from the time of issue of the shares. Refer Note 11(i).

15. Earnings per share

Basic earnings per share

	2018 Continuing operations	2018 Total	2017 Continuing operations	2017 Total
Profit (loss) attributable to ordinary shareholders (cents/Share)	(8,099,853)	(1.16)	(3,787,794)	(1.09)

Weighted average number of ordinary shares (basic)	2018	2017
Issued ordinary shares at 1 July	353,105,158	339,879,095
Effect of shares issued during the period	346,279,727	6,244,309
Weighted average number of ordinary shares at 30 June	699,384,885	346,123,404

Diluted earnings per share

Diluted earnings/loss per share is calculated after consideration of all options on issue remaining unconverted as potential ordinary shares. As at 30 June 2018, the Group had on issue 281,799,121 (14(i)) options over unissued capital. As the Group incurred a loss for the year, the options are anti-dilutive, thus the dilutive loss per share is the same as the basic earnings per share.

16. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost.

	2018 $	2017 $
Current liabilities		
Convertible notes (i), (iv), (v)	2,008,584	4,382,183
R & D loan facility (ii)	1,539,799	1,650,000
GE Nutrients Loan (iii)	645,382	-
Hunter Premium funding	50,611	32,151
Directors Loans	-	119,637
Totals	**4,244,376**	**6,183,971**

Finance lease liabilities

There were no finance lease liabilities payable other than those noted above.

16. Loans and borrowings *(continued)*

Convertible note

(i) China Finance Strategies Investment Holdings Ltd

On 9th January 2015 the Company entered into an agreement with China Finance Strategies Investment Holdings Ltd. ("CFS") under which Affinity Energy and Health Limited issued an initial USD 500,000 convertible bond. In addition, subject to the achievement of certain milestones further conditional options of USD 5,000,000 will be issued to CFS.

- The Bond Amount is unsecured
- Interest is paid annually in arrears at a rate of 12% per annum
- The agreement is for 18 months expiring on 9 July 2016, and as at 30 June 2018 is past due and payable
- The conversion price is set at $0.075 per fully paid ordinary share in the capital of Affinity Energy and Health Limited
- In the event that there is any future issue of equity securities (other than the issue of equity pursuant to the conversion of any convertible security issued prior to the date of this agreement) at any time or times during the period before the Note is converted or redeemed and the consideration for such securities is less than the $0.075 per equity security, then the Conversion price will be adjusted down to the lower of, if there is more than one occasion when such securities are issued, the lowest price.
- The lender may serve notice in writing on Affinity Energy and Health Limited requesting the Company to convert the Bond or any part thereof.
- If the share price at any one or more times have been above $0.20 for 20 consecutive days, the subscriber will be entitled to convert all or a portion of the Convertible Note, subject to a minimum conversion of $100,000 by delivering notice any time prior to the Maturity Date.
- If the share price has not been above $0.20 for 20 consecutive days, the subscriber may exercise its rights during the 10 business days before the Maturity Date or any time after achievement of Milestone One.
- US$250,000 was repaid during the year ended 30 June 2018 and a further payment of US$50,000 was made in August 2018.

(ii) R & D Loan – Innovation Structured Finance Co., LLC

Following the full repayment of the previous year's facility, arrangements were made with Innovation Structured Finance for a series of Secured Loans. The key terms of the loan are:

- The funding is secured against the 30 June 2018 ATO tax refund
- The loan amount shall not exceed 80% of the eligible estimated expenditure for refund from the ATO in relation to R & D expenditure
- Interest is payable at a rate of 15% per annum and is deducted from the refund from the ATO following submission of the tax return estimated to be September 2018.
- The loan matures at the earlier of the date that the refund is received or 31 December 2018

The Loans received under the above conditions were:

- 18 December 2017 $568,629 Covering R & D Expenditure July 2017 to October 2017
- 13 February 2018 $267,900 Covering R & D Expenditure November 2017 and December 2017
- 27 April 2018 $617,436 Covering R & D Expenditure January 2018 to March 2018
- A further sum was advanced on 8 August 2018 in the amount of $526,150 to cover the R & D expenditure for April 2018 to June 2018

16. Loans and borrowings *(continued)*

Convertible note *(continued)*

(iii) GE Nutrients Inc.

On 11 December 2017 Algae Energy agreed to borrow US$480,000 from GE Nutrients Inc for the purposes of funding the completion of the Reliance Pilot Plant.

- The debt may be recovered by the lender exercising its rights under this document, any collateral security, or any of them without prejudice or reference to the Lender's rights under any other document.
- Algae Energy was to receive the loan funds in 3 tranches being US$225,000 due 15 Dec 2017, US$160,000 due 15 Jan 2018 and US$95,000 due on 15 Feb 2018.
- The first tranche was received on 29 December 2017
- The remaining amounts (US$255,000) were received in one payment on 29 March 2018
- Interest is payable at a rate of 10% per annum
- Repayment is due on the earlier of 31 August 2018 or when funds are received from Reliance for the completion of the project.

(iv) 707 Holdings Limited

On 24 January 2017, Affinity Energy and Health Limited announced the potential raising of USD$1,500,000 under convertible notes to be issued to 707 Holdings Ltd. USD$500,000 was drawn down in 2017 with no further draw downs in 2018.

- The funding is unsecured.
- Term: Three (3) years
- Conversion right: Convertible into fully paid ordinary shares in the Company at a conversion price that is the lower of (i) AUD0.05 per share and (ii) a 10% discount to the 5-day VWAP to the date of exercise of the conversion right;
- Options: If applicable, if the final tranche of US$500,000 is converted, the noteholder will receive 45.5 million of separate unlisted options with a term of 12 months from the date of the notes maturity and be exercisable at the lower of AUD0.10 per share and a 10% discount to the 5-day VWAP to the date of exercise of the conversion right;
- Interest rate: 10% per annum;
- Covenants: The Company will be subject to a number of negative covenants during the term;
- Break costs: In the case of breach, the Company is potentially liable to redeem and repay any or all outstanding amounts due under the note plus a break cost equal to 10% of the redemption.

(v) MEF I LP

On 8 June 2018, the Company announced it has secured up to $7 million finance facility under convertible notes issued to MEF I LP.

Magna Convertible Securities Agreement – Terms & Conditions

- Total Facility – A$7M
- Drawdowns:
  - $1M 5 days after entry into the agreement;
  - $1M 5 days after shareholder approval of all securities which can be issued by the Company under the Agreement
  - $2M upon the first sale by the Company of nutraceutical algae oil, the receipt of all necessary ASX waivers and shareholder approval and 75 days after the execution date;
  - $3M upon the first sale by the Company of a new algae product or algae to a new market, the receipt of all necessary ASX waivers and subject to shareholder approval and 120 days after the execution date;
- A commitment fee of 5% of the total aggregate amount of the drawdowns is payable
- A face value of US$1.10 per convertible security

16. Loans and borrowings *(continued)*

Convertible note *(continued)*

(v) MEF I LP *(continued)*

- A conversion price of the lessor of:
  - 80% of the lowest daily VWAP during the 5 trading days prior to a conversion notice date; and
  - AU$0.035
  - Save that the conversion price cannot be less than the floor price of AU$0.01.
- Conversion of the convertible securities at the election of Magna
- Security over the Company's assets to be granted pursuant to a General Security Agreement
- A maturity date of 12 months following the 4th tranche (or 3 months following the 1st tranche where shareholder approval is not obtained)
- The notes are redeemable by the Company at 110% of face value for the 6 months following drawdown of the relevant tranche or 115% thereafter
- The notes are redeemable at 115% of face value at the election of Magna in the event the Company does not obtain shareholder approval within 75 days of the initial drawdown or where the Company's daily VWAP is less than $0.01 on 5 consecutive trading days

All drawdowns other than the initial drawdown of $1M are subject to shareholder approval which was obtained on 3 August 2018. To 30 June 2018 the first tranche had been received.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

Changes in liabilities arising from financing activities

			Non-Cash Movements					
	Opening Balance	Cash Flow	Interest	Conversion to Shares	Acquisition	FX Movement	Fair Value	Closing Balance
China Finance Strategy	657,180	(388,915)	48,198	-	-	20,942	-	337,405
Sophisticated Investors	883,644	(3,906)	7,800	(887,538)	-	-	-	-
Magna Equities	77,727	-	-	(82,248)	-	4,521		-
Gencor Limited	1,174,017	(138,623)	-	(1,282,051)	-	246,657	-	-
Ebbesen - F Scarfone	286,673	(10,125)	3,452	(280,000)	-	-	-	-
ITF Pty Ltd	1,650,000	(1,650,000)	-	-	-	-	-	-
Hunter Premium Funding	32,151	18,460	-	-	-	-	-	50,611
Directors Loans	119,637	(119,637)	-	-	-	-	-	-
707 Holdings	643,262	-	61,956	-	-	26,178	-	731,396
Magna Equities	102,762	(63,830)	-	(41,698)	-	2,766	-	-
Magna Equities	341,997	(353,385)	-	-	-	11,388	-	-
Advance Opportunities Funds	214,921	-	5,093	(220,014)	-	-	-	-
Magna Equities	-	932,500	7,283	-	-	-	-	939,783
GE Nutrients	-	645,382	-	-	-	-	-	645,382
Brevet Direct Funding	-	1,453,965	85,834	-	-	-	-	1,539,799
Totals	**6,183,971**	**321,886**	**219,616**	**(2,793,549)**	**-**	**312,452**	**-**	**4,244,376**

17. Fair value measurement of financial instruments *Fair value hierarchy*

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – a valuation technique is used which takes into account inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices), or indirectly (i.e. derived from prices), and
- Level 3 – a valuation technique is used which takes into account inputs that are not based on observable market data (unobservable inputs).

Fair value of financial instruments not measured at fair value.

The following financial instruments carrying value approximates their fair value.

	Carrying amount $	Fair value $
Assets		
Cash and cash equivalents	-	-
Receivables	3,466,944	3,466,944
Liabilities		
Trade and other payables	1,622,939	1,622,939
R & D Loan – Brevet Direct Funding/ITF	1,539,799	1,539,799
Centrepoint Alliance/Hunter Premium funding	50,611	50,611
GE Nutrients	645,382	645,382
	3,858,731	3,858,731

Due to their short-term nature, the carrying amounts of current receivables, current trade and other payables and current interest-bearing liabilities is assumed to approximate their fair value.

18. Provisions

An annual leave provision for employees exists for the amount of $158,236 (2017: $141,390), and a long service leave provision exists of $122,883 (2017: $102,818). There is no non-current leave as all the leave provided for is or will become an entitlement within the next 12 months.

19. Trade and other payables

	2018 $	2017 $
Trade payables		
Current		
Other trade payables	521,191	366,008
Accrued expense	1,050,831	490,618
	1,572,022	856,626
Other payables		
Current		
Payroll Liabilities	50,917	45,295
	50,917	45,295
Trade and other payables		
Current	1,622,939	901,921

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 20.

20. Financial instruments

Financial risk management

Overview

The Group has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board of directors is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks face by the Group.

Credit Risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, including outstanding receivables. For banks and financial institutions, only major Australian banking institutions are used. For customers, individual risk limits are set based on internal or external ratings in accordance with limits set by the Board.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of the financial assets. Cash is only held in AA credit rated financial institutions.

Financial risk management

Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms.

- Preparing forward looking cash flow analysis in relation to its operational, investing and financing activities;
- Obtaining funding from a variety of sources;
- Maintaining a reputable credit profile;
- Managing credit risk related to financial assets;
- Only investing surplus cash with major financial institutions; and
- Comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

20. Financial instruments *(continued)*

Financial risk management *(continued)*

Aged Payables and Borrowings

Item	0 < 6 months	6 < 12 months	12 months >	Total Contractual cashflows	Carrying Value
	$	$	$	$	$
Trade Payables	521,191	-	-	521,191	521,191
Accrued Expenses *	1,050,831	-	-	1,050,831	1,050,831
Brevet Direct Funding*	1,539,799	-	-	1,539,799	1,539,799
Centrepoint/Hunter Premium	50,611	-	-	50,611	50,611
GE Nutrients	645,382	-	-	645,382	645,382
Convertible Notes	337,405	939,783	731,396	2,008,584	2,008,584
	4,145,219	939,783	731,396	5,816,398	5,816,398

$1,803,293 of the items marked *refer to borrowings and liabilities against the research and development tax refund for the year ended 30 June 2018 and are payable upon receipt of these funds.

Market risk

(i) Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

With instruments being held by overseas operations, fluctuations in the US Dollar may impact on the Group's financial results unless those exposures are appropriately hedged.

The movements in the AUD/USD cross rates has given rise to a substantial unrealized exchange gain in the USD cash holdings for the year.

It is the Group's policy that future US development costs will be assessed at regular intervals and where deemed appropriate, further purchase of USD will occur to minimize exchange rate exposure of US expenditure.

The following table shows the foreign currency risk on the financial assets and liabilities of the Groups operations denominated in currencies other than the functional currency of the operations. This included all cash holdings of USD.

	2018 USD	2017 USD
Financial assets		
Cash and cash equivalents	553,066	79,180
Trade and other receivables	720,848	279,140
	1,273,914	358,320
Financial liabilities		
Trade and other payables and borrowings	2,278,251	2,851,384
Net exposure	(1,004,337)	(2,493,064)

(ii) Consolidated Entity - sensitivity

Based on financial instruments held at 30 June 2018, had the Australian dollar weakened/strengthened by 20% against the US dollar with all other variables held constant, the Consolidated Entity's post-tax loss for the year and equity would have been $200,867 higher/lower, mainly as a result of foreign exchange losses/gains on translation of US dollar denominated financial instruments as detailed in the above table.

20. Financial instruments *(continued)*

Financial risk management *(continued)*

Foreign exchange risk *(continued)*

(iii) Cash flow and fair value interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognized at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

At the date of this report, the Group was not exposed to interest rate risk as all rates had been fixed for the term of the borrowings and all borrowings are carried at amortized cost except for convertible note at fair value. Whilst cash rates on deposits are not fixed there is no significant exposure to interest rate movements with the carrying values in the Group at 30 June 2018.

Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. See note 17 for details.

Capital management

The Management controls the capital of the Group in order to maintain a good debt to equity ratio, proved the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary shares financial liabilities, supported by financial assets.
There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

21. Commitments and Contingencies

Leases as lessee

Commitments in relation to a property lease contracted for at the reporting date but not recognized as liabilities payable:

The Corporate offices located in Subiaco, Western Australia are leased as follows; Lease term is 24 months from 1 October 2016 (with an option of a further 24 months) at rental of $56,885 per annum. The option was exercised on 11 September 2018 at a rental of $39,450 per annum.

	2018 $	2017 $
Less than one year	14,221	56,885
Between one and five years	-	14,221
More than five years	-	-
	14,221	71,106

Premises located at Unit 2, 21 Finance Place, Malaga, leased for 36 months commencing 1 February 2018 and expiring 31 January 2021 at $35,000 per annum. Options for further 5 years. Rent increases of 3.5% per year on existing lease.

	2018 $	2017 $
Less than one year	35,511	56,885
Between one and five years	58,624	14,221
More than five years	-	-
	94,135	71,106

21. Commitments and Contingencies *(continued)*

The research and development facility located in Cumming, Georgia, USA has premises located at 2460 Industrial Park Boulevard and an adjoining premise located at 2480 Industrial Park Boulevard. These premises provide both office and factory space.

The premises located at 2460 Industrial Park Boulevard are leased for 63 months commencing 1 July 2014 and expiring 30 September 2019. Rental is pre-determined for the term of the lease giving rise to the following commitments;

	2018 $	2017 $
Less than one year	124,790	117,641
Between one and five years	34,152	152,477
More than five years	-	-
	158,942	270,118

The premises located at 2480 Industrial Park Boulevard are leased for 60 months commencing 1 June 2017 and expiring 31 May 2022. Rental is pre-determined for the term of the lease giving rise to the following commitments;

	2018 $	2017 $
Less than one year	141,318	123,414
Between one and five years	496,898	612,262
More than five years	-	-
	638,216	735,676

Commitments in relation to the rental of a photocopier/printer/fax machine contracted for at the reporting date but not recognised as liabilities payable:

	2018 $	2017 $
Within 1 year	5,748	6,660
Later than 1 year but within 5 years	12,454	1,665
	18,202	8,325

As part of the collaboration and licencing agreement with Jardin de Invierno SA, US$710,000 (A$920,404) has been advanced towards finalisation of the agreement. Upon completion of due diligence, the total amount payable to Jardin de Invierno is US$1,500,000 and the US$710,000 already paid will be deducted from this.

Contingencies

Under the MCL licence agreement, the Company is required to issue 4.9% and attaching 1 for 5 options at $0.075 strike price of the then current issued capital and of the Group upon the extraction of oil form MCL cultivars. In addition, a 5% net royalty payable to MCL on any human applications coming from AEB's development of animal products.

22. Related parties

Parent and ultimate controlling party

The legal and ultimate parent entity within the Group is Affinity Energy and Health Limited.

Subsidiaries

Interests in subsidiaries are as follows.

Group entities

Significant subsidiaries

	Country of incorporation	Ordinary Share Consolidated Equity Interest 2018 %	2017 %
Controlled entity			
Algae Energy Inc	USA	100	100

22. Related parties *(continued)*

Key management personnel compensation

The key management personnel compensation comprised:	2018	2017
Short-term employee benefits	1,170,335	825,504
Post-employment benefits	59,943	47,116
Termination benefits	-	-
Other long-term benefits	7,500	7,500
Share-based payments	139,031	139,031
	1,376,809	1,019,150

Individual directors and executives' compensation disclosures

Information regarding individual directors' and executives' compensation disclosures as required by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the Director's report.

Related party transactions

At 31 December 2017, Mr Garnet Earl McConchie, a director of Affinity Energy and Health Limited, had advanced funds of $120,723 (US$98,450) to the Group on a short-term basis. US$90,000 was advanced with interest payable at a rate of 5% per annum and accrued to the value of US$8,450 at 31 December 2017. This was fully repaid in February 2018.

Two office furniture and equipment leases (perpetual) existed with Dot Bio Inc which is wholly owned by Mr Earl McConchie and family members. The cost of these leases amounted to US$2,000 per month. At 30 June 2018, the amount owing (unpaid) would have been US$58,593 including interest and delinquent fee charges on the unpaid amounts. On 9 May 2018, it was agreed to terminate the lease agreements and transfer ownership of all the equipment and furniture to Algae Energy Inc. in return for one full and final payment of US$90,000 (A$116,671).

As Mr McConchie controls Dot-Bio Inc which holds 100% of Teco.Bio LLC which in turn holds 175 million Shares.

Related parties of Mr McConchie together hold 4.07 million Shares.

Gencor Pacific is an entity related to Ramasamy Venkatash. There is a receivable of US$500,000 (A$641,025) from Gencor Pacific. Settlement of this debt is expected during the 2019 Financial year.

23. Subsequent events

Subsequent to the end of the financial year, the following events took place:
On 3 July 2018 the issue of 7,000,000 unlisted options to Neirin Technologies Limited exercisable at $0.025 and expiring 3 July 2023.

On the 12th of July 2018, Malcolm James' service agreement was amended and the key terms of the amended agreement are:

- Term is to 31 December 2020
- Contract fee USD30,000 per month
- The agreement can be terminated upon six months written notice to the consultant
- Provision of a motor vehicle to the value of AUD35,000 for the consultants use provided the consultant pays any applicable taxes.
- In the event of a change of control (change in more than 20% of the voting rights of the Company) and the consultants services are no longer required or the consultant no longer wants to continue providing services he will be entitled to be paid 12 months of the contract fee.

23. Subsequent events *(continued)*

An EGM was held on 3 August 2018 with the following resolutions approved:

- Approval of the Magna Convertible Note facility as per Note 16 (v). This also gave rise to a further draw down of A$1,000,000 on 10 August 2018 and the issue of 2,923,977 commitment fee shares.
- The issue of up to 30,000,000 incentive options to Mr Malcolm James exercisable at $0.05 and expiring 3 August 2022.
- The Change of Name of the Company to Affinity Energy and Health Limited

On 30 August 2018 the Company announced an R&D partnership with The University of Sydney to drive its medicinal cannabis strategy.

A total of US$198,000 (A$270,427.99) has been converted by Magna for a total of 20,588,490 shares.

24. Auditors' remuneration

	2018 $	2017 $
Audit and review of financial statements – Bentleys	49,225	41,000
Audit and review of financial statements – BDO (USA)	41,839	24,167
Total paid	**91,064**	**65,167**

25. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2018, the parent entity of the Group was Affinity Energy and Health Limited.

	2018 $	2017 $
Result of parent entity		
Profit/(loss) for the period	(8,385,901)	(3,873,829)
Other comprehensive income	-	-
Total comprehensive income for the period	(8,385,901)	(3,873,829)
Financial position of parent entity at year end		
Current assets	2,428,549	2,586,070
Non-current assets	5,238,857	4,954
Total assets	7,667,406	2,591,024
Current liabilities	4,604,890	7,122,592
Non-current liabilities	-	-
Total liabilities	4,604,890	7,122,592
Total equity of the parent entity comprising of:		
Contributed equity	36,438,940	20,745,945
Reserves	827,422	540,432
Accumulated losses	(34,203,846)	(25,817,945)
Total equity	3,062,516	(4,531,568)

Parent entity capital commitments for acquisition of property, plant and equipment

Affinity Energy and Health Limited has no commitments to acquire property, plant and equipment, and has no contingent liabilities.

Parent entity guarantees in respect of debts of its subsidiaries

Affinity Energy and Health Limited has not issued any guarantees to any subsidiaries. It is however committed to the ongoing funding of its American subsidiary Algae Energy Inc.

Directors' Declaration

1 In the opinion of the Directors of Affinity Energy and Health Limited (the 'Group'):

(a) The consolidated financial statements and notes that are set out on pages 20 to 54 and the Remuneration report in pages 13 to 19 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and

(ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

2 This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2018.

Signed in accordance with a resolution of the Directors

On behalf of the Board

Malcolm James
Managing Director

Date: 28 September 2018
Perth, Western Australia

Independent Auditor's Report

To the Members of Affinity Energy and Health Limited

Bentleys
THINKING AHEAD

Bentleys Audit & Corporate (WA) Pty Ltd
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Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Affinity Energy and Health Limited ("the Company") and its subsidiaries ("the Consolidated Entity"), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

a. the accompanying financial report of the Consolidated Entity is in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

   (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial report which indicates that the Consolidated Entity incurred a net loss of $8,099,853 during the year ended 30 June 2018. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Research and development incentive Under the Research and Development ("R&D") tax incentive scheme, the Consolidated Entity receives a 43.5% refundable tax offset of eligible expenditure. An R&D submission has been filed with AusIndustry, and a receivable of $2,509,465 has been recorded at year end representing the claim to be received for the year ended 30 June 2018. This area is a key audit matter due to the inherent subjectivity that is involved in the Consolidated Entity making judgements in relation to estimation and recognition of the R&D tax incentive income and receivable.	Our procedures amongst others included: – obtaining an understanding of the objectives and activities in the R&D program; – reviewing the lodgement documents and related working papers utilised by the expert engaged by the Consolidated Entity; – assessing the scope of services and capabilities of the expert engaged by the Consolidated Entity; and – comparing the eligible expenditure used in the receivable calculation to the expenditure recorded in the general ledger.
Convertible notes As disclosed in Note 16 to the financial statements, the Consolidated Entity has issued a number of convertible notes with a carrying value as at 30 June 2018 of $2,008,584. Convertible Notes are considered to be a key audit matter due to: – the value of the convertible notes; and – complexities involved in the recognition and measurement of convertible financial instruments.	Our procedures amongst others included: – analysing contractual agreements to identify the key terms and conditions for each convertible note; – verification of the funds received from the issue of convertible notes during the year; – assessing the accounting treatment of the financial instruments in accordance with the recognition and measurement as well as the disclosure requirements of the relevant Australian Accounting Standards; – assessing the calculation including relevant amortisation of finance costs for the year; and – verifying the issue of shares upon conversion of convertible notes.

Key audit matter	How our audit addressed the key audit matter
Intangible Assets As disclosed in note 11 to the financial statements, during the year ended 30 June 2018, the Company entered into a Collaboration and Licence Agreement and a Heads of Agreement ("the Agreements") whereby the Company acquired rights of use of Intellectual Property and Distribution Rights ("the Licences"). As disclosed in note 11, the consideration for the Licences was the issue of shares and options with a fair value of $4,956,990 Intangible assets are considered to be a key audit matter due to: – the value of the transactions; and – the complexities involved in recognition and measurement of the consideration issued.	Our procedures included, amongst others: – analysing contractual agreements to identify the key terms and conditions of the Agreements and assessed whether the accounting treatment was in accordance with *AASB 2 Share Based Payments* and *AASB 138 Intangible Assets*; – evaluating management's Black-Scholes Option Valuation Model and assessing the assumptions and inputs used; – assessing the grant date utilised for the valuation of the shares issued in accordance with the Agreements. – assessing the calculation of amortisation expense during the year in accordance with the terms of the licences; and – assessing the adequacy of the disclosures included in Note 11 of the financial report.
Share Based Payments As disclosed in note 14 to the financial statements, during the year ended 30 June 2018, the Company incurred share-based payments as consideration for the acquisition of intangibles and services. Share based payments are considered to be a key audit matter due to; – the value of the transactions; – the complexities involved in recognition and measurement of the shares and options issued; and – the judgement involved in determining the inputs used in the valuation of the consideration. Management used the Black-Scholes Option Valuation Model to determine the fair value of the options granted. This process involved significant estimation and judgement required to determine the fair value of the equity instruments granted.	Our procedures amongst others included: – analysing agreements to identify the key terms and conditions of share based payments issued and relevant vesting conditions in accordance with AASB 2 *Share Based Payments*; – evaluating management's option valuations and assessing the assumptions and inputs used; – where applicable evaluating the assumptions used in assessing the likelihood of the vesting conditions being met; and – assessing the adequacy of the disclosures included in note 14 to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Consolidated Entity's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, 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.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state in accordance with Australian Accounting Standard *AASB 101 Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the directors are responsible for assessing the Consolidated Entity'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 Consolidated Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Consolidated Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Consolidated Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Consolidated Entity audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2018. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with s 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of the Company, for the year ended 30 June 2018, complies with section 300A of the Corporations Act 2001.

Bentleys

Dougbell

BENTLEYS
Chartered Accountants

DOUG BELL CA
Partner

Dated at Perth this 28th day of September 2018

Bentleys
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To The Board of Directors

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

As lead audit partner for the audit of the financial statements of Affinity Energy & Health Limited for the financial year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours faithfully

Bentleys

BENTLEYS
Chartered Accountants

Doug Bell

DOUG BELL CA
Partner

Dated at Perth this 28th day of September 2018

ASX Additional Information

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below.

The following details of shareholders of Affinity Energy and Health Limited has been taken from the Share Register on 31 August 2018.

Number of Holders of Equity Securities

Ordinary Share Capital

924,120,897 fully paid ordinary shares are held by 2,684 individual shareholders.

210,092,326 listed options.

Voting rights

The voting rights attaching each class of security are set out below.

Ordinary shares

On a show of hands, each member present in person and each other person present as a proxy of a member has one vote. On a poll each member present in person has one vote for each fully paid share held by the member and each person present as a proxy of a member has one vote for each fully paid share held by the member that the proxy represents.

Distribution of Holders of Quoted Equity Securities

Size of holdings	As at 31 August 2018 No. of fully paid ordinary shares
1 - 1,000	12,696
1,001 - 5,000	619,126
5,001 - 10,000	3,570,749
10,001 - 100,000	60,316,065
100,001 and over	859,602,261
	924,120,897

Securities exchange

The Group is listed on the Australian Securities Exchange, the Frankfurt Exchange and on the OTC Market Group.

Other information

Affinity Energy and Health Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

ASX additional information

Twenty largest shareholders as at 31 August 2018

Name	Number of ordinary shares held	Percentage of capital held
TECO BIO LLC	175,000,001	18.94
MEDICAL CANNABIS LIMITED	134,890,940	14.60
BNP PARIBAS NOMS PTY LTD <DRP>	64,282,792	6.96
RELIANCE INDUSTRIAL INVESTMENTS AND HOLDINGS LTD	45,288,158	4.90
JP MORGAN NOMINEES AUSTRALIA LIMITED	33,474,310	3.62
FANCEL PTY LTD	18,035,000	1.95
BLOOMGOLD RESOURCES PTY LTD	14,233,964	1.54
CITICORP NOMINEES PTY LIMITED	12,655,157	1.37
VINDICATION PTY LTD <MARSHALL&ASSOCIATES S/F A/C>	10,400,000	1.13
MR FRANCESCO SCARFONE + MRS BENTE SCARFONE <AUSSIE GOLD SUPER NO2 A/C>	10,318,518	1.12
PYNMIST PTY LTD <THE S MARSHALL FAMILY A/C>	8,275,000	0.90
MR PETER ERNEST HATFULL	8,095,000	0.88
BNP PARIBAS NOMINEES PTY LTD HUB 24 CUSTODIAL SEV LTD DRP	6,908,480	0.75
MR ROBERT ALAN NURTHEN + MISS SARAH ANN NORRIS	6,638,270	0.72
MR STEPHEN CROTTY	6,271,150	0.68
MR WEI SUN	5,515,214	0.60
MEF I LP/C	5,224,530	0.57
MR LEIGH SCOTT-KEMMIS	5,126,150	0.55
FMR INVESTMENTS PTY LTD	5,000,000	0.54
NEVA SUPER PTY LTD <MACKENZIE SFUND NO 1A/C>	4,854,907	0.53
	580,487,541	62.85

Substantial Shareholders

As at 31 August 2018, the register of substantial shareholders disclosed the following information:

	Number of ordinary shares held	Percentage of capital held
Teco Bio LLC	175,000,001	18.94
Medical Cannabis Limited	134,890,940	14.60

Offices and officers

Principal Registered Office

Unit 2, Spectrum Offices
100-104 Railway Road
Subiaco WA 6008
Telephone: (08) 9380 6790
Facsimile: (08) 9381 9161
Internet: www.affinityenergyandhealth.com.au

Location of Share Registry

Computershare Investor Services Pty Ltd
Level 11, 172 St George's Terrace
Perth WA 6000

Company Secretary

Peter Hatfull