



SEPTEMBER QUARTERLY ACTIVITIES REPORT For Period Ended 30 September 2018

Algae Operations

- **Production**
 - Atlanta Product Development facility operating at +100% of design capacity
- **Production Improvements**
 - Innovative improvements to operational procedures have doubled culturing capacity without any additional capital or operating cost increase being incurred
 - Plans for further operational improvements this quarter
- **Radiant Technologies Inc (Canada)**
 - Collaboration with Radiant Technologies Inc (“RTI”) moves to second phase
- **New Products**
 - FeedMe™ Reef Recharge additional product released through partnership with US-based Seachem Laboratories Inc.
- **Partnership with Australian skin care company**
 - Exclusive agreement with Skin Elements Ltd (ASX: SKN) to supply algae and CBD oils for application in natural and organic skin care products

Medicinal Cannabis

- **Australian Update**
 - Australian medicinal cannabis license progressing through Office of Drug Control (“ODC”)
 - Design engineering for Australian facility to be completed Q4C18
- **Malta Application**
 - Application submitted for medicinal cannabis license in Malta, opening European market
- **CBD Oil**
 - CBD oil TGA and GMP certified. Negotiations on offtake continue

Corporate

- **Change of Name (shareholders approved 3/8/18)**
 - Shareholders approve change of name to reflect business operations
- **Magna Amendments**
 - Further funds released under Magna convertible note facility
- **Road Shows**
 - Investor presentations in Europe and North America achieve on market buying
- **TSX Listing / Spinoff**
 - Preliminary work for a TSX dual listing continuing – targeting H1C19



Plant-based health and wellbeing company Affinity Energy & Health (“Affinity” or “the Company”) (ASX: AEB) is pleased to provide shareholders with its Quarterly Activities Report for the period ended 30 September 2018.

September Quarter Operational Summary:

Algae Division Overview

Production

During the quarter the Atlanta Product Development facility operated at +100% of initial design capacity. Innovations in operating procedures have resulted in the density of grams per litre (“gpl”) increasing from 20gpl to +40gpl – an immediate doubling of culturing capacity without any additional capital or operating cost increase. The implementation of further initiatives, carbon source and nutrient package, has demonstrated the potential to increase density to 60gpl. The increase in density has also resulted in an increase of batch size, number of batches and reduced by almost 50% the batch processing time.

The combination of innovations will enable the plant to increase capacity to +250 tonnes per annum with minimal capital expenditure targeting expansion of the cultivation and drying sections and de-bottlenecking of the harvesting section.

FeedMe™ Product Range

Affinity also reported the development and commercial release of a new product through its strategic partnership with Seachem Laboratories Inc. – the USA’s largest distributor of aquarium products (see ASX release dated 2nd October 2018). The Company’s FeedMe™ range now includes six products, with the latest release opening the sizable export market. The algae-based phytoplankton product has been designed to remain “inactive” until the seal is broken – extending shelf life to two years without the requirement for refrigeration.

Radiant Technologies Inc – Microwave Assisted Processing (MAP™)

The first extraction testing through the RTI proprietary MAP technology was successfully completed during the quarter. Results were in line with the yields achieved through more standard extraction technologies (CO² super critical, solvent extraction and enzyme extraction) at +85%, with the benefit being a reduced processing time. Planning has now commenced for a larger bulk sample to be tested later this quarter or early Q1C19.

Strategic Cosmetics / Skin Care Partnership

As previously advised (see ASX release dated 8th October 2018), the Company has entered into an exclusive agreement with Australian Stock Exchange listed Skin Elements Ltd (ASX: SKN) to supply algae and CBD oils for development and manufacture of natural and organic skin care products.



These include the market leading Soléo Organics 100% natural and organic sunscreen, PapayaActivs natural therapeutics, Complete Esscience Natural Skincare and Elizabeth Jane Natural Cosmetics skincare.

The Company's unique range of micro-algae products provide an excellent ingredient platform for SKN's range. The micro-algae variously provide sun protection, moisturising, hydration, anti-inflammatory, anti-irritant, healing, anti-oxidation, anti-aging, anti-wrinkle, skin fitness and tone.

Medicinal Cannabis Division Overview

Australian Medicinal Cannabis License

The Company's application for an Australian Medicinal Cannabis license continues to be processed by the ODC. All required information requested by the ODC has been supplied by the Company with no additional information having been sought. Due to delays in the processing of applications by the ODC, Affinity understands the updated timeframe for its license issue is 3-6 months.

Whilst the license application is being processed the Company has identified a fully automated hydroponic method that will be installed at a production facility in Perth. Final engineering and design will be completed this quarter and further updates on this development will be provided in due course.

In addition, Affinity has also entered into a collaboration agreement with the University of Sydney, one of the leading research universities in the world. Under the MoU the University of Sydney will undertake research programs utilising the Company's unique bank of medicinal cannabis cultivars.

The initial focus will be on stress and pain mitigation in commercial livestock and the companion pet sectors.

European Medicinal Cannabis License

In line with the Company's aim to develop a globally significant medicinal cannabis operation, an application was submitted to Malta Enterprise, the Maltese government investment approval body, for a full medicinal cannabis cultivation, manufacturing and export license. As Malta is a member of the European Union the ability to produce in Malta opens that market to the Company.

To date only seven companies, including Aurora Cannabis (TSX), have been granted licenses in Malta.

Under the incentives provided by the Maltese Government the Company will, once the license is issued, be allocated 2,200m² to construct a fully automated controlled growing environment facility. The Company will utilise the same system as that selected for Australia and initial engineering and design work has commenced.



The license application was submitted in late August 2018 and the Company anticipates a decision before the end of Q4C18.

CBD Oil

As previously reported the Company has access to 50kg's per month of high-quality CBD oil ranging in concentration from 50% to 99%. The CBD oil has been certified as meeting TGO#93 requirements and also GMP (Good Manufacturing Practise). Negotiations continue with a European buyer to finalise quantity and price, with the final issue being the ability to achieve GMP certification on all batches, rather than an individual batch certification. Whilst this has delayed revenue generation the Company is targeting the current quarter for first sales.

Additional Cannabis Developments

As a result of the application for licenses in Australia and Malta, both controlled fully automated growing environments, the Company has decided, at this point in time, not to further advance the Uruguay or Ma Genetics opportunities and will complete a detailed review of both this quarter.

Corporate Overview

Change of Name

As a result of the continued maturity of the Company and the expansion of operations across multiple algae and cannabis market segments, the Board deemed it appropriate to undertake a name change and corporate re-brand in an effort to better reflect the Company's forward strategy and operational objectives.

Importantly, the new name now allows for product branding whilst maintain relevant to the initial focus of the Company – algae-based biofuels, and also the health aspects of algae and medicinal cannabis.

The name change to to Affinity Energy and Health Ltd was approved by shareholders during the quarter.

Investor Presentations

During the quarter the Company undertook a series of roadshows in Europe and North America presenting to high net worth individuals and a range of funds.

Pleasingly, the Company can report that significant interest on both the algae and medicinal cannabis operations was generated on the roadshow, with Affinity's management set to continue discussions with a number of interested parties this quarter.



Magna Convertible Note

The Company has negotiated a variation deed to the Convertible Securities Deed with MEF 1 LP which was announced on 8 June 2018. The Convertible Securities Deed was for a \$7 million facility to be drawn down over three tranches. This variation allows a partial drawdown of the third tranche of \$2 million under which the Company will receive \$350,000 on signing of the variation.

The variation also resets the floor price from \$0.01 to \$0.006, and enables an early redemption of 50% of all outstanding commitments due to MEF 1 LP within 60 days of signing of the variation deed, subject to shareholder approval.

TSX Dual Listing / Spinoff

Preliminary work has continued with regard to the proposed dual listing on the Toronto Stock Exchange, with discussions held with the major broking houses in Toronto. A final decision is anticipated late this quarter or early Q1C19 with the timing of a dual listing or spin off of the medicinal cannabis operations targeting H1C19.

Management Commentary

Executive Chairman, Mal James, commented:

“The September quarter was another busy period for Affinity, highlighted by the operational streamlining of our Atlanta Product Development Facility which has enabled us to double our culturing capacity. This is a critical outcome as we look to expand our supply into a number of key algae markets globally.

“Further, I am pleased to report we have finalised strategic agreements with well-respected partners including University of Sydney and Skin Elements which significantly bolsters our research and development bench strength across both our algae and medicinal cannabis divisions.

“With multiple exciting developments underway across the business, I look forward to providing further updates this quarter.”

-ENDS-

For further information, please contact:

Sam Burns
Six Degree Investor Relations
T: +61 400 164 067



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About Affinity Energy and Health Limited (ASX. AEB)

Affinity Energy and Health Limited (ASX. AEB) is a plant-based health and wellbeing company that develops a broad range of plant-derived products for supply to three key markets:

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

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Affinity Energy and Health Limited

ABN

16 124 544 190

Quarter ended ("current quarter")

30 September 2018

Consolidated statement of cash flows	Current quarter \$A	Year to date (3 months) \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	3,800	3,800
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	-54,181	-54,181
(d) leased assets	-	-
(e) staff costs	-969,919	-969,919
(f) administration and corporate costs	-988,436	-988,436
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	21	21
1.5 Interest and other costs of finance paid	-17,922	-17,922
1.6 Income taxes paid	-62,120	-62,120
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	-2,088,757	-2,088,757
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-6,700	-6,700
(b) businesses (see item 10)	-	-
(c) investments		

Consolidated statement of cash flows	Current quarter \$A	Year to date (3 months) \$A
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment		
(b) businesses (see item 10)		
(c) investments		
(d) intellectual property		
(e) other non-current assets		
2.3 Cash flows from loans to other entities		
2.4 Dividends received (see note 3)		
2.5 Other (provide details if material)	-6,700	-6,700
2.6 Net cash from / (used in) investing activities		
3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	1,000,000	1,000,000
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-372	-372
3.5 Proceeds from borrowings	526,150	526,150
3.6 Repayment of borrowings	-79,809	-79,809
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	1,445,969	1,445,969
4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	886,255	886,255
4.2 Net cash from / (used in) operating activities (item 1.9 above)	-2,088,757	-2,088,757
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-6,700	-6,700
4.4 Net cash from / (used in) financing activities (item 3.10 above)	1,445,969	1,445,969

Consolidated statement of cash flows		Current quarter \$A	Year to date (3 months) \$A
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	236,767	236,767

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A	Previous quarter \$A
5.1	Bank balances	236,435	885,917
5.2	Call deposits	332	339
5.3	Bank overdrafts	-	-
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	236,767	886,256

6.	Payments to directors of the entity and their associates	Current quarter \$A
6.1	Aggregate amount of payments to these parties included in item 1.2	253,003
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

7.	Payments to related entities of the entity and their associates	Current quarter \$A
7.1	Aggregate amount of payments to these parties included in item 1.2	Nil
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
8.1 Loan facilities	10,819,984	5,819,984
8.2 Credit standby arrangements		
8.3 Other – -		-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

See attached schedule for drawn amounts.

Total facility includes undrawn of \$5,000,000 from Magna Equities.

9. Estimated cash outflows for next quarter	\$A
9.1 Research and development	10,000
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	50,000
9.4 Leased assets	-
9.5 Staff costs	950,000
9.6 Administration and corporate costs	1,000,000
9.7 Other (provide details if material)	50,000
9.8 Total estimated cash outflows	2,060,000

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

Please refer September Quarterly Activities Report

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:
(Director/Company secretary)

Date: 31 October 2018

Print name: PETER HATFULL

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

					30 Sep 18	30 Jun 18
	Currency	Nominal interest rate	Year of maturity	Security	Carrying amount A\$	Carrying amount A\$
China Finance Strategy						
Convertible Note	USD	12%	2016	Unsecured	266,709	337,405
GE Nutrients Inc *1	USD	10%	2018	Unsecured	673,998	645,382
Brevet Direct Lending *2	AUD	15%	2018	Secured	2,145,860	1,539,799
Hunter Premium Funding	AUD	7.1%	2019		28,324	50,611
707 Holdings	USD	10%	2020	Unsecured	760,544	731,396
Magna Equities *2	USD	0%	2019	Unsecured	1,944,549	1,100,000
Total borrowings		AUD			5,819,984	4,404,593

*1 This debt provider has an associated entity which currently owes US\$500,000 to Affinity Energy & Health Limited

*2 This funding is an advance on the expected ATO Tax refund submitted in the amount of \$2,448,509

*3 Since the date of this report further conversion of shares have occurred in the amount of \$225,215

The effect of *1, *2 and *3 above will be a reduction in debt to \$2,788,058 based upon the schedule above.