Formerly Algae. Tec Limited

Appendix 4D
Half Year Report
31 December 2018

Affinity Energy and Health Limited

Appendix 4D – Half Year Report

Results for Announcement to the Market

Operating Results			
	% change	6 months ended 31 Dec 2018	6 months ended 31 Dec 2017
Revenue from ordinary activities	27%	1,211,576	954,962
Loss from ordinary activities after tax attributable to members	(20%)	(4,354,562)	(3,628,775)
Net loss for the period attributable to members	(20%)	(4,354,562)	(3,628,775)
Dividends			
It is not proposed to pay any dividends			
		31 Dec 2018	30 Jun 2018
Net tangible asset per security		(0.01)	(0.01)

There were no entities over which control was gained or lost during the period.

No interest is held in any joint ventures or entities over which the consolidated entity has significant influence.

Contents

Company Details

Directors

Malcolm James	Executive Chairman/Managing Director (appointed 28 November 2017)
Earl McConchie	Executive Director
Peter Hatfull	Executive Director
Ramasamy Venkatesh	Non-Executive Director (Appointed 15 August 2017)
Jith Veeravalli	Non-Executive Director – Alternate (Resigned 9 February 2019)
Allan Tan	Non-Executive Director (Resigned 14 January 2019)

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 half year ended 31 December 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)
Earl McConchie	Executive Director
Peter Hatfull	Executive Director
Ramasamy Venkatesh	Non-Executive Director (Appointed 15 August 2017)
Jith Veeravalli	Non-Executive Director – Alternate (Resigned 9 February 2019)
Allan Tan	Non-Executive Director (Resigned 14 January 2019)

Review of financial position

The consolidated loss of the Group amounted to $4,354,562 (2017: loss of $3,628,775) after including accrued income in relation to a tax refund due for R & D activities in the six months of $1,141,229 (2017: $1,040,480).

Net cash outflows from operating activities for the half year were $1,139,837 a 4% increase on the $1,097,159 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 half year were as follows:

AEB and SJGHC Sign Heads of Agreement to Research Medical Cannabis

On 6 December 2018, the Company announced the execution on a non-binding Heads of Agreement with St John of God Health Care Inc, to support Medical Cannabis research and development activities.

Under the 2-year HOA, AEB and SJGHC will collaborate to identify and undertake research projects and the development of medicinal cannabis products.

Green Light from Maltese Government for Cannabis Cultivation Facility

On 4 December 2018, the Company announced the approval to establish a medicinal cannabis cultivation and manufacturing facility in the Republic of Malta.

The Company had executed a Letter of Intent with Malta Enterprise approving the Company's application to establish a fully automated, controlled environment hydroponic cultivation, manufacturing and distribution facility.

The Company is one of only a handful of entities to be issued with an LOI by Malta Enterprise.

AEB enter into MOU with Skin Elements

On 8 October 2018, the Company announced that they had entered into a Memorandum of Understanding to pursue the application of Affinity's algae biomass and oils, and cannabis oils for use in Skin Elements range of natural skin care products.

The MOU represents a significant opportunity for the two companies to collaborate on the development of a new range of algae and cannabidiol (CBD) based products for supply to key global markets and to deliver enhanced product specifications for Skin Elements skin care products.

AEB expands FeedMe™ Algae Product Range

On 2 October 2018 the Company announced the commercialisation of its fifth Affinity FeedMe™ algae product under its collaboration and distribution agreement with US-based Seachem Laboratories, Inc.

The innovatively formulated long shelf-life algae product will be promoted to key international aquarist markets through Seachem's extensive networks, with the first bulk order received and dispatched. Furthermore, the new product will also be supplied to Seachem's large network of US-based distribution centres and retailers.

The development of this latest Affinity FeedMe™ algae-based phytoplankton product represents a breakthrough in the global transportation of algae-based products, with inventory now able to be shipped worldwide without refrigeration.

AEB enters R&D Partnership with The University of Sydney

On 30 August, the Company announced that it had executed an MOU with The University of Sydney to support its medicinal cannabis research and development activities in Australia.

Under the MOU, The University of Sydney will undertake research programs utilising AEB's considerable and unique bank of Australian Medicinal Cannabis cultivars. The initial focus will be on strategic stress and pain reduction (and management) in commercial livestock and the companion animal sector. It is intended that the successful development of animal targeted products will segue into the human sector.

Change of Company Name

On 20 August 2018, the Company name change process was completed. Effective 6 August 2018, the Company changed its name from Algae.Tec Limited to Affinity Energy and Health Limited.

Events subsequent to reporting date

On 3 January 2019, the Company had a further drawdown against R&D expenditure in the amount of $266,231 from Innovation Structure Finance under a loan agreement secured against the ATO refund (terms as per note 7 (iv)).

Dividends

No dividends were paid or recommended by the Directors.

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 26.

On behalf of the Directors

Malcolm James
Managing Director
28 February 2019

Condensed consolidated statement of financial position as at 31 December 2018

	Notes	31 December 2018	30 June 2018
Assets		$	$
Cash and cash equivalents		10,259	886,256
Trade and other receivables	5	2,395,155	3,466,944
Prepayments		31,426	66,947
Total current assets		2,436,840	4,420,147
Property, plant and equipment		162,889	244,158
Prepayments		957,777	1,267,904
Intangible Assets	6	3,349,790	3,952,490
Deferred tax assets		702,919	675,491
Total non-current assets		5,173,375	6,140,043
Total assets		7,610,215	10,560,190
Liabilities			
Trade and other payables		2,396,760	1,622,939
Loans and borrowings	7	4,022,638	4,244,376
Provisions		328,603	281,119
Total current liabilities		6,748,001	6,148,434
Total liabilities		6,748,001	6,148,434
Net assets		862,214	4,411,756
Equity			
Contributed equity	4	37,232,080	36,438,940
Reserves	4	869,061	857,181
Accumulated losses		(37,238,927)	(32,884,365)
Total equity		862,214	4,411,756

The notes of pages 11 to 22 are an integral part of these condensed consolidated financial statements.

Condensed consolidated statement of profit or loss and other comprehensive income for the half year to 31 December 2018

	Notes	31 December 2018	31 December 2017
Revenue from operating activities		$	$
Provision of services and equipment		67,685	(92,571)
Interest		2,662	7,053
Other income			
R & D Tax incentive		1,141,229	1,040,480
		1,211,576	954,962
Expenditure			
Employee benefits		(2,313,551)	(1,667,357)
Directors share based payments	4	(158,533)	(69,515)
Depreciation expense		(95,811)	(102,541)
Amortisation Expense		(602,700)	(418,798)
Property, rent & lease expenses		(206,884)	(144,057)
Consultancy expenses		(431,136)	(567,151)
Consultancy share based payment	4	134,330	-
Insurance expenses		(68,938)	(63,271)
Materials and supplies		(296,010)	(237,244)
Professional fees		(264,501)	(246,450)
Travel expenses		(173,319)	(251,902)
Finance costs		(393,802)	(327,173)
Net foreign exchange gain/(loss)		(78,863)	(186,470)
Administration expenses		(217,381)	(180,756)
Other expenses		(249,039)	(118,532)
Loss on Investment		(147,500)	-
Bad debts expense		(2,500)	(2,520)
Loss before income tax		(4,354,562)	(3,628,775)
Income tax (expense)/benefit		-	-
Net loss attributable to members of the company		(4,354,562)	(3,628,775)
Other comprehensive income/(loss)			
Items that may be reclassified to the profit and loss			
Effect of exchange rate translation		(12,323)	(41,580)
Other comprehensive income/(loss) for the year		(12,323)	(41,580)
Total comprehensive income/(loss) for the year attributable to members of the company		(4,366,885)	(3,670,355)
Earnings per share			
Basic loss per share (cents per share)		(0.46)	(0.63)

The notes of pages 11 to 22 are an integral part of these condensed consolidated financial statements.

Condensed consolidated statement of changes in equity for the half – year ended 31 December 2018

For the half year ended 31 December 2018	Note	Contributed Equity $	Accumulated losses $	Foreign exchange reserve $	Share based payment reserve $	Equity other reserve $	Total equity $
Balance at 1 July 2018		36,438,940	(32,884,365)	55,168	802,013	-	4,411,756
Loss for the period		-	(4,354,562)	-	-	-	(4,354,562)
Other comprehensive loss		-	-	(12,323)	-	-	(12,323)
Total comprehensive loss for the year		-	(4,354,562)	(12,323)	-	-	(4,366,885
Transactions with owners in their capacity as owners							
Share issued during the period	-	793,140	-	-	-	-	793,140
Capital raising cost		-	-	-	-	-	-
Equity component of convertible notes issued		-	-	-	-	-	-
Value of share options issued	-	-	-	-	24,203	-	24,203
Balance at 31 Dec 2018		**37,232,080**	**(37,238,927)**	**42,845**	**826,216**	**-**	**862,214**

	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	-	(3,628,775)	-	-	-	(3,628,775)
Other comprehensive loss	-	-	(41,580)	-	-	(41,580)
Total comprehensive loss for the year	-	(3,628,775)	(41,580)	-	-	(3,670,355)
Transactions with owners in their capacity as owners						
Share issued during the period	9,316,366	-	-	-	-	9,316,366
Equity component of convertible notes issued	248,955	-	-	-	(248,955)	-
Value of share options issued	-	-	-	69,515	-	69,515
Balance at 31 Dec 2017	**30,311,266**	**(28,413,287)**	**(154,361)**	**446,101**	**-**	**2,189,719**

The notes of pages 11 to 22 are an integral part of these condensed consolidated financial statements.

Condensed consolidated statement of cash flows for the half-year ended 31 December 2018

	Notes	Half-Year ended 2018 $	Half-Year ended 2017 $
Cash flow from operating activities			
Cash receipts from customers		94,022	227,596
Cash paid to suppliers and employees		(3,478,526)	(3,147,490)
Interest paid		(203,990)	(299,499)
Interest received		158	4,532
Income taxes R & D refund		2,448,499	2,117,702
Net cash inflows/(outflows) from operating activities		**(1,139,837)**	**(1,097,159)**
Cash flows from investing activities			
Purchases of property, plant and equipment		(7,725)	(4,224)
Net cash inflows\(outflows) from investing activities		(7,725)	(4,224)
Cash flows from financing activities			
Proceeds from issue of share capital		-	3,910,850
Share Issue Cost		-	(539,486)
Proceeds from borrowings		2,353,777	935,613
Proceeds from related party		-	276,056
Loans to Other Entities		-	529,006
Repayment of borrowings		(2,082,212)	(2,478,330)
Net cash inflow/(outflow) in financing activities		271,565	**1,575,697**
Net increase/(decrease) in cash and cash equivalents		(875,997)	**474,314**
Cash and cash equivalents at beginning of financial period		886,256	102,882
Effect of exchange rate fluctuations on cash held		-	-
Cash and cash equivalents at end of financial period		10,259	**577,196**

The notes of pages 11 to 22 are an integral part of these condensed consolidated financial statements.

Notes to the Financial Statements

For the half-year ended 31 December 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 interim financial statement of the Group as at and for the half - year reporting period ended 31 December 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 interim financial statements for the half-year period ended 31 December 2018 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 interim financial statements for the half-year reporting period ended 31 December 2018 were authorised for issue by the Board of Directors on 28 February 2019.

Going concern

The half year 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 half year of $4,354,562 (2017: $3,628,775) and net cash outflows from operating activities of $1,139,837 (2017: $1,097,159).

As at 31 December 2018, the Group had a working capital deficit of $4,311,161 (30 June 2018: deficit of $1,728,287). Current liabilities include convertible notes of $2,818,744 (30 June 2018: $2,008,584).

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

Subsequent to year end on 3 January 2019 the Company obtained a secured loan of $266,231 at 14% against its expected R&D refund for the 2019 financial year.

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 which is principally dependent upon the following:

- Raising of capital through the placement of shares
- Completing a rights issue

Both of which are currently being negotiated and finalised.

- Achieving forecasted cash flows from its sale of medicinal marijuana products; and
- The Group continuing to receive refunds under the Research and Development ("R&D") tax incentive scheme;

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

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.

2. Basis of accounting *(continued)*

Going concern (continued)

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.

Accounting Standards that are mandatorily effective for the current reporting period

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for an accounting period that begins on or after 1 January 2018.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- AASB 9 *Financial Instruments* and related amending Standards
- AASB 15 *Revenue from Contracts with Customers* and related amending Standards
- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*

AASB 9 Financial Instruments and related amending Standards

In the current year, the Group has applied AASB 9 *Financial Instruments* (as amended) and the related consequential amendments to other Accounting Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of AASB 9 allow an entity not to restate comparatives however there was no material impact on adoption of the standard.

Additionally, the Group adopted consequential amendments to AASB 7 *Financial Instruments: Disclosures*.

In summary AASB 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities,
- Impairment of financial assets, and
- General hedge accounting.

AASB 15 Revenue from Contracts with Customers and related amending Standards

In the current year, the Group has applied AASB 15 Revenue from Contracts with Customers (as amended) which is effective for an annual period that begins on or after 1 January 2018. AASB 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in AASB 15 to deal with specific scenarios.
There was no material impact on adoption of the standard and no adjustment made to current or prior period amounts.

2. Basis of accounting *(continued)*

New accounting standards for application in future periods

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.

3. Operating segments

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

	Half-year ended 2018	Half –year ended 2017
Information about reportable segments	$	$
USA Profit/(loss)	457,372	117,789
Australia Profit /(loss)	(2,471,251)	(1,885,889)
Reportable segment Profit/(Loss)	(2,013,879)	(1,768,100)
Interest	2,662	7,052
Net foreign exchange gain/(loss)	(78,863)	(186,470)
Corporate expenses	(2,155,343)	(1,681,257)
Loss before tax	(4,245,423)	(3,628,775)

Reportable segment assets	31 December 2018	30 June 2018
Australia	6,735,143	9,010,423
USA	875,072	1,549,767
	7,610,215	10,560,190
Reportable segment liabilities		
Australia	4,754,603	4,603,593
USA	1,993,398	1,544,841
	6,748,001	6,148,434
Revenue by geographical segment		
India	6%	4%
Australia	94%	96%
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.

4. Capital and reserves

Share capital	Half year ended 31 Dec 2018		Half year ended 31 Dec 2017	
	$	Number	$	Number
Movements in capital during the year were as follow:				
Issued capital at the beginning of the financial year	36,438,940	907,861,366	20,745,945	353,105,158
Issue of shares pursuant of Conversion notice	725,640	62,996,342	82,248	2,098,958
Issue of shares via Rights Issue	-	-	7,146,657	245,485,121
Issue of shares pursuant to Auberna Collaboration	-	-	1,900,418	63,347,270
Issue of shares via take up of options	-	-	3,198	63,953
Issue of shares pursuant to MCL Collaboration	-	-	-	-
Issue of shares pursuant to exercise of options	-	-	-	-
Issue of shares via Conversion of Interest	-	-	23,125	770,831
Issue of shares in exchange for services provided	67,500	4,067,767	700,206	22,448,200
Transfer from Equity Other Reserve	-	-	248,955	-
Capital Raising Costs	-	-	(539,486)	-
	37,232,080	974,925,475	30,311,266	687,319,491

(i) Share options in existence during the half 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 (Listed)
7,000,000	Consultant	Options exercisable at $0.025 on or before 3 July 2020 (issued 3 July 2018)
30,000,000	Malcolm James	Options exercisable at $0.05 on or before 3 August 2022

(ii) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

	31 Dec 2018	30 Jun 2018
	$	$
Foreign exchange reserve	42,845	55,168

(iii) Share option reserve

	31 Dec 2018	30 Jun 2018
	$	$
Share option reserve	826,216	802,013

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.

4. 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;

Expense for Year end 30 June 2015	$	1,523.62
Expense for Year end 30 June 2016	$	139,030.50
Expense for Year end 30 June 2017	$	139,030.50
Expense for Year end 30 June 2018	$	139,030.50
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.

30,000,000 options were issued to Mr Malcolm James during the half year ended 31 December 2018. The options were valued at $89,017 using the Black & Scholes model with the below inputs:

- Grant date of options 2 August 2018
- Volatility 56.12%
- Risk free rate 2.32%
- 0% dividend yield
- Exercise price of the options is $0.05 per share

Expiry date is 4 years from date of issue (3 August 2022)

The share options issued in return for goods or services in existence during this half year 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 was recorded in relation to the grant of the options at 30 June 2018. This was calculated using the Black – Scholes Options Pricing Model with the below inputs:

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

During the half year it was assessed that there was no chance of the milestones being achieved and therefore a zero percent likelihood of any further options vesting. This resulted in reduction of the share option reserve in the amount of $134,430.

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.

4. Capital and reserves (continued)

Share based payments *(continued)*

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:
    a. Grant date of options 22 December 2017
    b. Volatility 56%
    c. Risk free rate 2.32%
    d. 0% dividend yield
    e. Exercise price of the options is $0.075 per share
    f. Expiry date 31 December 2020
- On the 6th of April 134,890,940 shares were issued with a fair value of $3,102,493.

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.

5. Trade and other receivables

Current	31 Dec 2018	30 Jun 2018
	$	$
Trade receivables	205,202	211,933
R & D incentives	1,202,182	2,509,465
GST refund	62,113	34,430
Other receivables	925,658	711,116
Total receivables	2,395,155	3,466,944

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 $124,425 (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 31st December 2018. Interest continues to accrue on the principal at 5% per annum.

Included in other receivables is the sum of US$500,000 (A$674,491) being an amount owed by Gencor for the purchase of shares issued but as yet unpaid.

Included in other receivables is an amount of $200,000 is owed by NS Technologies and is due for repayment in the 1st Quarter of 2019. Originally NST was advanced $100,000 and issued 7,500,000 shares @ $0.033 being $247,500 and this was classified as a non-current prepayment in the accounts at 30 June 2018. Settlement has resulted in a cash repayment due of $200,000 and $147,500 loss being recorded in the half year accounts.

6. Intangible assets

	(i) Patents and licences with definite useful life $	(ii) Licences with indefinite useful life $	Total $
Cost			
At 1 July 2018	**1,808,100**	**3,148,890**	**4,956,990**
At 31 December 2018	1,808,100	3,148,890	4,956,990
Amortisation and impairment			
At 1 July 2018	**(1,004,500)**	**-**	**(1,004,500)**
Amortisation Auberna (i)	(602,700)	-	(602,700)
Impairment	-	-	-
At 31 December 2018	(1,607,200))	-	(1,607,200)
Net book value			
At 31 December 2018	**200,900**	**3,149,890**	**3,349,790**

(i) 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 9.
- 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.

7. 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.

	31 Dec 2018 $	30 Jun 2018 $
Current liabilities		
Convertible notes (i), (ii), (iii)	2,818,744	2,008,584
R & D loan facility (iv)	486,165	1,539,799
GE Nutrients Loan (v)	704,229	645,382
Hunter Premium funding	13,500	50,611
Totals	**4,022,638**	**4,244,376**

7. Loans and borrowings *(continued)*

Finance lease liabilities

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

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 31 December 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 has been repaid in prior periods.
- US$50,000 was repaid on 27 August 2018 and resulting carrying value of the bond was $283,047

(ii) 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;

7. Loans and borrowings *(continued)*

Convertible note *(continued)*

(ii) *707 Holdings Limited* (continued)

- 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.
- As at 31 December 2018 the carrying value of the bond was $790,955

(iii) 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
- 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.

- In the prior period the 1st drawdown was received.
- Following the initial drawdown in June 2018 further drawdowns were received on 10 August 2018 ($1 million) and 26 October 2018 ($350,000).
- During the half year to 31 December 2018, a total of AUD$725,637 was converted by Magna for a total of 62,996,342 shares.
- Carrying value as of the convertible notes as at 31 December 2018 is $1,744,742.

7. Loans and borrowings *(continued)*

Convertible note *(continued)*

(iii) *MEF I LP* (continued)

An amendment to the original agreement was made on 22 October 2018 and following which a further drawdown of AUD$350,000 was made under the following terms.

- o Mandatory repayment of 50% of Tranche A and Tranche B convertible notes on or before 22 December 2018.
- o If the company makes part payment on or before the required redemption date, the amount received will be applied to the order of Tranche A, Tranche B and any remainder to the redemption of Tranche C convertible notes.
- o If the company does not make payment in full of the full redemption amount required, it will be an event of default under the agreement which is not capable of being remedied.
- o the company to convene shareholders meeting within 60 days of the date of the amendment letter to consider approval to amend the floor price to $0.006.

- At the date of this report, despite non-compliance with the above amendment, the lender as of this date has not advised that they are taking any action.

(iv) *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 2019 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 2019.
- The loan matures at the earlier of the date that the refund is received or 31 December 2019

The Loans received under the above conditions were:

- 3 December 2018 $480,000 Covering R & D Expenditure July 2018 to September 2018
- A further sum was advanced on 8 January 2019 in the amount of $266,231 to cover the R & D expenditure for October and November 2018

(v) *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.

7. Loans and borrowings *(continued)*

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	Other	FX Movement	Fair Value	Closing Balance
China Finance Strategy	337,405	(84,535)	19,285	-	-	10,892	-	283,047
Hunter Premium Funding	50,611	(37,111)	-	-	-	-	-	13,500
707 Holdings	731,396	-	33,240	-	-	26,319	-	790,955
Magna Equities	939,783	1,347,627	213,316	(725,640)	(67,500)	37,156	-	1,744,742
GE Nutrients	645,382	-	32,641	-	-	26,206	-	704,229
Brevet Direct Funding	1,539,799	(1,157,020)	103,386	-	-	-	-	486,165
Totals	4,244,376	68,961	401,868	(725,640)	(67,500)	100,573	-	4,022,638

8. 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

Related party transactions

- 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. To 31 December 2018 and the date of this report this amount remains unpaid.
- Gencor Pacific is an entity related to Ramasamy Venkatash. There is a receivable of US$500,000 from Gencor Pacific. Settlement of this debt is expected during the 2019 financial year.

9. 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.

10. Events subsequent to reporting date

on 3 January 2019, the Company had a further drawdown against R&D expenditure in the amount of $266,231 from Innovation Structure Finance under a loan agreement secured against the ATO refund (terms as per note 7 (iv)).

Directors' Declaration

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

(a) The condensed consolidated financial statements and notes are set out on pages 7 to 22 and the are in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half 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 31 December 2018.

Signed in accordance with a resolution of the Directors

On behalf of the Board

Malcolm James
Managing Director

Date: 28 February 2019
Perth, Western Australia

Bentleys
THINKING AHEAD

Bentleys Audit & Corporate (WA) Pty Ltd
London House
Level 3,
216 St Georges Terrace
Perth WA 6000

PO Box 7775
Cloisters Square WA 6850

ABN 33 121 222 802

T +61 8 9226 4500
F +61 8 9226 4300

bentleys.com.au

Independent Auditor’s Review Report

To the Members of Affinity Energy and Health Limited

We have reviewed the accompanying financial report of Affinity Energy and Health Limited (“the Company”) and Controlled Entities (“the Consolidated Entity”) which comprises the condensed consolidated statement of financial position as at 31 December 2018 , the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors’ declaration of the Consolidated Entity, comprising the Company and the entities it controlled during the period.

Directors Responsibility 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 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.

Auditor’s Responsibility

Our responsibility is to express a conclusion on the financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Consolidated Entity’s financial position as at 31 December 2018 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*. As the auditor of the Consolidated Entity, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Affinity Energy and Health Limited and Controlled Entities is not in accordance with the *Corporations Act 2001* including:

a. Giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2018 and of its performance for the period ended on that date; and

b. Complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

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 $4,354,562 during the half year ended 31 December 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 conclusion is not modified in respect of this matter.

Bentleys

BENTLEYS
Chartered Accountants

DOUG BELL CA
Partner

Dated at Perth this 28th day of February 2019

Bentleys
THINKING AHEAD

Bentleys Audit & Corporate (WA) Pty Ltd
London House
Level 3,
216 St Georges Terrace
Perth WA 6000

PO Box 7775
Cloisters Square WA 6850

ABN 33 121 222 802

T +61 8 9226 4500
F +61 8 9226 4300

bentleys.com.au

To the Board of Directors

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

As lead audit partner for the review of the financial statements of Affinity Energy and Health Limited for the period ended 31 December 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 review; and
- any applicable code of professional conduct in relation to the review.

Yours faithfully

BENTLEYS
Chartered Accountants

DOUG BELL CA
Partner

Dated at Perth this 28th day of February 2019