



30th April 2019

ASX Announcement

**December Quarterly Activities Report
For Period Ended 31 March 2019**

Highlights:

Algae Operations

- Staffing reduced significantly
- Cost rationalisation reduces overheads

Medicinal Cannabis

- **Australian Update**
 - Cultivation and Manufacturing License applications are both in the Evaluation phase of the Office of Drug Control (“ODC”) process.
 - All requests by the ODC for further information have been submitted by the Company
- **Malta Application**
 - Malta Industrial Parks (Maltese Government authority) has identified land for the Company to establish medicinal cannabis facilities
- **Corporate**
 - Board and management rationalisation continued
 - Financing discussions continue

Plant-based health and well-being company Affinity Energy & Health (“Affinity” or the “Company”) (ASX: AEB) is pleased to provide shareholders with its Quarterly Activities Report for the period ended 31 March 2019.



March Quarter Operational Summary:

Algae Division Overview

Production

With over 17,000kgs of biomass stockpiled production at the Atlanta facility has been discontinued. The stockpiled biomass is being utilised to supply the FeedMe™ product range as required by distributors.

The Company has now developed the proprietary algae technology for nutraceuticals to the point where negotiations are being undertaken to issue a sub-licence in North America. Discussions continue in this regard however the Company is targeting a cash payment and ongoing royalties for and from the sub-licence. These discussions include the possible sale of the Atlanta based product development plant.

As a result of ceasing production, the ongoing costs at the Atlanta facility have been significantly reduced.

Medicinal Cannabis Division Overview

Australian Medicinal Cannabis License

At the end of the Quarter under review the Company received a request for further information from the Office of Drug Control ("ODC") regarding policies and procedures initiated by the Company for its medicinal cannabis operations in Australia. The Company has provided detailed responses and the ODC process of evaluation continues.

European Medicinal Cannabis License

In accordance with the Letter of Intent issued by Malta Enterprise (Maltese Government authority) the Company has been allocated a 2,200m² parcel of land on which to establish the medicinal cannabis facilities in Malta. The Company is currently reviewing the land and other alternatives, including established premises that may be suitable.

Other Cannabis Developments

After further review and due diligence, the Company has decided not to pursue any involvement with Auberna SA in Uruguay.

Sales of CBD oil into Europe continue to be delayed due to certification requirements that substantially delay deliveries and increase costs.



Corporate Overview

Board Rationalisation

Subsequent to the end of the quarter under review the Company has undertaken further Board and management rationalisation with the resignation of Mr. R.V. Venkatesh and Mr. Peter Hatfull as directors. In addition, Mr. Hatfull has resigned as Company Secretary (effective at the end of April).

Mr Josh Puckeridge has joined the Board as a Non-Executive Director and has also been appointed as Company Secretary.

Financing

To facilitate the commercialisation of the Company's proprietary algae technology and medicinal cannabis operations in Malta and Australia the Company is presently finalising discussions on a share placement and renounceable rights issue. The quantum, pricing and ratio of the rights issue is still under negotiation.

The Company will further advise the market as these negotiations continue.

Management Commentary

Executive Chairman, Mal James, commented:

"As with the December quarter, the quarter under review has been difficult for the Company given the delays in the granting of the Australian medicinal cannabis licence and positive commercialisation of algae for the human and animal nutraceutical markets.

With negotiations well advanced to issue a sub-licence for human nutraceuticals in North America, significant reduction in cash outflows and the planned commencement of medicinal cannabis operations in Malta and Australia (post ODC granting a licence) the current quarter is certainly more positive and exciting.

-ENDS-

For further information, please contact:

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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 proprietary algae technology and 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")

31 March 2019

Consolidated statement of cash flows		Current quarter \$A	Year to date (9 months) \$A
1. Cash flows from operating activities			
1.1 Receipts from customers		208,082	302,105
1.2 Payments for			
(a) research and development		-	-
(b) product manufacturing and operating costs		-	-
(c) advertising and marketing		-16,200	-127,771
(d) leased assets		-	-
(e) staff costs		-390,164	-2,206,071
(f) administration and corporate costs		-271,745	-1,691,814
1.3 Dividends received (see note 3)		-	-
1.4 Interest received		24,847	25,004
1.5 Interest and other costs of finance paid		-2,019	-206,009
1.6 Income taxes paid		-	-63,402
1.7 Government grants and tax incentives		-	-
1.8 Other (provide details if material)		-	2,430,922
1.9 Net cash from / (used in) operating activities		-447,199	-1,537,036
2. Cash flows from investing activities			
2.1 Payments to acquire:			
(a) property, plant and equipment		-	-7,725
(b) businesses (see item 10)		-	-
(c) investments			

Consolidated statement of cash flows		Current quarter \$A	Year to date (9 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	100,000	100,000
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)	100,000	92,275
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	-	1,350,000
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-52,373
3.5	Proceeds from borrowings	376,030	1,382,181
3.6	Repayment of borrowings	-24,905	-2,107,117
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	351,125	572,691

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	10,259	886,255
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-447,199	-1,537,036
4.3	Net cash from / (used in) investing activities (item 2.6 above)	100,000	92,275
4.4	Net cash from / (used in) financing activities (item 3.10 above)	351,125	572,691

Consolidated statement of cash flows		Current quarter \$A	Year to date (9 months) \$A
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	14,185	14,185

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	13,846	9,935
5.2	Call deposits	339	324
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)	14,185	10,259

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

77,961

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	9,143,818	4,493,818
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	-
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	-
9.4 Leased assets	-
9.5 Staff costs	100,000
9.6 Administration and corporate costs	250,000
9.7 Other (provide details if material)	20,000
9.8 Total estimated cash outflows	370,000


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:


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Company secretary

Date: 30 April 2019

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:

	Currency	Nominal interest rate	Year of maturity	Security	31 Mar 19 Carrying amount A\$	30 Jun 18 Carrying amount A\$
China Finance Strategy						
Convertible Note	USD	12%	2016	Unsecured	287,620	337,405
GE Nutrients Inc ^{*1}	USD	10%	2018	Unsecured	718,354	645,382
Brevet Direct Lending ^{*2}	AUD	15%	2018	Secured	779,432	1,539,799
Hunter Premium Funding	AUD	7.1%	2019	Unsecured	-	50,611
Attvest Finance	AUD	5.2%	2020	Unsecured	98,394	-
707 Holdings	USD	10%	2020	Unsecured	805,630	731,396
Magna Equities	USD	0%	2019	Unsecured	1,804,388	1,100,000
Total borrowings		AUD			4,493,818	4,404,593

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

*2 This funding is an advance on the expected ATO Tax refund that will be submitted in August 2019 and covers estimated eligible R & D expenditure for the first 5 months of the 2019 financial year (July to November). The carrying amount from June 2018 was fully repaid in December 2018 following the refund from the ATO relating to eligible R & D expenditure for the 2018 financial year. A further \$376,550 was advanced in April 2019 covering expenditure in December 2018, January 2019 and February 2019.

The effect of *1 and *2 above will be a reduction in debt of \$1,452,198.