

APPENDIX 4E

Preliminary final report  
For the year ended 30 June 2019

1. Company Details

Affinity Energy and Health Limited  
ACN 124 544 190

Reporting period: Year ended 30 June 2019  
Previous reporting period: Year ended 30 June 2018

2. Results for announcement to the market

Comparison to previous period	Increase/ (Decrease)	Change %	To
<b>Revenue</b> from ordinary activities (Appendix 4E Item 2.1)	(975,073)	(37)	(1,663,563)
<b>Profit/(Loss)</b> from ordinary activities after tax attributable to members (Appendix 4E Item 2.2)	438,296	5.41	7,661,557
<b>Net Profit/(Loss)</b> for period attributable to members (Appendix 4E Item 2.3)	438,296	5.41	7,661,557
<b>Earnings per share</b>			
Basic loss per share (cents per share) (Appendix 4E Item 2.4)	-	-	0.84
<b>Dividends</b>			
It is not proposed to pay a dividend.			
There are no dividend or distribution investment plans in operation and there have been no dividend or distribution payments during the financial year ended 30 June 2019.			

## Commentary on results for the year and significant information

### *Principal Activities*

Affinity Energy and Health Ltd 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

### Major events during the year were as follows:

#### **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.

#### **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.

#### **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 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.

#### **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 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.

**Trading Halt and Voluntary Suspension**

On 1 February 2019, the Company's securities were placed in a trading halt and subsequent voluntary suspensions while the Company finalised a capital raising. The voluntary suspension remained as at 30 June 2019. During this time, a rationalisation of the board was conducted with appointments and resignations of Directors and Company Secretary.

*Consolidated statement of financial position*  
As at 30 June 2019

	Notes	30 June 2019	30 June 2018
<b>Assets</b>		\$	\$
Cash and cash equivalents		20,046	886,256
Trade and other receivables	2	2,166,817	3,466,944
Prepayments		99,080	66,947
<b>Total current assets</b>		<b>2,285,944</b>	<b>4,420,147</b>
Property, plant and equipment		102,702	244,158
Prepayments		-	1,267,904
Intangible Assets	3	3,148,888	3,952,490
Deferred tax assets		-	675,491
<b>Total non-current assets</b>		<b>3,251,590</b>	<b>6,140,043</b>
<b>Total assets</b>		<b>5,537,534</b>	<b>10,560,190</b>
<b>Liabilities</b>			
Trade and other payables		3,104,527	1,622,939
Loans and borrowings	4	4,408,793	4,244,376
Provisions		345,766	281,119
<b>Total current liabilities</b>		<b>7,859,087</b>	<b>6,148,434</b>
<b>Total liabilities</b>		<b>7,859,087</b>	<b>6,148,434</b>
<b>Net assets/(liabilities)</b>		<b>(2,321,553)</b>	<b>4,411,756</b>
<b>Equity</b>			
Contributed equity	5	37,232,080	36,438,940
Reserves		992,289	857,181
Accumulated losses		(40,545,922)	(32,884,365)
<b>Total equity</b>		<b>(2,321,553)</b>	<b>4,411,756</b>

*Consolidated statement of profit or loss and other comprehensive income*  
*For the year ended 30 June 2019*

	30 June 2019	30 June 2018
<b>Revenue from operating activities</b>	\$	\$
Provision of services and equipment	67,685	119,462
Interest	3,705	9,709
<b>Other income</b>		
R & D Tax incentive	1,592,173	2,509,465
	<u>1,663,563</u>	<u>2,638,636</u>
<b>Expenditure</b>		
Employee benefits	(3,647,141)	(3,471,167)
Directors share based payments	-	(139,031)
Depreciation expense	(154,486)	(202,504)
Amortisation Expense	(803,600)	(1,004,500)
Property, rent & lease expenses	(562,749)	(362,423)
Consultancy expenses	(531,021)	(1,428,205)
Consultancy share based payment	-	(240,000)
Insurance expenses	(133,560)	(131,761)
Materials and supplies	(126,329)	(909,988)
Professional fees	(349,981)	(723,180)
Travel expenses	(193,518)	(481,300)
Finance costs	(634,686)	(517,923)
Net foreign exchange gain/(loss)	(154,749)	(365,642)
Administration expenses	(181,926)	(478,961)
Other expenses	(79,147)	(241,034)
Non – current prepayment write-off	(1,075,438)	-
Provision bad debts	121,924	(5,000)
<b>Loss before income tax</b>	<b>(6,842,844)</b>	<b>(8,063,983)</b>
Income tax (expense)/benefit	(818,713)	(35,870)
<b>Net loss attributable to members of the company</b>	<b>(7,661,557)</b>	<b>(8,099,853)</b>
<b>Loss for the year</b>	-	-
Other comprehensive income/(loss)	-	-
<b>Items that may be reclassified to the profit and loss</b>		
Effect of exchange rate translation	110,905	167,949
Other comprehensive income/(loss) for the year	110,905	167,949
Total comprehensive income/(loss) for the year attributable to members of the company	<u>(7,550,652)</u>	<u>(7,931,904)</u>
<b>Earnings per share</b>		
Basic loss per share (cents per share)	(0.84)	(1.16)

## Consolidated statement of changes in equity

	Contributed Equity \$	Accumulated losses \$	Foreign exchange reserve \$	Share based payment reserve \$	Equity other reserve \$	Total equity \$
<b>Balance at 1 July 2018</b>	36,438,940	(32,884,365)	55,168	802,013	-	4,411,756
Loss for the period	-	(7,661,557)	-	-	-	(7,661,557)
Discontinued Ops	-	-	-	-	-	-
Other comprehensive loss	-	-	110,905	-	-	110,905
<b>Total comprehensive loss for the year</b>	-	(7,661,557)	110,905	-	-	(7,550,652)
<b>Transactions with owners in their capacity as owners</b>						
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
<b>Balance at 30 June 2019</b>	<b>37,282,080</b>	<b>(40,545,922)</b>	<b>166,073</b>	<b>826,216</b>	<b>-</b>	<b>(2,321,553)</b>
	Contributed Equity \$	Accumulated losses \$	Foreign exchange reserve \$	Share based payment reserve \$	Equity other reserve \$	Total equity \$
<b>Balance at 1 July 2017</b>	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
<b>Total comprehensive loss for the year</b>	-	(8,099,853)	167,949	-	-	(7,931,904)
<b>Transactions with owners in their capacity as owners</b>						
Share issued during the period	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	-	-	-	425,427	-	425,427
<b>Balance at 30 June 2018</b>	<b>36,438,940</b>	<b>(32,884,365)</b>	<b>55,168</b>	<b>802,013</b>	<b>-</b>	<b>4,411,756</b>

*Consolidated statement of cash flows*  
*For the year ended 30 June 2019*

Notes	2019	2018
	\$	\$
<b>Cash flow from operating activities</b>		
Cash receipts from customers	302,105	236,534
Cash paid to suppliers and employees	(4,446,345)	(6,814,441)
Interest paid	(206,009)	(326,244)
Interest received	25,005	4,709
Income taxes	(63,402)	2,117,702
R & D refund	2,430,921	
<b>Net cash inflows/(outflows) from operating activities</b>	<b>(1,957,725)</b>	<b>(4,781,740)</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(7,725)	(15,456)
Cash flows from loans to other entities	100,000	-
<b>Net cash inflows/(outflows) from investing activities</b>	<b>92,275</b>	<b>(1,043,395)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	-	6,488,911
Transaction costs related to issues of shares, convertible notes or options	(52,373)	(626,986)
Proceeds from issue of convertible notes	1,400,000	3,412,550
Proceeds from borrowings	1,758,730	-
Repayment of borrowings	(2,107,117)	(2,670,091)
<b>Net cash inflow/(outflow) in financing activities</b>	<b>999,240</b>	<b>6,604,384</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(866,210)</b>	<b>779,249</b>
Cash and cash equivalents at beginning of financial period	886,256	102,882
Effect of exchange rate fluctuations on cash held	-	4,125
<b>Cash and cash equivalents at end of financial period</b>	<b>20,046</b>	<b>886,256</b>

The preliminary final report was authorised for issue by the Board of Directors.

## 1. 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 regarding the Group and its ongoing activities.

Information about reportable segments	2019 \$	2018 \$
Reportable Segment profit/(loss) USA	(437,331)	351,677
Reportable Segment loss Australia	(4,280,391)	(4,412,663)
Reportable Segment loss	(4,717,722)	(4,060,986)
Interest	3,705	9,709
Net foreign exchange gain/(loss)	(154,749)	(365,642)
Corporate expenses	(1,974,078)	(3,647,064)
Loss before tax	(6,842,844)	(8,063,983)
Reportable segment assets USA	378,047	1,549,767
Reportable segment assets Australia	5,159,486	9,010,423
	5,537,533	10,560,190
Reportable segment liabilities USA	2,750,301	1,544,841
Reportable segment liabilities Australia	5,108,784	4,603,593
	7,859,085	6,148,434

## 2. Trade and other receivables

Current	2019 \$	2018 \$
Trade receivables	200,000	211,933
R & D incentives	1,681,874	2,509,465
GST refund	-	34,430
Deposits	26,785	-
Other receivables	258,158	711,116
Total receivables	2,166,817	3,466,944

### 3. Intangible assets

	2019	2018
Auberna Licence	1,500,000	1,808,100
Less Amortisation	(1,500,000)	(1,004,500)
Net Auberna Licence	-	803,600
MCL Licence	3,148,889	3,148,890
<b>Intangible assets</b>	<b>3,148,889</b>	<b>3,952,490</b>

### 4. Loans and borrowings

	2019	2018
	\$	\$
<b>Current liabilities</b>		
Convertible notes at fair value through profit and loss	2,375,147	2,008,584
R & D loan facility	1,198,111	1,539,799
GE Nutrients Loan	766,898	645,382
Hunter Premium funding	68,637	50,611
<b>Totals</b>	<b>4,408,793</b>	<b>4,244,376</b>

### 5. Capital and reserves

	2019		2018	
	\$	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	-	219,748	8,646,577
Issue of shares via Rights Issue	-	-	-	-
Issue of shares pursuant to Auberna Collaboration	-	-	1,808,100	63,347,270
Issue of shares via take up of options	-	-	-	-
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
Issue of shares in exchange for services provided	67,500	-	1,032,706	31,551,516
Transfer from Equity Other Reserve	-	-	57,709	-
Capital Raising Costs	-	-	(639,486)	-
	<b>37,232,080</b>	<b>907,861,366</b>	<b>36,438,940</b>	<b>907,861,366</b>

**6. Group entities**

*Significant subsidiaries*

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

**7. Status of audit**

This report is based on accounts that have not yet been audited.