Affinity Energy & Health

Formerly Algae. Tec Limited

2019 Annual Report

www.affinityenergyandhealth.com.au

Contents

Company Details

Directors

Earl McConchie	Executive Director
Terry Gardiner	Non-Executive Director (Appointed 24 October 2019)
Qing Xu	Non-Executive Director (Appointed 18 September 2019)
Josh Puckridge	Non-Executive Director (Appointed 8 April 2019, Resigned 24 October 2019)
Harpreet Singh (Sonu) Cheema	Non-Executive Director (Appointed on 14 June 2019, Resigned 18 September 2019)
Peter Hatfull	Executive Director (Resigned 8 April 2019)
Ramasamy Venkatesh	Non-Executive Director (Resigned 8 April 2019)
Jith Veeravalli	Non-Executive Director – Alternate (Resigned 9 February 2019)
Allan Tan	Non-Executive Director (Resigned 14 January 2019)
Malcolm James	Executive Chairman/Managing Director (resigned 14 June 2019)

Company Secretary

Jessica Rodrigues *(Appointed 24 October 2019)*
Peter Hatfull *(Resigned 30 April 2019)*
Josh Puckridge *(Appointed on 8 April 2019, Resigned 24 October 2019)*

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

Hancock Askew & Co., LLP
275 Scientific Drive
Suite 2500
Norcross, GA 30092

Bankers

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

Wells Fargo Bank
464 California Street
San Francisco
USA

Securities Exchange

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

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

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

Directors' Report

For the year ended 30 June 2019

Directors

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

Earl McConchie

Executive Director

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

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

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

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

Qing Xu

Non-Executive Director (appointed 18 September 2019)

Mr Xu holds a Masters of Media and a Masters of Commerce from the University of Sydney. He is an accomplished and highly experienced professional with specialist expertise in cross-cultural communication, international business strategy and structure advisory and business developing. Over 12 years experiences within the mining industry in commercial/M&A negotiations and deal brokerage. Extensive capital market linkage in China covering various industries.

Mr Xu currently holds 4,425,153 ordinary shares.

Terry Gardiner

Non-Executive Director (appointed 24 October 2019)

Terry Gardiner has been involved in capital markets, stockbroking and derivatives trading for over 20 years. Mr Gardiner started and operated numerous small business ventures, and provided corporate advisory services to listed companies in Australia and overseas. In 2006, Mr Gardiner became executive director of Barclay Wells, a boutique stockbroking firm with offices in Perth and Melbourne.

Mr Gardiner is currently Non-Executive Director of Roto-Gro International Limited, Galan Lithium Limited and Cazaly Resources Limited.

Josh Puckridge

Non-Executive Director (Appointed on 8 April 2019, Resigned on 24 October 2019)

Mr Puckridge is a Corporate Finance Executive formerly working as specialist Equity Capital Markets Advisor for Fleming Australia, a Corporate Advisory and Funds Management firm based in Perth, Western Australia. He has significant experience within fund management, capital raising, mergers, acquisitions and divestments of projects by companies listed on the Australian Securities Exchange.

Harpreet Singh (Sonu) Cheema

Non-Executive Director (Appointed on 14 June 2019, Resigned on 18 September 2019)

Mr Cheema holds the position of Accountant and Company Secretary for Cicero Corporate Services Pty Ltd with over 10 years' experience working with public and private companies in Australia and abroad.

Mr Cheema has completed a Bachelor of Commerce majoring in Accounting at Curtin University and is a CPA member. Having completed the CPA Program, the core competencies and key areas of focus by Sonu include Financial Reporting, Taxation, Management Accounting and Ethics and Governance.

Malcolm James

Executive Chairman/Managing Director (Resigned 14 June 2019)

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

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

Peter Ernest Hatfull

Executive Director/Company Secretary (Resigned 8 April 2019)

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

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

Allan Tan

Non – Executive Director (Resigned 14 January 2019)

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

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

Ramasamy V Venkatesh

Non – Executive Director (Resigned 8 April 2019)

Mr R.V.Venkatesh is one of the founders and Managing Director of Gencor Pacific Limited, part of the Gencor group worldwide, which is Affinity Energy and Health's offtake partner for algae oils. He is a chemist with over 30 years' experience in key industries namely Healthcare, Pharmaceuticals and Nutraceuticals. He has extensive experience in International Business in the Pharmaceutical and Nutraceutical sectors worldwide, having done business in over 70 countries.

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

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

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

Jith Veeravalli

Alternate Non – Executive Director (Resigned 9 February 2019)

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

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

Meetings of Directors

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

Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
Mr Garnet Earl McConchie	3	3	-	-	-	-
Qing Xu *(appointed 18 September 2019)*	-	-	-	-	-	-
Terry Gardiner *(appointed 24 October 2019)*	-	-	-	-	-	-
Josh Puckridge *(appointed on 8 April 2019, resigned 24 October 2019)*	-	-	-	-	-	-
Harpreet Singh Cheema (Sonu) *(appointed on 14 June 2019, resigned 18 September 2019)*	-	-	-	-	-	-
Mr Malcolm James *(resigned 14 June 2019)*	3	3				
Mr Peter Ernest Hatfull *(resigned 8 April 2019)*	3	3	1	1	1	1
Mr Ramasamy V Venkatesh *(resigned 8 April 2019)*	3	3	1	1	1	1
Mr Allan Tan *(resigned 14 January 2019)*	3	3	1	1	1	1
Mr Jith Veeravalli *(resigned 9 February 2019)*	3	2	-	-	-	-

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

Principal Activities

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

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

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

Overview of the Group

The year under review has been a year in which the Company has worked actively to build on the Company's proprietary algae technology.

The Company has successfully completed the development of its proprietary algae technology for biofuels and nutraceuticals (human, animal and aqua). The Company assessed the unique opportunity to enter into the nutraceuticals market by producing and supplying high quality algae-based products in its manufacturing centre and started up productions of a diverse portfolio of algae products for nutraceutical applications.

The Company has spent years researching the growing of plants in controlled environments and has developed techniques for efficient lighting and indoor controlled environments. It has also researched the efficient development of elements to recognise them as being beneficial to health, and the extraction of oil from the plants.

Overview of the Group (continued)

AEB is seen as a Company at the leading edge of technology to develop products that will make significant benefits to the environment and health and will continue to identify areas and products which fit into its core business strategy.

The Company has expanded its activities to cover both algae-based products and medicinal cannabis.

The fundamentals of algae production and the downstream conversion to products that the Company has developed are applicable to Cannabis production and product extraction. The Company hopes that the application of its technology platform if applied to controlled Cannabis production will position the Company at the forefront in the Cannabis production space globally.

Review of financial position

The consolidated loss of the Group amounted to $10,390,201 (2018: loss of $8,099,853) after including a tax refund due for R & D activities in the financial year of $933,929 (2018: $2,509,464).

Net cash outflow from operating activities for the financial year were $2,034,905 a 57% decrease on the $4,781,740 outflow in the prior year.

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

Major events during the year were as follows:

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 2018, 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.

Environmental regulation

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

Significant Changes in State of Affairs

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

Dividends

No dividends were paid or recommended by the Directors.

Directors’ Report

For the year ended 30 June 2019

Likely developments

Information regarding the likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is included in the Overview of the Group on pages 7 and 8, which forms part of the Directors’ Report.

Events subsequent to reporting date

On 18 September 2019, Mr. Qing Xu was appointed as a non-executive director and Mr. Harpreet Singh Cheema resigned from the board as a non-executive director on the same date.

On 24 October 2019, Mr. Terry Gardiner was appointed as a non-executive director and Mr. Josh Puckridge resigned from the board as a non-executive director on the same date.

On 27 November 2019, the Company entered into a Convertible Note Loan (**Loan**) with Empire Equity Limited for up to $1,000,000. The Loan terms include:

- interest rate of 12% per annum, compounding monthly;
- 6% fee payable to the lender;
- The Lender will accept repayment of all outstanding amounts in AEB shares at a deemed share price of $0.001 per share;
- In the event adequate approvals are not obtained or received by the Company prior to maturity the Company will repay the full amount in cash at maturity. In the event that repayment is not made, Empire has the right to immediately have the Malta license assigned to it, in accordance with all applicable regulations;
- two tranches of options, totaling 300,000,000 AEB Options exercisable at A$0.003 issued in two equal tranches to the lender (or nominee(s)) on achievement of the following outcomes:
    - AEB shares trade above a VWAP of A$0.003 for 10 days; and
    - AEB shares trade above a VWAP of A$0.01 for 10 days.

Subsequent to year end, the Company obtained approval from the convertible noteholders that the repayment date for each agreement has been extended to 1 October 2020. Further details of all convertible note instruments are detailed in Note 16 to the Financial Statements.

Events subsequent to reporting date (continued)

On 29 November 2019, the Company entered into a conditional underwriting agreement with Barclay Wells Limited to undertake a fully underwritten entitlement issue (**Rights Issue**) on the basis of five (5) New Shares for every one (1) Share held by eligible shareholders at the record date. The underwriting agreement is on normal commercial terms including (but not limited to):

- the Company receiving ASX approval for re-quotation on ASX of the Company's securities without the need for the Company to re-comply with Chapters 1 and 2 of the ASX Listing Rules; and
- the Rights Issue being fully sub-underwritten by binding sub-underwriting agreements. The issue is fully sub-underwritten by Singapore financier, PLENGKUNG CAPITAL PTE LTD.

Based on the existing capital structure of the Company, the Rights Issue would invite applications for up to 4,874,627,375 new Shares. The Shares issued under the Rights Issue will be issued at $0.001 to raise a total of A$4,874,627 (gross).

The ratio of the Rights Issue is subject to final determination.

The proceeds from the proposed Rights Issue will be used to finance the continued development of the Company's activities as well as repay agreed amounts with various creditors.

In conjunction with the financing arrangements detailed above, the Company proposes to grant (for a fee) a sub-licence to Alterola Biotech Inc (**ABI**) (https://www.alterolabiotech.com/), an unrelated party of the Company, to the Company's proprietary algae technology for the purposes of producing human nutraceuticals for the North American market (USA and Canada) (**Sub-Licence**).

The sub-licence is perpetual (subject to Alterola not going into default) and is exclusive for human nutraceuticals in the North American region (Canada and USA), and excludes other algae products in the region and all algae products everywhere else.

The Company will maintain its exclusive world-wide licence for the proprietary algae technology and will continue to sub-licence specific products / geographical areas as it has done in the past (Reliance Industries – India)

In addition, the Company proposes to divest it's 100% owned subsidiary, Algae Energy Inc ("**AEI**"), which is a division of the Company has to date been focussed on the research and development of the algae technology and non-commercial small-scale production. Significant capital expenditure will be required to undertake commercial scale production of algae-based products.

The proceeds of the sub-licence and sale will be applied to offset the intercompany loan owing by AEB to AEI so no cash proceeds would flow into AEB as a result of the transactions. Upon completion of the Transaction, ABI would assume responsibility for all financial and other obligations of AEI. The assets being sold and the liabilities being assumed under the Transaction are set out in Note 26 to the financial statements.

The proceeds of the sub-licence and sale will be applied to offset the $2m owing by AEB to AEI so no cash proceeds would flow into AEB as a result of the transactions. Upon completion of the Transaction, ABI would assume responsibility for all financial and other obligations of AEI. As a result of the Transaction the "cash burn" currently funded by AEB would reduce by some A$2.4m per annum (based on the 30 June 2019 Annual Report) – representing a 41% reduction. The assets being sold and the liabilities being assumed (based on 30 June 2019 audited accounts) under the Transaction are set out in Note 26 to the financial statements.

These assets represent 4.8% of the total assets of AEB as at 30 June 2019.

The Company confirms that the capital structure will not be affected by the Transaction or the grant of the sub-licence, and that no related parties are involved in the Transaction.

Subsequent to year end, the Company has obtained approval from the convertible noteholders that the repayment date for each agreement has been extended to 1 October 2020. Further details of all convertible note instruments are detailed in Note 16 to the Financial Statements.

Directors' interest

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

	Affinity Energy and Health Limited	
	Ordinary Shares	Options over ordinary shares
Earl McConchie[1]	179,070,001	-
Qing Xu *(appointed 18 September 2019)*	4,425,153	-
Terry Gardiner *(appointed 24 October 2019)*	-	-
Josh Puckridge *(appointed 8 April 2019 resigned 24 October 2019)*	-	-
Harpreet Singh Cheema (Sonu) *(appointed 14 June 2019 resigned 18 September 2019)*	-	-
Peter Hatfull *(resigned 8 April 2019)*	10,280,936	868,379
Malcolm James *(resigned 14 June 2019)*	333,223	30,050,000
Ramasamy V Venkatesh *(Resigned 8 April 2019)*	64,102,542	32,068,146
Jith Veeravalli *(Resigned 9 February 2019)*	-	-
Allan Tan *(resigned 14 January 2019)*	-	-

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

Options and Rights in existence this financial year

Number of options	Issued to	Class
28,728,607[1]	The Reliance Group	Options exercisable at $0.1636 on or before 20 January 2019
16,000,000[2]	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[3]	Various	Options exercisable at $0.05 on or before 28 July 2020
7,000,000	Consultant	Options exercisable at $0.025 on or before 3 July 2020 *(issued 3 July 2018)*
30,000,000	Malcolm James	Options exercisable at $0.025 on or before 3 July 2022

[1]Expired during the year
[2]Forfeited during the year
[3]Listed options

Indemnification and Insurance of Officers, Executives and Auditors

Indemnification

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

The Group has also agreed to indemnify senior executive for all liabilities to another person (other than the Group or related body corporate) that may arise from their position in the Group and its controlled entity, except where the liability arises out of conduct involving lack of good faith. The agreement stipulates that the Group will meet the full amount of any such liabilities. There is no indemnification of auditors.

Insurance premiums

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

Corporate Governance

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

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

Non-Audit services

During the year Bentleys undertook some tax related services in addition to the audit and review of financial statements. This amounted to $13,860. We are satisfied that this work does not affect the independence of the auditors.

Proceedings on behalf of the Group

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 81.

Remuneration Report – *audited*

Principles of compensation – audited

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001.

Key management personnel disclosed in this report are:

Malcolm James *(resigned 14 June 2019)*
Peter Hatfull *(resigned 8 April 2019)*
Earl McConchie
Josh Puckridge *(appointed on 8 April 2019, resigned 24 October 2019)*
Allan Tan *(resigned 14 January 2019)*

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

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

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

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

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

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

Fixed compensation

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

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

Remuneration Report – *audited (continued)*

Principles of compensation – audited (continued)

Additional information

The table below sets out the performance of the Group and the consequences of performances on shareholders' wealth for the past four financial years.	2019	2018	2017	2016
Quoted price of ordinary shares at period end (cents)	0.01	0.02	0.045	0.05
Profit/(loss) per share	(0.01)	(0.01)	(0.01)	(0.01)

No remuneration consultants were used during the year.

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

Service contracts

Executive Director

Set out below are the key terms of the employment contract of the Executive Director, **Peter Hatfull** *(resigned 8 April 2019)*

Term

From 1 October 2010 until one of the following occurs:

a. The Group gives the Director one month written notice;
b. The Director gives the Group one month written notice; or
c. The Group terminates the contract due to actions of the Managing Director such as serious misconduct, dishonesty and bankruptcy.

Payments on Termination

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

If the contract is terminated under (c) above, the Group is only obliged to pay the Director any accrued remuneration, including superannuation and leave entitlements.

Remuneration

Fixed annual remuneration:

Peter Hatfull's annual leave and long service leave had been frozen effective 26 October 2018 at the then applicable salary of $300,000 per annum at the previously held role of Managing Director. Effective 27 October 2018, the salary was reduced to $108,000. Effective 5 January 2019, the salary was reduced further to $84,000.

Review of remuneration:

The remuneration will be reviewed at least annually, with any increase at the absolute discretion of the Board.

Annual leave:
Four weeks annual leave per annum (in addition to public holidays).

Remuneration Report – ***audited*** *(continued)*

Principles of compensation – audited *(continued)*

Service contracts *(continued)*

Executive Chairman/Managing Director *(resigned 14 June 2019)*

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

Term

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

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

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

Payments on Termination

If the contract is terminated by the Group, the Group is obliged to pay the Consultant the pro-rata proportionate amount of the Contract Fee in lieu of six-month notice.

Remuneration

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

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

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

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

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

Bonus

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

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

Remuneration Report – ***audited*** *(continued)*

Principles of compensation – audited *(continued)*

Service contracts *(continued)*

Executive Director

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

Term

From 1 October 2010 until one of the following occurs:

a. The Group gives the Executive Director one months' written notice;
b The Executive Director gives the Group one months' written notice;
c. The Group terminates the contract due to actions of the Executive Director such as serious misconduct, dishonesty and bankruptcy.

Payments on Termination

If the contract is terminated under (a) or (b) above, the Group is obliged to pay the Executive Director equivalent amount of Remuneration in lieu of notice.

If the contract is terminated under (c) above, the Group is only obliged to pay the Executive Director any accrued remuneration, including superannuation and leave entitlements.

Remuneration

Fixed annual remuneration:

US$360,000 gross salary per annum not inclusive of superannuation and health insurance benefits.

Review of remuneration:

The remuneration will be reviewed at least annually, with any increase at the absolute discretion of the Group.

Annual leave:

Six weeks annual leave per annum (in addition to public holidays).

Non-executive directors

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

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

Remuneration Report – *audited (continued)*

Key management personnel remuneration

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

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

		Short-term			Post-employment	Other long term	Share-based payments		Total $
AUD		Salary & fees $	Non-monetary benefits $	Total $	Superannuation benefits $	Long service leave $	Options and rights - Expensed $	Options and rights – Lapsed and Forfeited $	
Directors									
Executive Directors									
Peter Hatfull* *(resigned 8 April 2019)*	2018	302,885	-	302,885	28,774	7,500	69,516	-	408,675
	2019	96,986	-	96,986	9,215	13,071	54,756	(263,397)	(89,369)
Earl McConchie*	2018	467,253	21,127	488,380	31,169	-	-	-	519,549
	2019	489,639	11,129	500,768	24,667	-	-	-	525,435
Malcolm James *(resigned 14 June 2019)* **	2018	336,000	-	336,000	-	-	69,515	-	405,515
	2019	384,777	34,399	419,176	-	-	155,742	(275,365)	299,553
Sub-total executive directors' remuneration	2018	1,106,138	21,127	1,127,265	59,943	7,500	139,031	-	1,333,739
	2019	**971,402**	**45,528**	**1,016,930**	**33,882**	**13,071**	**210,498**	**(538,762)**	**735,619**

Remuneration Report – *audited* *(continued)*

		Short-term			Post-employment	Other long term	Share-based payments		Total $
AUD		Salary & fees $	Non-monetary benefits $	Total $	Superannuation benefits $	Long service leave $	Options and rights - Expensed $	Options and rights – Lapsed and Forfeited $	
Non- executive directors Remuneration									
Peter Hatfull**(resigned 8 April 2019)*	2018	-	-	-	-	-	-	-	-
	2019	42,115	-	42,115	4,000	1,682	-	-	47,797
Allan Tan *(resigned 14 January 2019)*	2018	20,000	-	20,000	-	-	-	-	20,000
	2019	24,000	-	24,000	-	-	-	-	24,000
Josh Puckridge *(appointed 8 April 2019, resigned 24 October 2019)*	2018	-	-	-	-	-	-	-	-
	2019	10,000	-	10,000	-	-	-	-	10,000
Harpreet Singh (Sonu) Cheema *(appointed 14 June 2019, resigned 18 September 2019)*	2018	-	-	-	-	-	-	-	-
	2019	-	-	-	-	-	-	-	-
Sub-total non-executive directors' remuneration	2018	20,000	-	20,000	-	-	-	-	20,000
	2019	76,115	-	76,115	4,000	1,682	-	-	81,797
Total key management personnel remuneration	2018	1,126,138	21,127	1,147,265	59,943	7,500	139,031	-	1,353,739
	2019	1,047,517	45,528	1,093,045	37,882	14,753	210,498	(538,762)	817,416

Remuneration Report – *audited* *(continued)*

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

No short-term incentive bonus was awarded during the respective financial year.
No long-term incentive was issued during the respective financial year.
The "other long term" relates to the take up of long service leave benefits to which the person is now entitled.
7,000,000 options were issued to Peter Hatfull and 7,000,000 options to Malcolm James. Pursuant to their resignations these options were forfeited during the year.
Details of Options and rights forfeited during the year is at Note 14 of the financial statement.
*Peter Hatfull and Earl McConchie both took a voluntary reduction in payment of salary from April 2017 until such time as the Group has sufficient working capital. The above table reflects amounts paid and accrued (unpaid) during years. An accrual in the accounts has therefore been made for underpayment (including superannuation benefits and which is included in the table above) in the amounts of $281,076 for Hatfull (2018: 222,620) and $695,947 (2018:$289,051) for McConchie.
**A portion of Malcom James' remuneration has not been paid due to the financial position of the Company. Accruals for unpaid remuneration are included in the above table. Unpaid remuneration as at 30 June 2019 was $208,263(2018: Nil).
No elements to the remuneration above were linked to performance other that Mr Malcom James' bonus milestones as disclosed on page 16 which were not achieved and therefore was not entitled to.

Remuneration Report – *audited (continued)*

Key management personnel transactions - audited

Loans to key management personnel and their related parties

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

Movement in shares

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

		Opening balance - beginning of the period	Granted as compensation	Received on exercise of options	Exercised/ Acquired	Disposed Other changes [1]	Closing balance at reporting date
Earl McConchie	Options	-	-	-	-	-	-
	Shares	179,070,001	-	-	-	-	179,070,001
Qing Xu	Options	-	-	-	-	-	-
	Shares	4,425,153	-	-	-	-	4,425,153
Terry Gardiner	Options	-	-	-	-	-	-
	Shares	-	-	-	-	-	-
Peter Hatfull	Options	7,868,379	-	-	-	(7,000,000)	868,379
	Shares	10,280,936	-	-	-	-	10,280,936
Malcolm James	Options	7,050,000	30,000,000	-	-	(7,000,000)	30,050,000
	Shares	333,223	-	-	-	-	333,223
R.V Venkatesh	Options	32,068,146	-	-	-	-	32,068,146
	Shares	64,102,542	-	-	-	-	64,102,542
Alan Tan	Options	-	-	-	-	-	-
	Shares	-	-	-	-	-	-
Sonu Cheema	Options	-	-	-	-	-	-
	Shares	-	-	-	-	-	-
Josh Puckridge	Options	-	-	-	-	-	-
	Shares	-	-	-	-	-	-

Shareholdings for directors who have resigned during the year are as at date of resignation.
By virtue of Section 608 (3) of the Corporations Act, as at 30 June 2019 Mr McConchie controlled Dot Bio Inc which held 100% of Teco. Bio LLC which in turns holds 175,000,001 shares. Related parties of Mr McConchie together hold 4.07 million shares.
[1] The lapsed options were granted on 29 June 2015.

Other related party transactions

Four members of Mr. Earl McConchie's immediate family were employed by Algae Energy Inc. during the year. The family members were paid/payable a total of A$552,233 (US$392,195) compared to A$517,074 (US$398,871) in 2018 as salaries, wages and benefits.

Two office furniture and equipment leases (perpetual) existed with Dot Bio Inc which is wholly owned by Mr Earl McConchie and family members. The cost of these leases amounted to US$2,000 per month. At 30 June 2018, the amount owing (unpaid) would have been US$58,593 including interest and delinquent fee charges on the unpaid amounts. On 9 May 2018, it was agreed to terminate the lease agreements and transfer ownership of all the equipment and furniture to Algae Energy Inc. in return for one full and final payment of US$90,000. As at the date of this report the payment was not made and the debt settlement is not complete.

As at 30 June 2019, the payable to Dot Bio amounts to $130,416(USD$91,461) (2018: $112,419 (USD$83,089)) is outstanding. A settlement agreement was signed in March 2019 whereby US$75,815 was agreed to be paid as full repayment of the outstanding wages payable to Mr. McConchie of US$379,077. The terms were subject to a proposed capital raising within 60 days of the agreement. The conditions were not met and the debt settlement agreement is now lapsed.

GE Nutrients is an entity related to Jith Veeravalli. On 11 December 2017, GE Nutrients and Algae Energy Incorporated (the US Subsidiary) entered into a debt agreement, whereby GE Nutrients will advance USD$480,000 to US Subsidiary to assist with the completion of the Reliance project. The loan accrues interest at 10% per annum. As at 30 June 2019, the balance owing on the loan is $785,589 (USD$550,934). This loan is outstanding as at the date of this report.

Included in the trade and other payables, is an amount of AUD285,185 (USD$200,000) (2018: AUD270,600 (USD$200,000)) is payable to GE Nutrients.

Gencor Pacific is an entity related to Ramasamy Venkatash. In the prior year Gencor agreed to participate in the shortfall of the capital raising that took place in the 30 June 2018 financial year end. Pursuant to the capital raising a total of 21,367,500 shares were issued to Gencor amounting to $641,025 (US$500,000). This debt is outstanding as at the date of this report. Subsequent to the financial year end, the Company has signed a share buy-back agreement to re-purchase the shares for $1.

Earl McConchie and Peter Hatfull agreed to defer portions of their directors fees until such time the Company has raised sufficient capital. The Company also deferred payments to Malcolm James until further funding is obtained. Below is a breakdown of what was paid (excluding share-based payments), deferred and the balance owing at year end.

AUD	Amounts outstanding as at 30 June 2018	Remuneration accrued during the year	Others	Payments made during the year	Amounts outstanding as at 30 June 2019
Directors					
Peter Hatfull (resigned 8 April 2019)	222,620	152,316	-	(93,860)	281,076
Earl McConchie	289,051	525,436	29,478	(148,018)	695,947
Malcolm James (resigned 14 June 2019)	-	419,176	-	(210,913)	208,263
Allan Tan (resigned 14 January 2019)	-	24,000	-	(12,000)	12,000
Josh Puckridge (appointed 8 April 2019, resigned 24 October 2019)	-	10,000	-	-	10,000
Totals	**511,671**	**1,130,928**	**29,478**	**(464,791)**	**1,207,286**

The Company is performing a review of amounts outstanding to former Executive Directors and Management as such, the amounts payable may ultimately be reduced by way of successful negotiation.

Use of remuneration consultants

The Group did not use remuneration consultants during the year.

Voting at the Group's 2018 Annual General Meeting

The Company received 88% of proxy votes in favour (12% against) of its 2018 remuneration report at the 2018 Annual General Meeting. The Company did not receive any specific feedback at the Annual General Meeting or throughout the year on its remuneration practices.

End of Audited Remuneration Report

Adjustments made subsequent to the lodgment of the ASX Appendix 4E

Subsequent to the lodgement of the ASX Appendix 4E:

	2019 $	Appendix 4E $
Consolidated statement of profit or loss and other comprehensive income		
From continuing operations		
Revenue	1,005,319	1,663,563
Expenditure	(6,224,127)	(8,506,407)
Income tax (expense)/benefit	-	(818,713)
From discontinued operations		
Revenue		
Expenditure	(4,428,381)	-
Income tax (expense)/benefit	(743,012)	
Consolidated statement of financial position		
Total Assets – from continuing operations	4,922,234	5,537,534
Total Assets - Asset held for sale	247,998	-
Total Liabilities – from continuing operations	8,059,802	7,859,087
Total Liabilities – Liabilities held for sale	2,486,295	-
Total Equity	(5,375,865)	(2,321,553)

At the time of lodgement of the Appendix 4E, management had not completed its review of the financial accounts. Key to the change was the classification of Algae Energy Inc as discontinued operation and the completion of the research and development incentive return.

Directors' Report
For the year ended 30 June 2019

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

On behalf of the Directors

Director
11 December 2019

Consolidated statement of financial position

As at 30 June 2019

	Notes	30 June 2019 $	30 June 2018 $
Assets			
Cash and cash equivalents	12	20,037	886,256
Trade and other receivables	8	1,671,417	3,466,944
Prepayments	9	77,418	66,947
		1,768,872	4,420,147
Asset held for sale	26	247,998	-
Total current assets		**2,016,870**	**4,420,147**
Property, plant and equipment	6	4,473	244,158
Prepayments	10	-	1,267,904
Intangible Assets	11	3,148,889	3,952,490
Deferred tax assets	7	-	675,491
Total non-current assets		**3,153,362**	**6,140,043**
Total assets		**5,170,232**	**10,560,190**
Liabilities			
Trade and other payables	19	1,832,015	1,622,939
Loans and borrowings	16	5,967,087	4,244,376
Provisions	18	260,700	281,119
		8,059,802	6,148,434
Liabilities held for sale	26	2,486,295	-
Total current liabilities		**10,546,097**	**6,148,434**
Total liabilities		**10,546,097**	**6,148,434**
Net assets/(liabilities)		**(5,375,865)**	**4,411,756**
Equity			
Contributed equity	14	37,232,080	36,438,940
Reserves	14	569,621	857,181
Accumulated losses		(43,177,566)	(32,884,365)
Total equity		**(5,375,865)**	**4,411,756**

The notes of pages 30 to 74 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2019

	Note	30 June 2019	30 June 2018
		$	$
Revenue from operating activities		67,685	119,462
Research and development income		933,929	2,509,464
Interest		3,705	9,709
Total income		1,005,319	2,638,635
Expenditure			
Materials and supplies		(19,915)	(39,278)
Professional fees		(478,444)	(721,301)
Consultancy expenses		(602,988)	(1,053,411)
Administration expenses		(318,570)	(458,367)
Amortisation expense	11	(803,600)	(1,004,500)
Other expenses		(42,365)	(48,106)
Depreciation expense		(16,783)	(3,243)
Employee benefits		(1,072,602)	(1,142,890)
Director share-based payments expense	14	(210,498)	(139,031)
Director share-based payments forfeited	14	539,048	-
Travel expenses		(170,408)	(434,614)
Insurance expenses		(92,494)	(71,533)
Property, rent & lease expenses		(106,949)	(79,745)
Net foreign exchange		(335,760)	(365,642)
Finance costs		(1,474,147)	(482,083)
Bad debts expense		(7,535)	(5,000)
Bad debt expenses recovered	8	121,925	-
Consultants share based payments forfeited / (expense)	14	135,862	(240,000)
Impairment of prepayments	10	(1,267,904)	-
Total Expenses		(6,224,127)	(6,288,744)
Tax expense		-	-
Profit/(Loss) from continuing operations		**(5,218,808)**	**(3,650,109)**
Profit/(Loss) from discontinued operations			
Loss from discontinued operations before tax	26	(4,428,381)	(4,413,874)
Deferred income tax expense	26	(743,012)	(35,870)
Total Profit/(Loss) from discontinued operations		**(5,171,393)**	**(4,449,744)**
Net Profit/(Loss) for the year		**(10,390,201)**	**(8,099,853)**
Other comprehensive income			
Foreign currency movement		273,368	167,949
Total other comprehensive income		273,368	167,949
Total comprehensive income		**(10,116,833)**	**(7,931,904)**

Consolidated statement of profit or loss and other comprehensive income (continued)

For the year ended 30 June 2019

	Note	30 June 2019	30 June 2018
		$	$
Total comprehensive income/(loss) attributable to owners of the Company arises from:			
Continuing operations		(5,218,808)	(3,650,109)
Discontinued operations		(5,171,393)	(4,449,744)
Earnings per share:			
From continuing and discontinuing operations:			
Basic and diluted earnings per share (cents per share)	15	(1.09)	(1.15)
Continuing operations:			
Basic and diluted earnings per share (cents per share)	15	(0.55)	(0.52)
Discontinued Operations:			
Basic and diluted earnings per share (cents per share)	15	(0.54)	(0.63)

The notes of pages 30 to 74 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2019

	Contributed Equity $	Accumulated losses $	Foreign exchange reserve $	Share based payment 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	-	(10,390,201)	-	-	(10,390,201)
Other comprehensive income	-	-	273,368	-	273,368
Total comprehensive income/loss for the year		(10,390,201)	273,368		(10,116,833)
Transactions with owners in their capacity as owners					
Share issued during the period	793,140	-	-	-	793,140
Forfeited options	-	-	-	(674,624)	(674,624)
Expired options	-	97,000	-	(97,000)	-
Share based payments	-	-	-	210,696	210,696
Balance at 30 June 2019	**37,232,080**	**(43,177,566)**	**328,536**	**241,085**	**(5,375,865)**

	Contributed Equity $	Accumulated losses $	Foreign exchange reserve $	Share based payment reserve $	Equity other reserve $	Total equity $
Balance at 1 July 2017	20,745,945	(24,784,512)	(112,781)	376,586	248,955	(3,525,807)
Loss for the period	-	(8,099,853)	-	-	-	(8,099,853)
Other comprehensive loss	-	-	167,949	-	-	167,949
Total comprehensive loss for the year	-	(8,099,853)	167,949	-	-	(7,931,904)
Transactions with owners in their capacity as owners						
Share issued during the period	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
Balance at 30 June 2018	**36,438,940**	**(32,884,365)**	**55,168**	**802,013**	**-**	**4,411,756**

The notes of pages 30 to 74 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2019

	Notes	2019	2018
		$	$
Cash flow from operating activities			
Cash receipts from customers		415,800	236,534
Cash paid to suppliers and employees		(4,805,782)	(6,814,441)
Interest paid		(158,090)	(326,244)
Interest received		3,705	4,709
Research & development refund		2,509,462	2,117,702
Net cash inflows/(outflows) from operating activities	13	**(2,034,905)**	**(4,781,740)**
Cash flows from investing activities			
Purchases of property, plant and equipment		(7,730)	(15,456)
Prepaid license cost		-	(100,000)
Proceeds from disposal of property, plant and equipment		3,640	(927,939)
Net cash inflows\(outflows) from investing activities		**(4,090)**	**(1,043,395)**
Cash flows from financing activities			
Proceeds from issue of share capital		-	6,488,911
Share issue cost		-	(626,986)
Repayment of borrowings		(499,117)	(2,670,091)
Proceeds from borrowings		1,398,526	3,412,550
Net cash inflow/(outflow) in financing activities		**899,409**	**6,604,384**
Net increase/(decrease) in cash and cash equivalents		**(1,139,586)**	**779,249**
Cash and cash equivalents at beginning of financial period		886,255	102,882
Effect of exchange rate fluctuations on cash held		273,368	4,125
Cash and cash equivalents at end of financial period	12	**20,037**	**886,256**

The notes of pages 30 to 74 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the year ended 30 June 2019

1. Reporting entity

Affinity Energy and Health Limited (formerly Algae.Tec Limited) is a company domiciled in Australia. The address of the Group's registered office Unit 2, Spectrum Offices, 100-104 Railway Road, Subiaco WA 6008. The consolidated financial statement of the Group as at and for the year ended 30 June 2019 comprises of the Company and its subsidiary (together referred to as the 'Group'). The Group is a for-profit entity and primarily involved in the cultivation of algae for the production of biofuels and high-quality nutraceuticals.

2. Basis of accounting

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

The consolidated financial statements were authorised for issue by the Board of Directors on 3 December 2019.

Going concern

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

The Group incurred a loss after tax for the year of $10,390,201(2018: $8,099,853) and net cash outflows used in operating activities of $2,034,905 (2018: Outflow $4,781,740). Included in the loss are losses from discontinued operations of $5,171,393 (2018: $4,449,744).

As at 30 June 2019, the Group had a working capital deficit (excluding asset and liabilities held for sale) of $6,290,930 (2018: deficit of $1,728,287). Current liabilities include convertible notes of $3,865,204 (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.

The following events occurred subsequent to year end:

On 27 November 2019, the Company entered into a Convertible Note Loan (**Loan**) with Empire Equity Limited for up to $1,000,000. The Loan terms include:

- interest rate of 12% per annum compounding monthly;
- 6% fee payable to the lender;
- The Lender will accept repayment of all outstanding amounts in AEB shares at a deemed share price of $0.001 per share;
- In the event adequate approvals are not obtained or received by the Company prior to maturity the Company will repay the full amount in cash at maturity. In the event that repayment is not made, Empire has the right to immediately have the Malta license assigned to it, in accordance with all applicable regulations;
- two tranches of options, totaling 300,000,000 AEB Options exercisable at A$0.003 issued in two equal tranches to the investor on achievement of the following outcomes:
    - AEB shares trade above a VWAP of A$0.003 for 10 days; and
    - AEB shares trade above a VWAP of A$0.01 for 10 days.

2. Basis of accounting *(continued)*

Going concern (continued)

- To the date of this report $391,507 of this loan has been drawn down by the Company for working capital purposes.

The Company has a secured R&D loan facility which as at 30 June 2019 had a balance of $1,197,656 (refer note 16). In November 2019 the Group received a refund of $933,930 under the Research and Development ("R&D") tax incentive scheme. which was used to partially pay the outstanding loan. The R&D loan is now past due and the Company has entered into a Deed of Acknowledgement and Forbearance to extend the repayment terms until 15 November 2019 (which has since expired). The Company is currently in the process of entering into a Second Deed of Acknowledgement and Forbearance, which as at the date of this report has not been executed.

Subsequent to balance date, the Company received confirmation from convertible note holders confirming the balances owing and that they will not call on outstanding balances until 1 October 2020.

On 29 November 2019, the Company entered into a conditional underwriting agreement with Barclay Wells Limited to undertake a fully underwritten entitlement issue (**Rights Issue**) on the basis of five (5) New Shares for every one (1) Share held by eligible shareholders at the record date. The underwriting agreement is on normal commercial terms including (but not limited to):

- the Company receiving ASX approval for re-quotation on ASX of the Company's securities without the need for the Company to re-comply with Chapters 1 and 2 of the ASX Listing Rules; and
- the Rights Issue being fully sub-underwritten by binding sub-underwriting agreements. Singapore financier, PLENGKUNG CAPITAL PTE LTD, has agreed in principal to fully sub-underwrite the rights issue subject to normal terms and conditions. As at the date of this report the sub-underwriting agreement has not been executed.

Based on the existing capital structure of the Company, the Rights Issue would invite applications for up to 4,874,627,375 new Shares. The Shares issued under the Rights Issue will be issued at $0.001 to raise a total of A$4,874,627 (gross).

The ratio of the Rights Issue is subject to final determination.

The proceeds from the proposed Rights Issue will be used to finance the continued development of the Company's activities as well as repay agreed amounts with various creditors.

The ability of the Consolidated Entity to continue as a going concern is principally dependent on:

- executing payment arrangements with respect to the Company's R&D loan facility;
- the continued support of convertible note holders;
- successfully raising capital via the Rights Issue; and
- completion of the sale of Algae Energy Inc ("**AEI**")

As disclosed in Note 26, in addition, the Company proposes to divest it's 100% owned subsidiary, AEI , which is a division of the Company has to date been focussed on the research and development of the algae technology and non-commercial small-scale production. Significant capital expenditure will be required to undertake commercial scale production of algae-based products.

The sale is subject to certain condition precedent which also includes obtaining shareholder and ASX approval, at the date of this report the transaction has not been completed. Following completion of the sale this is expected to significantly reduce the Group's ongoing cashflow obligations.

2. Basis of accounting *(continued)*

Going concern (continued)

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. Included in this cashflow forecast is the achievement of capital raisings and the generation of revenue from medicinal cannabis and algae licensing activities.

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

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.

2. Basis of accounting *(continued)*

Basis of measurement

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

(a) Functional and presentation currency

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

(b) Use of estimates and judgments

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

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

(c) 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 ("AASB") that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group during the financial year.

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.

2. Basis of accounting *(continued)*

(c) Accounting Standards that are mandatorily effective for the current reporting period (continued)

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.

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. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.
Certain comparative amounts in the consolidated statement of profit or loss and other comprehensive income have been reclassified to conform to the current year's presentation.

(a) Basis of consolidation

(i) Business combinations

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

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

3. Significant accounting policies *(continued)*

(a) Basis of consolidation (continued)

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

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

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

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

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

(ii) Foreign operations

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

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

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

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

3. Significant accounting policies *(continued)*

(b) Foreign currency (continued)

(ii) Foreign operations (continued)

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

(c) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by /regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;

and

• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

3. Significant accounting policies *(continued)*

(c) Financial instruments (continued)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

► The rights to receive cash flows from the asset have expired.

or

► The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3. Significant accounting policies *(continued)*

(c) Financial instruments *(continued)*

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

3. Significant accounting policies *(continued)*

(c) Financial instruments (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 16.

3. Significant accounting policies *(continued)*

(c) Financial instruments (continued)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

3. Significant accounting policies *(continued)*

(d) Property, plant and equipment (continued)

(iv) Depreciation (continued)

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

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

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

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

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

(e) Intangible assets and goodwill

(i) Goodwill

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

Subsequent measurement

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

(ii) Research and development

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

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

Capitalised development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets such as rights & licenses acquired in a research project are capitalized even though they are used in research activity as the future economic benefits criteria is assumed to be automatically satisfied in the separate acquisition of the intangible asset.

3. Significant accounting policies *(continued)*

(e) Intangible assets and goodwill

(iii) Other intangible assets

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

(iv) Subsequent expenditure

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

(v) Amortisation

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

Employee benefits

(i) Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long-service leave

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

(iii) Share-based payment transactions

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

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

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

3. Significant accounting policies *(continued)*

Employee benefits (continued)

(iii) Share-based payment transactions (continued)

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

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

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

(g) Provisions

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

Onerous contracts

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

3. Significant accounting policies *(continued)*

(h) Revenue from contracts with customers

Revenue is recognised on a basis that reflects the transfer of promised goods or services to customers at an amount that reflects the consideration the Company expects to receive in exchange for those goods or services.

Revenue is recognised by applying a five-step process outlined in AASB 15 which is as follows:

Step 1: Identify the contract with a customer;

Step 2: Identify the performance obligations in the contract and determine at what point they are satisfied;

Step 3: Determine the transaction price;

Step 4: Allocate the transaction price to the performance obligations; and

Step 5: Recognise the revenue as the performance obligations are satisfied.

Revenue is recognised when or as a performance obligation in the contract with customer is satisfied, i.e. when the control of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation is a promise to transfer a distinct goods or service (or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer) to the customer that is explicitly stated in the contract and implied in the Group's customary business practices.

Revenue is measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customers, excluding amounts collected on behalf of third parties such as sales taxes or services taxes. If the amount of consideration varies due to discounts, rebates, refunds, credits, incentives, penalties or other similar items, the Group estimates the amount of consideration to which it will be entitled based on the expected value or the most likely outcome. If the contract with customer contains more than one performance obligation, the amount of consideration is allocated to each performance obligation based on the relative stand-alone selling prices of the goods or services promised in the contract. Revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

3. Significant accounting policies *(continued)*

(h) Revenue from contracts with customers (continued)

(i) Sale of goods

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

(ii) Rendering of services

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

(iii) Research and development claims

Research and development income is accrued on a monthly basis, thus bringing the income into account in the same period that the related expenditure is incurred.
The Group is able to accurately estimate accrued research and development income and has successfully received previous claims made.

(i) Leases

(i) Leased assets

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

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

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

(j) Finance income

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

3. Significant accounting policies *(continued)*

(k) Finance costs

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

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

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

(l) Tax

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

(i) Current tax

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

(ii) Deferred tax

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

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

The measurement of deferred tax reflects the consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. Significant accounting policies *(continued)*

***(l) Tax** (continued)*

(iii) Deferred tax (continued)

For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxed levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Tax exposures

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

(iv) GST

GST is accounted for on an accrual basis.

(m) Segment reporting

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

4. Critical accounting judgments and key sources of estimation uncertainty

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

Income taxes

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

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

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

Research & Development Income and Receivables

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

Research and development income is recognised in the same period as the related expenditure.

4. Critical accounting judgments and key sources of estimation uncertainty *(continued)*

Share-based Payments

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

5. Operating segments

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

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.

Refer to Note 26 for details of the Group's discontinued operations.

Information about reportable segments – Continuing Activities	2019 $	2018 $
Reportable Segment profit/(loss) Australia	(2,912,856)	(2,281,433)
Significant revenues for the Group are:		
Research and development income	933,929	2,509,464
Provision of services and equipment	67,685	119,462
Reportable Segment profit/(loss)	(2,912,856)	(2,281,433)
Interest	3,705	9,709
Net foreign exchange gain/(loss)	(335,760)	(365,642)
Bad debt expense	(7,535)	(5,000)
Bad debt recovered	121,925	-
Impairment of prepayments	(1,267,904)	-
Depreciation and amortisation expense	(820,383)	(1,007,743)
Loss before tax	(5,218,808)	(3,650,109)

5. Operating segments *(continued)*

Information about reportable segments – Continuing Activities	2019 $	2018 $
Reportable segment assets USA	-	1,566,004
Reportable segment assets Australia	4,922,234	8,994,185
	4,922,234	10,560,190
Significant assets for the Group are:		
Intangible assets	3,148,889	3,952,490
Prepayments	-	1,267,904
Reportable segment liabilities USA	-	1,534,370
Reportable segment liabilities Australia	8,059,802	4,614,064
	8,059,802	6,148,434
Significant liability for the Group is:		
Loans and borrowings	5,967,087	4,244,376
Revenue by geographical segment		
India	7%	4%
Australia	93%	96%

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

6. Property, plant and equipment	2019 $	2018 $
At cost	99,909	1,628,662
Less: Accumulated depreciation	(95,436)	(1,384,504)
	4,473	**244,158**

Refer to Note 26 for property, plant and equipment with a carrying amount of $96,250 which has been transferred to assets held for sale.

7. Tax

	2019	2018
	$	$
(a) Income tax expense / (benefit)		
Current tax expense/(benefit)	-	(34,530)
Deferred tax expense / (benefit)	-	(1,340)
Tax expense/(benefit) from continuing operations	-	(35,870)

b) Reconciliation of effective tax rate

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

	2019	2019	2018	2018
	%	$	%	$
Profit/(Loss) from continuing operations before income tax expense		(5,218,808)		(8,063,983)
The prima facie tax payable/(refundable) on profit/(loss)		-		
from ordinary activities before income tax:	27.5%	(1,435,172)	27.5%	(2,217,595)
Add / (Less) Tax effect of:		-		
Effect of tax in foreign jurisdictions		-		-
Deductible expenses		(30,901)		(50,569)
Non-deductible expenses		139,703		388,127
Research and development claim refund		672,910		617,735
Others		-		-
Current year losses for which no deferred tax asset was		-		
recognised		653,460		1,298,172
Total income tax expense/(benefit)		-		35,870

(c) Deferred tax assets

	2019	2018
	$	$
Net deductible temporary differences	261,918	999,974
Tax Losses	4,142,832	2,936,898
Deferred tax assets not recognised	(4,404,750)	(3,261,381)
	-	675,491

7. Tax *(continued)*

(c) Deferred tax assets *(continued)*

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
	$	$	$	$	$	$
Property, plant and equipment	-	-	-	(16,596)	-	(16,596)
Employee benefits	-	82,955	-	-	-	82,955
Provisions & accruals	218,912	271,000	-	-	218,912	271,000
Other items	68,106	663,340	(25,100)	(725)	43,006	662,615
Tax loss carry-forwards	4,142,832	2,936,898	-		4,418,832	2,936,898
Tax assets (liabilities)	4,429,850	3,954,193	(25,100)	(17,321)	4,404,750	3,936,872
Deferred tax assets not recognised	(4,429,850)	(3,261,381)	25,100	-	(4,404,750)	(3,261,381)
Net tax assets (liabilities)	-	692,812	-	(17,321)	-	675,491

(d) Tax Losses

	2019	2018
	$	$
Unused tax losses for which no deferred tax asset has been recognised	15,064,844	10,679,630
Potential tax benefit @ 27.5% (2018:27.5%)	4,142,832	2,936,898

The benefit for tax losses will only be obtained if:
(a) The company and consolidated entity derive future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the losses to be realised;
(b) The company and the consolidated entity continue to comply with the conditions for deductibility imposed by law; and
(c) No changes in tax legislation adversely affect the ability of the Company and consolidated entity to realise these benefits.

8. Trade and other receivables

Current	2019	2018
	$	$
Trade receivables	-	211,934
R & D incentives	933,929	2,509,465
GST refund	31,498	34,430
Deposits	64,965	-
Other receivables	641,025	711,115
Total receivables	1,671,417	3,466,944

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

Included in other receivables is the sum of US$500,000 (A$641,025) being an amount owed by Gencor for the purchase of shares issued but as yet unpaid. The Company has entered into a share buyback arrangement to settle the amount outstanding for $1, (subject to shareholders approval).

The debt from Phoenix Energy Australia Pty Limited which was previously expensed off as bad debt was fully recovered during the year. The amount recovered was $121,925.

9. Current Prepayments

	2019	2018
	$	$
Prepaid rent	-	9,592
Prepaid insurance	77,418	54,388
Prepaid interest	-	2,967
	77,418	**66,947**

10. Non-Current Prepayments

	2019	2018
	$	$
NS Technologies (i)	-	347,500
Jardin de Invierno (ii)	-	920,404
	-	**1,267,904**

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

During the year the parties terminated the agreement and the Company is pursuing NS Technologies for $200,000 receivable. The balance is past due and has been provided for impairment as at 30 June 2019.

(ii) As part of the collaboration and licencing agreement with Jardin de Invierno SA, US$710,000 (A$920,404) has been advanced towards finalisation of the agreement. Upon completion of due diligence, the Company decided to not further pursue the Uruguay opportunities, and as such the balance has been impaired to nil.

11. Intangible assets

	2019	2018
	$	$
Auberna Licence	1,808,100	1,808,100
Less Amortisation	(1,808,100)	(1,004,500)
Net Auberna Licence (i)	-	803,600
MCL Licence (ii)	3,148,889	3,148,889
Intangible assets	**3,148,889**	**3,952,489**

(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 was amortised on a straight-line basis over the 18 months of the license.

(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. The parties intend to be bound by the agreement but agree to have its terms restated in formal agreements which shall be consistent with the Head of Agreement.

11. Intangible assets *(continued)*

In return for this licence the following occurred:

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

12. Cash and cash equivalents

	2019 $	2018 $
Bank balances	20,037	886,256
Cash and cash equivalents in the statement of cash flows	20,037	886,256

Refer to note 20, financial risk management.

13. Reconciliation of cash flows from operating activities

Cash flows from operating activities	2019 $	2018 $
Loss for the year before tax	(10,390,201)	(8,063,983)
Adjustments to reconcile profit before tax to net cash flows from operating activities:		
Depreciation and Amortisation	820,383	1,207,004
Share based payments	(463,928)	379,031
Finance cost	1,474,147	517,923
Bad debt expenses	7,535	-
Bad debts recovered	(121,925)	-
Impairment of prepayments	1,267,904	-
Net foreign exchange differences	300,385	365,642
Movement in valuation of convertible note	142,295	248,955
	(6,963,405)	(5,345,428)
(Increase)/Decrease in trade and other receivables	1,909,918	(919,078)
(Increase)/Decrease in other current assets	(10,471)	13,467
Increase/(Decrease) in trade and other payables	3,049,472	1,396,518
Increase/(Decrease) in provisions and employee benefits	(20,419)	36,911
Cash generated from operating activities	(2,034,905)	(4,817,610)
Income taxes	-	35,870
Net cash used in operating activities	(2,034,905)	(4,781,740)

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

14. Capital and reserves

Share capital	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	62,996,342	219,748	8,646,577
Issue of shares pursuant to placements	-	-	9,837,628	307,979,621
Issue of shares pursuant to Auberna Collaboration	-	-	1,808,100	63,347,270
Issue of shares pursuant to NS Technologies Agreement	-	-	247,500	7,500,000
Issue of shares pursuant to MCL Collaboration	-	-	3,102,492	134,890,940
Issue of shares pursuant to exercise of options	-	-	3,473	69,453
Issue of shares via Conversion of Interest	-	-	23,125	770,831
Issue of shares in exchange for services provided	67,500	4,067,767	1,032,706	31,551,516
Transfer from Equity Other Reserve	-	-	57,709	-
Capital Raising Costs	-	-	(639,486)	-
	37,232,080	974,925,475	36,438,940	907,861,366

(i) Share options granted at year end

Number of options	Issued to	Class
28,728,607[1]	The Reliance Group	Options exercisable at $0.1636 on or before 20 January 2019
16,000,000[2]	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[3]	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

[1] *represents options expired during the year to 30 June 2019.*
[2] *represents forfeited options during the year*
[3] *represents listed options*

(ii) Translation reserve

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

	2019	2018
	$	$
Foreign exchange reserve	328,536	55,168

(iii) *Share option reserve*

	2019	2018
	$	$
Share option reserve	241,085	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.

14. Capital and reserves *(continued)*

Share based payments

The followings are transaction that took place during the year:

	2019 $	2018 $
Director share-based payments expense:		
- Peter Hatfull (resigned on 8 April 2019) (i)	(54,756)	(69,516)
- Malcom James (resigned on 14 June 2019) (i and ii)	(155,742)	(69,515)
	(210,498)	**(139,031)**
Director share-based payments forfeited:		
- Peter Hatfull (resigned on 8 April 2019) (i)	263,397	-
- Malcom James (resigned on 14 June 2019) (i)	275,651	-
	539,048	**-**
Consultants share-based payments forfeited/(expense):		
- Consultants option (iii)	-	(240,000)
- Consultants option - Milestones portion (iii)	135,862	-
	135,862	**(240,000)**
Expired options		
- Others	97,286	-
	97,286	**-**
Intangible asset:		
- Licence Acquisition – MCL (iv)	-	(46,397)
	-	**(46,397)**

Directors

(i) 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 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.

(ii) 30,000,000 options were issued to Mr Malcolm James during the current year. The options were valued at $89,018 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)

As the directors resigned during the year, the vesting conditions were not met and the cumulative expense was reversed during the year.

14. Capital and reserves *(continued)*

Share based payments *(continued)*

(iii) 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 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 $135,862 for options which did not vest.

(iv) *Licence Acquisition - MCL*

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

In return for this licence the following occurred:

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

(v) *Licence Acquisition – Jardin De Invierno SA*

As part of a Collaboration and Licence Agreement with Jardin De Invierno SA, on 28 August 2017 the Company issued 63,347,270 shares equivalent to US$1,500,000 (A$1,808,100) for the exclusive right of use of the IP globally and distribution rights for any products associated within the Asia Pacific and African continents for a period of 18 months from the time of issue of the shares. Refer Note 11(i). As at 30 September 2019, the Company decided to not further advance the JDL opportunities.

15. Earnings per share

Basic earnings per share

	2019		2018	
Profit (loss) attributable to ordinary shareholders (cents/Share)				
- Continuing operations	(5,218,808)	(0.55)	(3,650,109)	(0.52)
- Discontinued operations	(5,171,393)	(0.54)	(4,449,744)	(0.63)

Weighted average number of ordinary shares (basic)	**2019**	**2018**
Issued ordinary shares at 1 July	907,861,366	353,105,158
Effect of shares issued during the period	47,968,555	349,367,176
Weighted average number of ordinary shares at 30 June	955,829,921	702,472,334

Diluted earnings per share

Diluted earnings/loss per share is calculated after consideration of all options on issue remaining unconverted as potential ordinary shares. As at 30 June 2019, the Group had on issue 274,070,514 (14(i)) options over unissued capital. As the Group incurred a loss for the year, the options are anti-dilutive, thus the dilutive loss per share is the same as the basic earnings per share.

16. Loans and borrowings

Current	2019	2018
	$	$
Convertible Notes [i, ii, iii]	3,865,204	2,008,584
R & D loan facility [iv]	1,197,656	1,539,799
GE Nutrients Loan [v]	785,590	645,382
Hunter Premium Funding	68,637	50,611
Loan – Empire Capital	50,000	-
	5,967,087	4,244,376

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 30 June 2019 is past due and payable
- The conversion price is set at $0.075 per fully paid ordinary share in the capital of Affinity Energy and Health Limited
- In the event that there is any future issue of equity securities (other than the issue of equity pursuant to the conversion of any convertible security issued prior to the date of this agreement) at any time or times during the period before the Note is converted or redeemed and the consideration for such securities is less than the $0.075 per equity security, then the Conversion price will be adjusted down to the lower of, if there is more than one occasion when such securities are issued, the lowest price.
- The lender may serve notice in writing on Affinity Energy and Health Limited requesting the Company to convert the Bond or any part thereof.
- If the share price at any one or more times have been above $0.20 for 20 consecutive days, the subscriber will be entitled to convert all or a portion of the Convertible Note, subject to a minimum conversion of $100,000 by delivering notice any time prior to the Maturity Date.
- If the share price has not been above $0.20 for 20 consecutive days, the subscriber may exercise its rights during the 10 business days before the Maturity Date or any time after achievement of Milestone One.
- US$250,000 was repaid during the year ended 30 June 2018 and a further payment of US$50,000 was made in August 2018.
- Subsequent to year end, the Company has obtained confirmation from the holders of the balance outstanding and that the repayment date has now been extended to 1 October 2020.
- The carrying amount as at 30 June 2019 is $319,407 (2018: $337,405).

16. Loans and borrowings *(continued)*

Convertible note *(continued)*

(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 drawdowns since then.

- 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 is subject to a number of negative covenants during the term;
- Break costs: In the case of breach, the Company is potentially liable to redeem and repay any or all outstanding amounts due under the note plus a break cost equal to 10% of the redemption and interest of 20% per annum.
- Subsequent to year end the Company has obtained confirmation from the holders of the balance outstanding and that the repayment date has now been extended to 1 October 2020.
- As at 30 June 2019 the carrying value of the bond was $863,391 (2018: $731,396)

(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;

16. Loans and borrowings *(continued)*

Convertible note *(continued)*

(iii) *MEF I LP* (continued)

- 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.

- 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 year to 30 June 2019, a total of AUD$725,640 was converted by Magna for a total of 62,996,342 shares.
- Carrying value of the convertible notes as at 30 June 2019 is $2,682,406 (2018: $939,783).

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.

  - Mandatory repayment of 50% of Tranche A and Tranche B convertible notes on or before 22 December 2018.
  - 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.
  - 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.
  - 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.

- Subsequent to year end the Company has obtained confirmation from the holders of the balance outstanding and the repayment date has now been extended to 1 October 2020.

16. Loans and borrowings *(continued)*

(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 loans 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 14% 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:

- 29 November 2018 $480,000 Covering R & D Expenditure July 2018 to September 2018
- 4 January 2019 $267,000 Covering R & D expenditure for October and November 2018
- 5 April 2019 $377,319 Covering R & D expenditure for December 2018 to February 2019

As at the date of this report $933,929, has been repaid. The remaining balance is past due and subject to default interest. The Group is in the process of entering into a Deed of Acknowledgment and Forbearance (refer note 2 Going concern for details).

(v) GE Nutrients Inc.

On 11 December 2017 Algae Energy Inc 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
- Subsequent to year end the Company has obtained confirmation from the lender of the balance outstanding and the repayment date has now been extended to 1 October 2020.

16. 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
Continuing operations								
Hunter Premium Funding	50,611	18,026	-	-	-	-	-	68,637
707 Holdings	731,396	-	67,204	-	(21,184)	85,975	-	863,391
China Finance Strategy	337,405	(65,041)	38,715	-	(73,956)	82,284	-	319,407
Magna Equities	939,783	1,330,500	666,142	(793,140)	480,123	58,998	-	2,682,406
R&D Funding	1,539,799	(434,076)	91,933	-	-	-	-	1,197,656
Empire Capital	-	50,000	-	-	-	-	-	50,000
GE Nutrients	645,382	-	67,080	-		73,128	-	785,590
Totals	**4,244,376**	**899,409**	**931,074**	**(793,140)**	**384,983**	**300,385**	**-**	**5,967,087**

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

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

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

Fair value of financial instruments not measured at fair value.

The following financial instruments carrying value approximates their fair value.

	Carrying amount	Fair value
	$	$
Assets		
Cash and cash equivalents	20,037	20,037
Receivables	1,671,417	1,671,417
Liabilities		
Trade and other payables	1,832,015	1,832,015
Loans and borrowings	5,967,087	5,967,087
Net liabilities	(6,107,648)	(6,107,648)

Due to their short-term nature, the carrying amounts of current receivables, current trade and other payables and current interest-bearing liabilities is assumed to approximate their fair value. The above table excludes assets and liabilities held for sale.

18. Provisions

	2019	2018
Current	$	$
Annual leave	109,263	158,236
Long service leave	151,437	122,883
	260,700	281,119

19. Trade and other payables

	2019	2018
	$	$
Trade payables		
Current		
Trade payables	984,537	521,191
Accrued expense	758,349	1,050,831
	1,742,886	1,572,022
Other payables		
Current		
Payroll Liabilities	89,129	50,917
	89,129	50,917
Trade and other payables		
Current	1,832,015	1,622,939

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

20. Financial instruments

Financial risk management

Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

Risk management framework

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

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

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

Credit Risk

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

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

Financial risk management

Liquidity risk

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

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

20. Financial instruments *(continued)*

Financial risk management *(continued)*

Aged Payables and Borrowings

Item	0 < 6 months $	6 < 12 months $	12 months > $	Total Contractual cashflows $	Carrying Value $
Trade and Other Payables	1,073,666	-	-	1,073,666	1,073,666
Accrued Expenses	758,349	-	-	758,349	758,349
R&D Funding*	1,197,656	-	-	1,197,656	1,197,656
Centrepoint/Hunter Premium	68,637	-	-	68,637	68,637
Empire Capital Loan	50,000	-	-	50,000	50,000
GE Nutrient	785,590	-	-	785,590	785,590
Convertible Notes	3,865,204	-	-	3,865,204	3,865,204
	7,799,102	-	-	7,799,102	7,799,102

$1,197,656 of the items marked *refer to borrowings and liabilities against the research and development tax refund for the year ended 30 June 2019 and are payable upon receipt of these funds.

Subsequent to the financial year end, the repayment of the convertible notes and GE Nutrients loan had been extended. Refer to Note 16.

Market risk

(i) Foreign exchange risk

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

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

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

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

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

20. Financial instruments *(continued)*

Financial risk management (continued)

(i) Foreign exchange risk

	2019 USD	2018 USD
Financial assets		
Cash and cash equivalents	-	553,066
Trade and other receivables	-	720,848
Asset held for sale	44,040	-
	44,040	1,273,914
Financial liabilities		
Trade and other payables and borrowings	4,416,138	2,278,251
Liabilities held for sale	1,847,656	-
Net exposure	(6,219,754)	(1,004,337)

(ii) Consolidated Entity - sensitivity

Based on financial instruments held at 30 June 2019, had the Australian dollar weakened/strengthened by 20% against the US dollar with all other variables held constant, the Consolidated Entity's post-tax loss for the year and equity would have been $861,899 higher/lower, mainly as a result of foreign exchange losses/gains on translation of US dollar denominated financial instruments as detailed in the above table.

(iii) Cash flow and fair value interest rate risk

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

At the date of this report, the Group was not exposed to interest rate risk as all rates had been fixed for the term of the borrowings and all borrowings are carried at amortised cost except for convertible note at fair value. Whilst cash rates on deposits are not fixed there is no significant exposure to interest rate movements with the carrying values in the Group at 30 June 2019.

Fair value estimation

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

Capital management

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

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

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

21. Commitments and Contingencies

Leases as lessee

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

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

	2019 $	2018 $
Less than one year	40,338	14,221
Between one and five years	10,158	-
More than five years	-	-
	50,496	14,221

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

	2019 $	2018 $
Less than one year	36,753	35,511
Between one and five years	21,870	58,624
More than five years	-	-
	58,623	94,135

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

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

	2019 $	2018 $
Less than one year	-	124,790
Between one and five years	-	34,152
More than five years	-	-
	-	158,942

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

	2019 $	2018 $
Less than one year	-	141,318
Between one and five years	-	496,898
More than five years	-	-
	-	638,216

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

	2019 $	2018 $
Within 1 year	5,748	5,748
Later than 1 year but within 5 years	6,706	12,454
	12,454	18,202

21. Commitments and Contingencies

Commitments

Commitments with respect to the discontinued operations (USA subsidiary) are not disclosed as at 30 June 2019 based on the expectation that the Company will be disposed within 12 months. Refer note 24 for further disclosure.

As part of the collaboration and licencing agreement with Jardin de Invierno SA, US$710,000 (A$920,404) has been advanced towards finalisation of the agreement. Upon completion of due diligence, the Company decided to not further pursue the Uruguay opportunities, and as such the balance has been impaired to nil.

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 from MCL cultivars. In addition, a 5% net royalty payable to MCL on any human applications coming from AEB's development of animal products.

22. Related parties

Parent and ultimate controlling party

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

Subsidiaries

Interests in subsidiaries are as follows.

Group entities

Significant subsidiaries

	Country of incorporation	Ordinary Share Consolidated Equity Interest 2019 %	2018 %
Controlled entity			
Algae Energy Inc	USA	100	100

Key management personnel compensation

The key management personnel compensation comprised:	2019	2018
Short-term employee benefits	1,093,045	1,147,265
Post-employment benefits	37,882	59,943
Termination benefits	-	-
Other long-term benefits	14,753	7,500
Share-based payments - expense	210,498	139,031
Share-based payments – forfeited	(538,762)	-
	817,416	1,353,739

22. Related parties *(continued)*

Individual directors and executives' compensation disclosures

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

Related party transactions

- 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. As at the date of this report the payment was not made and the debt settlement is not complete.

  As at 30 June 2019, the payable to Dot Bio amounts to $130,416(USD$91,461) (2018: $112,419 (USD$83,089)) is outstanding. A settlement agreement was signed in March 2019 whereby US$75,815 was agreed to be paid as full repayment of the outstanding wages payable to Mr.Conchie of US$379,077. The terms were subject to a proposed capital raising within 60 days of the agreement. The conditions were not met and the debt settlement agreement is now lapsed.

- Four members of Mr. Earl McConchie's immediate family were employed by Algae Energy Inc. during the year. The family members were paid/payable a total of A$552,233 (US$392,195) compared to A$517,074 (US$398,871) in 2018 as salaries, wages and benefits

- GE Nutrients is an entity related to Jith Veeravalli. On 11 December 2017, GE Nutrients and Algae Energy Incorporated (the US Subsidiary) entered into a debt agreement, whereby GE Nutrients will advance USD$480,000 to US Subsidiary to assist with the completion of the Reliance project. The loan accrues interest at 10% per annum. As at 30 June 2019, the balance owing on the loan is $785,589 (USD$550,934). This loan is still outstanding as at the date of this report.

- Included in the trade and other payables, is an amount of AUD285,185 (USD$200,000) (2018: AUD270,600 (USD$200,000)) is payable to GE Nutrients.

- Gencor Pacific is an entity related to Ramasamy Venkatash. In the prior year Gencor agreed to participate in the shortfall of the capital raising that took place in the 30 June 2018 financial year end. Pursuant to capital raising a total of 21,367,500 shares were issued to Gencor amounting to $641,025 (US$500,000). This debt is still outstanding as at the date of this report. Subsequent to the financial year end, The Company has entered into a share buyback arrangement to settle the amount outstanding for $1, (subject to shareholders approval).

- Peter Hatfull, had previously agreed to defer 50% of his salary until such a time the Company has sufficient funds to repay amounts outstanding. Effective 27 October 2018, the salary was reduced to $108,000 and on 5 January 2019, the salary was reduced further to $84,000. As at 30 June 2019, total amount outstanding is $281,076.

- Earl McConchie, had previously agreed to defer USD$160,000 ($228,148) of his salary until such a time the Company has sufficient funds to repay amounts outstanding. As at 30 June 2019, total amount outstanding is $695,947 (USD$501,784).

- Malcom James has agreed to defer his salary until there is sufficient funds to repay amounts outstanding. As at 30 June 2019, the total amount outstanding is $208,263.

The Company is performing a review of amounts outstanding former Executive Directors and Management and as such, the amounts payable may ultimately be reduced by way of successful negotiation.

23. Subsequent events

On 18 September 2019, Mr. Qing Xu was appointed as a non-executive director and Mr. Harpreet Singh Cheema resigned from the board as a non-executive director on the same date.

On 24 October 2019, Mr. Terry Gardiner was appointed as a non-executive director and Mr. Josh Puckridge resigned from the board as a non-executive director on the same date.

On 27 November 2019, the Company entered into a Convertible Note Loan (**Loan**) with Empire Equity Limited for up to $1,000,000. The Loan terms include:

- interest rate of 12% per annum, compounding monthly;
- 6% fee payable to the lender;
- The Lender will accept repayment of all outstanding amounts in AEB shares at a deemed share price of $0.001 per share;
- In the event adequate approvals are not obtained or received by the Company prior to maturity the Company will repay the full amount in cash at maturity. In the event that repayment is not made, Empire has the right to immediately have the Malta license assigned to it, in accordance with all applicable regulations;
- two tranches of options, totaling 300,000,000 AEB Options exercisable at A$0.003 issued in two equal tranches to the lender (or nominee(s)) on achievement of the following outcomes:
    - AEB shares trade above a VWAP of A$0.003 for 10 days; and
    - AEB shares trade above a VWAP of A$0.01 for 10 days.

Subsequent to year end, the Company obtained approval from the convertible noteholders that the repayment date for each agreement has been extended to 1 October 2020. Further details of all convertible note instruments are detailed in Note 16 to the Financial Statements.

On 29 November 2019, the Company entered into a conditional underwriting agreement with Barclay Wells Limited to undertake a fully underwritten entitlement issue (**Rights Issue**) on the basis of five (5) New Shares for every one (1) Share held by eligible shareholders at the record date. The underwriting agreement is on normal commercial terms including (but not limited to):

- the Company receiving ASX approval for re-quotation on ASX of the Company's securities without the need for the Company to re-comply with Chapters 1 and 2 of the ASX Listing Rules; and
- the Rights Issue being fully sub-underwritten by binding sub-underwriting agreements. Singapore financier, PLENGKUNG CAPITAL PTE LTD, has agreed in principal to fully sub-underwrite the rights issue subject to normal terms and conditions. As at the date of this report the sub-underwriting agreement has not been executed.

Based on the existing capital structure of the Company, the Rights Issue would invite applications for up to 4,874,627,375 new Shares. The Shares issued under the Rights Issue will be issued at $0.001 to raise a total of A$4,874,627 (gross).

The ratio of the Rights Issue is subject to final determination.

The proceeds from the proposed Rights Issue will be used to finance the continued development of the Company's activities as well as repay agreed amounts with various creditors.

In conjunction with the financing arrangements detailed above, the Company proposes to grant (for a fee) a sub-licence to Alterola Biotech Inc (**ABI**) (https://www.alterolabiotech.com/), an unrelated party of the Company, to the Company's proprietary algae technology for the purposes of producing human nutraceuticals for the North American market (USA and Canada) (**Sub-Licence**).

23. Subsequent events *(continued)*

The sub-licence is perpetual (subject to Alterola not going into default) and is exclusive for human nutraceuticals in the North American region (Canada and USA), and excludes other algae products in the region and all algae products everywhere else.

The Company will maintain its exclusive world-wide licence for the proprietary algae technology and will continue to sub-licence specific products / geographical areas as it has done in the past (Reliance Industries – India)

In addition, the Company has entered into an agreement to dispose of its 100% owned subsidiary, Algae Energy Inc ("AEI"), which is a division of the Company that has to date been focussed on the research and development of the algae technology and non-commercial small-scale production. Significant capital expenditure will be required to undertake commercial scale production of algae-based products.

The proceeds of the sub-licence and sale will be applied to offset the intercompany loan owing by AEB to AEI so no cash proceeds would flow into AEB as a result of the transactions. Upon completion of the Transaction, ABI would assume responsibility for all financial and other obligations of AEI. The assets being sold and the liabilities being assumed under the Transaction are set out in Note 26 to the financial statements.

24. Auditors' remuneration

	2019 $	2018 $
Audit and review of financial statements – Bentleys	47,420	49,225
Audit and review of financial statements – Hancock Askew & Co LLP	35,715	-
Audit and review of financial statements – BDO (USA)	-	41,839
Total paid	**83,135**	**91,064**

25. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2019, the parent entity of the Group was Affinity Energy and Health Limited.

	2019 $	2018 $
Result of parent entity		
Profit/(loss) for the period	(9,020,210)	(8,385,901)
Other comprehensive income	-	-
Total comprehensive income for the period	(9,020,210)	(8,385,901)
Financial position of parent entity at year end		
Current assets	1,169,487	2,428,549
Non-current assets	3,153,362	5,238,857
Total assets	4,322,849	7,667,406
Current liabilities	9,976,739	4,604,890
Non-current liabilities	-	-
Total liabilities	9,976,739	3,062,516
Total equity of the parent entity comprising of:		
Contributed equity	37,232,080	36,438,940
Reserves	241,085	827,422
Accumulated losses	(43,127,056)	(34,203,846)
Total equity	(5,653,891)	3,062,516

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

Other than as disclosed in note 21, Affinity Energy and Health Limited has no commitments to acquire property, plant and equipment, and has no contingent liabilities.

Parent entity guarantees in respect of debts of its subsidiaries

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

26. Discontinued operation - non-current assets and liabilities held for sale

Disposal of Algae Energy Inc.

The Company has entered into a share sale agreement to dispose of its 100% owned subsidiary, Algae Energy Inc ("**AEI**"), for USD$100,000 and the payment by the Purchaser to AEB in an amount equal to the balance of the intercompany loan owing by AEB to AEI. The proceeds of the sub-licence (refer conditions precedent below) and sale will be applied to offset the intercompany loan owing by AEB to AEI so no cash proceeds will flow into AEB as a result of the transactions. AEI is a division of the Company that has to date been focussed on the research and development of the algae technology and non-commercial small-scale production.

The sale is subject to certain conditions precedent which include but are not limited to:

- obtaining shareholder and ASX approval,
- the parties entering into an exclusive sub license agreement for the algae production technology and intellectual property;
- the parties entering into a standard form royalty agreement in respect of a 20% net royalty payable to AEB in respect of the sale and exploitation of human algae nutraceutical products in North America
- the parties entering into a standard form royalty agreement in respect of a 2% royalty payable to the Vendor on commercial sales and licensing of any new IP developed by the Company post completion which uses both the Algae IP and any cannabis products.

At the date of this report the transaction has not been completed.

Operating results of the business are not included in operating segment disclosed in note 5.

Financial information relating to the discontinued operation to the date of sale is set out below

The financial performance of the discontinued operation to the operations were ceased, which is included in the profit/(loss) from the discontinued operations per the statement of comprehensive income, is as follows:	2019 $	2018 $
Revenue and other income	-	-
Expenses	(4,428,381)	(4,413,874)
Loss before income tax	(4,428,381)	(4,413,874)
Income tax expense (deferred tax)	(743,012)	(35,870)
Loss after income tax	(5,171,393)	(4,449,744)
Total loss after income tax attributable to the discontinued operation	(5,171,393)	(4,449,744)
The net cash flows of the discontinued operation of the discontinued operation, which have been incorporated into the statement of cash flows, are as follows:		
Net cash inflow/(outflow) from operating activities	(1,481,777)	793,614
Net cash inflow/(outflow) from investing activities	-	(7,447)
Net cash inflow/(outflow) from financing activities	844,973	(242,634)
Net cash flow (used in) / generated by the discontinued operations	(636,804)	543,533

26. Discontinued operation - non-current assets and liabilities held for sale (continued)

	2019 $
The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 30 June 2019:	
Assets classified as held for sale	
Cash and cash equivalent	5,198
Trade and other receivables	57,599
Other assets	88,951
Property, plant and equipment	96,250
	247,998
Liabilities classified as held for sale	
Trade and other payable	2,349,431
Income tax payable	27,643
Provisions	109,221
	2,486,295

Directors' Declaration

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

(a) The consolidated financial statements and notes that are set out on pages 25 to 74 and the Remuneration report in pages 14 to 23 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and

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

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

2 This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2019.

Signed in accordance with a resolution of the Directors

On behalf of the Board

Date: 11 December 2019
Perth, Western Australia

Independent Auditor's Report

To the Members of Affinity Energy and Health Limited

Bentleys
THINKING AHEAD

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Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Affinity Energy and Health Limited ("the Company") and its subsidiaries ("the Consolidated Entity"), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

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

   (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

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

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

Basis for Opinion

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

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial report which indicates that the Consolidated Entity incurred a net loss of $10,390,201 during the year ended 30 June 2019. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. Our opinion is not modified in this respect of this matter.

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Research and development tax incentive Under the Research and Development ("R&D") tax incentive scheme, the Consolidated Entity receives a 43.5% refundable tax offset of eligible expenditure. An R&D submission has been filed with AusIndustry, and a receivable of $933,929 has been recorded at year end representing the claim received for the year ended 30 June 2019. This area is a key audit matter due to the inherent subjectivity that is involved in the Consolidated Entity making judgements in relation to estimation and recognition of the R&D tax incentive income and receivable.	Our procedures amongst others included: › obtaining an understanding of the objectives and activities in the R&D program; › reviewing the lodgement documents and related working papers utilised by the expert engaged by the Consolidated Entity; › assessing capabilities of the expert engaged by the Consolidated Entity; › verifying the receipt of the refund; and › comparing the eligible expenditure used in the receivable calculation to the expenditure recorded in the general ledger.
Loans and borrowings As disclosed in Note 16 of the financial statements, the Consolidated Entity has loans and borrowings with a balance as at 30 June 2019 of $5,967,087. Loans and borrowings are considered to be a key audit matter due to value of the balance and the complexities of the contractual arrangements.	Our procedures amongst others included: › analysing contractual agreements to identify the key terms and conditions for each balance; › verification of the funds received from the issue of convertible notes during the year; › assessing the accounting treatment of the financial instruments in accordance with the recognition and measurement as well as the disclosure requirements of the relevant Australian Accounting Standards; › assessed the calculation of finance costs during the period; › obtaining confirmation from a sample of

Key audit matter	How our audit addressed the key audit matter
	lenders of the balance as at reporting date, and the extension of terms; › verifying the issue of shares upon conversion of convertible notes; and › assessing the adequacy of disclosures included in note 16 of the financial report.
Intangible Assets As disclosed in note 11 to the financial statements, the Company has entered into a Heads of Agreement whereby the Company have acquired rights of use of worldwide exclusive license for MCL cultivars for use in animal based applications. The carrying amount of the intangible asset as at 30 June 2019 was $3,148,889 During the year the rights in relation to the separate Auberna license expired during the year and as a result the balance was amortised in full. Intangible assets are considered to be a key audit matter due to the size of the balance.	Our procedures included, amongst others: › analysing contractual agreements to identify the key terms and conditions of the Agreements and assessed whether the accounting treatment was in accordance with *AASB 138 Intangible Assets*; › assessing whether there are any indicators of impairment of the asset, including understanding management's planned future commercialisation activities; › assessing the calculation of amortisation expense during the year in accordance with the terms of the licences; and › assessing the adequacy of the disclosures included in Note 11 of the financial report.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Consolidated Entity's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Consolidated Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Consolidated Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Consolidated Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Consolidated Entity audit. We remain solely responsible for our audit opinion.

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

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2019. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with s 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of the Company, for the year ended 30 June 2019, complies with section 300A of the Corporations Act 2001.

Bentleys

BENTLEYS
Chartered Accountants

DOUG BELL CA
Partner

Dated at Perth this 11th day of December 2019

Bentleys
THINKING AHEAD

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To The Board of Directors

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

As lead audit partner for the audit of the financial statements of Affinity Energy and Health Limited for the financial year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully

BENTLEYS
Chartered Accountants

DOUG BELL CA
Partner

Dated at Perth this 11th day of December 2019

ASX Additional Information

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

The following details of shareholders of Affinity Energy and Health Limited has been taken from the Share Register on 18 November 2019.

Number of Holders of Equity Securities

Ordinary Share Capital

974,925,475 fully paid ordinary shares are held by 2,767 individual shareholders.

210,092,326 listed options.

Voting rights

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

Ordinary shares

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

Distribution of Holders of Quoted Equity Securities

Size of holdings	As at 18 November 2019 No. of fully paid ordinary shares
1 - 1,000	12,303
1,001 - 5,000	614,386
5,001 - 10,000	3,481,088
10,001 - 100,000	63,879,750
100,001 and over	906,937,948
	974,925,475

Securities exchange

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

Other information

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

ASX additional information

Twenty largest shareholders as at 18 November 2019

Name	Number of ordinary shares held	Percentage of capital held
TECO BIO LLC	175,000,001	17.95
MEDICAL CANNABIS LIMITED	84,890,940	8.71
BNP PARIBAS NOMS PTY LTD <DRP>	64,839,879	6.65
RELIANCE INDUSTRIAL INVESTMENTS AND HOLDINGS LTD	45,288,158	4.65
JP MORGAN NOMINEES AUSTRALIA LIMITED	37,059,445	3.80
EMPIRE CAPITAL PARTNERS PTY LTD	31,000,000	3.18
CITICORP NOMINEES PTY LIMITED	28,502,801	2.92
FANCEL PTY LTD	23,035,000	2.36
VINDICATION PTY LTD <MARSHALL&ASSOCIATES S/F A/C>	13,900,000	1.43
MR WEI SUN	10,515,214	1.08
MR FRANCESCO SCARFONE + MRS BENTE SCARFONE <AUSSIE GOLD SUPER NO2 A/C>	10,318,518	1.06
PYNMIST PTY LTD <THE S MARSHALL FAMILY A/C>	9,050,000	0.93
MR PETER ERNEST HATFULL	8,095,000	0.83
BNP PARIBAS NOMINEES PTY LTD HUB 24 CUSTODIAL SEV LTD DRP	7,220,980	0.74
MR ROBERT ALAN NURTHEN + MISS SARAH ANN NORRIS	6,638,270	0.68
MR PERCY SAMMUT + MRS ALDA SAMMUT <SAMMUT FAMILY SUPER A/C>	6,300,000	0.65
MR STEPHEN CROTTY	6,271,150	0.64
MARSHALL MICHAEL PTY LTD	5,700,000	0.58
MR LEIGH SCOTT-KEMMIS	5,126,150	0.53
FMR INVESTMENTS PTY LTD	5,000,000	0.51
MR RUSSELL WYETH	5,000,000	0.51
	588,751,506	60.39

Substantial Shareholders

As at 18 November 2019, the register of substantial shareholders disclosed the following information:

	Number of ordinary shares held	Percentage of capital held
Teco Bio LLC	175,000,001	17.95
Medical Cannabis Limited	84,890,940	8.71

Offices and officers

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

Location of Share Registry

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

Company Secretary
Jessica Rodrigues