

12 November 2018

Company Announcements Platform
Australian Securities Exchange
Level 4
20 Bridge Street
SYDNEY NSW 2000

By Electronic Lodgement

Dear Sir/Madam

NOTICE UNDER SECTION 708A(12C)(e) OF THE CORPORATIONS ACT 2001

This cleansing notice (**Cleansing Notice**) is given by Affinity Energy and Health Limited (ACN 124 544 190) (**Company**) under section 708A(12C)(e) of the Corporations Act 2001 (Cth) (**Corporations Act**) as amended by ASIC Corporations (Sale Offers: Securities Issued on Conversion of Convertible Notes) Instrument 2016/82 and pursuant to an instrument of relief granted by the Australian Securities and Investments Commission on 7 November 2018 (copy attached).

The Company hereby confirms that:

- (a) the convertible notes described below will be issued without disclosure to an investor under Part 6D.2 of the Corporations Act; and
- (b) this Cleansing Notice has been given in accordance with section 708A(12C)(e) of the Corporations Act.

The issue of this Cleansing Notice enables the fully paid ordinary shares in the capital of the Company (**Shares**) issued on the conversion of the convertible notes issued by the Company on the terms described below, to be on-sold to retail investors without further disclosure.

1. BACKGROUND

1.1 Convertible Securities Agreement

As announced on 8 June 2018, the Company has entered into an agreement in relation to a convertible note facility with MEF I, L.P. (**Noteholder**) with an aggregate subscription price of up to AU\$7,000,000 (**Facility**) dated 7 June 2018 (**Execution Date**) (**Convertible Securities Agreement**). Pursuant to the Convertible Securities Agreement, the Company can issue convertible notes with a face value (**Face Value**) of US\$1.10 each in up to four tranches (**Convertible Notes**).

As announced in the Company's Quarterly Activities Report on 31 October 2018, the Company has agreed to seek shareholder approval to issue further Convertible Notes under amended terms agreed with the Noteholder. Relevantly, under the amended terms (which were agreed to on 22 October 2018) (**Date of Letter**):

- (a) the Noteholder agreed to apply for Tranche C Convertible Notes for a purchase price of AU\$350,000;
- (b) the Company agreed, by 22 December 2018, to redeem 50% of:

- (i) the Tranche A Convertible Notes (issued on 26 June 2018);
- (ii) the Tranche B Convertible Notes (issued on 10 August 2018); and
- (iii) the Tranche C Convertible Notes to be issued following this Cleansing Notice,

by paying the Noteholder the Redemption Amount (being US\$1.21 per Convertible Note); and

- (c) the Company agreed to convene a meeting of the shareholders of the Company within 60 days of the Date of Letter to consider, for approval, the issue of replacement convertible notes for all outstanding Convertible Notes held by the Noteholder (on the basis that the replacement convertible notes will be on the same terms as the Convertible Notes, except that the Floor Price will be A\$0.006) and for the issue of all securities that may be issued under the Convertible Security Agreement (including shares issued on conversion of any Convertible Note), on the basis that the Floor Price will be A\$0.006 (**Shareholder Approval**);
- (d) subject to the Company obtaining Shareholder Approval, the Company has agreed:
 - (i) within 60 days of the Date of Letter, to redeem all outstanding convertible securities held by the Noteholder by issuing to the Noteholder, in full compliance with the Convertible Security Agreement, new convertible securities, on a one for one basis, on the same terms as the Convertible Notes, except that the Floor Price will be A\$0.006 (**Replacement Convertible Notes**); and
 - (ii) the Floor Price under the Convertible Securities Agreement will be amended (in respect of the Replacement Convertible Notes and any convertible notes issued after Shareholder Approval) to be A\$0.006.
- (e) if within 60 days of the Date of Letter the Company does not receive the Shareholder Approval or issue the Replacement Convertible Notes to the Noteholder in full compliance with the Convertible Security Agreement, then the Noteholder may (by notice to the Company) require the Company to redeem all outstanding Convertible Notes by paying the Noteholder 115% of the the aggregate total of the Face Values of the outstanding Convertible Notes and all other amounts payable by the Company to the Noteholder in relation to the outstanding Convertible Notes.

The Company expects to issue the third tranche of 247,695 Convertible Notes with a Face Value of US\$1.10 each (approximately AU\$1.41 based on an agreed exchange rate) to the Noteholder within 2 business days of the date of this Cleansing Notice for a subscription price of AU\$350,000 (**Tranche C, Tranche C Convertible Notes**).

The Company previously gave cleansing notices in respect of the previous tranches of Convertible Notes on 26 June 2018 and 10 August 2018, which also contained information as to the operation of the Facility as a whole.

The Company gives this cleansing notice in respect of the Tranche C Convertible Notes.

The Company must pay to the Noteholder a commitment fee equal to 5% of the subscription price of the Tranche C Convertible Notes, being AU\$17,500

(Commitment Fee). The Commitment Fee can be paid at the election of the Company by the issue of Shares to the Noteholder at a deemed issue price equal to the volume weighted average price of Shares over the five trading days prior to relevant purchase date. The Shares to be issued by the Company in satisfaction of the Commitment Fee for Tranche C of AU\$17,500 will be issued at a deemed issue price of AU\$0.0153 each.

2. CONTENTS OF THIS CLEANSING NOTICE

This Cleansing Notice sets out the following:

- (a) in relation to the Tranche C Convertible Notes:
 - (i) the effect of the issue on the Company;
 - (ii) a summary of the rights and liabilities attaching to the Tranche C Convertible Notes; and
 - (iii) a summary of the rights and liabilities attaching to the Shares that will be issued on the conversion of the Tranche B Convertible Notes; and
- (b) any information that:
 - (i) has been excluded from continuous disclosure notices in accordance with the ASX Listing Rules; and
 - (ii) is information that investors and their professional advisors would reasonably require for the purpose of making an informed assessment of:
 - (A) the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; and
 - (B) the rights and liabilities attaching to the Shares; and
 - (iii) other information relating to the Company's status as a disclosing entity.

3. THE EFFECT OF THE ISSUE ON THE COMPANY

3.1 Effect of the issue on the Company

The principal effect of the issue of the Tranche C Convertible Notes on the Company will be to:

- (a) increase the Company's cash reserves by AU\$350,000 to be received by the Company pursuant to the issue of the Tranche B Convertible Notes;
- (b) increase the number of unquoted Convertible Notes on issue from 1,187,874 to 1,435,569;
- (c) give rise to the Company having a liability for the aggregate amount of the Face Value of the Tranche C Convertible Notes (US\$247,695 or AU\$385,000 (assuming an exchange rate of US\$1.00 to approximately AU\$1.41)); and

- (d) if the Tranche C Convertible Notes are converted, either wholly or in part to Shares, or the Commitment Fee is satisfied, either wholly or in part by the issue of Shares, increase the number of Shares on issue as a consequence of the issue of Shares on such conversion or such satisfaction of the Commitment Fee.

3.2 Pro Forma Consolidated Statement of Financial Position As at 30 September 2018 taking into account the issue of the Convertible Notes

- (a) Set out in Annexure A is a pro forma consolidated Statement of Financial Position as at 30 September 2018 for the Company based on the unaudited 30 September 2018 management accounts adjusted to reflect the proposed issue of the Tranche C Convertible Notes and has been prepared on the basis of the accounting policies normally adopted by the Company.
- (b) The pro forma financial information is presented in an abbreviated form in so far as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements. The pro forma financial information is not audited. The classification of the allocations between debt and equity for the Convertible Notes may change in the future.

3.3 Potential effect on capital structure

- (a) As at the date of this Cleansing Notice, the total number of issued Shares is 954,224,969.
- (b) The capital structure of the Company will be affected by both the conversion of the Tranche C Convertible Notes by the Noteholder and the satisfaction of the Commitment Fee by the issue of Shares which will each result in additional Shares being issued.
- (c) Subject to limits on the conversion under the Convertible Securities Agreement, the Tranche C Convertible Notes can be:
 - (i) converted at any time after their issue and prior to the Maturity Date at the request of the Noteholder;
 - (ii) redeemed prior to the Maturity Date at the request of the Company or by the Noteholder upon the occurrence of certain events (see Sections 4(j) and (l) below for further details);
 - (iii) redeemed periodically as required by the Convertible Securities Agreement (see Section 4(k) below for further details); or
 - (iv) automatically redeemed on the Maturity Date.
- (d) If the Noteholder converts all of the Tranche C Convertible Notes into Shares, then based on a conversion price of AU\$0.01 per new Share (being the floor price under the Convertible Securities Agreement) and an exchange rate of US\$1.00 to approximately AU\$1.41 (being the agreed exchange rate for the issue of the Tranche C Convertible Notes) and further assuming 100% of the Tranche C Commitment Fee is satisfied by the issue of Shares at a 5 trading day volume weighted average price of Shares of AU\$0.0153 (being the deemed issue price of the Shares to be issued in satisfaction of the Commitment Fee for Tranche C) (**Assumptions**), 39,643,790 new Shares would be issued. The actual effect

on the share capital of the Company will depend on what percentage of the Tranche C Convertible Notes are actually converted, the price at which the conversion occurs, the US\$:AU\$ exchange rate at the date of issue of the Convertible Notes and the date of conversion, the 5 trading day volume weighted average price of the Shares at the date of conversion (upon which the number of Shares to be issued in satisfaction of the Commitment Fee will be based) and the proportion of the Commitment Fee which is actually satisfied by the issue of Shares. As referred to above, the Company intends to seek Shareholder Approval to issue replacement convertible notes with a floor price of \$0.06.

The effect on the issued share capital of the Company upon the conversion of the maximum number of Tranche C Convertible Notes and the issue of Shares in satisfaction of the Commitment Fee for Tranche C is set out in the table below based on the Assumptions. This does not account for any default interest payable under the Convertible Securities Agreement being converted into Shares.

Shares	Number
Shares issued on the date of this Cleansing Notice	954,224,969
Shares issued upon conversion of the Tranche C Convertible Notes	38,500,000
Shares issued upon satisfaction of the Commitment Fee for Tranche C	1,143,790
Total Shares on issue following conversion of all Tranche C Convertible Notes and satisfaction of the Tranche C Commitment Fee ^{1,2}	993,868,759

Options	Number
Options on issue at the date of this Cleansing Notice ³	318,799,121
Options issued under the Convertible Securities Agreement	Nil
Total Options on issue following conversion of all Convertible Notes and satisfaction of the Commitment Fee ^{1,2}	318,799,121

Convertible Notes	Number
Convertible Notes on issue at the date of this Cleansing Notice ³	1,187,874
Convertible Notes to be issued under Tranche C	247,695
Total Convertible Notes on issue following issue of the Tranche B Convertible Notes	1,435,569

Notes:

- 1 As announced on 12 February 2018, the Company has agreed, subject to the satisfaction of conditions precedent, to issue 25,000,000 Shares and 25,000,000 Options exercisable at AU\$0.15 each or before the date that is three years from the date of issue to NS Technologies Pty Ltd as consideration for the acquisition of a 19.9% shareholding in NS Technologies Pty Ltd, the entry into an oil supply agreement and the grant of a licence.
- 2 As announced on 22 December 2017, the Company has agreed, subject to the satisfaction of conditions precedent, to issue up to such number of Shares which is equal to 19.9% of the issued share capital of the Company at the date of issue and an equal number of Options exercisable at AU\$0.075 each or before the date that is 31 December 2020 to Medical Cannabis Limited as consideration for the grant of a licence.
- 3 Details of the exercise prices and expiry dates of the Options on issue and the face value, maturity date and conversion prices of the convertible notes on issue are set out in the Company's Appendix 3B lodged with ASX on 19 October 2018.

4. RIGHTS AND LIABILITIES ATTACHING TO THE CONVERTIBLE NOTES TO BE ISSUED UNDER THE CONVERTIBLE SECURITIES AGREEMENT

The following is a broad summary of the rights, privileges and restrictions attaching to the Convertible Notes. The summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of the Noteholder.

(a) **Term**

The Maturity Date of the Convertible Notes is 5 October 2019.

(b) **Face Value**

The number of Tranche C Convertible Notes to be issued is 247,695 being equal to the actual subscription price paid in US\$ by the Noteholder rounded upwards to the nearest whole number. Each Convertible Note will be issued with a Face Value of US\$1.10. At the date of this Cleansing Notice, the total face value of the Tranche C Convertible Notes (based on the Assumptions) will be US\$272,464.50 or AU\$385,000 (assuming an exchange rate of US\$1.00 to approximately AU\$1.41).

(c) **Subscription Price**

The subscription price payable by the Noteholder is AU\$350,000 (**Purchase Price**).

(d) **Issue of Convertible Notes**

The Tranche C Convertible Notes will be issued within 2 business days of the date of this Cleansing Notice.

(e) **Interest**

No interest is payable on the Convertible Notes unless an Event of Default occurs, in which case interest is payable on the Convertible Notes at a rate of 10% per annum. Such interest shall accrue daily and shall be compounded monthly, from the date of the Event of Default until the Company remedies the Event of Default or discharges the amount outstanding in full.

(f) **Commitment Fee**

The Company must pay to the Noteholder a commitment fee equal to 5% of the total subscription price of all Convertible Notes which can be issued under the Convertible Securities Agreement (**Commitment Fee**). The Commitment Fee can be paid at the election of the Company by the issue of Shares to the Noteholder at a deemed issue price equal to the volume weighted average price of Shares over the five trading days prior to relevant purchase date.

(g) **Security**

The Convertible Notes are secured by a general security agreement over all of the assets of the Company in favour of the Noteholder.

(h) **Conversion**

Subject to the conversion restrictions noted below, the Noteholder may provide the Company with written notice of its election to convert Convertible Notes into Shares at the conversion price (**Conversion Notice**), being the lesser of:

- (i) 80% of the lowest daily volume weighted average price of the Shares during the 5 trading days prior to the date the Investor provides the Company with a notice of conversion; and
- (ii) AU\$0.035 (**Fixed Conversion Price**),

(**Variable Conversion Price**), save that the conversion price cannot be less than a floor price of AU\$0.01 (**Floor Price**) (**Conversion Price**). As referred to above, the Company intends to seek Shareholder Approval to issue replacement convertible notes which will have a floor price of \$0.006.

The number of Shares issued will be equal to the aggregate US\$ Face Value of the Convertible Notes converted into AU\$ and divided by the Conversion Price.

The Noteholder cannot convert any Convertible Notes or receive Shares in satisfaction of the Commitment Fee which would result in the Noteholder's voting power in the Company exceeding 19.99%.

(i) **Protective Provisions**

Upon the occurrence of certain events, including a Share consolidation, subdivision, pro-rata cancellation of the Company's issued share capital, payment of a dividend to shareholders or a distribution of Shares to existing shareholders (other than by way of rights offering or a bonus issue), the Fixed Conversion Price and the Floor Price will be reduced or, as the case may be, increased, in the same proportion as the issued capital of the Company is, consolidated, subdivided or cancelled.

If the Company, after the Execution Date:

- (i) issues or agrees to issue Shares to any person at a per Share price which is less than the Fixed Conversion Price;
- (ii) issues Options to any person with an exercise price which is less than the Fixed Conversion Price; or

- (iii) issues any debt, equity or equity-linked securities to any person which are convertible into, exchangeable or exercisable for, or include the right to receive Shares or other securities at a fixed price which is less than the Fixed Conversion Price,

(all of which prices will be a **Lesser Price**) then the Fixed Conversion Price will be reduced to the Lesser Price.

(j) **Early Redemption**

The Company may at any time prior to the Maturity Date redeem some or all of the outstanding Convertible Notes by giving notice to the Noteholder (**Early Redemption Notice**). The Company may not give an Early Redemption Notice more than once in any period of 45 days. On or before the date which is 5 Business Days after the date of the Early Redemption Notice, the Company must pay the Noteholder (in US\$) an amount equal to 110% of the aggregate Face Value of the Convertible Notes being redeemed (where such redemption occurs during the first 180 days after the relevant purchase date) or an amount equal to 115% of the aggregate Face Value of the Convertible Notes being redeemed (where such redemption occurs afterward) (the **Redemption Amount**).

(k) **Periodic Redemption**

On the date which is one year after the issue date of the Tranche A Convertible Notes and every 30th day thereafter (the **Repayment Date**), the Company must redeem the lesser of:

- (i) 200,000 Convertible Notes; and
- (ii) the number of outstanding Convertible Notes,

by paying the Noteholder the Redemption Amount of the aggregate face value of those Convertible Notes.

(l) **Redemption at Election of Noteholder**

The Noteholder may, by notice to the Company, require the Company to redeem the outstanding Convertible Notes by paying the Redemption Amount in respect of such Convertible Notes to the Noteholder if the Company lists on the Toronto Stock Exchange or raises aggregate funds after the Execution Date of \$8,000,000.

Further, the Noteholder may, by notice to the Company, require the Company to redeem the outstanding Convertible Notes by paying the Noteholder 115% of the aggregate Face Value of such Convertible Notes if the daily volume weighted average price of the Shares is less than AU\$0.01 on 5 consecutive trading days.

(m) **Redemption on Maturity Date**

Any Convertible Notes outstanding at the Maturity Date must be redeemed on the Maturity Date at 115% of their aggregate Face Value.

(n) **Events of Default**

The Events of Default are set out in Annexure B to this Cleansing Notice. If an Event of Default occurs and:

- (i) either:
 - (A) it is not capable of being remedied; or
 - (B) it is capable of being remedied but has not been remedied to the satisfaction of the Noteholder within ten Business Days of the Noteholder notifying the Company of its occurrence; or
 - (C) there have been two or more previous Events of Default; and
- (ii) the Event of Default has not been expressly waived by the Noteholder in writing;

(an **Unremedied Default**)

then the Face Value of all Convertible Notes will (unless converted) automatically increase by 10% and the Noteholder may:

- (A) declare, by notice to the Company, the Redemption Amount of the amount outstanding and all other amounts payable by the Company under the Convertible Securities Agreement to be immediately due and payable by the Company to the Noteholder; and/or
- (B) terminate the Convertible Securities Agreement, by notice to the Company; and/or
- (C) exercise any other right, power or remedy granted to it by the Convertible Securities Agreement and/or otherwise permitted to it by law.

(o) **Parity Value**

In the event the Company fails to pay the Noteholder when due an amount payable under the Convertible Securities Agreement in relation to a conversion of, redemption of or failure to issue Convertible Notes, the Noteholder may require the Company to pay the Noteholder such amount in US\$ which is determined in accordance with the following formula (**Parity Value**):

$$PV = P/CP \times MV$$

Where:

PV = the Parity Value;

P = the amount of the payment required to be made under the Convertible Securities Agreement (which has not been paid);

CP = the Variable Conversion Price, determined as if the date upon which payment was required to be made was the relevant conversion notice date; and

MV = the highest average volume weighted average price of the Shares of any period of 5 consecutive trading days during the period commencing on the date which is 5 trading days prior to date on which payment was required to be made and ending on the day immediately prior to the date upon which payment of the Parity Value is made.

(p) **Transferability**

The Convertible Notes are transferable, subject to the transferee executing a deed of covenant in favour of the Company agreeing to be bound by the provisions of the Convertible Securities Agreement and compliance at all times to the Corporations Act and any applicable law.

5. RIGHTS AND LIABILITIES ATTACHING TO SHARES ISSUED ON CONVERSION OF THE CONVERTIBLE NOTES

The Shares issued to the Noteholder on the conversion of the Convertible Notes under the Convertible Securities Agreement will rank equally in all respects with all of the Company's existing Shares. The rights attaching to the Shares, including new Shares to be issued to the Noteholder on the conversion of the Convertible Notes, are set out in the Company's constitution, and, in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules and the general law.

The Company intends to apply to ASX for quotation of the Shares issued on conversion of any Convertible Notes.

Full details of the rights and liabilities attaching to Shares are set out in the Company's constitution, a copy of which can be inspected free of charge, at the Company's registered office during normal business hours.

The following is a broad summary of the rights, privileges and restrictions attaching to all Shares. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders.

(a) **General meetings**

Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with section 249D of the Corporations Act and the Company's constitution.

(b) **Voting rights**

Subject to any rights or restrictions for the time being attached to any class or classes of Shares, at general meetings of Shareholders or classes of Shareholders:

- (i) each Shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- (ii) on a show of hands, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder has one vote; and
- (iii) on a poll, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the Share, but in respect of partly paid Shares shall have such number of votes as bears the same proportion to the total of such Shares registered in the Shareholder's name as the amount

paid (not credited) bears to the total amounts paid and payable (excluding amounts credited).

(c) **Dividend rights**

Subject to the rights of any preference Shareholders and to the rights of the holders of any Shares created or raised under any special arrangement as to dividend, the Directors may from time to time declare a dividend to be paid to the Shareholders entitled to the dividend which shall be payable on all Shares according to the proportion that the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited) in respect of such Shares.

The Directors may from time to time pay to the Shareholders any interim dividends as they may determine. No dividend shall carry interest as against the Company. The Directors may set aside out of the profits of the Company any amounts that they may determine as reserves, to be applied at the discretion of the Directors, for any purpose for which the profits of the Company may be properly applied.

(d) **Winding-up**

If the Company is wound up, the liquidator may, with the authority of a special resolution of the Company, divide among the Shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as he considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the Shareholders or different classes of Shareholders.

The liquidator may, with the authority of a special resolution of the Company, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no Shareholder is compelled to accept any Shares or other securities in respect of which there is any liability.

(e) **Shareholder liability**

As the Shares to be issued on the conversion of the Convertible Notes will be fully paid shares, they will not be subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

(f) **Transfer of Shares**

Generally, Shares are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia and the transfer not being in breach of the Corporations Act or the ASX Listing Rules.

(g) **Future increase in capital**

The allotment and issue of any new Shares is under the control of the Directors. Subject to restrictions on the issue or grant of securities contained in the ASX Listing Rules, the Company's constitution and the Corporations Act (and without affecting any special right previously conferred on the holder of an existing share or class of shares), the Directors may issue securities as they shall, in their absolute discretion, determine.

(h) **Variation of rights**

Pursuant to section 246B of the Corporations Act, the Company may, with the sanction of a special resolution passed at a meeting of Shareholders vary or abrogate the rights attaching to Shares.

If at any time the share capital is divided into different classes of Shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class), whether or not the Company is being wound up, may be varied or abrogated with the consent in writing of the holders of three-quarters of the issued shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the shares of that class.

(i) **Alteration of constitution**

In accordance with the Corporations Act, the Company's constitution can only be amended by a special resolution passed by at least three quarters of Shareholders present and voting at the general meeting. In addition, at least 28 days written notice specifying the intention to propose the resolution as a special resolution must be given.

6. COMPLIANCE WITH DISCLOSURE OBLIGATIONS

The Company is a "**disclosing entity**" under the Corporations Act and, as such, is subject to regular reporting and disclosure obligations under both the Corporations Act and the ASX Listing Rules.

These obligations require the Company to notify ASX of information about specific events and matters as they arise. In particular, the Company is obliged to continuously disclose to the market immediately any information which a reasonable person would expect to have a material effect on the price or the value of the Shares.

The Company is also required to prepare and lodge with ASIC yearly and half-yearly financial statements accompanied by a directors' statement and report, and an audit report or review. Copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an ASIC office.

The Company will provide a copy of each of the following documents, free of charge, to any person on request:

- (a) the annual financial report most recently lodged by the Company with ASIC, being the financial report of the Company for the year ended 30 June 2018;
- (b) any half-year financial report lodged by the Company with ASIC after the lodgement of the annual financial report referred to in paragraph (a) and before the lodgement of this Cleansing Notice with ASX; and
- (c) any continuous disclosure notices given by the Company to ASX after the lodgement of the annual financial report referred to in paragraph (a) and before the lodgement of this Cleansing Notice with ASX.

A list of the continuous disclosure notices given by the Company to ASX after lodgement of the annual financial report referred to in paragraph (a) above and before the lodgement of this Cleansing Notice with ASX is set out in the table below.

Date	Announcement
31/10/18	Quarterly Activities Report and Appendix 4C
26/10/18	Notice of Annual General Meeting/Proxy Form
19/10/18	Appendix 3B
18/10/18	Response to Price and Volume Query
17/10/18	Appendix 3B
02/10/18	Affinity Expands FeedMe Algae Product Range
28/09/18	Corporate Governance Statement

7. INFORMATION EXCLUDED FROM CONTINUOUS DISCLOSURE NOTICES

As at the date of this Cleansing Notice, the Company advises that it has fully complied with its disclosure obligations under the ASX Listing Rules and the Corporations Act, and, in particular, there is no information which the Company has excluded from any of its continuous disclosure notices given in accordance with the ASX Listing Rules and the Corporations Act as at the date of this Cleansing Notice which it would be reasonable for investors and their professional advisors to require for the purpose of making an informed assessment of:

- (a) the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; and
- (b) the rights and liabilities attaching to the Convertible Notes under the Facility and the Shares.

For more information please contact the Company Secretary on +61 8 9380 6790.

Yours sincerely

PETER HATFULL
DIRECTOR
ALGAE.TEC LIMITED

**ANNEXURE A – PRO-FORMA CONSOLIDATED STATEMENT OF
FINANCIAL POSITION FOR THE COMPANY AS AT 30 SEPTEMBER
2018**

	Current Management Accounts	Adjustment (Tranche C)	Adjusted Accounts
ASSETS			
Current Assets			
Cash and cash equivalents	236,767	350,000	586,767
Trade and other receivables	4,288,334	0	4,288,334
Other current assets	42,687	0	77,687
Total Current Assets	4,567,788	350,000	4,917,788
Non Current Assets			
Property, plant and equipment	205,506	0	205,506
Intangible Assets	4,937,048	0	4,937,048
Deferred Tax Asset	688,705	0	688,705
Other non-current assets	0	0	0
Total Other Assets	5,831,259	0	5,831,259
TOTAL ASSETS	10,399,047	350,000	10,749,047
LIABILITIES			
Current Liabilities			
Trade and other payables	1,761,781	0	1,761,781
Provisions	301,730	0	301,730
Borrowings	5,819,983	385,000	6,204,983
Total Current Liabilities	7,883,494	385,000	8,268,494
Non Current Liabilities			
Derivative Liability	0	0	0
Borrowings	0	0	0
Total Other Liabilities	0	0	0
TOTAL LIABILITIES	7,883,494	385,000	8,268,494
NET ASSETS	2,515,553	-35,000	2,480,553
EQUITY			

Issued Capital	36,709,370	17,500	36,726,870
Reserves	850,671	0	850,671
Accumulated Losses	-35,044,488	-52,500	- 35,096,988
TOTAL EQUITY	2,515,553	-35,000	2,480,553

ANNEXURE B – EVENTS OF DEFAULT

Defined terms in this annexure are as used in the Convertible Securities Agreement unless otherwise defined in this Cleansing Notice.

Each of the following constitutes an Event of Default under the Convertible Securities Agreement.

- (a) The Company fails to repay the Redemption Amount in respect of the Convertible Notes to the Noteholder in cash on the Maturity Date.
- (b) The Company fails to repay the Redemption Amount in respect of the number of Convertible Notes specified in an Early Redemption Notice on or before the day which is 5 Business Days after the date on which the Company gives the Early Redemption Notice.
- (c) The Company fails to repay the Redemption Amount in respect of the outstanding Convertible Notes on or before the day which is 5 Business Days after the date on which the Noteholder gives notice in the circumstances listed in Section 4(l) above.
- (d) The Company fails to repay the Redemption Amount of the aggregate Face Value of the Repayment Amount number of Convertible Notes to the Noteholder in cash on a Repayment Date.
- (e) The Company breaches or otherwise fails to comply in full with any of its material obligations under the Convertible Securities Agreement or a cleansing statement (**Transaction Document**) (and does not cure that breach or failure within 5 Business Days of notice of it by the Noteholder) or any event of default (however described) occurs under any Transaction Document.
- (f) Any of the materials provided by the Company in connection with any Transaction Document is inaccurate, false or misleading in any material respect (including by omission), as of the date on which it is made or delivered.
- (g) The Company or any of its subsidiaries (**Group Company**) is, admits that it is, is declared by a court of competent jurisdiction to be, or is deemed under any applicable Law to be, insolvent or unable to pay its debts as and when they become due.
- (h) A Group Company is served with a statutory demand (in accordance with Division 2 of Part 5.4 of the Corporations Act) or a foreign equivalent that is not set aside within 20 Business Days.
- (i) A controller within the meaning of section 9 of the Corporations Act, administrator or similar officer is appointed over all or any of the assets or undertaking of any Group Company or any formal step preliminary to such appointment is taken.
- (j) An application or order is made, a proceeding is commenced, a resolution is passed or proposed in a notice of meeting, or an application to a court or other steps are taken, for the winding up or dissolution of any Group Company, or for any Group Company to enter an arrangement, compromise or composition with, or assignment for the benefit of, any of its creditors.
- (k) A Group Company ceases, suspends, or indicates that it may cease or suspend, the conduct of all or a substantial part of its business; or disposes, or indicates that it may dispose, of a substantial part of its assets.

- (l) A Group Company takes action to reduce its capital or pass a resolution referred to in section 254N(1) of the Corporations Act.
- (m) Any Convertible Notes or Noteholder's Shares are not issued to the Noteholder within 3 Business Days of the Purchase Date or Conversion Notice Date (as relevant).
- (n) Any Noteholder's Shares are not quoted on ASX by the third Business Day immediately following the date of their issue.
- (o) The Company fails to comply with the ASX Listing Rules in any material respect.
- (p) A stop order, suspension of trading, cessation of quotation, or removal of the Company or the Shares from the ASX Official List is requested by the Company or requested or imposed by any Governmental Authority; except for a suspension of trading not exceeding five Trading Days in a rolling twelve month period or as agreed to by the Noteholder.
- (q) A Transaction Document or a Contemplated Transaction has become, or is claimed (other than in a vexatious or frivolous proceeding) by any person other than the Noteholder or any of its Affiliates to be, wholly or partly void, voidable or unenforceable.
- (r) Any third person commences any action, investigation or proceeding against any person or otherwise asserts any claim which seeks to restrain, challenge, limit, modify or delay the right of the Noteholder or the Company to enter into any Transaction Documents or to undertake any of the Contemplated Transactions (other than in a vexatious or frivolous proceeding).
- (s) A Security Interest over an asset of a Group Company is enforced.
- (t) Any present or future liabilities, including contingent liabilities, of any Group Company for an amount or amounts totalling more than AUD\$250,000 are not satisfied on time, or become prematurely payable.
- (u) A Group Company is in default in a material respect under a document or agreement (including a Governmental Authorisation) binding on it or its assets which relates to financial indebtedness or is otherwise material.
- (v) A Material Adverse Effect occurs (except something arising solely from an act or omission of the Noteholder).
- (w) The Company does not obtain a Shareholder approval to the extent required for the purposes of ASX Listing Rule 7.1 or 7.4 so that a Contemplated Transaction may proceed without breaching ASX Listing Rule 7.1.
- (x) Any event of default (however described) occurs under the GSA.
- (y) Any Group Company grants any Security Interest over any of its assets, or a Security Interest comes into existence over any assets of any Group Company, without the prior written consent of the Noteholder

**Australian Securities and Investments Commission
Corporations Act 2001 — Paragraph 741(1)(b) — Amendment**

Enabling legislation

1. The Australian Securities and Investments Commission makes this instrument under paragraph 741(1)(b) of the *Corporations Act 2001*.

Title

2. This instrument is ASIC Instrument 18-1026.

Commencement

3. This instrument commences on 7 November 2018.

Amendment

4. ASIC Instrument 18-0544 is amended as follows:

(a) in paragraph 8 omit:

“**Convertible Note** means the convertible notes issued to the Investor by the Company pursuant to the Convertible Securities Agreement on the following basis:

Convertible Notes	Date of Issue	Purchase Price	No of Convertible Notes	Face Value (per Convertible Note)
First Purchase Tranche A	Between 20 June 2018 and 27 June 2018 (inclusive)	A\$1,000,000	US\$ cost of the Purchase Price	US\$1.10
First Purchase Tranche B	Within 7 days after the Company obtains shareholder approval for the issue (presently projected to be 31 July 2018)	A\$1,000,000		
Second Purchase	Between 22 August 2018 and 29 August 2018 (inclusive)	A\$2,000,000		
Third Purchase	Between 5 October 2018 and 12 October 2018 (inclusive)	A\$3,000,000		

“

, substitute

"Convertible Note" means the convertible notes issued to the Investor by the Company pursuant to the Convertible Securities Agreement on the following basis:

Convertible Notes	Date of Issue	Purchase Price	No of Convertible Notes	Face Value (per Convertible Note)
First Purchase Tranche A	Between 20 June 2018 and 27 June 2018 (inclusive)	A\$1,000,000	US\$ cost of the Purchase Price	US\$1.10
First Purchase Tranche B	Within 7 days after the Company obtains shareholder approval for the issue (presently projected to be 31 July 2018)	A\$1,000,000		
Second Purchase	Between 22 August 2018 and 29 August 2018 (inclusive)	A\$2,000,000		
Third Purchase	Between 7 November 2018 and 14 November 2018	A\$350,000		

“

Dated this 7th of November 2018



Signed by Peter Deakin
as a delegate for the Australian Securities and Investments Commission