



31 January 2019

ASX Announcement

**December Quarterly Activities Report
For Period Ended 31 December 2018**

Highlights:

Algae Operations

- FeedMeTM product range expanded with the launch of a long shelf-life product
- Biomass stockpile - +17,000kgs
- Cost rationalisation measures initiated

Medicinal Cannabis

- **Australian Update**
 - Cultivation and Manufacturing License applications are both in the Evaluation phase of the Office of Drug Control ("ODC") process.
 - Heads of Agreement executed with St John of God Health Care Inc. (as announced on 8 December 2018)
- **Malta Application**
 - License granted for cannabis cultivation facility (as announced on 4 December 2018)
- **Corporate**
 - A\$2.4m Research & Development Grant received
 - Board rationalisation implemented
 - European / North American investor presentations
 - TSX dual listing due diligence continues
 - Rights Issue to raise circa A\$5m

Plant-based health and well being company Affinity Energy & Health ("Affinity" or the "Company") (ASX:AEB) is pleased to provide shareholders with its Quarterly Activities Report for the period ended 31 December 2018.



December Quarter Operational Summary:

Algae Division Overview

Production

Production at the Atlanta Product Development facility continues to stockpile algae biomass for extraction and refining into high quality algae oil. Currently the Company has over 17,000kgs of biomass available for further processing upon completion of bulk sample testing through Radiant Technology Inc's MAP™ processing.

The continuation of testing through RTI's technology was delayed as RTI quarantined its Edmonton facility to processing cannabis for Aurora Cannabis (one of Canada's largest cannabis producers). RTI are currently establishing a new facility in Spain, with that facility being capable of treating all of the Company's stockpile and future production. It is anticipated that bulk testing will recommence in Q1C19.

As part of a continuous improvement program the Company has been able to reduce the overall head count and operational costs in Atlanta, with the benefits commencing in the quarter under review.

FeedMe™ Product Range

As announced on 2 October 2018 the Company has launched its fifth FeedMe™ product through Seachem Laboratories. The new product has a long shelf-life and is therefore able to be sold to the lucrative export market.

In addition, the Company continues to work with animal feed, aqua feed, health food and new age beverage companies to develop algae-based products suitable for those markets. Development of such products can be a lengthy process due to regulatory requirements, particularly in the human arena and the Company will continue to develop the relationships and products during C19.

Medicinal Cannabis Division Overview

Australian Medicinal Cannabis License

The Office of Drug Control continues to process the Company's applications for Cultivation and Manufacturing licenses and has advised that both applications are at the "Evaluation" stage as of the 18 December 2018.

The Company submitted the above applications on 8 December 2017 and 7 March 2018 respectively. At the time of submitting the applications the ODC website advised that the license application and screening process would take approximately 15 working days and the evaluation phase 60 working

days. In October 2018, some ten months after the Company submitted its applications the ODC amended the website, extending the timeframe it would take to evaluate submissions – the Company was not initially informed of this change directly.

The Company has requested that the ODC provide a timeframe for completion of the process and issuing of the licenses and in addition has contacted WA Senators, the local Federal Member and the Federal Minister for Health for assistance in accelerating the process.

Based on the ODC published time frames, at the time of lodging the applications, the Company anticipated that the two licenses would be issued in Q1/Q2C18. Working on that the assumption the Company moved forward with implementing the business model for the Australian medicinal cannabis operations. During C18 the Company identified and secured premises in Perth for the facility, undertook design work, negotiated heads of agreement on research and development with the University of Sydney, St John of God Health Care Inc, Skin Elements Ltd and secured access to heirloom cultivars (seeds). In addition, the Company has advanced discussions with other research and development organisations, peak industry bodies and private enterprise to further develop the value chain for the operations. To achieve the above the Company has dedicated substantial human and financial resources.

This delay in the issuing of the licenses by the ODC has, as expected, negatively impacted the Company and its ability to move to commence and commercialise its Australian medicinal cannabis operations.

European Medicinal Cannabis License

As announced on 4 December 2018 the Company has been granted a license to establish a cannabis cultivation facility in Malta, one of only eight companies to have been granted such a license. The entire process in Malta from submission to granting of the license was less than three months.

During, and subsequent, to the quarter the Company has completed initial engineering design for the establishment of the facility which will include cultivation, harvesting, drying, oil extraction and packaging sections.

The next step is for the Company to work with Malta Industrial Parks Ltd (a Malta Government body) to identify and select an appropriate building in which to establish the facility. This is currently scheduled for Q1C19.

As previously announced the Company has selected a fully automated, modular hydroponic cultivation, growing and harvesting process developed and utilised in Canada, with the final engineering and design layout to be completed upon allocation of the land by MIPL. The facility will be built to meet European Union GMP standards. The initial planning details that, over a three-year



period, the Company will expand the facility from an initial 15 units to a total of 175. The initial build out will be funded through internal resources and expansions through cash generation.

An initial €200,000 (circa A\$310,000) will be invested directly by AEB in a 100% owned subsidiary company incorporated in Malta, and a further €3,400,000 (circa A\$5.3M) is expected to be invested in this company over the following 3 years to achieve the above production levels.

Initial funding for the construction of phase 1 in Malta will be sourced from available facilities and cash reserves, with expansions funded by cash flow.

Other Cannabis Developments

The sale of CBD oil concentrates to Europe has been delayed due the complexities of achieving GMP (Good Manufacturing Practise) certification on all production (rather than on a batch by batch basis) as is required under European Union regulations for product not produced in Europe.

As part of the AEB's global strategy for medicinal cannabis the Company continues to work with Austrade and ProColombia (Colombian Government enterprise) to submit an application for the cultivation, manufacture and sale of CBD oil.

Corporate Overview

Research & Development Grant Received

During the quarter the Company received in excess of A\$2.4m through the Research & Development Grant. As the Research & Development Grant is rebated after submission of year tax returns (Oct/Nov each year) the Company borrows on a quarterly basis against the current years pre-approval for the grant. Upon receipt of the lump sum post the end of the financial year the Company repays the amounts previously advanced.

Board Rationalisation

As the Company continues to mature and develop the medicinal cannabis business it is recognised that the Board and management will be required to reflect the various areas of expertise required. To this end the Company has commenced a Board and management rationalisation program which will continue through C19. The first phase of this program was the retirement of Allan Tan as a Board member – as announced on 14 January 2019.



Investor Presentations

The Company continued to make presentations to European and North American investors during the quarter. These presentations have resulted in on market buying by investors, providing international support for the Company's business development strategy.

TSX Dual Listing / Spinoff

The Company continues to progress the due diligence work required for a dual listing and is working with corporate advisors in Canada to determine the most appropriate structure to maximise value for the Company. Subject to market conditions it is anticipated that a listing on a Canadian exchange will occur towards the end of Q1C19 or shortly thereafter.

Rights Issue

To advance the Company's algae and medicinal cannabis projects through to positive cash generation, which is scheduled for the second half of 2019, the Company has lected to proceed with a rights issue to all shareholders to raise circa A\$5m. The pricing, ratio and final amount to be raised under the rights issue have yet to be determined.

With regard to medicinal cannabis, funds will be utilised to commence the Phase 1 build out of the facility in Malta (under the licence granted in December 2018). This initial phase will include 16 fully automated hydroponic units in pods of four (2 wide, 2 up) designed to produce +57,000 grams of cannabis oil per annum. The initial capital expenditure will also include oil extraction equipment, product packaging and dispatch facilities to service the European Union and Commonwealth markets.

The facility has been designed to expand to 180 units in pods of six (2 wide, 3 up) and designed production of +640,000 grams pa. The expansion, in stages over four years, will be funded through a combination of cash flow and debt.

Cash flow from Malta is at this stage scheduled for Q3/4C19.

In Australia, and subject to the Office of Drug Control issuing the Company with a cannabis cultivation and manufacturing license, the Company will initially commence the build out for phase 1 of the Australian medicinal cannabis facility (using the same fully automated hydroponics system being implemented in Malta). It is anticipated that should the Company's license be issued in Q1C19 then construction of the Perth based facility would commence towards the end of the first quarter.

In Atlanta a programme to increase capacity to over 250 tonnes per annum has commenced and will continue upon completion of the rights issue.



This will include increasing the capacity in the cultivation, harvesting and drying sections of the plant, combined with a de-bottlenecking of the harvesting section through the introduction of automatic centrifuge operations – significantly reducing production times by eliminating labour intensive manual operations. In addition, the Company will install an internal oil extraction and refining section post drying. Initially this section will treat some 17,000kgs of algae biomass that has been produced and stockpiled. Production will then increase to plus 250 tonnes per annum with product to be sold through the offtake agreement with Gencor Pacific and the Company's own FeedMeAlgae products and those currently produced for Seachem Laboratories.

The Company is currently in discussions to secure underwriting of the rights issue and will in the near term finalise the details of this offer to send to shareholders.

Management Commentary

Executive Chairman, Mal James, commented:

"There is no doubt that the December quarter was a difficult one for the market as a whole and the cannabis sector in particular. With cannabis stock prices weakening globally, namely Canada and Australia, it has been a challenge to attract appropriate funding. The start of the new year has seen a slight recovery providing optimism for the year ahead.

The Company has been adversely, and significantly, impacted by the delay in achieving an Australian medicinal cannabis license, a process that we cannot unfortunately control – even given the steps we have taken to accelerate the process. We remain optimistic towards receiving our Australian license in the first half of 2019 and I will continue to up the market on progress.

With the Company having been granted a license in Malta it has been decided to undertake a rights issue to raise circa A\$5.00M to fund the first phase of the Malta cannabis facility, the initial build out in Australia (post ODC issuing the licences) and expand capacity and oil extraction and refining facilities in Atlanta."

-ENDS-

For further information, please contact:

Affinity Energy & Health Ltd
T: +61 (8) 9380 6790
E: info@affinityenergyandhealth.com.au

Released through Sam Burns, Six Degrees Investor Relations, M: +61 400 164 067



Follow us on Twitter @AffinityAEB



Find us on Youtube – Affinity Energy and Health

About Affinity Energy and Health Limited (ASX. AEB)

Affinity Energy and Health Limited (ASX. AEB) is a plant-based health and wellbeing company that develops a broad range of plant-derived products for supply to three key markets:

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

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Affinity Energy and Health Limited

ABN

16 124 544 190

Quarter ended ("current quarter")

31 December 2018

Consolidated statement of cash flows		Current quarter \$A	Year to date (6 months) \$A
1. Cash flows from operating activities			
1.1 Receipts from customers		90,222	94,023
1.2 Payments for			
(a) research and development		-	-
(b) product manufacturing and operating costs		-	-
(c) advertising and marketing		-57,390	-111,571
(d) leased assets		-	-
(e) staff costs		-845,987	-1,815,907
(f) administration and corporate costs		-431,633	-1,420,069
1.3 Dividends received (see note 3)		-	-
1.4 Interest received		136	157
1.5 Interest and other costs of finance paid		-186,068	-203,990
1.6 Income taxes paid		-1,282	-63,402
1.7 Government grants and tax incentives		-	-
1.8 Other (provide details if material)		2,430,922	2,430,922
1.9 Net cash from / (used in) operating activities		998,920	-1,089,837
2. Cash flows from investing activities			
2.1 Payments to acquire:			
(a) property, plant and equipment		-1,025	-7,725
(b) businesses (see item 10)		-	-
(c) investments			

Consolidated statement of cash flows		Current quarter \$A	Year to date (6 months) \$A
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment		
	(b) businesses (see item 10)		
	(c) investments		
	(d) intellectual property		
	(e) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)	-1,025	-7,725
2.6	Net cash from / (used in) investing activities		

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	350,000	1,350,000
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-52,000	-52,373
3.5	Proceeds from borrowings	480,000	1,006,151
3.6	Repayment of borrowings	-2,002,403	-2,082,212
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-1,224,403	221,566

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	236,767	886,255
4.2	Net cash from / (used in) operating activities (item 1.9 above)	998,920	-1,089,837
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-1,025	-7,725
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-1,224,403	221,566

Consolidated statement of cash flows		Current quarter \$A	Year to date (6 months) \$A
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	10,259	10,259

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A	Previous quarter \$A
5.1	Bank balances	9,935	236,435
5.2	Call deposits	324	332
5.3	Bank overdrafts	-	-
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	10,259	236,767

6. Payments to directors of the entity and their associates

Current quarter \$A

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

188,201

-

- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

7. Payments to related entities of the entity and their associates

Current quarter \$A

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Nil

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>		Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
8.1	Loan facilities	8,831,694	4,181,694
8.2	Credit standby arrangements		
8.3	Other –		
	-		-
8.4	Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

See attached schedule for drawn amounts.

Total facility includes undrawn of \$5,000,000 from Magna Equities.

9. Estimated cash outflows for next quarter	\$A
9.1 Research and development	10,000
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	34,000
9.4 Leased assets	-
9.5 Staff costs	885,000
9.6 Administration and corporate costs	680,000
9.7 Other (provide details if material)	50,000
9.8 Total estimated cash outflows	1,659,000

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

Please refer September Quarterly Activities Report

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:
(Director/Company secretary)

Date: 31 January 2019

Print name: PETER HATFULL

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	Security	31 Dec 18 Carrying amount A\$	30 Jun 18 Carrying amount A\$
China Finance Strategy						
Convertible Note	USD	12%	2016	Unsecured	283,047	337,405
GE Nutrients Inc * ¹	USD	10%	2018	Unsecured	704,229	645,382
Brevet Direct Lending * ²	AUD	15%	2018	Secured	486,165	1,539,799
Hunter Premium Funding	AUD	7.1%	2019	Unsecured	13,500	50,611
707 Holdings	USD	10%	2020	Unsecured	790,955	731,396
Magna Equities	USD	0%	2019	Unsecured	1,903,798	1,100,000
Total borrowings		AUD			4,181,694	4,404,593

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

*² This funding is an advance on the expected ATO Tax refund that will be submitted in August 2019 and covers estimated eligible R & D expenditure for the 1st Quarter of 2019 financial year. The carrying amount from June 2018 was fully repaid in December 2018 following the refund from the ATO relating to eligible R & D expenditure for the 2018 financial year. A further \$266,231 was advanced in January 2019 covering expenditure in October and November 2019.

The effect of *¹ and *² above will be a reduction in debt of \$1,160,655.