



ALGAE.TEC LIMITED

ABN: 16 124 544 190

Financial Report

For the Financial Year

Ended 30 June 2013

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Directors

Roger Stroud	Executive Chairman
Peter Hatfull	Managing Director
Earl McConchie	Executive Director

Company Secretary

Peter Hatfull

Principal Registered Office in Australia

Ground Floor, 516 Hay Street
Subiaco WA 6008

Share Register

Computershare Investor Services Pty Limited
Level 2, 45 St George's Terrace
Perth WA 6000

Auditors

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008

Bankers

National Australia Bank International Operations Level 3, Building B, Rhodes Corporate Park 1 Homebush Bay Drive Rhodes NSW 2138	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
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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 ALGX:US
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Corporate Governance Statement

The Algae. Tec Limited Board is committed to achieving and demonstrating the highest standards of corporate governance. The Board guides and monitors the Company's activities on behalf of the shareholders. In developing policies and standards the Board considers the ASX Group (ASX) Corporate Governance Principles and Recommendations (2nd Edition with 2010 Amendments (CGC Recommendations)).

The Corporate Governance Statement set out below describes the Company's current corporate governance principles and practices which the Board considers to comply with the Corporate Governance Council Recommendations.

As a framework of how the Board of Directors at Algae. Tec Limited ("Company") carries out its duties and obligations, the Board has considered the eight principles of corporate governance as set out in the ASX Corporate Governance Principles and Recommendations, 2nd Edition ("Principles").

The eight principles of corporate governance are:

1. Lay solid foundations for management and oversight
2. Structure the Board to add value
3. Promote ethical and responsible decision-making
4. Safeguard integrity in financial reporting
5. Make timely and balanced disclosures
6. Respect the right of shareholders
7. Recognise and manage risk
8. Remunerate fairly and responsibly

1. Lay solid foundations for management and oversight

Companies should establish and disclose the respective roles and responsibilities of board and management.

Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

The Board is responsible for the governance of the Company. The role of the Board is to provide strategic guidance and effective oversight of management. The Board derives its authority to act from the Company's Constitution.

The objective of Algae.Tec Limited's governance framework is to allow the Board to:

- Reviewing and approving the Company's strategic plans and performance objectives and reviewing the underlying assumptions and rationale.
- Monitoring financial outcomes and the integrity of reporting, and in particular, approving annual budgets and longer-term strategic and business plans.
- Monitoring the effectiveness of the Company's audit, risk management and compliance systems that are in place to protect the Company's assets and to minimise the possibility of the Company's operating beyond acceptable risk parameters.
- Monitoring compliance with legislative and regulatory requirements (including continuous disclosure) and ethical standards, including reviewing and ratifying codes of conduct and compliance systems.



Corporate Governance Statement

For the year ended 30 June 2013

1. Lay solid foundations for management and oversight (continued)

- Monitoring the effectiveness of the Company's audit, risk management and compliance systems that are in place to protect the Company's assets and to minimise the possibility of the Company's operating beyond acceptable risk parameters.
- Monitoring compliance with legislative and regulatory requirements (including continuous disclosure) and ethical standards, including reviewing and ratifying codes of conduct and compliance systems.
- Selecting, appointing and monitoring the performance of the Senior Executives, and if appropriate, terminating the appointment of these Senior Executives.
- Reviewing senior management succession planning and development and ensuring appropriate resources are available to senior executives.
- Reviewing and recommending to shareholders the appointment or if appropriate the termination of the appointment of the external auditor.
- Monitoring the timelines and effectiveness of reporting to shareholders.

The Board delegates to the Managing Director responsibility for implementing the Company's strategic direction and for managing the Company's day to day operations. Clear lines of communication have been established between the Chairman and the Managing Director to ensure that the responsibilities and accountabilities of each are clearly understood.

Recommendation 1.2: *Company should disclose the process for evaluating the performance of the Executive Team.*

All Executive Team members have formal position descriptions and each year key performance measures are established in line with their roles and responsibilities.

The Managing Director has personal objectives related to business units and the Company as a whole.

The Chairman together with the full Board assesses the performance of the Managing Director against those objectives on a regular basis at Board meetings. The Board also monitors the performance of the Company Secretary and other members of the Executive Team. The Company will move to more formal processes with the introduction of the Remuneration Committee, which will be established during the year to June 2014.

All newly appointed executives receive formal letters of appointment. The contents of the appointment letter contain sufficient information to allow the new Director to gain an understanding of.

- The Company's financial position, strategies, operations and risk management policies.
- The rights, duties and responsibilities of Directors.
- The roles and responsibilities of the Executive Team.
- The role of Board Committees.

2. Structure of the board to add value

As at the date of this report, the Board comprises of three directors. Algae.Tec Limited's constitution provides for a minimum of three directors and not more than nine directors. The Board is composed of Directors with diverse skills and experience, relevant to the business of the Company and a mixture of executives and independent non-executive director.

The Board met 7 times during the financial year. Directors' attendances are set out on Page 14 of this report.

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Corporate Governance Statement

For the year ended 30 June 2013

2. Structure of the board to add value (continued)

Recommendation 2.1: A majority of the board should be independent directors.

The Board consisted of one independent non-executive Director and three Directors. The independent director,, Mr Timothy Morrison, who was not a major shareholder (i.e. neither he nor his associates held more than 5% of the Group's paid up capital and he has no association with any major shareholder). Mr Timothy Morrison resigned as non-executive director on 19 April 2013. At the date of this report, the position of non-executive director has not been filled. Due to the size of the Company, it is not considered practical at this time to have a majority of independent directors. It is the Boards' intent to appoint more independent directors and move to a majority of independent directors as the Company grows.

The Company considers an independent Director to be a Director who does not have any material relationship with the Company that a reasonable person would consider may influence the Director's ability to:

- Objectively make decisions on matters that come before the Board
- Carry out their duties as a Director acting in the best interest of the Company
- Be free of real or reasonably perceived conflict of interest.

In assessing independence, the Board reviews the relationship that the Director and their immediate family have with the Company. In Particular the Board applies the following criteria in determining independence.

Non-Executive Director

- Is not a shareholder of the Company holding more than five per cent of the voting shares or an officer of or otherwise associated directly with, a shareholder of the Company holding more than five per cent.
- Within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or any other group member, or an employee materially associated with the service provided.
- Is a material supplier or customer of the Company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer.
- Has no material contractual relationship with the Company or another Group member other than as a Director of the Company.

The Board regularly assesses the independence of the Non-Executive Director and has specifically considered the independence of the Non-Executive Director, in accordance with the above criteria, during the financial year. The Board will determine that the Non-Executive Director remains independent.

The Directors in office at the date of this statement are:

Mr Peter Ernest Hatfull	Managing Director and Company Secretary
Garnet Earl McConchie	Executive Director
Roger Sydney Stroud	Executive Chairman

Resignation:

Mr Timothy Morrison	Non - Executive Director (resigned 19 April 2013)
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Recommendation 2.2: The Chair should be an independent director.

The Chairman, Mr Roger Stroud is currently not independent nor are the other two directors, Mr Peter Hatfull and Mr Earl McConchie. Each of them are shareholders of the Group. As the Group grows, it is intended that an independent Chairman will be appointed.



Corporate Governance Statement

For the year ended 30 June 2013

2. Structure of the board to add value (continued)

Recommendation 2.3: The roles of the chair and managing director should not be exercised by the same individual.

The roles of the Chairman and Managing Director are not exercised by the same individual. The Chairman Mr Roger Stroud is responsible for leading the Board in its Duties, facilitating effective discussions at Board level and ensuring that general meetings are conducted efficiently, whereas, the Managing Director, Mr Peter Hatfull, is responsible for the efficient operation of the Company.

Recommendation 2.4: The Board should establish a nomination committee.

The Board has not established a nomination committee. The Board, as a whole, deals with areas that would normally fall within the charge of the Nomination Committee. These include matters relating to the renewal of Board Members and Board Performance.

Recommendation 2.5: Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.

The Board undertakes ongoing self-assessment and review of its performance and of the performance of the Chairman and individual Directors.

3. Promote ethical and responsible decision-making

Companies should actively promote ethical and responsible decision-making

Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code as to:

- The Practices necessary to maintain confidence in the Company's integrity.
- The Practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders.
- The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Company is committed to Directors and employees maintaining high standards of integrity and ensuring that activities are in compliance with the law and Company policies.

Directors are acquainted with obligations imposed on them and the Company by the Corporations Act and are familiar with other documents prepared by the Company to meet Corporate Governance requirements:

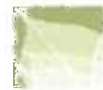
- Algae.Tec Limited Corporate Governance Policy
- Algae.Tec Limited Trading Policy
- Algae.Tec Limited Code of Conduct

The Objective of the Company's Code of Conduct is to help Directors and Employees make informed choices about their behaviour.

The Company's Corporate Governance Practices and Policies summarises the Corporate Governance practices put in place by the Board, including:

- The Role of the Board
- Composition of the Board
- Independence of the Board
- For the year ended 30 June 2013
- Audit Committee and Risk Management
- Board Committees
- Ethical Standards
- Dealing with Shares
- Continuous Disclosures

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**Corporate Governance Statement**

For the year ended 30 June 2013

3. Promote ethical and responsible decision-making (continued)

Recommendation 3.2: Companies should establish policy diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.

The Company has established a Diversity Policy, however due to the Company's size and short history, there are aspects which do not comply with the CGC Principles and Recommendations 3.2 and Recommendations 3.3 pertaining to disclosure for achieving gender diversity set by the Board. The Board at this juncture has not set measurable objectives. This policy will be reviewed as part of the annual compliance review to the Board to ensure that the Diversity Policy is being progressed as required and to set measurable objectives when appropriate for the Company.

Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

The Board at this juncture has not set measurable objectives. This policy will be reviewed as part of the annual compliance review to the Board to ensure that the Diversity Policy is being progressed as required and to set measurable objectives when appropriate for the Company.

Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

The table in respect of this follows:

Gender	Total	Senior Management	Board
Female	4	0	0
Male	21	3	3
%Female	16%	0%	0%

Recommendation 3.5: Companies should provide the information indicated in the Guide to reporting on Principle 3.

The Company in respect of the Diversity Policy has followed the recommendations set by the ASX Corporate Governance Council for the whole period during the financial year ended 30 June 2013 except for items noted above.

4. Safeguard integrity in financial reporting

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

Recommendation 4.1: The Board should establish an audit committee.

The Board has established an Audit Committee.

Recommendation 4.2: The audit committee should be structured so that it:

- Consist only of non-executive directors
- Consists of majority of independent directors
- Is chaired by an independent chair, who is not chair of the board
- Has at least three members



Corporate Governance Statement

For the year ended 30 June 2013

4. Safeguard integrity in financial reporting (continued)

Due to the current size of the organisation, the audit committee does not have a majority of independent directors. However, the Audit Committee and the Board currently regularly;

- Monitor and review the effectiveness of the Group's control environment, reporting practices and responsibilities in the areas of accounting, risk management and safeguard of assets.
- Review and approve internal audit plans including identified audit risk areas.
- Oversee and appraise the quality of audits conducted and monitor their effectiveness.
- Monitor and evaluate compliance processes and adherence.

Recommendation 4.3: *The audit committee should have a formal charter.*

The committee is responsible for:

- Providing assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to the Group's risk management systems, financial reporting, internal control structure and the internal and external audit functions.
- Monitoring compliance with the Corporations Act, ASX Listing Rules and any matters outstanding with taxation and other regulatory authorities.
- Nomination of external auditors; and
- Overseeing the financial reporting process.

Recommendation 4.4: *Companies should provide the information indicated in the Guide to reporting on Principle 4.*

The Company will make the relevant material available, on its website in accordance with this recommendation.

5. Making timely and balanced disclosure

Companies should promote timely and balanced disclosure of all material matters concerning the Company.

Recommendation 5.1: *Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.*

The Company has obligations under the *Corporations Act* and ASX Listing Rules to keep the market fully informed of information which may have a material effect on the price or value of its securities. The Company discharges these obligations by releasing information to ASX in the form of an ASX release or disclosure in other relevant documents (e.g. the Annual Report).

The Company Secretary is responsible to the Board, through the Chairman, on all governance matters and maintaining compliance systems which ensure the Board and Company adhere to ASX Listing Rules and the *Corporations Act*.

Recommendation 5.2: *Companies should provide the information indicated in the Guide to reporting on Principle 5.*

The Company will make available its Continuous Disclosure Policy on its website, in accordance with this recommendation.



Corporate Governance Statement

For the year ended 30 June 2013

6. Respect the rights of shareholders

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

The Board recognises the important rights of shareholders and strives to communicate with shareholders regularly and clearly, both by electronic means and using more traditional communication methods. Shareholders are encouraged to attend and participate at general meetings. The Company's auditors attend the Annual General meeting of the Company and are available to answer shareholders' questions.

Consistent with this approach, the Company has adopted a Shareholder Communications Policy, which includes the following initiatives and practices.

- Communicating effectively with shareholders through releases to the market via the ASX, the media, the company's website, information mailed to shareholders and the general meetings of the Company.
- Ensuring all information disclosed to the ASX is posted on the Company's website when it is disclosed to the ASX. This includes presentation material used in public presentations and to brief analysts, which is also released to the ASX and posted on the Company's website.
- Arranging for the external auditor to attend the Company's Annual General Meeting and be available to answer shareholder questions about the conduct of the auditor and the preparation and content of the Auditor's Report.

Recommendation 6.2: Companies should provide the information indicated in the Guide to Reporting on Principle 6.

The Company will make the relevant material available, being its Shareholder Communications Policy, on its website in accordance with this recommendation.

7. Recognise and manage risk

Companies should establish a sound system of risk oversight and management and internal control.

Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

The Board, together with management, has sought to identify, assess, monitor and mitigate risk. Internal controls are monitored on a continuous basis and wherever possible, improved. The Board determines the Group's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The Board's collective experience will enable accurate identification of the principal risk that may affect the Group's business. Key operational risk and their management will be recurring items for deliberation at Board Meetings.

Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

The Company performs regular audits of the internal control systems and risk management compliance across the Group. The audits take account of both the nature and materiality of risk.

Management provide monthly reports to the Board which include the identification of material business risks and matters relating to the effectiveness of the Company's management of its material business risk.

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Corporate Governance Statement

For the year ended 30 June 2013

7. Recognise and manage risk (continued)

Recommendation 7.3: The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the systems is operating effectively in all material respects in relation to financial reporting risks.

The Managing Director and Management Accountant confirm in writing to the Board that the declaration provided in accordance with s295A of the Corporations Act is founded on sound risk management and internal control systems and that the system is operating effectively in all material aspects in relation to financial reporting risks.

Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.

The Company has included the information indicated in the Guide to reporting on Principle 7 in the Corporate Governance Statement. The Company will also place the material that the Guide specifies and make publicly available on its website, in accordance with this recommendation.

8. Remunerate fairly and responsibly

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

Recommendation 8.1: The board should establish a remuneration committee.

The Board has not established a Remuneration Committee at this point in the Group's development, but will soon as per point 1.2 It is considered that the size of the Board along with the level of activity of the Group renders this impractical and the full Board considers in detail all of the matters for which the directors are responsible. Remuneration to the independent Director is by way of Director Fees only, with the level of such fees, having been set by the Board to an amount it considers to be commensurate for a Group of its size and level of activity.

The remuneration for the executive directors is as disclosed in the Directors' Report. Non – executive Directors do not receive performance based bonuses and do not participate in equity schemes of the Group, nor are they entitled to retirement allowances. There is currently no link between performance and remuneration and there are no schemes for retirement benefits in existence.

The Board is responsible for determining the remuneration of the Chief Executive Officer and senior executives.

Recommendation 8.2: The remuneration committee should be structured so that it consists of a majority of independent directors, is chaired by an independent chair, and has at least three members.

Refer to recommendation 8.1 above.

Recommendation 8.3: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

A description of the structure of Non-Executive Director's remuneration and Executive Director's remuneration is contained in the remuneration report on page 18 of this Annual Report.

Recommendation 8.4: Companies should provide the information indicated in the Guide to reporting on Principle 8.

The Company has included the information in the Guide to reporting on Principle 8 in this Corporate Governance Statement. The Company will also place the material that the Guide specifies and make publicly available on our website, in accordance with this recommendation.

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Corporate Governance Statement

For the year ended 30 June 2013

The Board of Directors and the Company Secretary are responsible for the corporate governance of the Group and were guided by the Director's Code of Conduct, the Corporate Governance Policy and the ASX Corporate Governance Council Principles and Recommendations during the financial year. The Board guides and monitors the business affairs of Algae.Tec Limited and its subsidiary Group on behalf of the shareholder to whom they are accountable.

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Directors' Report

For the year ended 30 June 2013

The Directors present their report together with the consolidated financial statements of the Group comprising of Algae. Tec Limited (the Company) and its subsidiary for the financial year ended 30 June 2013.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Mr Peter Hatfull	Managing Director
Garnet Earl McConchie	Executive Director
Roger Sydney Stroud	Executive Chairman
Mr Timothy Morrison	Non - Executive Director (resigned 19 April 2013)

Information on Directors

Details of the Directors' qualifications and experience are set out as follows:

Peter Ernest Hatfull Managing Director

Peter 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 Group restructuring. Prior to becoming Managing Director of Algae.Tec Ltd, Peter held senior financial and board positions in Australia, Africa and the UK. Peter graduated as a Chartered Accountant in the United Kingdom where he worked for Coopers and Lybrand (now PriceWaterhouseCoopers), and subsequently moved to Africa, where he spent 8 years in Malawi. Peter moved to Perth in 1988.

Interest in Shares and options

Peter Hatfull currently holds 9,941,178 ordinary shares in Algae.Tec Limited, and nil options.

Other Appointments

Peter Hatfull currently also holds the position of Company Secretary of Algae.Tec Limited. Peter Hatfull was Independent Director of Kresta Holdings until March 2011. These are the only appointments held in public entities in the past three years.

Garnet Earl McConchie Executive Director

Earl has over 35 years' experience over a broad field of chemistry and associated technologies. Earl'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). Earl has over 10 years of specific technical and business experience in the biodiesel and glycerine industry sectors. He is a founding director and joint controlling shareholder of Teco.Bio LLC and is based in Atlanta, Georgia where he has co-ordinated the microalgae development. Earl has received a BSc (Chem. Eng) from Virginia Polytechnic Institute & State University, and a ME Chemical Engineering from Texas A & M University. He is a registered Professional Engineer, Member of the National Society of Professional Engineers, The American Institute of Chemical Engineers, and the Society of Plastic Engineers.

Interest in shares and options

Earl McConchie controls Dot.Bio Inc which holds 50% of Teco.Bio LLC which in turns holds 200 million shares in Algae.Tec Limited. Additional 4,500,000 shares are held by the immediate family of Earl McConchie. Earl McConchie currently holds nil options.

Other Appointments

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

Directors' Report

For the year ended 30 June 2013

Roger Sydney Stroud Executive Chairman

Roger has over 35 years' experience in a variety of industries. He spent over 10 years in finance in a number of areas including credit, money market and investment banking for CitiNational (Citibank/National Mutual) merchant bank, predominantly in Sydney. Following the above, he floated a mining company, with a head office based in Sydney, and undertook the role of Managing Director for 8 years. After floating a manufacturing company, and overseeing the building of modern brickworks in Perth, Roger provided advisory services to mining and manufacturing businesses for a number of years. In the late 1990s, Roger began the process of building businesses in the renewable fuel sector, primarily biodiesel. This included floating two separate biodiesel companies. Roger is a founding director and joint controlling shareholder of Tec.Bio LLC, and is based in Perth, WA. Roger has received a BSc from Sydney University, majoring in Chemistry and Geology and a BA (Economics) from Macquarie University. He is currently chairman of the "Centre for Research into Energy for Sustainable Transport," a collaborative of Curtin and Murdoch University based on Murdoch Campus. Additionally, he is on the Board of the Fuels and Energy Technology Institute (FETI), situated at Curtin University.

Interest in shares and options

Roger Stroud controls Teco Pty Ltd which holds 50% of Teco.Bio LLC which in turn holds 200 million shares in Algae.Tec Limited. An additional 1,625,866 shares are held indirectly. Roger Stroud currently holds 3,550,000 options.

Other Appointments

Roger Stroud also holds Directorships with Teco Pty Ltd and Teco.Bio LLC, he has not held any other directorships with any public entities in the past three years.

Timothy Morrison Non-Executive Director – Resigned April 2013

Timothy Morrison is currently a partner at Empire Equity, a boutique corporate advisory group based in Perth with offices in San Francisco and London. In this role, Mr Morrison is responsible for structuring equity debt financing for mid-tier ASX listed companies.

Previously, Mr Morrison was General Manager of Murdoch Link Pty Ltd, the commercial arm of Murdoch University, which is the dedicated provider of quality research consultancy services to the professions, industry and government.

Tim has a BA (1st Hon) from Murdoch University, a Post Grad Diploma (Social Research Methods) from Murdoch, and an MBA (Financial Management) from the University of Western Australia.

Interest in shares and options

At the date of his resignation, Mr Timothy Morrison held 2,000,000 ordinary shares with Algae.Tec Limited and nil options.

Other Appointments

Timothy Morrison was also a Director of Alcyone Limited at the time of his resignation. Timothy was Executive Director of One North Limited until 2012. These are the only appointments held in public entities in the past three years.

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.

	Directors Meeting
No. of meetings held	7
<u>No. of meetings attended</u>	
<i>Mr Timothy Morrison</i>	6
<i>Mr Peter Ernest Hotfull</i>	7
<i>Garnet Earl McConchie</i>	7
<i>Roger Sydney Stroud</i>	7



Directors' Report

For the year ended 30 June 2013

Principal Activities

The principal activity of the Group during the course of the financial year was the production of algal oil and algal biomass for sale as feedstock to producers of biodiesel, jet fuel and ethanol.

Overview of the Group

The year to 30 June 2013 has been a development year for Algae.Tec Ltd, growing from a mainly research and development company to one concentrating on moving towards commercial scale plants in conjunction with major strategic partners. The Company has continued its approach of forming strong strategic partnerships, and negotiations with a number of major groups in different geographical locations around the world are continuing.

Review of financial position

The consolidated loss of the Group amounted to \$4,420,514 (2012: Loss \$5,737,646) after including a tax refund due for R & D activities in the financial year of \$3,350,560.

Net cash expended through operating activities for the financial year was \$5,450,444, an 11.8% decrease on the \$6,181,409 spent in the prior year.

Major events during the year were as follows:

Lufthansa

On 19 September 2012, a Collaboration Agreement was signed with Lufthansa, building on the MOU which was signed on 22 December 2011. This agreement stated that the two parties would jointly develop a large scale industrial algae oil production plant in Europe based on Algae.Tec's technology and supported by an offtake agreement with Lufthansa. The identification of suitable sites and detailed documentation is still being finalised.

Nowra Demonstration Facility

The Company continued to develop its showcase demonstration facility at Nowra in New South Wales. After a number of initial teething problems, strong growths of algae were achieved but certain elements needed to be changed to achieve optimum growth levels. These changes are currently being implemented.

Government Research and Development Grant

On 11 January 2013, the Company announced approval from the Australian Government for a cash refund on development expenditure of up to AU\$12.5 million for the financial years 2012 to 2015. The approval is to support the funding of at least three algae bioreactor facilities in Australia, Asia and the USA.

Convertible Note

On 19 April 2013, the Company held a meeting of shareholders to seek approval for the continuing conversion of the Convertible Note, held by La Jolla Cove Investors, into ordinary shares. Shareholders voted against any further conversions, which then necessitated the Company entering into agreements to cancel the outstanding notes and to repay any outstanding monies.

Holcim

Following the announcement on 1 December 2011 of a collaboration contract with Holcim Lanka, one of the two largest cement manufacturers in the world, site preparations have been commenced and the first bioreactor delivered. However the remainder of this facility will be finalised once further equity funds are raised.

Corporate Placement and Share Purchase Plan

On 8 May 2013 the Company announced that it had received commitments for the placement of new fully paid ordinary shares to a strategic investor for the sum of AU\$1 million. In conjunction with this placement the Company announced a Shareholder Purchase plan. This plan was completed on 16 July 2013 and raised AU\$724,399.

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Directors' Report

For the year ended 30 June 2013

Macquarie Generation

On 2 July 2013 the Company announced a deal with Australia's largest power company, Macquarie Generation, to site a commercial algae production facility alongside a 2640 MW coal-fired power station near Sydney. Macquarie Generation is owned by the New South Wales Government and the agreement is to site the algae plant next to the Bayswater power station and feed waste carbon dioxide directly into the enclosed algae growth system.

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.

Events subsequent to reporting date

A Share Purchase Plan was offered to shareholders during June 2013 and was finalised in July 2013 resulting in the issue of 3,292,737 ordinary shares at a price of 22 cents per share for a total amount of \$724,399.

Subsequent to the reporting date, Macquarie Bank Limited offered to extend the Research and Development facility funding to cover the 2014 expenditure on the same terms.

As at the date of this report, the directors are not aware of any other matter or circumstance that has arisen in the interval between the end of the financial year under review and the date of this Directors' report that, in the opinion of the Directors has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

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 Review of Operations on pages 15 to 16, which forms part of the Directors' report.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

Algae.Tec Ltd will not be subjected to significant environmental regulations under both the Commonwealth and State legislation.

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 is as follows:

	Algae.Tec Limited	
	Ordinary Shares	Options over ordinary shares
Peter Hatfull	9,941,178	-
Roger Stroud	201,625,866	3,550,000
Earl McConchie	204,500,000	-

1. By virtue of Section 608 (3) of the Corporations Act, as Mr Stroud controls Teco Pty Ltd which holds 50% of Teco.Bio LLC which in turn holds 200 million Shares.
2. By virtue of Section 608(3) of the Corporations Act, as Mr McConchie controls Dot-Bio Inc which holds 50% of Teco.Bio LLC which in turn holds 200 million Shares. Related parties of Mr McConchie together hold 4.5 million Shares.

Options and Rights Granted

No options or rights were granted to key management personnel during the year.



Directors' Report

For the year ended 30 June 2013

Indemnification and Insurance of Officers and Executives

Indemnification

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

The Company has also agreed to indemnify senior executive for all liabilities to another person (other than the Company or related body corporate) that may arise from their position in the Company and its controlled entity, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities.

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.

Non-Audit Services

During the year BDO Audit (WA) Pty Ltd ("BDO"), the Group's current auditor and Somes and Cooke (previous auditor), performed certain other services in addition to the audit and review of financial statements.

The board has considered the non-audit services provided during the year by the auditors, and is satisfied that the provision of those non-audit services is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditors of the Group, Somes and Cooke (2012) and BDO for audit and non-audit services provided during the year are set out below.

	2013	2012
Services other than audit and review of financial statements		
<i>Other regulatory audit services - Somes & Cooke</i>	2,000	-
<i>Other assurance services - BDO</i>	9,894	18,796
<i>Other services - J Milner</i>	-	34,272
Taxation compliance services - BDO	10,109	13,024
Audit and review of financial statements - J Milner	-	21,162
Audit and review of financial statements - Somes & Cooke	17,500	34,500
Audit and review of financial statements - BDO	33,683	-
Total paid to J Milner	-	55,434
Total paid to Somes & Cooke	19,500	34,500
Total paid to BDO	53,686	31,820
Total paid	73,186	121,754



For the year ended 30 June 2013

Proceedings on behalf of the Company

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2011* is set out on page 58.

Remuneration Report – audited

Principles of compensation - audited

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

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 segment/s' 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.

Performance linked compensation

Performance linked compensation includes both short-term and long-term incentives, and is designed to reward senior executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is a bonus provided in the form of cash, while the long-term incentive (LTI) is provided as options over ordinary shares of the Company under the rules of the Employee Incentive Option Plan. No incentives options have yet been issued under the Plan.

Any such performance compensation is at the discretion of the Board of Directors

Additional information

The table below sets out the performance of the company and the consequences of performances on shareholders' wealth for the past three financial years.

	2013	2012	2011
Quoted price of ordinary shares at period end (cents)	0.17	0.34	0.30
Quoted price of options at period end (cents)	0.06	0.12	-
Profit/(loss) per share (cents)	(0.02)	(0.03)	(0.01)

No remuneration consultants were used during the year.

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**Directors' Report***For the year ended 30 June 2013***Service contracts****Managing Director**

Set out below are the key terms of the employment contract of the Managing Director, Peter Hatfull:

Term	<p>From 1 October 2010 until one of the following occurs:</p> <ol style="list-style-type: none"> a. The Company gives the Managing Director one month written notice; b. The Managing Director gives the Company one month written notice; or c. The Company terminates the contract due to actions of the Managing Director such as serious misconduct, dishonesty and bankruptcy.
Payments on Termination	<p>If the contract is terminated under (a) or (b) above, the Company is obliged to pay the Managing Director equivalent amount of Remuneration in lieu of notice.</p> <p>If the contract is terminated under (c) above, the Company is only obliged to pay the Managing Director any accrued remuneration, including superannuation and leave entitlements.</p>
Remuneration	<p>Fixed annual remuneration: \$300,000 base salary per annum, plus superannuation contributions at the rate stipulated under the Australian Government SGC and benefits as allocated by the Managing Director in accordance with the Company's policies. As of 1 February 2013 the base salary was temporarily reduced to \$150,000 per annum.</p> <p>Review of remuneration: The remuneration will be reviewed at least annually, with any increase at the absolute discretion of the Company.</p> <p>Annual leave: Four weeks annual leave per annum (in addition to public holidays)</p>

Executive Director

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

Term	<p>From 1 October 2010 until one of the following occurs:</p> <ol style="list-style-type: none"> a. The Company gives the Managing Director one months' written notice; b. The Managing Director gives the Company one months' written notice; c. The Company terminates the contract due to actions of the Managing Director such as serious misconduct, dishonesty and bankruptcy.
Payments on Termination	<p>If the contract is terminated under (a) or (b) above, the Company is obliged to pay the Managing Director equivalent amount of Remuneration in lieu of notice.</p> <p>If the contract is terminated under (c) above, the Company is only obliged to pay the Managing Director any accrued remuneration, including superannuation and leave entitlements.</p>
Remuneration	<p>Fixed annual remuneration: \$300,000 gross salary per annum not inclusive of superannuation and health insurance benefits.</p> <p>Review of remuneration: The remuneration will be reviewed at least annually, with any increase at the absolute discretion of the Company.</p> <p>Annual leave: Six weeks annual leave per annum (in addition to public holidays)</p>

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Directors' Report

For the year ended 30 June 2013

Service contracts (continued)

Key terms of consultant agreement

Set out below are the key terms of consultant agreement of the Executive Chairman, Roger Stroud:

Term	From 1 July 2010 to end on 1 December 2013 unless otherwise negotiated. a. Either party may cancel this agreement on 30 days written notice b. The Company 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 under (a) above, the Company is obliged to pay the Consultant equivalent amount in lieu of notice.
Remuneration	The Consultant is paid a monthly rate of \$30,000 for work performed in accordance with the agreement. The Company and Consultant agree that the Consultant will act as an independent contractor and is responsible for payment of all taxes.

Non-executive directors

Fees and payments to Non-Executive Directors reflect the demand 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.

No options issued for remuneration remain on issue.



Directors' Report

For the year ended 30 June 2013

Remuneration Report – audited (continued)

Key management personnel remuneration – audited

Details of the nature of remuneration of each director of the Company, and other key management personnel of the consolidated entity are:

Directors	in dollars	Short-term				Post-employment	Other long term	Share-based payments		Total \$
		Salary & fees \$	Non-monetary benefits \$	Performance related %	Total \$			Termination benefits \$	Options and rights \$(B)	
Executive Directors										
Roger Stroud	2013	335,727	-	-	335,727	-	-	-	-	335,727
	2012	393,000	-	-	393,000	-	-	-	-	393,000
Peter Hatfull	2013	212,500	-	-	212,500	19,125	-	-	-	231,625
	2012	315,000	-	-	315,000	28,350	-	-	-	343,350
Earl McConchie	2013	263,629	36,996	-	300,625	7,346	-	-	-	307,971
	2012	395,926	-	-	395,926	12,415	-	-	-	408,341
Sub-total executive directors remuneration	2013	811,856	36,996	-	848,852	26,471	-	-	-	875,323
	2012	1,103,926	-	-	1,103,926	40,765	-	-	-	1,144,691
Total directors' remuneration	2013	811,856	36,996	-	848,852	26,471	-	-	-	875,323
	2012	1,103,926	-	-	1,103,926	40,765	-	-	-	1,144,691



Directors' Report

For the year ended 30 June 2013

Remuneration Report – audited (continued)

Directors' and executive officers' remuneration – audited (continued)

		Short-term			Post-employment	Other long term	Termination benefits	Share-based payments	Total \$
		Salary & fees \$	Non-monetary benefits \$	Total \$					
Former Director									
	2013	30,000		30,000				30,000	
Timothy Morrison*	2012	50,000		50,000				50,000	
Total key management personnel remuneration	2013	841,856	36,996	878,852	26,471			905,323	
	2012	1,153,926	-	1,153,926	40,765			1,194,691	

* Non-executive director (resigned 19 April 2013)

Directors' Report

For the year ended 30 June 2013

Remuneration Report – *audited* (continued)

Directors' and executive officers' remuneration – *audited* (continued)

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

- A. No short-term incentive bonus was awarded during the respective financial year.
- B. No long-term incentive was issued during the respective financial year.

End of Audited Remuneration Report

Signed at Perth, in accordance with a resolution of the directors,



Peter Hatfull

Managing Director

27 September 2013



Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2013

	Notes	30 June 2013	30 June 2012
Revenue from operating activities			
Interest		8,200	24,267
Other income			
R & D tax incentive	2	3,350,560	1,578,493
Other		150,482	17,390
Derivative of fair value movement	10	-	41,085
		<u>3,509,242</u>	<u>1,661,235</u>
Expenditure			
Employee benefits		(2,619,558)	(1,808,139)
Depreciation expense		(193,000)	(80,500)
Advertising expense		(282,095)	(265,167)
Property, rent & lease expenses		(334,598)	(196,335)
Communication expenses		(94,145)	(54,650)
Consultancy expenses		(495,966)	(606,502)
Filing and listing fees		(151,038)	(90,043)
Freight and courier expenses		(62,991)	(137,576)
Insurance expenses		(132,239)	(66,180)
Legal fees		(175,569)	(80,930)
Materials and supplies		(174,132)	(323,864)
Professional fees (share based payments)	13	(164,000)	(798,000)
Professional fees (other)		(938,915)	(421,996)
Repairs and maintenance expenses		(114,925)	(349,293)
Travel expenses		(540,796)	(499,962)
Finance costs		(494,130)	(18,087)
Unrealised foreign exchange profit/(loss)		(38,331)	116,347
Other expenses		(377,062)	(487,148)
Research and development expenses		(740,665)	(1,230,856)
Loss on sale of fixed assets		(15,139)	-
Loss before income tax		<u>(4,630,052)</u>	<u>(5,737,646)</u>
Income tax benefit	7	209,538	-
Net loss attributable to members of the company		<u>(4,420,514)</u>	<u>(5,737,646)</u>
Other comprehensive income/(loss)			
Items that may be reclassified to the profit and loss			
Effect of exchange rate translation	13	(19,926)	24,354
Other comprehensive income/(loss) for the year		<u>(19,926)</u>	<u>24,354</u>
Total comprehensive income/(loss) for the year		<u>(4,440,440)</u>	<u>(5,713,292)</u>
Earnings per share			
Basic loss per share (cents per share)		(0.02)	(0.02)

The notes of pages 28 to 55 are an integral part of these consolidated financial statements.

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Consolidated Statement of financial position

As at 30 June 2013

	Notes	30 June 2013	30 June 2012 Restated	1 July 2011 Restated
Assets				
Cash and cash equivalents	11	234,431	1,586,787	2,434,251
Trade and other receivables	8	3,486,316	1,974,030	247,717
Prepayments	9	97,399	79,277	63,554
Total current assets		3,818,146	3,640,094	2,745,522
Property, plant and equipment	6	907,907	1,095,532	127,554
Prepaid derivative	10	-	335,296	-
Deferred tax assets	7	239,283	-	-
Other non current assets		-	-	18,000
Total non-current assets		1,147,190	1,430,828	145,554
Total assets		4,965,336	5,070,922	2,891,076
Liabilities				
Trade and other payables	18	853,371	592,106	81,336
Loans and borrowings	16	3,503,869	7,538	-
Tax payable	7	29,745	-	-
Provisions	17	74,501	36,220	10,820
Total current liabilities		4,461,486	635,864	92,206
Non-current liabilities				
Derivative liability	10	-	294,211	-
Loans and borrowings	16	3,768	623,408	-
Total non-current liabilities		3,768	917,619	-
Total liabilities		4,465,254	1,553,483	92,206
Net assets		500,082	3,517,439	2,798,870
Equity				
Share capital	13	13,204,749	11,878,665	5,446,804
Currency exchange reserve	13	35,507	55,434	31,080
Share option reserve	13	97,000	-	-
Accumulated losses		(12,837,174)	(8,416,660)	(2,679,014)
Total equity		500,082	3,517,439	2,798,870

The notes of pages 28 to 55 are an integral part of these consolidated financial statements.

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Consolidated Statement of changes in equity

For the year ended 30 June 2013

	Note	Share capital	Accumulated losses	Foreign exchange reserve	Share based payment reserve	Total equity
Balance at 1 July 2012 (restated)		11,878,665	(8,416,660)	55,434	-	3,517,439
Loss for the period		-	(4,420,514)	-	-	(4,420,514)
Other comprehensive loss	13(ii)	-	-	(19,926)	-	(19,926)
Total comprehensive loss for the year		-	(4,420,514)	(19,926)	-	(4,440,440)
Share issued during the period	13	1,326,084	-	-	-	1,326,084
Value of share options issued	13(iii)	-	-	-	97,000	97,000
Share issue expenses		-	-	-	-	-
Balance at 30 June 2013		13,204,749	(12,837,174)	35,508	97,000	500,082
		Share capital	Accumulated losses	Foreign exchange reserve	Share based payment reserve	Total equity
Balance at 1 July 2011		5,446,804	(2,878,741)	31,080	-	2,599,143
Adjustment of change in accounting policy	3	-	199,727	-	-	199,727
Balance at 1 July 2012 (restated)	3	5,446,804	(2,679,014)	31,080	-	2,798,870
Loss for the period	3	-	(5,737,646)	-	-	(5,737,646)
Other comprehensive income		-	-	24,354	-	24,354
Total comprehensive loss for the year		-	(5,737,646)	24,354	-	(5,713,292)
Share issued during the period	13	6,880,081	-	-	-	6,880,081
Share issue expenses		(448,220)	-	-	-	(448,220)
Balance at 30 June 2012 (Restated)		11,878,665	(8,416,660)	55,434	-	3,517,439

The notes of pages 28 to 55 are an integral part of these consolidated financial statements.

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Consolidated Statement of cash flows

For the year ended 30 June 2013

	2013	2012
	Notes	
Cash flow from operating activities		
Cash receipts from customers	14,441	-
Cash paid to suppliers and employees	(7,015,663)	(6,187,589)
Cash generated from operating activities	(7,001,222)	(6,187,589)
Interest paid	(235,642)	(18,087)
Interest received	8,200	24,267
Income taxes R & D refund	1,778,220	-
Net cash outflows from operating activities	12 (5,450,444)	(6,181,409)
Cash flows from investing activities		
Net cash movement in property, plant and equipment	41,675	(1,061,419)
Net cash used in investing activities	41,675	(1,061,419)
Cash flows from financing activities		
Proceeds from issue of share capital	1,209,920	5,666,780
Proceeds from borrowings (convertible note)	1,383,524	1,378,084
Proceeds from borrowings (R & D facility)	3,640,953	-
Proceeds from borrowings (other)	147,464	44,800
Repayment of borrowings (convertible note)	(963,480)	(835,000)
Repayment of borrowings (R & D facility)	(1,260,301)	-
Repayment of borrowings (other)	(43,410)	-
Net cash from (used in) financing activities	4,114,670	6,254,664
Net decrease in cash and cash equivalents	(1,294,099)	(988,164)
Cash and cash equivalents at 1 July	1,586,787	2,434,251
Effect of exchange rate translation	(19,926)	24,353
Effect of exchange rate fluctuations on cash held	(38,331)	116,347
Cash and cash equivalents at 30 June	11 234,431	1,586,787

The notes of pages 28 to 55 are an integral part of these consolidated financial statements.

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**Notes to the Financial Statements**

For the year ended 30 June 2013

1. Algae.Tec Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office Ground Floor, 516 Hay Street, Subiaco WA 6008. The consolidated financial statement of the Company as at and for the year ended 30 June 2013 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.

2. Basis of preparation**(a) Statement of compliance**

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 27 September 2013.

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.

(b) Functional and presentation currency

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

(c) Derivative Liability

The Group measures derivative liabilities embedded in convertible notes (issued in 2012) at fair value and these are calculated using pricing models that require expert judgements in relation to variables such as future share prices. Any changes in these drivers would affect the fair values of these derivatives post balance sheet date.

(d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, 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.

(e) Changes in accounting policies and correction of error**Research & Development Claims**

The Group changed its accounting policy in relation to accounting for R & D Income. Previously the Group accounted for R & D Income by recognising the income in the same period that the claim is approved. Going forward, the Group will accrue R & D income on a monthly basis, thus bringing the income into account in the same period that the related expenditure is incurred.

The Group is now able to accurately estimate accrued R & D Income and the Group has successfully received previous claims made. It is for this reason that the Group has changed its accounting policy in relation to accounting for R & D Income.

For the impact of the above changes, please refer to note 3(i).



For the year ended 30 June 2013

2. Basis of preparation (continued)

(f) New and amended standards adopted by the group

From 1 July 2012 the Group applied amendments to AASB 101 *Presentation of Financial Statements* outlined in AASB 2011-9 Amendments to *Australian Accounting Standards – Presentation of items of Other Comprehensive Income*. The change in accounting policy only relates to disclosures and has had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and require the Group to separately present those items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. These changes are included in the statement of profit or loss and other comprehensive income.

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.

(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.

(iv) Transactions eliminated on consolidation

The following details information related to the parent entity, Algae.Tec Limited at 30 June 2013. The information presented here has been prepared using consistent accounting policies as presented in Note 3.



For the year ended 30 June 2013

3. Significant accounting policies (continued)

(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.

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

(i) Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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For the year ended 30 June 2013

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Non-derivative financial assets (continued)

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends wether to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories:

Financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents and, trade and other receivables.

Cash and Cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short term commitments.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, debt securities issued and trade and other payables.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(iv) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, when the number of shares to be issued is fixed.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

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For the year ended 30 June 2013

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Compound financial instruments (continued)

Interest related to the financial liability is recognised in profit or loss. On conversion the financial liability is reclassified to equity and no gain or loss is recognised.

Convertible notes that can be converted to share capital at the option of the holder and where the number of shares is variable, contains an embedded derivative liability. The embedded derivative liability is calculated (at fair value) first and the residual value is assigned to the debt host contract. The embedded derivative is subsequently measured at fair values and movements are reflected in the profit and loss.

(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 reasonable 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:



Notes to the Financial Statements

For the year ended 30 June 2013

3. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(iii) Depreciation (continued)

• Computer Equipment	20% to 50%	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%	Diminishing Value

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.

(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 increase 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

There are no amortisation costs for the financial year ended 30 June 2013.

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For the year ended 30 June 2013

3. Significant accounting policies (continued)

(f) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Share-based payment transactions

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards, the amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(iii) Long-term employee benefits

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.

(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.

(i) 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.

(h) Revenue

(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.



For the year ended 30 June 2013

3. Significant accounting policies (continued)

(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.

(ii) Lease payments

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 and finance costs

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 remeasurement 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.

(k) Finance income and 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:



For the year ended 30 June 2013

3. Significant accounting policies (continued)

(l) Tax (continued)

(ii) Deferred tax (continued)

- 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. 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 judgements about future events. New information may become available that caused the Group to change its judgement 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.

(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.

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2012, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

(a) AASB 9 Financial Instruments (2010), AASB 9 Financial Instruments (2009)

AASB 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under AASB 9(2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. AASB 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project that may result in limited amendments to the classification and measurement requirements of AASB 9 and add new requirements to address the impairment of financial assets and hedge accounting.

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Notes to the Financial Statements

For the year ended 30 June 2013

3. Significant accounting policies (continued)

(n) New standards and interpretations not yet adopted (continued)

(a) AASB 9 Financial Instruments (2010), AASB 9 Financial Instruments (2009) (continued)

AASB 9 (2010 and 2009) is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The adoption of AASB 9 (2010) is expected to have an impact on the Group's financial assets, but no impact on the Group's financial liabilities.

The Group is yet to reasonably estimate the impact on the financial report of the Group.

(b) AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities (2011)

AASB 10 introduces a single control model to determine whether and investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees. The adoption of this standard will not impact the Group.

Under AASB 11, requires joint arrangements to be classified as either "joint operations" (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or "joint ventures" (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed). The adoption of this standard will not impact the Group.

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a "structured entity", replacing the "special purpose entity" concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the Group.

(c) AASB 13 Fair Value Measurement (2011)

AASB 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout Australian Accounting Standards. Subject to limited exceptions, AASB 13 is applied when fair value measurements or disclosures are required or permitted by other AASBs. AASB 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

These Standards are not expected to significantly impact the Group.

(d) AASB 119 Employee Benefits (2011)

AASB 119 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. For defined benefit plans, removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any impact on the Group. However the Group may need to assess the impact of the change in measurement principles of expected return on plan assets. AASB 119 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

The Group has not yet been able to reasonably estimate the impact of these changes to AASB 119.

(o) Comparative figures

The comparative balances in this financial report have been restated to conform with the presentation in the current financial period. This does not have any impact on the results reported in the previous financial year.



Notes to the Financial Statements

For the year ended 30 June 2013

3. Significant accounting policies (continued)

(o) Comparative figures (continued)

(i) Changes in accounting policy and correction of error.

Extract from the consolidated statement of comprehensive income/(loss)

	Note	June 2012	Movement profit increase/decrease	June 2012 Restated*
Revenue other (R & D income)	a	-	1,578,493	1,578,493
Unrealised exchange profit/(loss)	b	219,436	(103,089)	116,347
Research and development expenses	a	(988,642)	(242,214)	(1,230,856)
Loss before tax	a	(6,970,836)	1,233,190	(5,727,849)
Income tax benefit		199,727	(199,727)	-
Net loss attributable to members of the company		(6,771,109)	1,033,463	(5,737,646)
Other comprehensive income	b	(78,735)	103,089	24,354
Total comprehensive income		(78,735)	103,089	24,354
Total comprehensive income attributable to members of the company		(6,849,844)	1,136,552	(5,713,292)

Extract from the consolidated statement of financial position

	Note	June 2012	Increase /decrease	30 June 2012 Restated*	1 July 2011	Increase /decrease	1 July 2011 Restated*
Trade and other receivables	a	395,537	1,578,493	1,974,030	47,990	199,727	247,717
Trade and other payables	a	349,892	242,214	592,106	81,386	-	81,386
Net assets		2,181,160	1,336,279	3,517,439	2,599,143	199,727	2,798,870
Foreign currency exchange reserve	b	(47,655)	103,089	55,434	31,080	-	31,080
Accumulated losses	a	(9,649,850)	1,233,190	(8,416,660)	(2,878,741)	199,727	(2,679,014)
Total equity		2,181,160	1,336,279	3,517,439	2,599,143	199,727	2,798,870

a) Reflects the change in accounting policy.

b) Correction of error relates to exchange differences arising from translation of loans with subsidiaries which have now been reclassified from profit and loss to balance sheet equity under reserves.

4. Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements 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. 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.



Notes to the Financial Statements

For the year ended 30 June 2013

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

Estimated impairment of noncurrent assets

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

Research & Development Costs

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.

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 regarding the Group and its ongoing activities.

Information about reportable segments	2013	2012
Revenue from external sources		
USA	-	-
Australia	-	-
USA Profit/(loss)	1,664,122	(1,215,200)
Australia Profit/(loss)	(3,074,374)	(1,035,975)
Reportable segment (loss)	(1,410,252)	(2,251,175)
Interest	8,200	24,267
Unrealised exchange gain/(loss)	(38,331)	116,347
Corporate expenses	(3,189,669)	(3,627,085)
Loss before tax	(4,630,052)	(5,737,646)
Reportable segment assets		
Australia	3,868,965	3,899,451
USA	1,096,371	1,171,471
	4,965,336	5,070,922
Reportable segment liabilities		
Australia	4,331,592	1,408,827
USA	133,662	144,656
	4,465,254	1,553,483

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Notes to the Financial Statements

For the year ended 30 June 2013

6. Property, plant and equipment

	2013	2012
Plant and Equipment		
Plant and Equipment - at cost	795,589	763,258
Less: Accumulated depreciation	(159,191)	(46,911)
	<u>636,398</u>	<u>716,347</u>
Computer Equipment		
Computer Equipment - at cost	69,992	114,091
Less: Accumulated depreciation	(31,131)	(13,193)
	<u>38,861</u>	<u>100,898</u>
Office Equipment		
Office Equipment - at cost	64,587	59,733
Less: Accumulated depreciation	(17,881)	(6,480)
	<u>46,706</u>	<u>53,253</u>
Facility Improvements		
Facility Improvements - at cost	202,611	191,256
Less: Accumulated depreciation	(49,635)	(14,010)
	<u>152,976</u>	<u>177,246</u>
Laboratory Systems		
Laboratory Systems - at cost	6,931	6,416
Less: Accumulated depreciation	(2,019)	(952)
	<u>4,912</u>	<u>5,464</u>
Motor Vehicles		
Motor Vehicles - at cost	29,364	41,825
Less: Accumulated depreciation	(10,586)	(6,157)
	<u>18,778</u>	<u>35,668</u>
Furnishings		
Furnishings - at cost	15,211	7,819
Less: Accumulated depreciation	(5,935)	(1,163)
	<u>9,276</u>	<u>6,656</u>
Totals		
Asset at cost	1,184,285	1,184,398
Less: Accumulated depreciation	(276,378)	(88,866)
	<u>907,907</u>	<u>1,095,532</u>

(i) Impact of impairment review

An impairment review has been undertaken of these assets and it was determined that there is no impact to the amounts shown in these statements.

(ii) Assets pledged as security

No assets of the Group have been pledged as security.

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Notes to the Financial Statements

For the year ended 30 June 2013

6. Property, plant and equipment (continued)

	Total	P&E	C&E	O&E	F&I	L&S	MV	F
	\$	\$	\$	\$	\$	\$	\$	\$
Carrying amount of 1 July 2012	1,095,532	716,347	100,898	53,253	177,246	5,464	35,668	6,656
Additions	35,357	21,823	5,182	959	-	-	-	7,393
Disposals	(84,909)	(34,530)	(40,995)	-	-	(9,384)	-	-
Depreciation	(193,000)	(109,395)	(27,272)	(10,329)	(33,075)	(897)	(7,260)	(4,772)
Currency exchange reserve effect	54,927	42,153	1,048	2,823	8,805	345	(246)	(1)
Carrying amount at 30 June 2013	907,907	636,398	38,861	46,706	152,976	4,912	18,778	9,276

	Total	P&E	C&E	O&E	F&I	L&S	MV	F
	\$	\$	\$	\$	\$	\$	\$	\$
Carrying amount of 1 July 2011	127,554	77,903	10,650	18,374	4,057	6,047	10,523	-
Additions	1,051,173	683,214	101,605	40,713	187,039	322	30,461	7,819
Disposals	-	-	-	-	-	-	-	-
Depreciation	(88,866)	(46,911)	(13,193)	(6,480)	(14,010)	(952)	(6,157)	(1,163)
Currency exchange reserve effect	5,671	2,141	1,836	646	160	47	841	-
Carrying amount at 30 June 2012	1,095,532	716,347	100,898	53,253	177,246	5,464	35,668	6,656



Notes to the Financial Statements

For the year ended 30 June 2013

7. Taxes

Tax recognised in profit or loss

	Note	2013	2012
Current tax expense			
Current year		(29,745)	-
Adjustment for prior years		-	-
		<u>(29,745)</u>	<u>-</u>
Deferred tax expense			
Origination and reversal of temporary differences		-	-
Reduction in tax rate		-	-
Recognition of previously unrecognised tax benefit		239,283	-
Change in recognised deductible temporary differences		-	-
Change in accounting policy		-	-
		<u>239,283</u>	<u>-</u>
Tax expense benefit from continuing operations		<u>209,538</u>	<u>-</u>

Tax recognised directly in equity

	Before Tax	2013 Tax (expense) benefit	Net of tax	Before tax	2012 Tax (expense) benefit	Net of tax
Convertible notes	-	-	-	-	-	-

Reconciliation of effective tax rate

	2013	2013	2012	2012
				Restated*
Profit before tax from continuing operations	%	(4,630,052)	%	(5,737,646)
Tax using the Company's domestic rate	30%	(1,389,016)	30%	(1,721,294)
Effect of tax in foreign jurisdictions	-	67,461	-	-
Reduction in tax rate	-	-	-	-
Deductible expenses	-	(101,637)	-	(195,138)
Non-deductible expenses	-	283,941	-	55,216
Share based payments	-	49,200	-	239,400
Research and Development	-	1,087,384	-	576,703
Tax exempt income	-	-	-	-
Tax incentives	-	-	-	-
Others	-	(7,432)	-	-
Current year losses for which no deferred tax asset was recognised	-	66,820	-	1,033,113
Recognition of deferred tax assets not previously recognised	-	(266,261)	-	12,000
	-	<u>(209,538)</u>	-	<u>-</u>

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Notes to the Financial Statements

For the year ended 30 June 2013

7. Taxes (continued)

Deferred tax assets

Deferred tax assets have been recognised in respect of the following items:

	2013	2012
Net deductible temporary differences	349,834	112,318
Tax losses	1,595,873	925,284
Deferred tax assets not recognised	(1,706,424)	(1,037,602)
	<u>239,283</u>	

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2013	2012	2013	2012	2013	2012
Property, plant and equipment	-	-	(225,200)	-	(225,200)	-
Intangible assets	-	-	-	-	-	-
Biological assets	-	-	-	-	-	-
Investment property	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-
Loans and borrowings	-	-	-	-	-	-
Employee benefits	26,500	16,104	-	-	26,500	16,104
Share-based payment transactions	-	-	-	-	-	-
Provisions	146,800	12,428	-	-	146,800	12,428
Other items	401,732	83,786	-	-	401,733	83,786
Tax loss carry-forwards	1,595,873	925,284	-	-	1,595,873	925,284
Tax assets (liabilities)	<u>2,170,707</u>	<u>1,037,602</u>	<u>(225,200)</u>	<u>-</u>	<u>1,945,707</u>	<u>1,037,602</u>
Deferred tax assets not recognised	(1,706,424)	(1,037,602)	-	-	(1,706,424)	(1,037,602)
Net tax assets (liabilities)	<u>464,283</u>	<u>-</u>	<u>(225,200)</u>	<u>-</u>	<u>239,083</u>	<u>-</u>

8. Trade and other receivables

	Note	2013	2012
Trade receivables		156,527	14,441
R & D incentives		3,262,213	1,778,220
GST refund		-	169,600
Other receivables		67,576	11,769
Total receivables		<u>3,486,316</u>	<u>1,974,030</u>

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The Group's exposure to credit and market risks, and impairment losses related to trade and other receivables are disclosed in note 19.

There are no past due or impaired receivables.

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Notes to the Financial Statements

For the year ended 30 June 2013

9. Prepayments

	2013	2012
Prepayments		
Consulting fees	-	30,000
Prepaid bank facility fees	73,333	-
Prepaid insurance	23,344	47,305
Prepaid interest	722	1,962
	97,399	79,277

10. Convertible note

Following a meeting of the shareholders on 19th April 2013, it was resolved that no further conversions were to take place under the convertible note agreement with La Jolla Cove Investors.

At that time;

- Drawdowns on the initial note amounted to US\$2,300,000 (current period US\$1,200,000)
- Conversion notices amounting to AU\$1,785,000 had been actioned with the issuance of 6,254,426 Ordinary Shares (current period 3,644,317)
- The principal outstanding on the initial note was US\$865,710.56.

Because the convertible note converts into a variable number of shares this represented an embedded derivative. The embedded derivative was separated from the host debt contract. The value of the derivative was determined on entering into the arrangement and recognized as a prepaid facility cost undrawn amounts under the facility amounting to A\$257,583 (June 2012: A\$335,296). All movements in the fair value of the instrument subsequent to initial recognition have been recognised in the income statement.

The cancellation of the note gave rise to a penalty amount of 15% of the outstanding principal amount amounting to US\$125,830.86.

The non-current liability of the derivative together with the non-current asset derivative prepayment were eliminated at 30 June 2013 and converted to a current liability (borrowing) amount of A\$1,007,023 (US\$965,030) representing the principal outstanding, the penalty of 15% and unpaid interest on the principal.

A repayment schedule has been entered into and of which US\$500,000 has been repaid subsequent to the date of this report. The remaining balance will be repaid at a minimum of US\$50,000 per month commencing September 2013.

Interest continues to accrue on the outstanding principal balance.

Reference should be made to Note 19 with regard to financial risk management.

11. Cash and cash equivalents

	2013	2012
Bank balances	234,431	1,586,787
Bank overdrafts used for cash management process	-	-
Cash and cash equivalents in the statement of cash flows	234,431	1,586,787

Refer to note 19, financial risk management.

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Notes to the Financial Statements

For the year ended 30 June 2013

12. Reconciliation of cash flows from operating activities

	Note	2013	2012
Cash flows from operating activities			
Loss for the year		(4,420,514)	(5,737,646)
Adjustments for:			
Depreciation		193,000	80,500
Foreign Exchange Translation		38,331	(116,347)
Loss on sale of property, plant and equipment		15,139	-
Equity-settled share-based payments, net of tax		164,000	798,000
Tax expense		-	-
		(4,010,044)	(4,975,493)
Change in trade and other receivables		(1,512,286)	(1,726,313)
Change in other current assets		(18,122)	(15,723)
Change in trade and other payables		261,265	510,720
Change in provisions and employee benefits		38,281	25,400
Cash generated from operating activities		(5,240,906)	(6,181,409)
Income taxes		(209,538)	-
Net cash from operating activities		(5,450,444)	(6,181,409)

13. Capital and reserves

Share capital

	\$	2013 Number	\$	2012 Number
Movements in capital during the year were as follow:				
Issued capital at the beginning of the financial year	11,878,665	266,616,782	5,446,804	248,921,668
Issue of shares pursuant of Conversion notice	1,059,084	3,644,317	835,000	2,610,109
Issue of shares pursuant to placement	200,000	909,091	520,000	13,025,072
Issue of shares in exchange for services provided	67,000	200,000	798,000	2,059,931
Other	-	-	47,081	-
Cost of issue of shares	-	-	448,220	-
	13,204,749	271,370,190	11,878,665	266,616,782

Please refer to Note 19 in regard to the Capital management policy.

(i) Share Based Payments

A share based payment was made to Vista Partners LLC by way of the issue of 200,000 ordinary shares at a value of \$0.335 per share on 27th September 2012 in return for marketing and investor services in the USA. The value attributed to the share based payment was based on the fair value of the services received.

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Notes to the Financial Statements

For the year ended 30 June 2013

13. Capital and reserves (continued)

(ii) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation.

	2013	2012
Foreign exchange reserve	35,507	55,434

(iii) Share option reserve

1,000,000 options were issued to Advides during the financial year ended 30 June 2013 in return for the signing of the agreement with Lufthansa. The options are exercisable at \$1.00 each on or before 14 October 2015. These options have been assessed in value at \$97,000 and the cost has been added to Professional fees for the period. The value of the options was calculated using the Black and Scholes model.

Model inputs used to value the options granted included;

- Exercise price is \$1.00
- Market price of shares at grant date \$0.31
- Expected volatility of the Company's shares is 90%
- Risk-free interest rate used is 2.62%
- Time to maturity, 3 years
- A dividend yield of 0%

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 Company does not have a dividend policy.

	2013	2012
Share option reserve	97,000	

(iv) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

14. Convertible notes

The reserve for convertible notes comprises the amount allocated to the equity component of the convertible notes issued to the Group. At 30 June 2013 there were no convertible notes current and therefore no reserves were required

15. Earnings per share

Basic earnings per share

	2013		2012	
	Continuing operations	Total	Continuing operations	Total
Profit (loss) for the year attributable to owners of the Company	(4,420,514)	(0.02)	(5,737,646)	(0.02)
Profit (loss) attributable to ordinary shareholders	(4,420,514)	(0.02)	(5,737,646)	(0.02)

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Notes to the Financial Statements

For the year ended 30 June 2013

15. Earnings per share (continued)

Weighted average number of ordinary shares (basic)

	Note	2013	2012
Issued ordinary shares at 1 July		266,616,782	248,921,668
Effect of own shares held		3,165,877	7,286,355
Effect of share option exercised		-	-
Effect of share issued related to a business combination		-	-
Weighted average number of ordinary shares at 30 June		269,782,659	256,208,023

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 2013, the Company had on issue 61,841,832 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.

Profit attributable to ordinary shareholders (diluted)

	2013		2012	
	Continuing operations	Total	Continuing operations	Total
Profit (loss) attributable to ordinary shareholders (basic)	(4,420,514)	(0.02)	(5,737,646)	(0.02)
Interest expense on convertible notes, net of tax	-	-	-	-
Profit (loss) attributable to ordinary shareholders (diluted)	(4,420,514)	(0.02)	(5,737,646)	(0.02)

Weighted average number of ordinary shares (diluted)

	Note	2013	2012
Weighted average number of ordinary shares (basic)		269,782,659	256,208,023
Effect of conversion of convertible notes		-	-
Effect of share options on issue		-	-
Weighted average number of ordinary shares (diluted) at 30 June		269,782,659	256,208,023

At 30 June 2013, 61,841,832 options were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

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Notes to the Financial Statements

For the year ended 30 June 2013

16. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk arising from these loans and borrowings, see note 20 financial instruments

	2013	2012
Non-current liabilities		
Derivative liability	-	294,211
Convertible notes	-	612,103
Finance lease liabilities	3,768	11,305
Total trade and other payables	3,768	917,619
Current liabilities		
Macquarie R & D loan facility	2,380,652	-
La Jolla Investors	1,007,023	-
HP liability	7,538	7,538
Centrepont Alliance	15,882	-
Directors' loans	92,774	-
Trade and other payables	3,503,869	7,538
Totals	3,507,637	925,157

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	30-Jun-13		30-Jun-12	
				Face value A\$	Carrying amount A\$	Face value A\$	Carrying amount A\$
Macquarie Facility	AUD	15%	2014	2,380,652	2,380,652	-	-
La Jolla Cove	USD	4.75%	2014	874,749	874,749	612,103	612,103
La Jolla Cove	USD	0%	2014	132,274	132,274	294,211	294,211
HP Liability	AUD	4.73%	2015	19,800	11,306	19,800	18,843
Centrepont	AUD	7.25%	2014	54,690	15,882	-	-
Directors Loans	USD	10%	2014	15,653	15,653	-	-
Directors Loans	USD	0%	2014	17,178	17,178	-	-
Directors Loans	AUD	0%	2014	59,943	59,943	-	-
Total interest bearing liabilities	AUD			3,345,544	3,298,242	631,903	630,946
Total non-interest bearing liabilities	AUD			209,395	209,395	294,211	294,211
Total borrowings	AUD			3,554,939	3,507,637	926,114	925,157

Finance lease liabilities

There were no finance lease liabilities payable

17. Provisions

An annual leave provision for employees exists in the amount of \$74,501 (2012: \$36,220)

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Notes to the Financial Statements

For the year ended 30 June 2013

18. Trade and other payables

	Note	2013	2012
Trade payables			
Current			
Trade payables due to related parties		-	-
Other trade payables		269,856	190,325
Accrued expense		507,426	285,433
		<u>777,282</u>	<u>475,758</u>
Other payables			
Current			
GST Liability		47,474	-
Payroll Liabilities		28,615	116,348
		<u>76,089</u>	<u>116,348</u>
		<u>853,371</u>	<u>592,106</u>
Trade and other payables			
Non-current		-	-
Current		853,371	592,106
		<u>853,371</u>	<u>592,106</u>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 19.

19. 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.

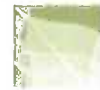
Risk management framework

The Company'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.

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Notes to the Financial Statements

For the year ended 30 June 2013

19. Financial instruments (continued)

Financial risk management (continued)

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. The Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Group. Cash is only held in AA credit rated financial institution.

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.

Aged Payables and Borrowings

Item	0 < 6 months	6 < 12 months	12 months +	Total	Carrying Value
Trade Payables	269,856	-	-	269,856	269,856
Accrued Expenses *	507,426	-	-	507,426	507,426
GST Liability	47,474	-	-	47,474	47,474
Payroll Liabilities	28,615	-	-	28,615	28,615
Macquarie Facility *	2,380,652	-	-	2,380,652	2,380,652
La Jolla Cove	730,450	276,573	-	1,007,023	1,007,023
HP Liability	3,768	3,769	3,769	11,306	11,306
Centrepoint	15,882	-	-	15,882	15,882
Directors Loans	92,774	-	-	92,774	92,774
TOTALS	4,076,897	280,342	3,769	4,361,008	4,361,008

Items marked * nearly all refer to borrowings and liabilities against the research and development tax refund expected for the year ended 30 June 2013 (\$3,262,212) and are payable upon receipt of these funds.

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.

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Notes to the Financial Statements

For the year ended 30 June 2013

19. Financial instruments (continued)

Financial risk management (continued)

Market risk (continued)

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.

	2013 USD	2012 USD
Financial assets		
Cash and cash equivalents	6,510	1,411,561
Trade and other receivables	171,666	16,599
	<hr/> 178,176	<hr/> 1,428,160
Financial liabilities		
Trade and other payables and borrowings	1,110,572	719,652
Net exposure	<hr/> (932,396)	<hr/> 708,508

(ii) Consolidated Entity - sensitivity

Based on financial instruments held at 30 June 2013, 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 \$186,479 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.

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 2013.

Fair value estimation

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

The carrying value of all financial assets and liabilities are assumed to approximate their fair values due to their short term nature.

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.

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Notes to the Financial Statements

For the year ended 30 June 2013

19. Financial instruments (continued)

Financial risk management (continued)

Capital Management (continued)

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.

20. Operating leases

Leases as leasee

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 was 36 months from 1 January 2012 at rental of \$127,453 per annum and was increased to \$131,202 under the rent review provisions. 18 months remain on current lease with an option for a further 36 months. Rent review has been conducted and will be due again January 2014.

	2013	2012
Less than one year	131,202	127,453
Between one and five years	65,601	191,179
More than five years	-	-
	<u>196,803</u>	<u>318,632</u>

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 39 months commencing 1 April 2011 and expiring 30 June 2014. Rental is pre-determined for the term of the lease giving rise to the following liabilities;

	2013	2012
Less than one year	95,944	94,957
Between one and five years	-	95,944
More than five years	-	-
	<u>95,944</u>	<u>190,901</u>

The premises located at 2480 Industrial Park Boulevard are leased for 65 months commencing 1 January 2012 and expiring 31 May 2017. Rental is pre-determined for the term of the lease giving rise to the following liabilities;

	2013	2012
Less than one year	64,750	51,445
Between one and five years	171,139	235,939
More than five years	-	-
	<u>235,939</u>	<u>287,384</u>

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Notes to the Financial Statements

For the year ended 30 June 2013

20. Operating leases (continued)

Capital commitments

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

	2013	2012
Within 1 year	5,089	5,089
Later than 1 year but within 5 years	4,242	9,331
	<u>9,331</u>	<u>14,420</u>

Contingencies

Algae.Tec Limited has no contingent liabilities.

21. Related parties

Parent and ultimate controlling party

The legal and ultimate parent entity within the Group is Algae.Tec Limited.

Subsidiaries

Interests in subsidiaries are set out in note 22.

Key management personnel compensation

The key management personnel compensation comprised:

	2013	2012
Short-term employee benefits	878,852	1,153,926
Post-employment benefits	26,471	40,765
Termination benefits	-	-
Other long term benefits	-	-
Share-based payments	-	-
	<u>905,323</u>	<u>1,194,691</u>

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. Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were not material contracts involving directors' interests existing at year end.

Movement in shares

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

	Held at 1 July 2012	Purchases	Received on exercise of options	Sales	Other disposals	Held at 30 June 2013
Directors						
Peter Halfull	9,697,865	243,313	-	-	-	9,941,178
Roger Stroud	200,321,549	-	-	-	-	201,625,866
Earl McConchie	204,500,000	-	-	-	-	204,500,000
Timothy Morrison*	2,000,000	-	-	1,130,760	869,240	-

* Resigned as Non-executive director 19 April 2013.

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Notes to the Financial Statements

For the year ended 30 June 2013

21. Related parties (continued)
Movement in shares (continued)

	Held at 1 July 2011	Purchases	Received on exercise of options	Sales	Held at 30 June 2012
Directors					
Peter Hatfull	9,497,565	200,300	-	-	9,697,865
Roger Stroud	200,321,549	-	-	-	200,321,549
Earl McConchie	204,500,000	-	-	-	204,500,000
Timothy Morrison	2,000,000	-	-	-	2,000,000

No shares were granted to key management personnel during the reporting period as compensation in 2012 or 2013.

Other related party transactions

Six members of Mr Earl McConchie's immediate family were employed by Algae Energy Inc during the year. The Group paid the family members a total of A\$387,627 (US\$410,109) as salaries and wages.

An amount of A\$11,342 (US\$12,000) was paid to Dot-Bio in respect of the leasing of office furniture and equipment. Dot-Bio is a Corporation wholly owned by Mr G, Earl McConchie and family members.

Dot-Bio was owed a sum of A\$12,522 (US\$12,000) as at 30 June 2013, in relation to the leasing of the office furniture. This formed part of the balance of trade creditors at the year end.

Mr Earl McConchie made a short term loan to Algae Energy Inc A\$15,653 (US\$15,000) at an interest rate of 10% per annum.

Travel expenses owing to Mr Earl McConchie and amounting to A\$17,178 (US\$16,462) were outstanding at 30 June 2013.

An amount of A\$59,943 was owing to Mr Roger Stroud at 30 June 2013 as a result of the purchase of equipment on behalf of Algae.Tec Limited

22. Group entities

Significant subsidiaries

Controlled entity	Country of incorporation	Ordinary Share Consolidated Equity Interest	
		2013 %	2012 %
Algae Energy INC	USA	100	100

23. Subsequent events

A Share Purchase Plan was offered to shareholders during June 2013 and was finalised in July 2013 resulting in the issue of 3,292,737 ordinary shares at a price of 22 cents per share for a total amount of \$724,399.

Subsequent to the reporting date, Macquarie Bank Limited offered to extend the Research and Development facility funding to cover the 2014 expenditure on the same terms.

As at the date of this report, the directors are not aware of any other matter or circumstance that has arisen in the interval between the end of the financial year under review and the date of this Directors' report that, in the opinion of the Directors has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

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Notes to the Financial Statements

For the year ended 30 June 2013

24. Auditors' remuneration

	2013	2012
Audit and review services		
Auditors of the Company - BDO		
Audit and review of financial statements	33,683	-
Other regulatory audit services	-	-
	<hr/>	<hr/>
Other auditors		
Audit and review of financial statements		
J Milner – subsidiary company auditor	-	21,162
Somes & Cooke	17,500	34,500
	<hr/>	<hr/>
	51,183	55,662
Other services		
Auditors of the company - BDO		
In relation to other assurances, taxation and due diligence services	20,003	31,820
Other auditors		
In relation to other assurance services		
J Milner – subsidiary company auditor	-	34,272
Somes & Cooke	2,000	-
	<hr/>	<hr/>
	22,003	66,092

25. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2013, the parent entity of the Group was Algae. Tec Limited.

	2013	2012
Result of parent entity		
Profit/(loss) for the period	(6,316,571)	(4,522,446)
Other comprehensive income	-	-
Total comprehensive income for the period	<hr/>	<hr/>
	(6,316,571)	(4,522,446)
Financial position of parent entity at year end		
Current assets	2,877,914	3,357,738
Non current assets	1,903,698	3,337,848
Total assets	<hr/>	<hr/>
	4,781,612	6,695,586
Current liabilities	4,326,669	491,209
Non-current liabilities	3,768	917,619
Total liabilities	<hr/>	<hr/>
	4,330,437	1,408,828
Total equity of the parent entity comprising of:		
Share capital	13,262,652	11,878,666
Share Option reserve	97,000	-
Retained earnings	(12,908,477)	(6,591,906)
Total equity	<hr/>	<hr/>
	451,175	5,286,760

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For the year ended 30 June 2013

25. Parent entity disclosures *(continued)*

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

Algae.Tec 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

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

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Directors' declaration

1 In the opinion of the Directors of Algae. Tec Limited (the 'Company'):

(a) The consolidated financial statements and notes that are set out on pages 24 to 55 and the Remuneration report in pages 18 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 2013 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 Company 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 2013.

Signed in accordance with a resolution of the Directors

On behalf of the Board

Roger Stroud
Executive Chairman

Date: 27 September 2013
Perth, Western Australia

DECLARATION OF INDEPENDENCE BY PETER TOLL TO THE DIRECTORS OF ALGAE.TEC LIMITED

As lead auditor of Algae.Tec Limited for the year ended 30 June 2013, 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.

This declaration is in respect of Algae.Tec Limited and the entity it controlled during the period.



Peter Toll

Director

BDO Audit (WA) Pty Ltd

Perth, 27 September 2013

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INDEPENDENT AUDITOR'S REPORT

To the members of Algae.Tec Limited

Report on the Financial Report

We have audited the accompanying financial report of Algae.Tec Limited, which comprises the consolidated statement of financial position as at 30 June 2013, 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, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entity it controlled at the year end.

Directors' Responsibility 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 (a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Algae.Tec Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Algae.Tec Limited 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 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2 (a).

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 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.

Opinion

In our opinion, the Remuneration Report of Algae.Tec Limited for the period ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO


Peter Toll

Director

Perth, 27 September 2013

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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 Algae. Tec Limited has been taken from the Share Register on 23 September 2013.

Number of Holders of Equity Securities

Ordinary Share Capital

277,390,190 fully paid ordinary shares are held by 1,308 individual shareholders

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.

Options

There are 6,257,498 options held by 46 holders

Distribution of Holders of Quoted Equity Securities

Size of holdings	As at 31 August 2013	
	No. of fully paid ordinary shares	
1 - 1,000		14,119
1,001 - 5,000		964,312
5,001 - 10,000		3,456,753
10,001 - 100,000		17,562,988
100,001 and over		254,482,927
		276,481,099

Securities exchange

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

Other information

Algae.Tec Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

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ASX additional information

Twenty largest shareholders as at 23 September 2013

Name	Number of ordinary shares held	Percentage of capital held
Teco Bio LLC	200,000,001	72.1
Mr Peter Ernest Hatfull	8,095,000	2.92
FMR Investments Pty Ltd	5,000,000	1.80
Bwanolar Pty Ltd	3,636,364	1.31
Inverse Investments Pty Ltd <Cyclocean S/F A/C>	2,474,164	0.89
Mr Jeanette McConchie	2,400,000	0.87
Mr Peter Ernest Hatfull + Mrs Julie Ellen Hatfull <Hatfull S/Fund A/C>	1,782,678	0.64
Hover Holdings Pty Ltd	1,750,000	0.63
Omega Health Pty Ltd	1,625,866	0.59
Tinkler Investments Pty Ltd <Tinkler Family A/C>	1,610,000	0.58
National Nominees Limited	1,558,260	0.56
JP Morgan Nominees Australia Limited <Cash Income A/C>	1,475,646	0.53
Citicorp Nominees Pty Ltd	1,409,517	0.51
Mr Joseph Chung <TH & TH Chung Super Fund A/C>	1,150,000	0.41
Mr Duncan Neil Preston	1,000,000	0.36
Dr Rodger Guy Loosemore	973,800	0.35
ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	859,436	0.31
Mr Graham John Woolford	745,714	0.27
Mr Robert Alan Nurthen & Miss Sarah Ann Norris	739,817	0.27
Mr Stephen Crotty	625,000	0.23
	238,911,263	86.73

Substantial Shareholders

As at 30 June 2013, the register of substantial shareholders disclosed the following information:

	Number of ordinary shares held	Percentage of capital held
Teco Bio LLC	200,001	72.1

Offices and officers

Principal Registered Office

Ground Floor, 516 Hay Street
 Subiaco WA 6008
 Telephone: (08) 9380 6790
 Facsimile: (08) 9381 9161
 Internet: www.algaetec.com.au

Company Secretary

Mr Peter Ernest Hatfull

Location of Share Registry

Computershare Investor Services Pty Limited
 Level 2, 45 St George's Terrace
 Perth WA 6000

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