

Appendix 4D – Half Year Report

31 December 2014

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The reporting period is the Half-Year ended 31 December 2014 with the previous corresponding period being the Half-Year ended 31 December 2013. This report should be read in conjunction with the most recent annual financial report.

Algae.Tec Limited
Appendix 4D – Half Year Report
Results for Announcement to the Market

Operating Results			
	% change	6 months ended 31 Dec 2014	6 months ended 31 Dec 2013
Revenue from ordinary activities			
Loss from ordinary activities after tax attributable to members	27.09%	(1,144,734)	(1,570,045)
Net loss for the period attributable to members	31.13%	(1,074,992)	(1,560,809)
Dividends			
It is not proposed to pay any dividends			
		31 Dec 2014	30 Jun 2014
Net tangible asset per security		0.008	0.006
There were no entities over which control was gained or lost during the period			
No interest is held in any joint ventures or entities over which the consolidated entity has significant influence.			

Company Details

Directors

Roger Stroud

Executive Chairman (*Resigned 16 September 2014*)

Peter Hatfull

Managing Director

Earl McConchie

Executive Director

Malcolm James

Non-Executive Chairman (*Appointed 16 September 2014*)

Company Secretary

Peter Hatfull

Principal Registered Office

Unit 2, 100 Railway Road

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

Securities Exchange

Australian Securities Exchange

ASX

Level 5, 20 Bridge Street

Sydney NSW 2000

AEB

Frankfurt Stock Exchange

FSE

60485 Frankfurt am Maim

Germany

GZA:GR

New York Stock Exchange

NYSE

11 Wall Street

New York NY 10005

ALGXY:US

Directors' Report

The Directors of Algae.Tec Limited present the following report for the six months to 31 December 2014.

Directors

The following persons were Directors of the Company during the half-year to the date of this report:

Malcolm James	Non - Executive Chairman (appointed 16 September 2014)
Peter Hatfull	Managing Director
Earl McConchie	Executive Director
Roger Stroud	Executive Chairman (Resigned 16 September 2014)

Review of the Company's operations and results

The principal activity of the Group during the course of the financial year was the development of the technology for the production of algal oil and algal biomass for sale as feedstock to producers of biodiesel, jet fuel and ethanol. During the half year, the Group also focused on developing the technology towards the fast growing nutraceutical market.

Major events during the half-year were as follows:

Convertible Note – Platinum Road

On 16 October 2014, the Group announced the extension for 12 months of the outstanding Platinum Bond to sophisticated investors (\$511,250). The renewal incurred an interest charge of \$61,350 resulting in a revised total liability of \$572,600 repayable on the revised due date or through the conversion of debt to shares. At 31 December 2014 \$147,600 had been converted to shares.

Reliance Industrial Investments and Holdings Limited (RIHL)

On 21 January 2014 Algae.Tec Ltd announced an initial investment of AU\$1.5 million by Reliance Industrial and Investment Holdings Ltd (RIIHL) with additional investments of AU\$1.2 million over the next 2 years. This agreement was superseded by a second subscription agreement dated 18 December 2014 which replaced the additional investments of AU\$1.2 million referred to above with an investment of AU\$1.4 million in December 2014 along with additional investments each of AU\$500,000 in May and October 2015.

Subsequent Events

On 9 January 2015 Algae.Tec signed an agreement for entry into Greater China with China Finance Strategies Investment Holdings Ltd (CFS) under which Algae.Tec will issue an initial US\$0.5m convertible bond and subject to the achievement of certain milestones, will issue US\$5m conditional options to CFS. CFS will introduce Algae.Tec's unique technology into the Greater China region.

Dividends

No dividends were paid or recommended by the Directors.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 15.

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



Peter Hatfull
Managing Director
27 February 2015

*Consolidated Statement of Financial Position as at 31 December 2014*

	Notes	31 December 2014	30 June 2014
Assets			
Cash and cash equivalents		1,468,384	302,766
Trade and other receivables	2(a)	1,508,625	3,161,688
Tax receivable		36,939	32,225
Prepayments		17,855	54,953
Total current assets		3,031,803	3,551,632
Property, plant and equipment		793,527	800,813
Deferred tax assets		263,833	230,164
Total non-current assets		1,057,360	1,030,977
Total assets		4,089,163	4,582,609
Liabilities			
Trade and other payables		269,605	452,214
Loans and borrowings	5	964,202	2,197,165
Provisions		204,708	196,993
Total current liabilities		1,438,515	2,846,372
Non-current liabilities			
Total non-current liabilities			
Total liabilities		1,438,515	2,846,372
Net assets		2,650,648	1,736,237
Equity			
Contributed equity	3	18,669,200	16,679,797
Reserves		142,428	72,686
Accumulated losses		(16,160,980)	(15,016,246)
Total equity		2,650,648	1,736,237

The notes of pages 9 to 13 are an integral part of these consolidated financial statements.



Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Half-Year to 31 December 2014

Notes	31 December 2014	31 December 2013
Revenue from operating activities		
Provision of services and equipment	512,763	-
Interest	4,320	1,649
Other income		
R & D Tax incentive	886,261	1,417,513
	1,403,344	1,419,162
Expenditure		
Employee benefits	(1,235,052)	(1,097,120)
Depreciation expense	(100,837)	(98,448)
Advertising expense	(17,366)	(55,185)
Property, rent & lease expenses	(184,688)	(160,223)
Communication expenses	(17,681)	(25,174)
Consultancy expenses	(51,943)	(199,884)
Loss of modification of financial instrument	-	(95,701)
Loss on early conversion	(43,679)	15,257
Filing and listing fees	(88,842)	(74,581)
Freight and courier expenses	(8,389)	(14,569)
Insurance expenses	(85,607)	(58,989)
Legal fees	(41,100)	(50,269)
Materials and supplies	(70,432)	(76,602)
Professional fees (share based payments)	-	(25,000)
Professional fees (other)	(210,463)	(344,572)
Repairs and maintenance expenses	(15,843)	(12,572)
Travel expenses	(34,896)	(107,208)
Finance costs (convertible note)	(127,489)	-
Finance costs (other)	(125,150)	(265,689)
Unrealised foreign exchange profit/(loss)	36,049	(62,022)
Withholding taxes unrecoverable	-	-
Other expenses	(87,230)	(121,195)
Research and development expenses	(19,288)	(59,461)
Loss on sale on fixed assets	(5,755)	-
Loss before income tax	(1,132,337)	(1,570,045)
Income tax expense	(12,397)	-
Net loss attributable to members of the company	(1,144,734)	(1,570,045)
Other comprehensive income/(loss)		
Items that may be reclassified to the profit and loss		
Effect of exchange rate translation	69,742	9,236
Other comprehensive income/(loss) for the year	69,742	9,236
Total comprehensive income/(loss) for the year attributable to members of the company	(1,074,992)	(1,560,809)
Earnings per share		
Basic loss per share (cents per share)	(0.36)	(0.58)
Diluted loss per share (cents per share)	(0.36)	(0.58)

The notes of pages 9 to 13 are an integral part of these consolidated financial statements.

**Consolidated Statement of Cash Flows for the Half-Year ended 31 December 2014**

	Half-Year ended 2014	Half-Year ended 2013
Notes		
Cash flow from operating activities		
Cash receipts from customers	860,851	472,610
Cash paid to suppliers and employees	(2,491,273)	(2,942,444)
Cash outflows from operating activities	(1,630,422)	(2,469,834)
Interest paid	(81,645)	(199,587)
Interest received	4,320	1,649
Tax Paid	-	(29,745)
Income tax R & D refund	2,205,084	3,262,213
Net cash inflows/(outflows) from operating activities	497,337	564,696
Cash flows from investing activities		
Net movement in loans	-	-
Net cash movement in property, plant and equipment	1,398	(25,585)
Net cash inflows (outflows) from investing activities	1,398	(25,585)
Cash flows from financing activities		
Proceeds from issue of share capital	1,700,000	1,524,400
Share Issue Costs	-	(25,000)
Proceeds from borrowings (convertible note)	-	750,000
Proceeds from borrowings (R & D facility)	728,998	594,618
Proceeds from borrowings (other)	7,194	12,474
Repayment of borrowings (Convertible Note)	(188,750)	-
Repayment of borrowings (La Jolla)	(140,154)	(718,380)
Repayment of borrowings (R & D facility)	(1,500,000)	(2,610,270)
Repayment of borrowings (other)	(46,196)	(26,043)
Net cash inflow/(outflow) in financing activities	561,092	(489,201)
Net increase/(decrease) in cash and cash equivalents	1,059,827	40,910
Cash and cash equivalents at beginning of financial period	302,766	234,431
Effect of exchange rate fluctuations on cash held	105,791	(110,688)
Cash and cash equivalents at end of financial period	1,468,384	164,653

The notes of pages 9 to 13 are an integral part of these consolidated financial statements.

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Notes to the Financial Statements

1. Basis of accounting

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with international Financial Reporting Standard IAS 34 'Interim financial Reporting'.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2014 and any public announcements made by Algae.Tec Limited during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

The consolidated financial statements were authorised for issue by the Board of Directors on 27 February 2015.

Basis of measurement

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

a) *New and amended standards*

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the period 30 June 2014.

b) *Use of estimates and judgements*

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

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

2. 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) *Revenue*

Research and development claims

Research and development income is accrued on a monthly basis, thus bringing the income into account in the same period that the related expenditure is incurred.

The Group is able to accurately estimate accrued research and development income and has successfully received previous claims made.

The income accrued forms part of the Trade Receivables within the financial statements.

Notes to the Financial Statements

3. 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	Half-year ended 2014	Half-year ended 2013
USA Profit/(loss)	152,718	158,573
Australia Profit/(loss)	(683,154)	(477,199)
Reportable segment (Profit)	(530,436)	(318,626)
Interest	4,320	1,649
Unrealised exchange gain/(loss)	36,049	(62,022)
Corporate expenses	(642,270)	(1,191,046)
Loss before tax	(1,132,337)	(1,570,045)
Reportable segment assets		
Australia	2,087,255	3,472,660
USA	2,001,908	1,109,949
	4,089,163	4,582,609
Reportable segment liabilities		Year ended 30 June 2014
Australia	1,205,696	2,626,355
USA	232,819	220,018
	1,438,515	2,846,373
Revenue by geographical area		
India	37%	0%
Australia	63%	100%
USA	0%	0%

4. Issues, repurchases and repayments of equity securities

Movements in capital during the half year were as follows:	Half year ended 31 Dec 2014		Year ended 30 June 2014	
	\$	Number	\$	Number
Issued capital at the beginning of the financial half year	16,679,797	290,791,631	13,204,749	271,370,190
Issue of shares pursuant of Conversion notice	289,403	3,822,757	425,648	3,085,062
Issue of shares pursuant to placement	1,700,000	21,833,740	2,300,000	12,805,068
Issue if shares via share purchase plan	-	-	724,400	3,292,727
Issue of shares in exchange for services provided	-	-	25,000	238,584
	18,669,200	316,448,128	16,679,797	290,791,631

Notes to the Financial Statements

5. 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 and the convertible note at fair value. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk arising from these loans and borrowings, see note 6 financial instruments.

	Half year ended 31 Dec 2014	Year ended 30 June 2014
Non-current liabilities		
Finance lease liabilities	-	-
Total trade and other payables	-	-
Current liabilities		
Convertible note at fair value through profit or loss	409,104	716,089
Macquarie R & D loan facility	542,952	1,313,954
La Jolla Investors	-	121,298
HP liability	-	3,768
Centrepoint Alliance	8,714	42,056
Other loans	3,432	-
Trade and other payables	964,202	2,197,165
Totals	964,202	2,197,165

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	31 Dec 2014		30 June 2014	
				Face value A\$	Carrying amount A\$	Face value A\$	Carrying amount A\$
Convertible Notes at fair value through profit or loss	AUD	12.0%	2015	425,000	409,104	798,125	716,089
Macquarie Facility	AUD	15%	2015	542,952	542,952	1,313,954	1,313,954
La Jolla Cove	USD	4.75%	2014	-	-	-	-
La Jolla Cove	USD	0%	2014	-	-	121,298	121,298
HP Liability	AUD	4.73%	2015	-	-	3,850	3,768
Centrepoint	AUD	7.25%	2015	8,714	8,224	45,072	42,056
Other Loans	AUD	0%	2015	3,432	3,432	-	-
Directors Loans	USD	0%	2014	-	-	-	-
Total interest bearing liabilities		AUD		976,666	960,280	2,161,001	2,075,867
Total non-interest bearing liabilities		AUD		3,432	3,432	121,298	121,298
Total borrowings		AUD		980,098	963,712	2,282,299	2,197,165

Finance lease liabilities

There were no finance lease liabilities payable other than those noted above.

Notes to the Financial Statements

5. Loans and borrowings (continued)

Convertible note

(i) Convertible note – at fair value through profit or loss

On 15th October 2013 the Group entered into an agreement with Platinum Road Pty Ltd to raise up to \$1,000,000 (Bond Amount) through the issue of convertible bonds to sophisticated investors (Convertible Bonds) under terms and conditions disclosed in the 30 June Annual Report. This agreement expired on 15th October 2014 with a balance of \$511,250 outstanding.

A deed of variation was adopted on 15th October 2014 covering the outstanding balance under the following terms;

- The monies owed shall be repaid at expiry of the term (15th October 2015)
- Interest was applied to the outstanding amount of \$511,250 at a rate of 12% per annum and was capitalised into the bond amounting to a total interest charge of \$61,350 and thus the total value of the bond being \$572,600
- The conversion price was set at the lesser of:
 - An amount not less than 95% of the VWAP on any day nominated by the Lender from 10 days of trading in the shares on the ASX immediately preceding the conversion date; and
 - \$0.22 per share;
- The lender may serve notice in writing on Algae.Tec Limited (the Group) at any time prior to the expiration of the Term requesting the Group to convert the Bond Amount (or part thereof in minimum increments of \$25,000 each) whereupon the Group must within 2 days of service of such notice convert the amount so notified using the Conversion Price and do all things necessary to cause the Lender to become entitled to be registered as the holder of the relevant number of fully paid ordinary shares in the Group. Conversion is not subject to shareholder approval.
- To the extent that the Bond Amount is not converted into Shares in accordance with the Group, the issuer must repay the Bond Amount and any other monies owing upon expiry of the Term.

6. Fair value measurement of financial instruments

Recurring fair value measurements

The following financial instruments are subject to recurring value measurements:

	31 Dec 2014	30 Jun 2014
	\$	\$
Level 3 – Convertible note	409,104	716,089

Fair value hierarchy

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

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

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Notes to the Financial Statements

6. Fair value measurement of financial instruments (continued)

Transfers

During the half year ended 31 December 2014, there were no transfers of financial instruments between level 1 and 2 of the fair value hierarchy. There were also no transfers into or out of level 3 during the period.

Valuation techniques used to derive level 3 fair values

The fair value of convertible notes not traded in an active market is determined using an internally prepared discounted cash flow valuation technique using a combination of observable inputs (such as share price and the terms and conditions of the convertible notes as disclosed per note 5) and unobservable inputs (discount rate – 48.37% to calculate the present value of estimated future cash flows. The Group has determined that there is a relationship between the unobservable inputs (discount rate) and the fair value but do not consider it to be material unless there is a change in the terms and conditions of the convertible note.

Fair value of financial instruments not measured at fair value.

The following financial instruments are not measured at fair value in the Statement of Financial Position. These had the following fair values at 31 December 2014.

	Carrying amount \$	Fair value \$
Non - Current Assets		
Receivables	1,508,625	1,508,625
Current Liabilities		
Bank loan - Macquarie	542,952	542,952
Centrepoint Alliance	8,224	8,224
La Jolla Cove Investors	-	-
Other Loans	3,432	3,432
	554,608	554,608

Due to their short-term nature, the carrying amounts of current receivables, current trade and other payables and current interest-bearing liabilities is assumed to approximate their fair value.

7. Subsequent events

On 9 January 2015 Algae.Tec signed an agreement for entry into Greater China with China Finance Strategies Investment Holdings Ltd (CFS) under which Algae.Tec will issue an initial US\$0.5m convertible bond and subject to the achievement of certain milestones, will issue US\$5m conditional options to CFS. CFS will introduce Algae.Tec's unique technology into the Greater China region.

8. Group capital commitments and contingencies

Algae.Tec Limited has no commitments to acquire property, plant and equipment, and has no contingent liabilities.

There have been no material changes to the commitments in relation to property leases as disclosed in the 30 June 2014 Annual Report except for a new corporate office lease in Subiaco, Australia (\$45,744 per annum).

9. Group 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.

Directors' Declaration

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

- (a) The financial statements and notes are set out on pages 5 to 13 are in accordance with the *Corporations Act 2001*, including:
- (i) Giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the half- year ended on that date; and
 - (ii) Complying with Australian Accounting Standards AASB 134 Interim Financial Reporting, the Corporations Regulations 2001, and other mandatory professional reporting requirement; and
- (b) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

2 This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the half- year ended 31 December 2014.

Signed in accordance with a resolution of the Directors

On behalf of the Board



Peter Hatfull
Managing Director

Date: 27 February 2015
Perth, Western Australia



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

As lead auditor for the review of Algae.Tec Limited for the half-year ended 31 December 2014, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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 February 2015

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Algae.Tec Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Algae.Tec Limited, which comprises the consolidated statement of financial position as at 31 December 2014, 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 half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entity it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Algae.Tec Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, 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 review report.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Algae.Tec Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting and Corporations Regulations 2001*

BDO Audit (WA) Pty Ltd

BDO


Peter Toll
Director

Perth, 27 February 2015

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