

APPENDIX 4E

Preliminary final report For the year ended 30 June 2016

1. Company Details

Algae.Tec Limited
ACN 124 544 190

Reporting period: Year ended 30 June 2016
Previous reporting period: Year ended 30 June 2015

2. Results for announcement to the market

	Increase/ Decrease	Change %	To
Comparison to previous period			
Revenue from ordinary activities (Appendix 4E Item 2.1)	(158,478)	(5.0)	3,041,955
Profit/(Loss) from ordinary activities after tax attributable to members (Appendix 4E Item 2.2)	(544,141)	(20.0)	(3,262,307)
Net Profit/(Loss) from ordinary activities after tax attributable to members (Appendix 4E Item 2.3)	(544,141)	(20.0)	(3,262,307)
Earnings per share			
Basic loss per share (cents per share) (Appendix 4E Item 2.4)	-	-	(0.01)
Dividends			
It is not proposed to pay a dividend. There are no dividend or distribution investment plans in operation and there have been no dividend or distribution payments during the financial year ended 30 June 2016. (Appendix 4E Item 2.5)			

	2016	2015
Net tangible assets per ordinary security	(0.002)	0.006

Commentary on results for the year and significant information

Principal Activities

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 year, the Group also focused on developing the technology for the fast growing nutraceutical market.

Overview of the Group

The year to 30 June 2016 has seen Algae.Tec Ltd achieve a number of milestones. The contract entered into the previous year with the Reliance Group of India has seen a strong validation of our technology, and further developments and improvements to our core technology.

Algae.Tec has concentrated its resources during the year on the further development of its technology whilst moving towards the commercialization of its technology with the Reliance Group. The year has seen a number of key deliverables achieved with Reliance culminating in the dispatch of containers housing the initial test plant to Jamnagar, India where they are awaiting final installation by the Reliance and Algae.Tec engineers. This will result in the initial plant being commissioned in the first half of the new financial year.

The Group has continued its approach to forming strong strategic relationships to assist in commercialising our unique technology, with agreements being signed during the year with a Chinese Group and a Group based in the Dominican Republic. These are important steps to introduce our technology into areas in need of clean renewable energy.

The Group's strategic plan of developing markets for its algae products outside of its core energy market has taken significant steps forward during the year, with the commencement of the building of a small scale plant in Cumming, Atlanta to produce algae for the nutraceutical market. This is exciting for the Group as it will develop a number of significant income streams, reducing risk whilst bringing cash flows and profits to account sooner than was planned with the large scale biofuel algae plants.

Major events during the year were as follows:

Reliance Industrial Investments and Holdings Limited (RIHL)

In October 2015, the Company announced the exercise of \$500,000 of options by Reliance Industrial Investment and Holdings Limited. The initial plant and equipment are on site in India with the Algae.Tec team of engineers completing the initial commissioning. This further investment by Reliance demonstrated the continuing support by Reliance as the Company continues to build its technology and expertise for the growing of algae for renewable diesel and aviation fuel.

In April 2016, increased work orders were received by the Reliance Group for the amount of US\$1.138 million. These orders were for detailed engineering services and the supply of equipment.

Startup of Nutraceutical Facility

On 6 January 2016, the Company announced that it has completed the commissioning and initial startup of an algae production plant to produce algae-based nutraceutical products. The plant is located at the Company's Manufacturing & Development Centre in Atlanta.

Convertible Note

On 22 January, Algae.Tec Limited announced that it had finalised a capital raise of up to \$1.5m via a convertible note Offer.

The proceeds of the Offer will be utilised to accelerate the development of the Company's production facilities and ongoing product development at its Manufacturing & Development Centre in Atlanta, Georgia, USA, which was recently commissioned.



Grant Partner

In February, the company announced their partnerships with W.R Grace and Company, Gas Technologies Institute and Michigan Technological University for their involvement with a \$10M Department of Energy grant entitled "Catalytic Conversion of Cellulosic Biomass or Algal Biomass with Methane to Drop in Hydrocarbon Fuels and Chemicals."

The Company was carefully selected as the sole provider of its unique, high quality algal biomass, which will serve as a critical component of this multidisciplinary project. This marks the first of many in-depths studies on the numerous applications of algae as an alternative energy source.

Gencor

On 26 May 2016, the Company announced the signing of an exclusive supply agreement with Gencor, a leading worldwide supplier of health supplements.

The supply agreement gives Gencor the exclusive rights to buy all of the algae oil and powders produced by the Algae.Tec plant in Cummings, Georgia, for nutraceutical applications. This followed detailed due diligence and testing by Gencor on the quality and properties of the algae oil and powder produced by Algae.Tec, a significant acknowledgement of the technology developed by Algae.Tec and the commerciality of the Company's products.



Consolidated statement of financial position

As at 30 June 2016

	Notes	30 June 2016	30 June 2015
		\$	\$
Assets			
Cash and cash equivalents		269,796	1,105,130
Trade and other receivables	2	2,620,362	2,820,150
Tax receivable		-	11,905
Prepayments		101,846	68,236
Total current assets		2,992,004	4,005,421
Other receivables	2	-	106,925
Property, plant and equipment	3	601,229	762,909
Deferred tax assets		583,599	256,313
Total non-current assets		1,184,828	1,126,147
Total assets		4,176,832	5,131,568
Liabilities			
Trade and other payables		600,526	634,732
Loans and borrowings	4	3,936,024	2,285,959
Provisions		285,490	187,735
Total current liabilities		4,822,040	3,108,426
Total liabilities		4,822,040	3,108,426
Net assets/(liabilities)		(645,208)	2,023,142
Equity			
Contributed equity	5	20,156,981	19,594,201
Reserves	5	194,529	163,352
Accumulated losses		(20,996,718)	(17,734,411)
Total equity		(645,208)	2,023,142



Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2016

	Notes	30 June 2016	30 June 2015
Revenue from operating activities		\$	\$
Provision of services and equipment		608,477	895,159
Interest		5,550	8,611
Other income		-	-
R & D Tax incentive		2,427,928	2,296,663
		<u>3,041,955</u>	<u>3,200,433</u>
Expenditure			
Employee benefits		(3,350,279)	(2,715,744)
Directors share based payments		(139,031)	(1,524)
Depreciation expense		(227,067)	(205,668)
Property, rent & lease expenses		(454,803)	(364,073)
Consultancy expenses		(177,884)	(181,941)
Insurance expenses		(123,343)	(136,557)
Materials and supplies		(922,798)	(824,700)
Professional fees		(488,457)	(598,912)
Travel expenses		(193,542)	(112,144)
Finance costs		(307,945)	(408,433)
Net foreign exchange gain/(loss)		135,495	48,672
Administration expenses		(208,202)	(229,430)
Other expenses		(151,875)	(167,500)
Loss on sale on fixed assets		-	(10,942)
Loss before income tax		<u>(3,567,776)</u>	<u>(2,708,463)</u>
Income tax benefit		305,469	(9,703)
Net loss attributable to members of the company		<u>(3,262,307)</u>	<u>(2,718,166)</u>
Other comprehensive income/(loss)			
Items that may be reclassified to the profit and loss			
Effect of exchange rate translation		(107,854)	89,142
Other comprehensive income/(loss) for the year		(107,854)	89,142
Total comprehensive income/(loss) for the year attributable to members of the company		<u>(3,370,161)</u>	<u>(2,629,024)</u>
Earnings per share			
Basic loss per share (cents per share)		(0.01)	(0.01)



Consolidated statement of changes in equity

<i>For the year ended 30 June 2014</i>	Note	Contributed Equity \$	Accumulated losses \$	Foreign exchange reserve \$	Share based payment reserve \$	Total equity \$
Balance at 1 July 2015		19,594,201	(17,734,411)	64,828	98,524	2,023,142
Loss for the period		-	(3,262,307)	-	-	(3,262,306)
Other comprehensive loss		-	-	(107,854)	-	(107,854)
Total comprehensive loss for the year		-	(3,262,307)	(107,854)	-	(3,370,160)
Transactions with owners in their capacity as owners						
Share issued during the period	5(i)	562,780	-	-	-	562,780
Share based payments	5(iii)	-	-	-	139,031	139,031
Balance at 30 June 2016		20,156,981	(20,996,718)	(43,026)	237,555	(645,208)
		Contributed Equity \$	Accumulated losses \$	Foreign exchange reserve \$	Share based payment reserve \$	Total equity \$
Balance at 1 July 2014		16,679,797	(15,016,246)	(24,314)	97,000	1,736,237
Loss for the period		-	(2,718,165)	-	-	(2,718,165)
Other comprehensive loss		-	-	89,142	-	89,142
Total comprehensive loss for the year		-	(2,718,165)	89,142	-	(2,629,023)
Transactions with owners in their capacity as owners						
Share issued during the period		2,914,404	-	-	-	2,914,404
Value of share options issued		-	-	-	1,524	1,524
Balance at 30 June 2015		19,594,201	(17,734,411)	64,828	98,524	2,023,142



Consolidated statement of cash flows

For the year ended 30 June 2016

	2016	2015
Notes	\$	\$
Cash flow from operating activities		
Cash receipts from customers	1,100,594	1,268,552
Cash paid to suppliers and employees	(5,977,561)	(5,239,263)
Interest paid	(262,081)	(192,668)
Interest received	550	8,611
Income taxes R & D refund	2,265,789	2,205,084
Net cash inflows/(outflows) from operating activities	(2,872,709)	(1,949,684)
Cash flows from investing activities		
Purchases of property, plant and equipment	(38,338)	(33,876)
Net cash inflows/(outflows) from investing activities	(38,338)	(33,876)
Cash flows from financing activities		
Proceeds from issue of share capital	500,000	2,200,000
Proceeds from borrowings	3,252,401	2,472,679
Proceeds from borrowings from related party	117,836	-
Repayment of borrowings	(1,808,452)	(1,906,398)
Net cash inflow/(outflow) in financing activities	2,061,785	2,766,281
Net increase/(decrease) in cash and cash equivalents	(849,262)	782,721
Cash and cash equivalents at beginning of financial period	1,105,130	302,766
Effect of exchange rate fluctuations on cash held	13,928	19,643
Cash and cash equivalents at end of financial period	269,796	1,105,130



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 preliminary final report were authorised for issue by the Board of Directors.

1. 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.

	2016	2015
	\$	\$
Information about reportable segments		
USA Profit/(loss)	315,986	349,635
Australia Profit / (loss)	(2,061,187)	(1,703,012)
Reportable segment (Profit)	(1,745,201)	(1,353,377)
Interest	5,550	8,611
Net foreign exchange gain/(loss)	135,495	48,672
Corporate expenses	(1,963,620)	(1,412,369)
Loss before tax	(3,567,776)	(2,708,463)
Reportable segment assets		
Australia	2,831,934	3,622,643
USA	1,344,898	1,510,172
	4,176,832	5,131,568
Reportable segment liabilities		
Australia	4,311,314	2,783,988
USA	510,726	324,438
	4,822,040	3,108,426
Revenue by geographical segment		
India	20%	28%
Australia	80%	72%
USA	0%	0%

2. Trade and other receivables

	2016	2015
	\$	\$
Current		
Trade receivables	-	494,571
R & D incentives	2,427,928	2,265,789
GST refund	13,373	13,370
Other receivables	179,061	46,420
Total receivables	2,620,362	2,820,150
Non - Current		
Other receivables	-	106,925
Total receivables	-	106,925

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

There are no past due or impaired receivables.

3. Property, plant and equipment

	2016	2015
Property, plant and equipment at cost	1,546,972	1,467,645
Less: Accumulated depreciation	(945,743)	(704,736)
Property, plant and equipment	601,229	762,909

4. 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.

	2016	2015
	\$	\$
Current liabilities		
Convertible notes at fair value through profit or loss (i) (ii) (iii)	2,057,363	653,168
Macquarie R & D loan facility (iv)	1,730,744	1,590,924
Hunter Premium funding	30,081	41,867
Directors' loans (v)	117,836	-
Trade and other payables	3,936,024	2,285,959
Totals	3,936,024	2,285,959

(i) China Finance Strategies Investment Holdings Ltd

On 9th January 2015 the Group entered into an agreement with China Finance Strategies Investment Holdings Ltd. ("CFS") under which Algae.Tec issued an initial USD 500,000 convertible bond. In addition, subject to the achievement of certain milestones further conditional options of USD 5,000,000 will be issued to CFS.

- The Bond Amount is unsecured
- Interest is paid annually in arrears at a rate of 12% per annum
- The agreement is for 18 months expiring on 9 July 2016
- The conversion price is set at \$0.075 per fully paid ordinary share in the capital of Algae.Tec Limited
- In the event that there is any future issue of equity securities (other than the issue of equity pursuant to the conversion of any convertible security issued prior to the date of this agreement) at any time or times during the period before the Note is converted or redeemed and the consideration for such securities is less than the \$0.075 per equity security, then the conversion price will be adjusted down to the lower of, if there is more than one occasion when such securities are issued, the lowest price.
- The lender may serve notice in writing on Algae.Tec Limited requesting the Group to convert the Bond or any part thereof.
- If the share price at any one or more times have been above \$0.20 for 20 consecutive days, the subscriber will be entitled to convert all or a portion of the Convertible Note, subject to a minimum conversion of \$100,000 by delivering notice any time prior to the Maturity Date.
- If the share price has not been above \$0.20 for 20 consecutive days, the subscriber may exercise its rights during the 10 business days before the Maturity Date or any time after achievement of Milestone One.

The Milestones incorporated into the agreement are as follows:

- Milestone One means the Subscriber or a party introduced by the Subscriber and the Issuer entering into a binding memorandum of understanding for the construction in any location within the Greater China Area of an algae plant of at least one module using, amongst others, the Issuer's Intellectual Property.



This will also entitle the Subscriber to subscribe to USD2, 000,000 of shares at the exercise price of \$0.075.

- Milestone Two means the Subscriber or a party introduced by the Subscriber and the Issuer entering into a binding memorandum of understanding for the construction in any location within the Greater China Area of an algae plant of between 20 and 100 modules using, amongst others, the Issuer's Intellectual Property. This will also entitle the Subscriber to subscribe to USD2, 000,000 of shares at the exercise price of \$0.075.
- Milestone Three means the Subscriber or a party introduced by the Subscriber and the Issuer entering into a binding memorandum of understanding for the construction in any location within the Greater China Area of one or more algae plants exceeding a total greater than 100 modules using. Amongst others, the Issuer's Intellectual Property. This will also entitle the Subscriber to subscribe to USD1,000,000 of shares at the exercise price of \$0.075.

(ii) Sophisticated Investors

On 21st January 2016 the Group made an offer of Convertible Notes to raise up to \$1.5 million dollars.

On 25th January 2016 Convertible Notes were issued to the value of \$650,000 and expiring 22nd July 2017

On 8th February 2016 Convertible Notes were issued to the value of \$125,000 and expiring 8th August 2017

On 6th April 2016 Convertible Notes were issued to the value of \$90,000 and expiring 6th October 2017.

All of the above were issued with the following terms:

- The Convertible Note amounts are unsecured
- Interest is paid quarterly at the rate of 12.5% per annum
- Interest is payable by way of issue of shares or payment of cash at the Note holder's discretion. The Conversion Price to be utilised for the calculation of the number of shares to be issued to the Note holder (should they elect to receive shares) is 4.9 cents per share.
- Those Note holders who elect to convert at maturity will receive two separate unlisted options for every two shares received on conversion
 - One of the options will have a term of 12 months from the date of the Notes maturity and be exercisable at 10 cents
 - The second option will have a term of 24 months from the date of the Notes maturity with an exercise price of 20 cents

(iii) Magna Equities II, LLC

On 23rd June 2016 the Group entered into an agreement with Magna Equities II, LLC under which Algae.Tec will receive up to US\$500,000 through the issue of convertible securities.

- The funding is unsecured
- The first drawdown received on 27th June was for US\$350,000
- The second tranche of US\$150,000 is available after 90 days dependent upon the Company complying with certain equity conditions.
- The Notes are issued at the rate of US\$1.10 for each US\$1.00 advanced to Algae.Tec
- There is no interest on the Notes
- The securities are subject to a 30 day lock-up and are convertible into shares at the lesser of (i) 85% of the average of the lowest 5 daily VWAP's in the 10 days before conversion or (ii) \$0.075
- The securities have a 12 month term

- Magna is subject to certain restrictions in selling of the Company's Common Stock

(iv) *Macquarie Bank Limited*

Algae.Tec limited established a facility with Macquarie Bank Limited on 6 September 2012 to advance 80% of Research and Development rebates expected from the Australian Tax Office after submission of the Company's tax return. This facility has been renewed each year and the amount of the facility is based upon the budgeted expenditure of the Group to which the R & D rebate applies.

- Current facility is \$1,900,000
- The facility is secured
- Drawdowns can be made monthly based upon 80% of eligible rebate (verified monthly by Deloitte)
- Interest is charged at the rate of 15% per annum
- A facility fee is charged on a monthly rate of 5% of the unused facility.
- At 30th June 2016 \$1,730,744 had been used of the facility and the remaining amount was drawdown in August 2016.
- Full repayment of the facility is made from the proceeds of the R & D rebate and is expected during September 2016

(v) *Directors Loans*

During the year a Director, Mr Garnet Earl McConchie has advanced funds to the subsidiary Algae Energy Inc. These total US\$90,000

- The loan is unsecured
- Interest is payable at a rate of 5% per annum
- The repayment of these funds has not been pre-determined.

5. Capital and reserves

Share capital		2016		2015
	\$	Number	\$	Number
Movements in capital during the year were as follow:				
Issued capital at the beginning of the financial year	19,594,201	331,454,988	16,679,797	290,791,631
Issue of shares pursuant of Conversion notice	-	-	714,404	11,686,760
Issue of shares pursuant to placement	-	-	2,200,000	28,976,597
Issue of shares pursuant to exercise of options	500,000	7,142,857	-	-
Issue of shares via Conversion of Interest	27,030	551,658	-	-
Issue of shares in exchange for services provided	35,750	729,592	-	-
	20,156,981	339,879,095	19,594,201	331,454,988

(i) *Share options at year end*

Number of options	Issued to	Class
28,728,607	The Reliance Group	Options exercisable at \$0.1636 on or before 20 January 2019
7,142,857	The Reliance Group	Options exercisable at \$0.07 on or before 18 December 2019
1,000,000	Cross Border Ventures	Options exercisable at \$0.20 on or before 1 March 2018
16,000,000	Employees/Directors	Options exercisable at \$0.09 on or before 30 June 2019.
262,755	Marshall Michael	Options exercisable at \$0.10 on or before 29 January 2017
204,082	Marshall Michael	Options exercisable at \$0.10 on or before 21 April 2017



(ii) *R*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.

	2016	2015
Foreign exchange reserve	(43,026)	64,828

(iii) *S*hare option reserve

	2016 \$	2015 \$
Share option reserve	237,555	98,524

The share option reserve arises on the grant of shares options to employees, directors and consultants (share based payments) and to record issue, exercise and lapsing of listed options.

*F*air 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.

Share based payments

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. 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 Group's shares is 90%
- Risk-free interest rate used is 2.62%
- Time to maturity, 3 years
- A dividend yield of 0%

7,000,000 options were issued to Mr Peter Hatfull and 7,000,000 options to Mr Malcolm James during the financial year ended 30 June 2015. The options have been assessed in value at \$556,122. The value of the options was calculated using the Black and Scholes model.

- Grant Date of Options was 29 June 2015
- Expiry Date is 4 years after date of issue
- Exercise price of the options is \$0.09 per share
- The Share Based Payment expense has been split evenly between the Directors as follows;
 - Expense for Year end 30 June 2015 \$ 1,523.62
 - Expense for Year end 30 June 2016 \$ 139,030.50
 - Expense for Year end 30 June 2017 \$ 139,030.50
 - Expense for Year end 30 June 2018 \$ 139,030.50
 - Expense for Year end 30 June 2019 \$ 137,506.88

The expected volatility during the term of the options is based around assessments of the volatility of similar-sized listed, including newly listed entities in similar industries at grant date. For the purposes of the Black and Scholes valuation a 0% dividend yield has been used as a model input. At this time the Group does not have a dividend policy.

There were no options issued in return for goods or services during 2016.

6. Group entities

Significant subsidiaries

	Country of incorporation	Ordinary Share	Consolidated Equity Interest
		2016 %	2015 %
Controlled entity			
Algae Energy Inc	USA	100	100

7. Status of audit

This report is based on accounts that are in the process of being audited.

