



ALGAE.TEC

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# 2016 Annual Report

Algae.Tec Limited

## Contents

<b>Company Details</b>	<b>3</b>
<b>Directors' Report</b>	<b>4</b>
<b>Consolidated Statement of Financial Position</b>	<b>14</b>
<b>Consolidated Statement of Profit or Loss and Other Comprehensive Income</b>	<b>15</b>
<b>Consolidated Statement of Changes in Equity</b>	<b>16</b>
<b>Consolidated Statement of Cash Flows</b>	<b>17</b>
<b>Notes to the Financial Statements</b>	<b>18</b>
<b>Directors' Declaration</b>	<b>46</b>
<b>Independent Auditor's Report</b>	<b>47</b>
<b>Auditor's Independence Declaration</b>	<b>49</b>
<b>ASX Additional Information</b>	<b>50</b>

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## **Company Details**

### **Directors**

Peter Hatfull	Managing Director
Earl McConchie	Executive Director
Malcolm James	Non-Executive Chairman

### **Company Secretary**

Peter Hatfull

### **Principal Registered Office in Australia**

Unit 2, 100 Railway Road  
Subiaco WA 6008

### **Share Register**

Computershare Investor Services Pty Limited  
Level 11, 172 St George's Terrace  
Perth WA 6000

### **Auditors**

Bentleys  
London House  
Level 3, 216 St Georges Terrace  
Perth WA 6000

### **Bankers**

Commonwealth Bank of Australia	Wells Fargo Bank
Business and Private Banking	464 California Street
Level 1, 38 Adelaide Street	San Francisco
Fremantle WA 6160	USA

### **Securities Exchange**

Australian Securities Exchange	Frankfurt Stock Exchange	New York Stock Exchange
ASX	FSE	NYSE
Level 5, 20 Bridge Street	60485 Frankfurt am Maim	11 Wall Street
Sydney NSW 2000	Germany	New York NY 10005
AEB	GZA:GR	ALGXY:US

## **Directors' Report**

*For the year ended 30 June 2016*

### **Directors**

The Directors of the Group at any time during or since the end of the financial year are:

#### **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 Hatfull currently holds 10,271,178 ordinary shares in Algae.Tec Ltd and 7,000,000 options.

Peter Hatfull was appointed as Director of Algae.Tec Limited on 18 January 2010.

Peter Hatfull currently holds the position of Company Secretary of Algae.Tec Ltd.

Peter Hatfull has not held any other directorships with any other public entities in the past three years.

#### **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 glycerin industry sectors. He is the founding director and joint controlling shareholders of Teco.Bio LLC and is based in Atlanta, Georgia where he has coordinated the microalgae development.

Earl has received a BSc (Chem.Eng) from Virginia Polytechnic Institute & State University, and a ME Chemical Engineering from Teas 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.

Earl McConchie was appointed as Director of Algae.Tec Limited on 18 August 2008.

Earl McConchie, controls Dot.Bio Inc which owns 100% of Teco.Bio LLC which now holds 175,000,001 shares in Algae.Tec Limited.

An additional 4,070,000 shares are held by the immediate family of Earl McConchie. Earl McConchie currently holds nil options.

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

#### **Malcolm James**

*Non-Executive Chairman*

Malcolm James has over 27 years' experience in finance, project development and public company management. During this period Malcolm James has worked in several countries and been involved in over \$2 billion in capital and debt raisings. He is currently the principal of MRJ Advisors, a boutique investment, advisory and project development organisation with offices in Perth and New York, and is the Non-Executive Chairman of Anova Minerals Ltd.

Malcolm James currently holds 100,000 ordinary shares in Algae.Tec Ltd and 7,000,000 options.

Malcolm James was appointed as Non- Executive Chairman of Algae.Tec Limited on 16 September 2014.

## Directors' Report

For the year ended 30 June 2016

### 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.

Director	Board Meetings	
	Held A	Attended B
<i>Mr Peter Ernest Hatfull</i>	7	7
<i>Mr Garnet Earl McConchie</i>	7	7
<i>Mr Malcolm James</i>	7	7

### 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 commercializing 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.

## Directors' Report

For the year ended 30 June 2016

### **Review of financial position**

The consolidated loss of the Group amounted to \$3,262,307 (2014: Loss \$2,718,166) after including a tax refund due for R & D activities in the financial year of \$2,427,928.

Net cash expended through operating activities for the financial year was \$2,872,709 a 47% increase on the \$1,949,684 spent in the prior year.

Revenue derived from the provision of services and equipment is a result of the agreement with the Reliance Group of India for the research and development of algae species and the supply of a pilot plant.

### **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 finalized a capital raise of up to \$1.5m via a convertible note Offer.

The proceeds of the Offer will be utilized 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.

## Directors' Report

For the year ended 30 June 2016

### Environmental regulation

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

### 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

On 7 July 2016, the Group announced a US\$1M investment into the Group by Gencor Pacific. This investment will enable the Company to accelerate the development of its production capacity and improve the efficiency of its nutraceutical plant and cater for the demand for nutraceutical products for Gencor's clients.

On 8 July 2016, the Group announced that they had secured a US\$500,000 investment from Magna Equities II, LLC. The funding was in the form of convertible securities. US\$350,000 had been received at 30 June 2016. The additional tranche of US\$150,000 has not been exercised.

### 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 5 and 6, 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.

### 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 are as follows:

	Algae.Tec Limited	
	Ordinary Shares	Options over ordinary shares
Peter Hatfull	10,271,178	7,000,000
Malcolm James	100,000	7,000,000
Earl McConchie	175,000,001	-

1. *By virtue of Section 608(3) of the Corporations Act, as Mr McConchie controls Dot-Bio Inc which holds 100% of Teco.Bio LLC which in turn holds 175 million Shares. Related parties of Mr McConchie together hold 4.07 million Shares.*

### Options and Rights Granted

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

## Directors' Report

For the year ended 30 June 2016

### ***Indemnification and Insurance of Officers and Executives***

#### **Indemnification**

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

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

#### **Corporate Governance**

The Company's Corporate Governance Statement can be found at:

<http://algaetec.com.au/index.php/about-us/corporate-governance>

#### **Non-Audit services**

During the year BDO Audit (WA) Pty Ltd ("BDO") and Bentleys, did not perform any other services in addition to the audit and review of financial statements.

#### **Proceedings on behalf of the Group**

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

#### **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 48.

#### **Remuneration Report – *audited***

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001.

Key management personnel disclosed in this report are:

Peter Hatfull  
Malcolm James  
Earl McConchie



## Directors' Report

For the year ended 30 June 2016

### Remuneration Report – *audited* (continued)

#### *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 Group and other executives. Key management personnel comprise of the Group directors.

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 segments' 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.

#### **Additional information**

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

	2016	2015	2014	2013
Quoted price of ordinary shares at period end (cents)	0.05	0.06	0.09	0.17
Profit/(loss) per share (cents)	(0.01)	(0.01)	(0.01)	(0.02)

No remuneration consultants were used during the year.

As the Group is still in the Research and Development phase, there is no direct link between the financial performance of the Group and remuneration.

#### ***Service contracts***

##### **Managing Director**

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

<b>Term</b>	From 1 October 2010 until one of the following occurs: <ul style="list-style-type: none"><li>a. The Group gives the Managing Director one month written notice;</li><li>b. The Managing Director gives the Group one month written notice; or</li><li>c. The Group terminates the contract due to actions of the Managing Director such as serious misconduct, dishonesty and bankruptcy.</li></ul>
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## Directors' Report

For the year ended 30 June 2016

### Remuneration Report – *audited* (continued)

#### *Principles of compensation – audited* (continued)

#### *Service contracts* (continued)

**Payments on Termination** If the contract is terminated under (a) or (b) above, the Group is obliged to pay the Managing Director equivalent amount of Remuneration in lieu of notice.

If the contract is terminated under (c) above, the Group is only obliged to pay the Managing Director any accrued remuneration, including superannuation and leave entitlements.

#### **Remuneration**

##### **Fixed annual remuneration:**

\$300,000 base salary per annum, plus superannuation contributions at the rate stipulated under the Australian Government SG and benefits as allocated by the Managing Director in accordance with the Group's policies. From approximately January 2013, the base salary was temporarily reduced to \$150,000 per annum whilst the Group continues its research and development, His salary was increased in January 2015 to \$225,000 and to \$250,000 in November 2015. However, his annual leave entitlement continues to be accrued at his full rate.

##### **Review of remuneration:**

The remuneration will be reviewed at least annually, with any increase at the absolute discretion of the Group.

##### **Annual leave:**

Four weeks annual leave per annum (in addition to public holidays).

#### **Non – Executive Chairman**

Set out below are the key terms of consultant agreement of the Non- Executive Chairman, **Malcolm James:**

**Term** From 16 September 2014 for a period up to 3 years unless otherwise negotiated

- a. Either party may cancel this agreement on 30 days written notice.
- b. The Group 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 Group is obliged to pay the Consultant equivalent amount in lieu of notice.

**Remuneration** The Consultant is paid an annual rate of \$72,000 for work performed in accordance with the agreement.

The Group and Consultant agree that the Consultant will act as an independent contractor and is responsible for payment of all taxes.

## Directors' Report

For the year ended 30 June 2016

### Remuneration Report – *audited* (continued)

#### *Principles of compensation – audited* (continued)

#### *Service contracts* (continued)

### Executive Director

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

<b>Term</b>	From 1 October 2010 until one of the following occurs: a. The Group gives the Executive Director one months' written notice; b. The Executive Director gives the Group one months' written notice; c. The Group terminates the contract due to actions of the Executive Director such as serious misconduct, dishonesty and bankruptcy.
<b>Payments on Termination</b>	If the contract is terminated under (a) or (b) above, the Group is obliged to pay the Executive Director equivalent amount of Remuneration in lieu of notice. If the contract is terminated under (c) above, the Group is only obliged to pay the Executive Director any accrued remuneration, including superannuation and leave entitlements.
<b>Remuneration</b>	<b>Fixed annual remuneration:</b> US\$360,000 gross salary per annum not inclusive of superannuation and health insurance benefits. <b>Review of remuneration:</b> The remuneration will be reviewed at least annually, with any increase at the absolute discretion of the Group. <b>Annual leave:</b> Six weeks annual leave per annum (in addition to public holidays).

### 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.

## Directors' Report

For the year ended 30 June 2016

### Remuneration Report – audited (continued)

#### Key management personnel remuneration

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

		Short-term			Total	Post-employment	Other long term	Termination benefits	Share-based payments	Total
		Salary & fees	Non-monetary benefits	Unused annual leave		Superannuation benefits			Options and rights	
AUD		\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Directors</b>										
<b>Executive Directors</b>										
Roger Stroud	2015	11,473	-	-	11,473	-	-	-	-	11,473
(Resigned 16 September 2014)	<b>2016</b>	-	-	-	-	-	-	-	-	-
Peter Hatfull	2015	234,375	-	25,000	259,375	22,266	-	-	762	282,403
	<b>2016</b>	319,836	-	(29,679)*	290,157	30,384	46,731	-	69,516	436,788
Earl McConchie	2015	414,670	30,143	51,635	496,448	16,523	-	-	-	512,971
	<b>2016</b>	462,606	20,084	26,689	509,379	18,496	-	-	-	527,875
<i>Sub-total executive directors remuneration</i>	2015	660,518	30,143	76,635	767,296	38,789	-	-	762	806,847
	<b>2016</b>	782,442	20,084	(2,990)	799,536	48,880	46,731	-	69,516	964,663
<i>Non-executive directors remuneration</i>										
Malcolm James	2015	48,500	-	-	48,500	-	-	-	762	49,262
	<b>2016</b>	72,000	-	-	72,000	-	-	-	69,515	141,515
<b>Total directors' remuneration</b>	2015	709,018	30,143	76,635	815,796	38,789	-	-	1,524	856,109
	<b>2016</b>	854,442	20,084	(2,990)	871,536	48,880	46,731	-	139,031	1,106,178
<b>Total key management personnel remuneration</b>	2015	709,018	30,143	76,635	815,796	38,789	-	-	1,524	856,109
	<b>2016</b>	854,442	20,084	(2,990)	871,536	48,880	46,731	-	139,031	1,106,178

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

No short-term incentive bonus was awarded during the respective financial year.

No long-term incentive was issued during the respective financial year.

Unused annual leave is accrued at the rate per the individuals' current employment contracts and not at any temporary reduced salaries.

The unused annual leave represents the value of annual leave accrual during the period but not yet taken or paid. It is assumed that all accrued leave will be taken before the end of the next financial year or that such entitlements will be paid out in lieu.

The "other long term" relates to the take up of long service leave benefits to which the person is now entitled.

7,000,000 options were issued to Peter Hatfull and 7,000,000 options to Malcolm James. These options are exercisable at \$0.09 on or before 30 June 2019.

\*Peter Hatfull was paid \$52,576 of annual leave entitlement during the year and this amount is included in his salary and fees above. This resulted in a reduction in his unused annual leave.

The fair value of the options issued as remuneration at grant date was \$0.04 and vest over the term of the options. No options were exercised during the year.

## Directors' Report

For the year ended 30 June 2016

### Remuneration Report – *audited* (continued)

#### Key management personnel transactions - audited

##### *Loans to key management personal and their related parties*

There are no loans outstanding at the end of the reporting period to key management personnel and their related parties in the reporting period.

##### *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 2015	Other Changes	Received on exercise of options	Sales	Held at 30 June 2016
<b>Directors</b>					
Peter Hatfull	10,021,178	250,000	-	-	10,271,178
Malcolm James	100,000	-	-	-	100,000
Earl McConchie	179,070,001	-	-	-	179,070,001

1. *By virtue of Section 608(3) of the Corporations Act, as at 30 June 2014 Mr McConchie controlled Dot-Bio Inc which held 100% of Teco.Bio LLC which in turn holds 175,000,001 Shares. Related parties of Mr McConchie together hold 4.07 million Shares.*

##### *Other related party transactions*

Four 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\$504,347 (US\$392,483) compared to A\$397,529 (US\$346,447) in 2015 as salaries, wages and benefits.

An amount of A\$31,579 (US\$24,000) was paid to Dot-Bio Inc. in respect of the leasing of office furniture and equipment. Dot-Bio is Corporation wholly owned by Mr. Earl McConchie and family members.

Mr Earl McConchie advanced the Group US\$90,000 during the year and interest is payable at a rate of 5% per annum.

##### *Use of remuneration consultants*

The Group did not use remuneration consultants during the year.

##### *Voting at the Group's 2015 Annual General Meeting*

The Company received 53% of proxy votes in favor (1% against) of its 2015 remuneration report at the 2015 Annual General Meeting. The Company did not receive any specific feedback at the Annual General Meeting or throughout the year on its remuneration practices.

#### End of Audited Remuneration Report

Signed at Perth, in accordance with a resolution of the directors, pursuant to Section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors



**Peter Hatfull**

*Managing Director*

30 September 2016

## Consolidated Statement of Financial Position

As at 30 June 2016

	Notes	30 June 2016	30 June 2015
<b>Assets</b>		\$	\$
Cash and cash equivalents	10	269,796	1,105,130
Trade and other receivables	8	2,620,362	2,820,150
Tax receivable	7	-	11,905
Prepayments	9	101,846	68,236
<b>Total current assets</b>		2,992,004	4,005,421
Other receivables		-	106,925
Property, plant and equipment	6	601,229	762,909
Deferred tax assets	7	583,599	256,313
<b>Total non-current assets</b>		1,184,828	1,126,147
<b>Total assets</b>		4,176,832	5,131,568
<b>Liabilities</b>			
Trade and other payables	17	600,526	634,732
Loans and borrowings	14	3,936,024	2,285,959
Provisions	16	285,490	187,735
<b>Total current liabilities</b>		4,822,040	3,108,426
<b>Total liabilities</b>		4,822,040	3,108,426
<b>Net assets/(liabilities)</b>		(645,208)	2,023,142
<b>Equity</b>			
Contributed equity	12	20,156,981	19,594,201
Reserves	12	194,529	163,352
Accumulated losses		(20,996,718)	(17,734,411)
<b>Total equity</b>		(645,208)	2,023,142

The notes of pages 18 to 44 are an integral part of these consolidated financial statements.

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2016

	Notes	30 June 2016	30 June 2015
<b>Revenue from operating activities</b>		\$	\$
Provision of services and equipment		608,477	895,159
Interest		5,550	8,611
<b>Other income</b>		-	-
R & D Tax incentive		2,427,928	2,296,663
		<u>3,041,955</u>	<u>3,200,433</u>
<b>Expenditure</b>			
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)
<b>Loss before income tax</b>		<u>(3,567,776)</u>	<u>(2,708,463)</u>
Income tax (expense)/benefit	7	305,469	(9,703)
<b>Net loss attributable to members of the company</b>		<u>(3,262,307)</u>	<u>(2,718,166)</u>
Other comprehensive income/(loss)			
<b>Items that may be reclassified to the profit and loss</b>			
Effect of exchange rate translation	12	(107,854)	89,142
Other comprehensive income/(loss) for the year		<u>(107,854)</u>	<u>89,142</u>
Total comprehensive income/(loss) for the year attributable to members of the company		<u>(3,370,161)</u>	<u>(2,629,024)</u>
<b>Earnings per share</b>			
Basic loss per share (cents per share)	13	(0.01)	(0.01)

The notes of pages 18 to 44 are an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity

For the year ended 30 June 2016

	Note	Contributed Equity \$	Accumulated losses \$	Foreign exchange reserve \$	Share based payment reserve \$	Total equity \$
<b>Balance at 1 July 2015</b>		19,594,201	(17,734,411)	64,828	98,524	2,023,142
Loss for the period		-	(3,262,307)	-	-	(3,262,307)
Other comprehensive loss	12(ii)	-	-	(107,854)	-	(107,854)
<b>Total comprehensive loss for the year</b>		-	(3,262,307)	(107,854)	-	(3,370,161)
<b>Transactions with owners in their capacity as owners</b>						
Share issued during the period	12	562,780	-	-	-	562,780
Share based payments	12(iii)	-	-	-	139,031	139,031
<b>Balance at 30 June 2016</b>		<b>20,156,981</b>	<b>(20,996,718)</b>	<b>(43,026)</b>	<b>237,555</b>	<b>(645,208)</b>

	Note	Contributed Equity \$	Accumulated losses \$	Foreign exchange reserve \$	Share based payment reserve \$	Total equity \$
<b>Balance at 1 July 2014</b>		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 income		-	-	89,142	-	89,142
<b>Total comprehensive loss for the year</b>		-	(2,718,165)	89,142	-	(2,629,023)
<b>Transactions with owners in their capacity as owners</b>						
Share issued during the period		2,914,404	-	-	-	2,914,404
Value of share options issued		-	-	-	1,524	1,524
<b>Balance at 30 June 2015</b>		<b>19,594,201</b>	<b>(17,734,411)</b>	<b>64,828</b>	<b>98,524</b>	<b>2,023,142</b>

The notes of pages 18 to 44 are an integral part of these consolidated financial statements



## Consolidated Statement of Cash Flows

For the year ended 30 June 2016

		2016	2015
	Notes	\$	\$
<b>Cash flow from operating activities</b>			
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
<b>Net cash inflows/(outflows) from operating activities</b>	11	(2,872,709)	(1,949,684)
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(38,338)	(33,876)
<b>Net cash inflows/(outflows) from investing activities</b>		(38,338)	(33,876)
<b>Cash flows from financing activities</b>			
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)
<b>Net cash inflow/(outflow) in financing activities</b>		2,061,785	2,766,281
<b>Net increase/(decrease) in cash and cash equivalents</b>		(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
<b>Cash and cash equivalents at end of financial period</b>	10	269,796	1,105,130

The notes of pages 18 to 44 are an integral part of these consolidated financial statements.

## Notes to the Financial Statements

For the year ended 30 June 2016

### 1. Reporting entity

Algae.Tec Limited is a company domiciled in Australia. The address of the Group's registered office Unit 2, Spectrum Offices, 100-104 Railway Road, Subiaco WA 6008. The consolidated financial statement of the Group as at and for the year ended 30 June 2016 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 and high quality nutraceuticals.

### 2. Basis of accounting

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 authorized for issue by the Board of Directors on 27 September 2016.

#### *Going concern*

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group incurred a loss after tax for the year of \$3,262,307 (2015: \$2,718,166) and net cash outflows from operating activities of \$2,872,709 (2015: \$1,949,684).

As at 30 June 2016, the Group has a working capital deficit of \$1,830,036 (2015: surplus of \$896,995). Current liabilities include convertible notes of \$2,057,363, of which \$695,837 expired on 9 July 2016. As at the date of this report a formal agreement has not been entered into to convert, extend or settle this debt. The Directors are confident as has been demonstrated previously that convertible note holders will convert their notes to equity or if required extend the terms of the facilities.

Subsequent to year end the Group:

- received its R&D rebate of \$2,427,928 for the 30 June 2016 financial year, with the funds used to settle the Macquarie R&D secured loan facility. Furthermore, the Group has refinanced its R&D facility with Innovative Technology Funding Pty Ltd on 30 September 2016, with a facility of \$1,800,000 with interest of 15% per annum which matures on the earlier of the date that the Group receives its R&D claim or 20 months from the advancement date;
- have entered into discussions to renegotiate payment terms with China Finance Strategies Investment Holdings Ltd for the outstanding convertible note liability (refer Note 14);
- raised US\$1 million via a convertible note facility with Gencor Pacific to accelerate development of its production facility; and
- raised US\$350,000 via convertible notes with Magna Equities II LLC

The directors have prepared a cash flow forecast, which indicates that the Group will have sufficient cash flows to meet all commitments and working capital requirements for the 12 month period from the date of signing this financial report.

## **Notes to the Financial Statements**

For the year ended 30 June 2016

### **2. Basis of accounting (continued)**

#### **Going concern (continued)**

The ability of the Group to continue as a going concern is principally dependent upon the following:

- The commencement of profitable sales of nutraceutical products under the supply agreement with Gencor Pacific; and
- Convertible note holders converting their notes to equity or if required extending the terms of facilities.

In the event the above matters are not achieved, the Group will be required to raise funds for working capital from debt or equity sources.

Based on the cash flow forecasts and other factors referred to above, the directors are satisfied that the going concern basis of preparation is appropriate.

Should the Group be unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or to the amount and classification of liabilities that might result should the Group be unable to continue as a going concern and meet its debts as and when they fall due.

#### **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) Functional and presentation currency**

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

#### **(b) Use of estimates and judgments**

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 recognized in the period in which the estimates are revised and in any future periods affected.

#### **(c) New, revised or amending Accounting Standards and Interpretations adopted**

The group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the group during the financial year.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

## **Notes to the Financial Statements**

For the year ended 30 June 2016

### **2. Basis of accounting (continued)**

#### **(c) New and amended standards adopted by the group (continued)**

##### **New accounting standards and interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the group for the annual reporting period ended 30 June 2016. The group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the group, are set out below.

##### *AASB 9 Financial Instruments*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The group will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the group.

##### *AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The group will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the group.

## **Notes to the Financial Statements**

For the year ended 30 June 2016

### **2. Basis of accounting (continued)**

#### **(c) New and amended standards adopted by the group (continued)**

##### **New accounting standards and interpretations not yet mandatory or early adopted (continued)**

###### **AASB 16 Leases**

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The group will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the group.

### **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 recognized 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 recognized 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 recognized and measured at fair value less cost of sale.

The Group measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized 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.

## **Notes to the Financial Statements**

For the year ended 30 June 2016

### **3. Significant accounting policies (continued)**

#### **(a) Basis of consolidation (continued)**

##### *(iii) Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

#### **(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 amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized 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 recognized in profit or loss. However, foreign currency differences arising from the retranslation of the following items are recognized in other comprehensive income.

Available for sale equity investments (except on impairment in which case foreign currency differences that have been recognized 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 recognized 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 recognized in other comprehensive income, and presented in the translation reserve in equity.

## **Notes to the Financial Statements**

For the year ended 30 June 2016

### **3. Significant accounting policies (continued)**

#### **(c) Financial instruments**

##### **(i) Non-derivative financial assets**

The Group initially recognizes 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 recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes 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 recognized as a separate asset or liability.

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 whether to settle them on a net basis or to realize 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 recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized 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 recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes 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 recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized 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 recognized as a deduction from equity, net of any tax effects.

## **Notes to the Financial Statements**

For the year ended 30 June 2016

### **3. Significant accounting policies (continued)**

#### **(c) Financial instruments (continued)**

##### **(iv) Compound financial instruments**

Compound financial instruments issued by the Group comprise convertible notes that can be converted to ordinary shares 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 recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized 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 amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

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

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.

Some convertible notes issued by the Group include embedded derivatives (option to convert to variable number of shares in the Group). These convertible notes are recognized as financial liabilities at fair value through profit or loss. On initial recognition, the fair value of the convertible note will equate to the proceeds received and subsequently the liability is measured at fair value at each reporting period until settlement. The fair value movements are recognized on the profit and loss as finance costs.

#### **(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
- Capitalized 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 capitalized 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 recognized in profit or loss.

##### **(ii) Subsequent costs**

Subsequent expenditure is capitalized 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.



## Notes to the Financial Statements

For the year ended 30 June 2016

### 3. Significant accounting policies (continued)

#### (d) Property, plant and equipment (continued)

##### (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 recognized 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:

• Computer Equipment	20% to 50%	(2 – 5 years)	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%		Reducing Balance

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 recognized 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 capitalized 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 capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

## **Notes to the Financial Statements**

For the year ended 30 June 2016

### **3. Significant accounting policies (continued)**

#### **(e) Intangible assets and goodwill (continued)**

##### *(iii) Other intangible assets*

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

##### *(iv) Subsequent expenditure*

Subsequent expenditure is capitalized 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 recognized in profit or loss as incurred.

##### *(v) Amortization*

There are no amortization costs for the financial year ended 30 June 2016.

#### **(f) Employee benefits**

##### *(i) Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognized in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

##### *(ii) Long-service leave*

The liability for long service leave is recognized 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.

##### *(iii) Share-based payment transactions*

The Group has provided payment to service providers and related parties in the form of share-based compensation, whereby services are rendered in exchange for shares or rights over shares ("equity-settled transactions"). The cost of these equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined using an appropriate option valuation model for services provided or where the fair value of the shares received cannot be reliably estimated.

For goods and services received where the fair value can be determined reliably the goods and services and the corresponding increase in equity are measured at that fair value.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions. Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance date, the entity revises its estimates of the number of options that are expected become exercisable.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant parties become fully entitled to the award ("vesting date").

The cumulative expense recognized for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of The Group, will ultimately vest. This opinion is formed based on the best available information at balance date. Not adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Algae.Tec Limited has not entered into any cash settled equity transactions during or since the reporting period.

## Notes to the Financial Statements

For the year ended 30 June 2016

### 3. Significant accounting policies (continued)

#### (g) Provisions

A provision is recognized 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 recognized as finance cost.

#### Onerous contracts

A provision for onerous contracts is recognized 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 recognizes 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 recognized 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 recognized as a reduction of revenue as the sales are recognized.

##### (ii) Rendering of services

Revenue from rendering of services is recognized 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 recognized by reference to the actual labour hours delivered at standard rates and direct expenses incurred.

##### (iii) 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.

#### (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 recognized in the Group's statement of financial position.

##### (ii) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

## Notes to the Financial Statements

For the year ended 30 June 2016

### 3. Significant accounting policies (continued)

#### (j) Finance income

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 re-measurement to fair value of any pre-existing interest in an acquiree in a business combination, gains on hedging instruments that are recognized in profit or loss and reclassifications of net gains previously recognized in other comprehensive income. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized 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 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 recognized on financial (other than trade receivables), losses on hedging instrument that are recognized 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 recognized 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 recognized in profit or loss except to the extent that it relates to a business combination, or items recognized 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 recognized 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 recognized for:

- 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 realized simultaneously.

## Notes to the Financial Statements

For the year ended 30 June 2016

### 3. Significant accounting policies (continued)

#### (l) Tax (continued)

##### (ii) Deferred tax (continued)

A deferred tax asset is recognized 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 utilized. 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 realized.

##### (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 judgments about future events. New information may become available that caused the Group to change its judgment 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.

##### (iv) GST

GST is accounted for on an accrual basis.

##### (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.

### 4. Critical accounting judgments and key sources of estimation uncertainty

Estimates and judgments 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 and the USA. 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 recognized 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 utilized.

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

#### **Research & Development Income and Receivables**

Research and development expenditure during the research phase of a project is recognized as an expense when incurred. Development costs are capitalized only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Research and development income is recognized in the same period as the related expenditure.

#### **Convertible notes carried at fair value through profit or loss.**

The Group recognizes certain convertible notes at fair value through profit or loss these are all calculated based on present value of estimated cash flows taking into account credit risk profile of the Group and share price of the Group. See details on note 16.

In addition, the fair value of the milestone options (as described in note 15) is accounted for based on the subscriber's responsibility for the achievement of the milestones. Hence, the milestone options are accounted for as part of the convertible note. See details in note 16.

## Notes to the Financial Statements

For the year ended 30 June 2016

### 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.

	2016	2015
	\$	\$
<b>Information about reportable segments</b>		
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)
<b>Reportable segment assets</b>		
Australia	2,831,934	3,622,643
USA	1,344,898	1,510,172
	4,176,832	5,131,568
<b>Reportable segment liabilities</b>		
Australia	4,311,314	2,783,988
USA	510,726	324,438
	4,822,040	3,108,426
<b>Revenue by geographical segment</b>		
India	20%	28%
Australia	80%	72%
USA	0%	0%

### 6. Property, plant and equipment

#### Plant and Equipment

	2016	2015
	\$	\$
Plant and Equipment - at cost	1,153,520	1,085,907
Less: Accumulated depreciation	(658,988)	(479,977)
	<b>494,532</b>	<b>605,930</b>

#### Computer Equipment

Computer Equipment - at cost	100,414	96,520
Less: Accumulated depreciation	(91,805)	(75,107)
	<b>8,609</b>	<b>21,413</b>

#### Office Equipment

Office Equipment - at cost	80,221	78,050
Less: Accumulated depreciation	(57,194)	(44,041)
	<b>23,027</b>	<b>34,009</b>

#### Facility Improvements

Facility Improvements - at cost	188,244	182,840
Less: Accumulated depreciation	(116,150)	(86,696)
	<b>72,094</b>	<b>96,144</b>

#### Laboratory Systems

Laboratory Systems - at cost	8,535	8,290
Less: Accumulated depreciation	(6,167)	(4,805)
	<b>2,368</b>	<b>3,485</b>

#### Motor Vehicles

Motor Vehicles - at cost	-	-
Less: Accumulated depreciation	-	-
	-	-

#### Furnishings

Furnishings - at cost	16,038	16,038
Less: Accumulated depreciation	(15,439)	(14,110)
	<b>599</b>	<b>1,928</b>

#### Totals

Asset at cost	1,546,972	1,467,645
Less: Accumulated depreciation	(945,743)	(704,736)
	<b>601,229</b>	<b>762,909</b>

## Notes to the Financial Statements

For the year ended 30 June 2016

### 6. Property, plant and equipment (continued)

#### (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

The assets of the Group were secured by Macquarie Bank Limited at 30 June 2016. This was discharged upon repayment of the facility on 20 September 2016.

	Total	P&E	C&E	O&E	F&I	L&S	MV	F
	\$	\$	\$	\$	\$	\$	\$	\$
Carrying amount of 1 July 2015	762,909	605,930	21,413	34,009	96,144	3,485	-	1,928
Additions	38,338	35,932	2,089	317	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Depreciation	(227,067)	(168,856)	(15,692)	(12,406)	(27,536)	(1,248)	-	(1,329)
Foreign currency exchange reserve effect	27,049	21,526	799	1,107	3,486	131	-	-
<b>Carrying amount at 30 June 2016</b>	<b>601,229</b>	<b>494,532</b>	<b>8,609</b>	<b>23,027</b>	<b>72,094</b>	<b>2,368</b>	<b>-</b>	<b>599</b>

	Total	P&E	C&E	O&E	F&I	L&S	MV	F
	\$	\$	\$	\$	\$	\$	\$	\$
Carrying amount of 1 July 2014	800,813	594,057	35,890	35,973	112,746	3,852	14,553	3,762
Additions	46,390	42,617	-	2,946	-	-	-	827
Disposals	(23,457)	(3,356)	-	-	(8,158)	-	(11,943)	-
Depreciation	(205,668)	(141,091)	(18,862)	(11,143)	(28,192)	(1,109)	(2,610)	(2,661)
Foreign currency exchange reserve effect	144,831	113,703	4,405	6,233	19,748	742	-	-
<b>Carrying amount at 30 June 2015</b>	<b>762,909</b>	<b>605,930</b>	<b>21,413</b>	<b>34,009</b>	<b>96,144</b>	<b>3,485</b>	<b>-</b>	<b>1,928</b>

## Notes to the Financial Statements

For the year ended 30 June 2016

### 7. Taxes

#### Tax recognized in profit or loss

	2016 \$	2015 \$
<b>Current tax expense</b>		
Current year	(21,819)	(35,852)
Adjustment for prior years		-
	<u>(21,819)</u>	<u>(35,852)</u>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	327,288	26,149
Reduction in tax rate		-
Recognition of previously unrecognized tax benefit		-
Change in recognized deductible temporary differences		-
Change in accounting policy		-
	<u>305,469</u>	<u>(9,703)</u>
Tax (expense) benefit from continuing operations	<u>305,469</u>	<u>(9,703)</u>

The deferred tax asset recognized relates to expected future taxable income in the United States of America.

Reconciliation of effective tax rate	2016	2016	2015	2015
Profit before tax from continuing operations	-	<u>(3,567,775)</u>	-	<u>(2,708,462)</u>
Tax using the Group's domestic rate	30%	(1,070,332)	30%	(812,538)
Effect of tax in foreign jurisdictions	-	(120,091)	-	11,327
Reduction in tax rate	-	-	-	-
Deductible expenses	-	(149,109)	-	(204,957)
Non-deductible expenses	-	198,857	-	175,165
Share based payments	-	-	-	-
Research and Development	-	676,101	-	740,270
Tax exempt income	-	-	-	-
Tax incentives	-	-	-	-
Others	-	-	-	22,768
Current year losses for which no deferred tax asset was recognized	-	159,105	-	103,816
Recognition of deferred tax assets not previously recognized	-	-	-	(26,148)
Tax (expense)/benefit	<u>-</u>	<u>305,469</u>	<u>-</u>	<u>(9,703)</u>



## Notes to the Financial Statements

For the year ended 30 June 2016

### 7. Taxes (continued)

#### Deferred tax assets

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

	2016 \$	2015 \$
Net deductible temporary differences	768,117	377,340
Tax losses	1,455,216	1,514,128
Deferred tax assets not recognized	(1,639,734)	(1,635,155)
	<u>583,599</u>	<u>256,313</u>

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Property, plant and equipment	-	-	(122,538)	(154,528)	(122,538)	(154,528)
Employee benefits	102,440	65,936	-	-	102,440	65,936
Share-based payment transactions	-	-	-	-	-	-
Provisions	96,367	82,260	-	-	96,367	82,260
Other items	695,755	392,698	(3,000)	(9,026)	692,755	383,672
Tax loss carry-forwards	1,455,216	1,514,128	-	-	1,455,216	1,514,128
Tax assets (liabilities)	2,349,778	2,055,022	(125,538)	(163,554)	2,224,240	1,891,468
Deferred tax assets not recognized	(1,640,639)	(1,635,155)	-	-	(1,640,641)	(1,635,155)
Net tax assets (liabilities)	<u>709,139</u>	<u>419,867</u>	<u>(125,538)</u>	<u>(163,554)</u>	<u>583,599</u>	<u>256,313</u>

### 8. 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	<u>2,620,362</u>	<u>2,820,150</u>
Non - Current		
Other receivables	-	106,925
Total receivables	<u>-</u>	<u>106,925</u>

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. For the non-current receivables, the fair value is also not significantly different to its carrying value. The Group's exposure to credit and market risks, and impairment losses related to trade and other receivables are disclosed in note 18.

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.

### 9. Prepayments

	2016 \$	2015 \$
Directors fees	-	6,000
Consulting	8,567	-
Prepaid rent	5,189	5,189
Prepaid insurance	41,551	55,049
Prepaid interest	46,539	1,998
	<u>101,846</u>	<u>68,236</u>

## Notes to the Financial Statements

For the year ended 30 June 2016

10. Cash and cash equivalents	2016	2015
	\$	\$
Bank balances	269,796	1,105,130
Bank overdrafts used for cash management process	-	-
Cash and cash equivalents in the statement of cash flows	269,796	1,105,130

Refer to note 18, financial risk management.

## 11. Reconciliation of cash flows from operating activities

Cash flows from operating activities	2016	2015
	\$	\$
Loss for the year	(3,262,307)	(2,718,165)
Adjustments for:	-	-
Movement in valuation of convertible note	(29,104)	59,575
Depreciation	227,067	205,668
Foreign Exchange Translation	52,143	69,500
Loss on sale of property, plant and equipment	-	10,942
Equity-settled share-based payments, net of tax	201,812	1,524
	(2,810,389)	(2,370,956)
Change in trade and other receivables	211,693	259,933
Change in other current assets	(33,610)	(13,283)
Change in trade and other payables	(32,689)	174,177
Change in provisions and employee benefits	97,755	(9,258)
Cash generated from operating activities	(2,567,240)	(1,959,387)
Income taxes	(305,469)	9,703
<b>Net cash from operating activities</b>	<b>(2,872,709)</b>	<b>(1,949,684)</b>

Conversion of debt to shares pursuant to conversion notice as shown in Note 13.

## 12. 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
Issue of shares pursuant of Conversion notice	-	16,679,797
Issue of shares pursuant to placement	-	714,404
Issue of shares pursuant to exercise of options	-	2,200,000
Issue of shares via Conversion of Interest	500,000	7,142,857
Issue of shares in exchange for services provided	27,030	551,658
	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

## Notes to the Financial Statements

For the year ended 30 June 2016

### 12. 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.

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

#### (iii) Share 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.

#### 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 derecognized 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 the following variables were used.

- Volatility 100%
- Risk free rate 2.26%
- Share price at grant date \$0.062

At this time the Group does not have a dividend policy.

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

## Notes to the Financial Statements

For the year ended 30 June 2016

### 13. Earnings per share

#### Basic earnings per share

	2016		2015	
	Continuing operations	Total	Continuing operations	Total
Profit (loss) for the year attributable to owners of the Group	(3,262,307)	(0.01)	(2,718,165)	(0.01)
Profit (loss) attributable to ordinary shareholders	(3,262,307)	(0.01)	(2,718,165)	(0.01)

#### Weighted average number of ordinary shares (basic)

	2016	2015
Issued ordinary shares at 1 July	331,454,988	290,791,631
Effect of shares issued during the period	5,283,689	17,796,175
Weighted average number of ordinary shares at 30 June	336,738,677	308,587,806

#### 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 2016, the Group had on issue 53,338,301 (12i) 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.

### 14. 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.

#### Current liabilities

Convertible notes at fair value through profit or loss (i) (ii) (iii)	2,057,363	653,168
Macquarie R & D secured loan facility (iv)	1,730,744	1,590,924
Hunter Premium funding	30,081	41,867
Directors' loans (v)	117,836	-
<b>Loans and Borrowings</b>	<b>3,936,024</b>	<b>2,285,959</b>
<b>Totals</b>	<b>3,936,024</b>	<b>2,285,959</b>

#### Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	30-Jun-16		30-Jun-15	
				Face value A\$	Carrying amount A\$	Face value A\$	Carrying amount A\$
China Finance Strategy Convertible Note (i)	USD	12%	2016	695,837	679,053	695,837	653,168
Magna Equities Convertible Note (iii)	USD	0%	2017	495,489	494,731	-	-
Sophisticated Investors Convertible Notes (ii)	AUD	12.5%	2017	883,579	883,579	-	-
Macquarie Bank Ltd (iv)	AUD	15%	2016	1,730,744	1,730,744	1,590,924	1,590,524
Hunter Premium Funding	AUD	7.5%	2016	71,666	30,081	63,273	41,867
Directors Loans	USD	5%	2017	117,836	117,836	-	-
Total interest bearing liabilities		AUD		3,499,662	3,441,293	2,350,034	2,285,959
Total non-interest bearing liabilities		AUD		495,489	494,731	-	-
Total borrowings		AUD		3,995,151	3,936,024	2,350,034	2,285,959

## **Notes to the Financial Statements**

For the year ended 30 June 2016

### **14. Loans and borrowings (continued)**

#### **Finance lease liabilities**

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

#### **Convertible note**

##### *(i) China Finance Strategies Investment Holdings Ltd*

On 9<sup>th</sup> 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.

## Notes to the Financial Statements

For the year ended 30 June 2016

### 14. Loans and borrowings (continued)

#### Convertible note (continued)

##### (ii) Sophisticated Investors

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

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

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

On 6<sup>th</sup> April 2016 Convertible Notes were issued to the value of \$90,000 and expiring 6<sup>th</sup> 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 utilized 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 27<sup>th</sup> 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 by first charge over the Company's assets
- 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 30<sup>th</sup> 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 was made from the proceeds of the R & D rebate on 20 September 2016

## Notes to the Financial Statements

For the year ended 30 June 2016

### 14. Loans and borrowings (continued)

#### (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.

### 15. Fair value measurement of financial instruments

#### Recurring fair value measurements

The following financial instruments are subject to recurring value measurements:

	2016	2015
	\$	\$
Level 3 – Convertible note	695,837	653,168

#### 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).

#### Transfers

During the year ended 30 June 2016, there were no transfers into or out of level 3 during the period.

#### Valuation techniques used to derive level 3 fair values

##### (i) CFS Convertible Note

The fair value of CFS convertible note is determined using internally prepared discounted cash flow valuation technique using a combination of observable inputs (such as Foreign Exchange rate, Share price and the terms of conditions of the convertible notes as disclosed above). The quantitative information about the significant unobservable inputs used in the CFS convertible note is as follows:

Description	Fair value at 30 June 2016 \$	Unobservable inputs	Relationship of unobservable inputs to fair value
Convertible Note	695,837	The probability of issue of equity at below \$0.075 before expiry of the note. The probability is assessed as nil as 30 June 2016.	Should the price reset be triggered, the price of conversion is the underlying share price of the newly issued equity securities.
		The probability of achieving Milestone 1, 2 and 3 (per the milestone options above). This is assessed as nil at year ended 30 June 2016.	The greater the probability of achieving the milestones, the greater the value of the con note.

## Notes to the Financial Statements

For the year ended 30 June 2016

### 15. Fair value measurement of financial instruments (continued)

#### 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 30 June 2016.

	Carrying amount	Fair value
	\$	\$
Current Assets		
Receivables	2,722,208	2,722,208
Non-current Assets		
Receivables	-	-
	<u>2,722,208</u>	<u>2,722,208</u>
Current Liabilities		
Bank loan - Macquarie	1,730,744	1,730,744
Centrepoint Alliance/Hunter Premium funding	30,081	30,081
Directors Loan	117,836	117,836
	<u>1,878,661</u>	<u>1,878,661</u>

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. The non-current receivables' fair value is also not significantly different to its carrying amount.

### 16. Provisions

An annual leave provision for employees exists in the amount of \$200,635 (2015: \$187,735) along with a long service leave provision of \$84,855. There is no non-current annual leave as all the leave provided for is or will become an entitlement within the next 12 months.

### 17. Trade and other payables

	Note	2016	2015
		\$	\$
<b>Trade payables</b>			
Current			
Other trade payables		65,667	221,424
Accrued expense		494,713	386,640
		<u>560,380</u>	<u>608,064</u>
<b>Other payables</b>			
Current			
Payroll Liabilities		40,146	26,668
		<u>40,146</u>	<u>26,668</u>
<b>Trade and other payables</b>			
Current		<u>600,526</u>	<u>634,732</u>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 18.



## **Notes to the Financial Statements**

For the year ended 30 June 2016

### **18. 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 Group'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.

##### **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 institutions.

#### **Financial risk management**

##### **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.

## Notes to the Financial Statements

For the year ended 30 June 2016

### 18. Financial instruments (continued)

#### Financial risk management (continued)

##### Aged Payables and Borrowings

Item	0 < 6 months	6 < 12 months	12 months >	Total Contractual cashflows	Carrying Value
	\$	\$	\$	\$	\$
Trade Payables	65,667	-	-	65,667	65,667
Accrued Expenses *	494,713	-	-	494,713	494,713
Macquarie Facility *	1,730,744	-	-	1,730,744	1,730,744
Centrepoint/Hunter Premium	24,935	5,146	-	30,081	30,081
Directors Loans	-	117,836	-	117,836	117,836
Convertible Notes	-	1,191,326	883,579	2,074,905	2,057,363
<b>TOTALS</b>	<b>2,316,059</b>	<b>1,314,308</b>	<b>883,579</b>	<b>4,513,946</b>	<b>4,496,404</b>

\$1,985,676 of the items marked \*refer to borrowings and liabilities against the research and development tax refund for the year ended 30 June 2016 (\$2,427,928 received 20 September 2016) 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.

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 unrealized 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 minimize 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.

	2016 USD	2015 USD
<b>Financial assets</b>		
Cash and cash equivalents	121,281	666,309
Trade and other receivables	470,756	396,250
	<u>592,037</u>	<u>1,062,559</u>
<b>Financial liabilities</b>		
Trade and other payables and borrowings	1,174,336	620,436
Net exposure	<u>(582,299)</u>	<u>442,123</u>

##### (ii) Consolidated Entity - sensitivity

Based on financial instruments held at 30 June 2016, 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 \$116,460 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.

## Notes to the Financial Statements

For the year ended 30 June 2016

### 18. Financial instruments (continued)

#### Financial risk management (continued)

#### Foreign exchange risk (continued)

#### (iii) Cash flow and fair value interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognized 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 amortized cost except for convertible note at fair value. 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 2016.

#### Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. See note 15 for details.

#### Capital management

The Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide 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.

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.

### 19. Operating leases

#### Leases as lessee

Commitments in relation to a property lease contracted for at the reporting date but not recognized as liabilities payable:

The Corporate offices located in Subiaco, Western Australia are leased as follows; Lease term was 12 months from 1 October 2014 (with an exercised option of a further 12 months) at rental of \$61,885 per annum. 3 months remain on the current lease with an option for a further 12 months.

	2016	2015
	\$	\$
Less than one year	15,471	15,259
Between one and five years	-	-
More than five years	-	-
	<hr/>	<hr/>
	15,471	15,259

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 63 months commencing 1 July 2014 and expiring 30 September 2019. Rental is pre-determined for the term of the lease giving rise to the following liabilities;

	2016	2015
	\$	\$
Less than one year	119,411	97,370
Between one and five years	279,108	311,961
More than five years	-	-
	<hr/>	<hr/>
	398,519	409,331

## Notes to the Financial Statements

For the year ended 30 June 2016

### 19. Operating leases (continued)

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;

	2016	2015
	\$	\$
Less than one year	105,130	64,750
Between one and five years	-	41,689
More than five years	-	-
	<u>105,130</u>	<u>106,439</u>

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

	2016	2015
	\$	\$
Within 1 year	6,660	6,660
Later than 1 year but within 5 years	8,325	14,985
	<u>14,985</u>	<u>21,645</u>

### Contingencies

Algae.Tec Limited has no contingent liabilities.

### 20. 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 as follows.

#### Group entities

#### Significant subsidiaries

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

#### Key management personnel compensation

The key management personnel compensation comprised:

	2016	2015
Short-term employee benefits	871,536	815,796
Post-employment benefits	48,880	38,789
Termination benefits	-	-
Other long term benefits	46,731	-
Share-based payments	139,031	1,524
	<u>1,106,178</u>	<u>856,109</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.

## Notes to the Financial Statements

For the year ended 30 June 2016

### 21. Subsequent events

On 8 July 2016, the Group completed a US\$1M investment into the Group by Gencor Pacific. This investment will enable the Company to accelerate the development of its production capacity and improve the efficiency of its nutraceutical plant and cater for the demand for nutraceutical products for Gencor's clients.

On 8 July 2016, the Group announced that they had secured a US\$500,000 investment from Magna Equities II, LLC. The funding was in the form of convertible securities. US\$350,000 was received prior to 30 June 2016 and the remaining option for a further US\$150,000 has not been exercised by the Group.

### 22. Auditors' remuneration

	2016 \$	2015 \$
Audit and review of financial statements – Bentleys (2015 BDO)	30,019	51,145
Audit and review of financial statements – BDO (USA)	38,225	42,349
Total paid	<u>68,244</u>	<u>93,494</u>

### 23. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2015, the parent entity of the Group was Algae. Tec Limited.

	2016 \$	2015 \$
<b>Result of parent entity</b>		
Profit/(loss) for the period	(3,719,484)	(3,055,813)
Other comprehensive income	-	-
Total comprehensive income for the period	<u>(3,719,484)</u>	<u>(3,055,813)</u>
	-	-
<b>Financial position of parent entity at year end</b>		
Current assets	2,818,846	3,496,938
Non-current assets	8,317	817,686
Total assets	<u>2,827,163</u>	<u>4,314,624</u>
Current liabilities	4,422,138	2,783,988
Non-current liabilities	-	-
Total liabilities	<u>4,422,138</u>	<u>2,783,988</u>
<b>Total equity of the parent entity comprising of:</b>		
Contributed equity	20,156,982	19,594,201
Reserves	192,159	161,067
Accumulated losses	(21,944,116)	(18,224,632)
<b>Total equity</b>	<u>(1,594,975)</u>	<u>1,530,636</u>

#### 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.

## **Directors' Declaration**

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

(a) The consolidated financial statements and notes that are set out on pages 14 to 45 and the Remuneration report in pages 8 to 13 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 2016 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 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 financial year ended 30 June 2016.

Signed in accordance with a resolution of the Directors

On behalf of the Board



Peter Hatfull  
**Managing Director**

Date: 30 September 2016  
Perth, Western Australia

## Independent Auditor's Report

### To the Members of Algae.Tec Limited

We have audited the accompanying financial report of Algae.Tec Limited ("the Company") and Controlled Entities ("the Consolidated Entity"), which comprises the statement of financial position as at 30 June 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and 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 entities it controlled at the year's end or from time to time during the financial year.

#### 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, the directors also state, in accordance with Accounting Standards 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 judgment, 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 entity'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 entity'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.

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## Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

## 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 2016 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*;
- b. The financial statements also comply with *International Financial Reporting Standards* as disclosed in Note 2.

## Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial report which indicates that the Consolidated Entity incurred a net loss after tax of \$3,262,307 during the year ended 30 June 2016. This condition, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Consolidated Entity to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

## Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. 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 year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.



**BENTLEYS**  
Chartered Accountants



**DOUG BELL CA**  
Director

Dated at Perth this 30<sup>th</sup> day of September 2016



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To The Board of Directors

**Auditor's Independence Declaration under Section 307C of the  
Corporations Act 2001**

As lead audit director for the audit of the financial statements of Algae.Tec Limited for the financial year ended 30 June 2016, 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.

Yours faithfully



**BENTLEYS**  
Chartered Accountants



**DOUG BELL CA**  
Director

Dated at Perth this 30<sup>th</sup> of September 2016

## **ASX Additional Information**

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 31 August 2016.

### **Number of Holders of Equity Securities**

#### **Ordinary Share Capital**

341,040,345 fully paid ordinary shares are held by 1,326 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.

### **Distribution of Holders of Quoted Equity Securities**

<b>Size of holdings</b>	<b>As at 31 August 2016 No. of fully paid ordinary shares</b>
1 - 1,000	15,797
1,001 - 5,000	803,587
5,001 - 10,000	3,191,039
10,001 - 100,000	20,581,769
100,001 and over	316,448,153
	<hr/>
	341,040,345

#### **Securities exchange**

The Group 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.

## ASX additional information

### Twenty largest shareholders as at 31 August 2016

Name	Number of ordinary shares held	Percentage of capital held
Teco Bio LLC	175,000,001	51.31
Reliance Industrial Investments Holdings Ltd	45,288,158	13.28
Citicorp Nominees Pty Limited	8,384,629	2.46
Mr Peter Ernest Hatfull	8,095,000	2.37
Mr Stephen Crotty	5,271,150	1.55
FMR Investments Pty Ltd	5,000,000	1.47
Vindication Pty Ltd <Marshall & Associates S/F A/C>	4,225,000	1.24
Mr Leigh Scott Kemmis	3,646,150	1.07
Inverse Investments Pty Ltd <Cyclopean S/F A/C>	3,416,000	1.00
Siwell Capital Pty Limited	3,100,000	0.91
Mr Raffaele De Maria	3,033,348	0.89
National Nominees Limited	2,585,580	0.76
JP Morgan Nominees Australia Limited	2,406,769	0.71
Neva Holdings Pty Ltd <Mackenzie Family A/c>	2,250,000	0.66
Mr Peter Ernest Hatfull + Mrs Julie Ellen Hatfull <Hatfull S/Fund A/C>	2,162,678	0.63
ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	1,759,005	0.52
Tinkler Investments Pty Ltd <Tinkler Family A/C>	1,610,000	0.47
Gabriel Jewellers Pty Ltd	1,601,600	0.47
Ms Melanie Ruth Simon	1,545,000	0.45
Mr Wayne Bannon	1,457,700	0.43
	<b>281,837,768</b>	<b>82.64</b>

### Substantial Shareholders

As at 31 August 2016, the register of substantial shareholders disclosed the following information:

	Number of ordinary shares held	Percentage of capital held
Teco Bio LLC	175,000,001	51.31
Reliance Industrial Investments Holdings Ltd	45,288,158	13.28

### Offices and officers

#### Principal Registered Office

Unit 2, Spectrum Offices  
100-104 Railway Road  
Subiaco WA 6008  
Telephone: (08) 9380 6790  
Facsimile: (08) 9381 9161  
Internet: [www.algaetec.com.au](http://www.algaetec.com.au)

#### Location of Share Registry

Computershare Investor Services Pty Ltd  
Level 11, 172 St George's Terrace  
Perth WA 6000

#### Company Secretary

Peter Hatfull