

31 January 2018

ASX Announcement

December Quarterly Activities Report

Highlights:

Algae Operations

- Key upgrades complete at Atlanta-based algae production facility – AEB now focused on ramping up production to 50 tpa
- AEB targeting revenue of ~US\$2 million during calendar year 2018 through supply agreement with North America's largest wholesaler of algae-based nutraceuticals, Gencor Pacific
- Gencor to purchase all tonnages produced for the nutraceutical markets as AEB expands production – significant revenue driver over next 12-24 months
- Over 3,500kg of nutraceutical powders have been stockpiled during production ramp up
- Stockpiled powders to undergo oil extraction and refining for sale in high-end nutraceutical market via Gencor partnership
- Sales of algae-based aqua feed products continuing to grow with revenues of ~US\$1 million targeted for calendar year 2018
- Phase 2 of the contract with Reliance Group to build a pilot algae plant in India has commenced – plant commissioning scheduled H2 2018

Medicinal Cannabis Operations

- Agreement signed with Medical Cannabis Limited (MCL) enabling AEB to exclusively license MCL's Low THC Delta 9 Cannabis cultivars from unique Australian-owned seed bank
- Partnership with MCL to target near-term development of stock and veterinary medications, supplements and sophisticated animal therapeutics
- Cornerstone investment secured in Uruguayan-based medicinal cannabis partner Auberna SA – providing AEB direct equity in vertically integrated cannabis business
- Auberna SA has entered into strategic agreement with Ma Genetics Limited – includes right to access live plants and seeds to further growing, licensing and research and development of medicinal cannabis in Uruguay
- AEB submits application to cultivate and produce medicinal cannabis in Australia

Corporate Overview

- Successful completion of oversubscribed shortfall placement in October raises additional A\$1.6 million
- Key partner Gencor Pacific increased equity stake in AEB to 9.33% during the quarter
- A\$2.5 million capital raising secured post quarter end to advance existing nutraceutical and medicinal cannabis operations

For personal use only



Plant-based health and wellbeing company Algae. Tec Ltd (the “Company” or “AEB”) (ASX: AEB) is pleased to provide shareholders with its Quarterly Activities Report for the period ended 31 December 2017.

Algae Division Overview

State-of-the-art Atlanta Algae Production Facility

During quarter, the Company completed a number of key upgrades at its Atlanta-based algae product development facility, enabling the plant to expand its initial production capacity to 50t per year. The Company has stockpiled over 3,500kg of nutraceutical powders. These powders will now undergo oil extraction and refining to produce high quality EPA and DHA oils for sale in the increasing high-end nutraceutical market. Gencor has the offtake to these oils and is a major supplier in over 50 countries in the nutraceutical sector. In addition, protein will be extracted for analysis and future commercialisation through the health and fitness products in the market. The key point of difference with the Algae.Tec plant is its ability to deliver high end quality products in a totally controlled indoor “photo bioreactor” system.

AEB is now focused on installing oil extraction and refining equipment within its facility and further expanding the production capacity of the Atlanta facility from 50 tpa through to 300tpa and eventually 1,000t pa.

Sales from the algae plant are supported by a 100% offtake with Gencor Pacific (largest Omega 3 Oil trader in the USA).

Development of Phase 2 Pilot Algae Plant in India Underway

Post-quarter end, the Company commenced Phase 2 of the contract with Reliance Group to build a pilot algae plant in India. Subject to the requirements of Reliance, the Company anticipates completion of Phase 2 and full commissioning of the plant during Q3 2018.

Phase 2 includes the fabrication and installation of concentrated photovoltaic panels, the Fresnel solar collector system, and LED light panels for remainder of the installed photo bioreactor.

Upon completion and operation, the Company will have an operating plant demonstrating the capacity to produce economic biofuels from CO₂ sequestrations which are the key fuel source that grows the algae.

The initial purpose of the pilot plant is to demonstrate the effectiveness at CO₂ sequestration (environmental benefits) and the economic production of biofuels. Upon demonstration the intention is to develop commercial sized plants for sale in the order of +US\$100m per plant.

Reliance Group’s activities span hydrocarbon exploration and production, petroleum refining and marketing, petrochemicals, retail and telecommunications. In each of these areas, Reliance is committed to innovation-led, exponential growth. Reliance Industries Limited is a Fortune 500 company and the largest private sector corporation in India.

AEB’s relationship with Reliance is significant in that successful commissioning of Phase 2 provides a real “green solution” to the Reliance group which could be rolled out across numerous operations throughout India.

For personal use only



Strong take-up of FeedMe™ Algae in North American market

Since its launch, the Company's FeedMe™ algae product range has established a reputation as a trusted, high quality brand in the growing North American aquarist market. The entry into this market was initially through powder and live products, with demand from retail customers growing month-on-month.

Post-quarter end, the Company advised that sales of aquarium-based products had continued to grow and the Company is targeting US\$1m of revenue from this market sector in the 2018 calendar year.

AEB's FeedMe™ high Omega-3 products are currently on the shelf in retail stores in the Southeast USA and over 50 additional retail stores have been supplied and are undergoing product testing and evaluations. The FeedMe™ product line was also introduced at three major marine tradeshow with direct product sales and excellent customer feedback having been received.

The global aquarist market is a high value, high margin industry with the aqua feed sector alone valued at an US\$25 billion in 2014 and forecast to grow to US\$30 billion by 2020.

Discussions are progressing with major aqua feed distributors in North America which have the potential to expand the Company's sales and distribution channels into key retail suppliers. Negotiations are also underway with industry distributors to develop a range of products, including live products, that can be shipped globally and maintain a longer shelf life.

Medicinal Cannabis Division Overview

MCL and AEB join to develop Cannabis veterinary medications

On 22 December, AEB and Queensland Bauxite Limited (ASX: QBL) announced a significant agreement enabling AEB to exclusively license Medical Cannabis Limited's ("MCL") Low THC Delta 9 Cannabis cultivars from the unique Australian Cannabis seed bank owned by MCL. QBL has a 55% shareholding in MCL.

AEB will establish a breeding program to identify cultivars for use in cannabinoid product to research and develop stock and veterinary medications, supplements and sophisticated animal therapeutics.

MCL will provide additional assistance and expertise to cultivate the cannabis plants, while MCL retains the exclusive rights to develop these cultivars for human medical research and development.

The agreement sets AEB up as one of the few Australian medical cannabis companies with an Australian lawful source of cannabinoid producing plants, starting material, genetics and hands on experience to put it at the forefront of the new age in Australia medical cannabis law reforms. It will also enable MCL to significantly benefit from the groundwork, research and product development that will be performed by AEB.

For personal use only



Acquisition of 25% stake in Uruguay-based cannabis partner – Auberna SA

In November, the Company entered into a Heads of Agreement (“HoA” or the “Agreement”) with Auberna SA (“Auberna”) – (trading as United Biogenics “BioU”) to acquire a direct 25% equity interest in the business.

The agreement represented the commercialisation phase of the Collaboration Agreement entered into by the Company with Jardin de Invierno S.A. in May 2017 (see ASX release dated 2 May 2017). Pleasingly, the commercialisation of the Collaboration Agreement was achieved much earlier than anticipated.

Under the HoA, AEB invested a further US\$1,000,000 (above the US\$1,500,000 under the Collaboration Agreement) into Auberna, with this amount to be injected over a six-month period based on an agreed work program.

Importantly, upon completion, the Agreement provided AEB with direct equity in a federally-licensed commercial cannabis business in Uruguay, facilitating access to a number of key export markets globally.

As previously reported the first 10-acre crop has commenced, with all necessary seeds propagated and being planted on a coordinated rollout basis. BioU anticipates that the 10-acre crop will produce up to 4 tonnes of CBD flowers for processing in its advanced extraction laboratory. Final product from the first crop, being CBD oil, is schedule for Q2C18.

Strategic Collaboration with Ma Genetics Limited

A further key development was announced post quarter end (see ASX release dated 25 January 2018) with BioU entering into a strategic collaboration agreement with Ma Genetics Limited. Importantly, this collaboration provides BioU with direct access to additional live plants and seeds to further growing, licensing and research and develop of medicinal cannabis.

This is a highly strategic agreement with Ma Genetics having significant expertise in breeding cannabis with its unique portfolio of live plants and seeds originating from every continent. Included in the portfolio are plants and seeds that have been preserved and maintained since bred as the first hybrids from original landrace strains in the 1970s and 1980s.

Significant synergies exist with BioU given Uruguay’s federal licensing system, golden patent history and enhanced ability to commercialise strains and genetic varieties (see AEB Q&A announcement dated 1 Dec 2017).

Algae.Tec Submits Application for Australian Cannabis Cultivation and Production License

In December, the Company submitted an application to the *Office of Drug Control* for a license (the “License”) to cultivate and produce medicinal cannabis in Australia.

Once issued, the License will allow the Company to commence the cultivation of medicinal cannabis in Australia, complementing the Company’s current cannabis growing and R&D programs in Uruguay.

For personal use only



The application further builds upon AEB's medicinal cannabis division, which is focused on utilising the Company's strategic shareholding in, and relationship with, United Biogenics in Uruguay, as well as its own proprietary growing technology to grow plants for the rapidly expanding cannabis and algae markets respectively.

During the growing phase of the Company's first Australian crop, AEB will continue to progress discussions with a number of well-known Licenced Producers ("LP's) of medicinal cannabis products including key delivery system technology providers relating to, amongst other things, nasal sprays, chewing gum and slow release capsules.

It is anticipated that the license will be granted early in 2018.

Corporate Overview

Oversubscribed Shortfall Placement Complete

In October, the Company announced the successful allocation of the remaining shortfall shares under the Entitlement Offer ("the Offer"), as announced in July 2017, taking the total amount raised to over A\$8 million.

The shortfall placement ("the Placement") closed oversubscribed with a total of 56,534,187 shares and 28,267,093 free attaching options placed at \$0.03 under the same terms as the Offer (see ASX release dated 3 July 2017), raising an additional approximately A\$1.6 million before costs. The Placement was strongly supported by both new and existing shareholders, with current major shareholder Gencor Pacific, North America's largest wholesaler of algae-based nutraceutical products, allocated A\$650,000 of the available shortfall.

Completion of A\$2.5 million placement

Post-quarter end, the Company announced a capital raising of A\$2.5 million ("the Placement") at \$0.04 a share to be utilised to advance the ongoing roll out of Company's Uruguayan partner, Australian cannabis operations (once licenced) and key developments for the Company's state of the art algae plant in Atlanta in respect of product sales for the human nutraceutical market.

Empire Equity acted as lead manager to the Placement with clients of Cove Capital major participants.

For personal use only



Management Commentary

Algae.Tec Ltd Managing Director, Malcolm James commented: “The December quarter was a transformational period for the business with a number of key developments achieved at both a corporate and operational level.

“A key focus for the Company during the quarter was to implement a number of operational improvements at our world-class algae product development facility in Atlanta. I am pleased to report that with these improvements now complete, the plant is operating at an optimal level and producing at a capacity of 50 tpa of high-value algae strains.

“This scaling up of production is strategically underpinned by our offtake agreement with Gencor Pacific who will purchase 100% of our nutraceutical product which we expected to be a significant revenue catalyst for the business over the coming months.

“In addition, AEB has further expanded its plant growing expertise into the rapidly expanding medicinal cannabis market through our strategic partnerships with MCL and Auberna respectively.

“This strategic decision leverages our existing industry expertise and we believe exposure to the medicinal cannabis sector will provide an opportunity for significant shareholder value to be realised in due course.”

For further information please contact:

Malcolm James

Executive Chairman & Managing Director

Algae.Tec Limited

T: +61 (8) 9380 6790

E: info@algaetec.com.au



Follow us on Twitter @AlgaeTec_

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

About Algae.Tec Limited (ASX. AEB)

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

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

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

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

Name of entity

Algae.Tec Limited

ABN

16 124 544 190

Quarter ended ("current quarter")

31 December 2017

Consolidated statement of cash flows	Current quarter \$A	Year to date (6 months) \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	1,791	227,591
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	-59,823	-66,812
(d) leased assets	-	-
(e) staff costs	-709,450	-1,491,030
(f) administration and corporate costs	-910,007	-1,565,757
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	4,525	4,532
1.5 Interest and other costs of finance paid	-71,921	-299,499
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	2,117,702	2,117,702
1.9 Net cash from / (used in) operating activities	372,817	-1,073,273
2. Cash flows from investing activities		
2.1 Payments to acquire:		
property, plant and equipment	-4,224	-4,224
businesses (see item 10)		
investments		

For personal use only

Consolidated statement of cash flows	Current quarter \$A	Year to date (6 months) \$A
(d) intellectual property	-	-
(e) other non-current assets	-529,005	-529,005
2.2 Proceeds from disposal of:		
property, plant and equipment		
businesses (see item 10)		
investments		
intellectual property		
other non-current assets		
Cash flows from loans to other entities		
Dividends received (see note 3)		
Other (provide details if material)		
Net cash from / (used in) investing activities	-533,229	-533,229
3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	149,976	3,907,707
3.2 Proceeds from issue of convertible notes	-	245,000
3.3 Proceeds from exercise of share options	3,143	3,143
3.4 Transaction costs related to issues of shares, convertible notes or options	-21,450	-539,486
3.5 Proceeds from borrowings	844,511	966,669
3.6 Repayment of borrowings	-2,106,744	-2,502,216
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	-1,130,564	2,080,817
4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	1,868,173	102,882
4.2 Net cash from / (used in) operating activities (item 1.9 above)	372,817	-1,073,273
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-533,229	-533,229
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-1,130,564	2,080,817

Consolidated statement of cash flows		Current quarter \$A	Year to date (6 months) \$A
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	577,197	577,197

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A	Previous quarter \$A
5.1	Bank balances	576,931	1,867,899
5.2	Call deposits	266	274
5.3	Bank overdrafts	-	-
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	577,197	1,868,173

6.	Payments to directors of the entity and their associates	Current quarter \$A
6.1	Aggregate amount of payments to these parties included in item 1.2	178,296
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

7.	Payments to related entities of the entity and their associates	Current quarter \$A
7.1	Aggregate amount of payments to these parties included in item 1.2	Nil
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

For personal use only

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
8.1 Loan facilities	2,152,441	3,196,353
8.2 Credit standby arrangements		
8.3 Other – -		-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

See attached

9. Estimated cash outflows for next quarter	\$A
9.1 Research and development	10,000
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	50,000
9.4 Leased assets	-
9.5 Staff costs	725,000
9.6 Administration and corporate costs	700,000
9.7 Other (provide details if material)	90,000
9.8 Total estimated cash outflows	1,575,000

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

Please refer September Quarterly Activities Report

Compliance statement

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

Sign here:
(Director/Company secretary)

Date: 31 January 2018

Print name: PETER HATFULL

Notes

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

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

		Nominal interest rate	Year of maturity	Security	31 Dec 17 Carrying amount A\$	30 Sep 17 Carrying amount A\$
China Finance Strategy Convertible Note	USD	12%	2016	Unsecured	384,079	368,422
GE Nutrients Inc *1	USD	10%	2018	Unsecured	276,056	-
Brevet Direct Lending	AUD	15%	2018	Secured	568,629	-
ITF Pty Ltd	AUD	15%	2017	Secured	-	1,800,000
Hunter Premium Funding	AUD	7.1%	2016		-	15,867
L1 Convertible Note	AUD	0%	2017	Unsecured	137,500	137,500
Directors Loans *2	USD	5%	2017		120,723	118,458
707 Holdings	USD	10%	2020	Unsecured	665,454	645,410
Magna Equities	USD	0%	2018	Unsecured	-	69,377
Magna Equities	USD	0%	2018	Unsecured	-	212,999
Total borrowings		AUD			<u>2,152,441</u>	<u>3,368,033</u>

*1 This debt provider has an associated entity which currently owes US\$500,000 to Algae.Tec Limited

*2 This loan was fully repaid on 31 January 2018

The effect of *1 and *2 above will be a reduction in debt to \$1,755,662 based upon the schedule above.