2014 Annual Report

Algae.Tec Limited

Contents

Company Details

Directors

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

Company Secretary

Peter Hatfull

Principal Registered Office in Australia

Ground Floor, 516 Hay Street
Subiaco WA 6008

Share Register

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

Auditors

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

Bankers

National Australia Bank	Commonwealth Bank of Australia	Wells Fargo Bank
International Operations	Business and Private Banking	464 California Street
Level 3, Building B,	Level 1, 38 Adelaide Street	San Francisco
Rhodes Corporate Park	Fremantle WA 6160	USA
1 Homebush Bay Drive		
Rhodes NSW 2138		

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

Corporate Governance Statement

For the year ended 30 June 2014

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

1. Board of directors

Role of the board

The board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the board is responsible for the overall corporate governance of the Group including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of risk management, internal control, legal compliance and management information systems.

It is also responsible for approving and monitoring financial and other reporting.

The board has delegated responsibility for operation and administration of the Group to the managing director and executive management. Responsibilities are delineated by formal authority delegations.

Board processes

Due to the small size of the Board, the full Board performs the role of Audit Committee in addition to its normal responsibilities.

The full board currently holds regular scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman, Managing Director, Executive Director and Company Secretary. Standing items include the managing director's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in board discussions and directors have other opportunities, including visits to business operations, for contact with the wider group of employees.

Independent professional advice and access to company information

Each director has the right of access to all relevant Company information and to the Group's executives and, subject to prior consultation with the chairperson, may seek independent professional advice from a suitably qualified adviser at the Group's expense. The director must consult with an adviser suitably qualified in the relevant field, and obtain the chairperson's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the board.

Composition of the board

The composition of the Board is balanced, with directors possessing a broad range of skills, experience, expertise, diversity, qualifications and contacts relevant to Algae.Tec's business. The Board consider the range of expertise of its members and ensure that it has operational and technical expertise relevant to the operations of Algae.Tec that will best complement Board effectiveness. The Board recognises that it must be able to consider current and emerging business issues and challenge the performance of Management.

With the exception of the Managing Director;

- Directors appointed by the Board are required by Algae.Tec's constitution to submit themselves for re-election by shareholders at the Annual General Meeting following their appointment and
- No director will hold office for a continuous period in excess of 3 years or past the third Annual General Meeting following the director's appointment, whichever is the longer, without submitting for re-election.

The Board met 10 times during the financial year. Directors' attendances are set out on Page 8 of this report.

1. Board of directors *(continued)*

As at the date of this report, the Board comprises of three directors, one independent Chairman and two Executive Directors. Algae. Tec Limited's constitution provides for a minimum of three directors and not more than nine directors. It is the intention of Algae.Tec, in time having regard to its size, to re-assess the composition of the Board in order to comply with the recommendations that a majority of the Board should be independent.

The Chairman, Mr Malcolm James is independent, and the other two directors, Mr Peter Hatfull and Mr Earl McConchie are not independent and both are shareholders of the Group.

Remuneration committee

The Board has not established a Remuneration Committee at this point in the Group's development. It is considered that the size of the Board along with the level of activity of the Group renders this impractical and the full Board considers in detail all of the matters for which the directors are responsible.

The remuneration for the executive directors is as disclosed in the Directors' Report. There is currently no link between performance and remuneration and there are no schemes for retirement benefits in existence. The Board is responsible for determining the remuneration of the Managing Director and senior executives.

2. Audit committee

Due to the small size of the Board, the full Board performs the role of Audit Committee and is responsible for determining, monitoring and reviewing the reliability and integrity of Algae.Tec's financial information for inclusion in its financial statements; the effectiveness of internal financial controls, the independence, objectivity and competency of the external auditors; and the policies on risk oversight and management.

3. Risk management

The Board recognises that there are strategic, operational and financial risks in Algae. Tec's business and has established a sound system of risk oversight and management and internal control to identify, assess, monitor and manage risk.

Management is responsible for designing and implementing the risk management framework. Management identifies and reviews the key risks impacting each area of the business and develops strategies to effectively mitigate these risks. Management reports to the Board on the effectiveness of Algae.Tec's management of its material business risks.

The Board is responsible for risk oversight, risk management and internal control. There is currently no designated Internal Audit resource but the function, which is undertaken by Management, assists with regard to business risk management, and provides regular reports to the Board.

When the Board approves the half and full-year results, the Managing Director has represented to the Board that, to the best of their knowledge:

- The statement given in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control; and
- Algae.Tec's risk management and internal control system is operating effectively in all material respects in relation to financial reporting risks.

4. Ethical standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Group. The board has developed procedures to assist directors to disclose potential conflicts of interest.

Where the Board believes that a significant conflict exists for a director on a board matter, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. Details of director related entity transactions with the Group are set out in Note 21 to the consolidated financial statements.

5. Diversity

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

The table in respect of this follows:

Gender	Total	Senior Management	Board
Female	5	-	-
Male	17	-	3
%Female	22	-	-

6. Communication with shareholders

The board provides shareholders with information on matters that may have a material effect on the prices of the Group's securities, notifying them to the ASX, posting them on the Group's website and issuing media releases.

- The Company Secretary is responsible for all communications with the ASX.
- The full annual report is provided via the Group's website to all shareholders (unless a shareholder has specifically requested to receive a physical copy or not to receive the document), including relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments
- The half-yearly report contains summarized financial information and a review of the operations of the Group during the period. The half-year reviewed financial report is lodged with the ASX, and sent to any shareholder who requests it
- Proposed major changes in the Group which may impact on share ownership rights are submitted to a vote of shareholders
- All announcements made to the market, and related information (including information provide to analysts or the media during briefings), are placed on the Group's website after they are released to the ASX
- The full texts of notices of meetings and associated explanatory material are place on the Group's website
- The external auditor attends the annual general meeting to answer questions concerning the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted by the Group and the independence of the auditor in relation to the conduct of the audit.

All of the above information, including that of the previous three years, is made available on the Group's website within one day of public release, and is emailed to all shareholders who lodge their e-mail contact details with the Group.

The Board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the Group's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors, the Remuneration report and changes to the Constitution. Copies of the Constitution are available to any shareholder who request it.

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

Directors' Report

For the year ended 30 June 2014

The Directors present their report together with the consolidated financial statements of the Group comprising of Algae. Tec Limited (the Group) and its subsidiary for the financial year ended 30 June 2014.

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 move to Africa, where he spent 8 years in Malawi. Peter moved to Perth in 1988.

Peter Hatfull currently holds 9,961,178 ordinary shares in Algae.Tec Ltd and nil options.

Peter Hatfull currently holds the positon 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.

Roger Stroud

Executive Chairman (Resigned 16 September 2014)

Roger has over 35 years' experience in a variety of industries. Roger began the process of building businesses in the renewable fuel sector, primarily biodiesel. Roger is a founding director and joint controlling shareholder of Teco.Bio LLC, and is based in Perth, WA. Roger has received a BSc from Sydney University, majoring in chemistry and Geology and a BA (Economics) from Macquarie University. He is currently chairman of the "Centre for Research into Energy for Sustainable Transport," a collaborative of Curtin and Murdoch University based on Murdoch campus. Additionally, he is on the Board of the Fuels and Energy Technology Institute (FETI), situated at Curtin University.

Malcolm James

Non-Executive Chairman (Appointed 16 September 2014)

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. Mr. James is well known for his philanthropic work in Australia and overseas and was the inaugural CEO of the Australian Employment Covenant, an organization set up to promote long term employment for indigenous Australians.
Mr Malcolm James currently holds directorship in Anova Metals Ltd as Non-Executive Chairman. Malcolm James also held directorship in Peninsula Energy Limited to 2013 and Triton Gold Limited to 2014.

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.

Directors' Report

For the year ended 30 June 2014

Earl McConchie *(continued)*

Executive Director

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 controls Dot.Bio Inc which as at 15 September 2014, held 50% of Teco.Bio LLC which in turn held 200 million shares in Algae.Tec Limited. On 16 September 2014, Teco.Bio LLC allocated 25 million shares to Mere View Investments Pty Ltd, a company controlled by Roger Stroud. The transfer of these shares is still being completed. Earl McConchie, as at 16 September 2014 controls Dot.Bio Inc which owns 100% of Teco.Bio LLC which now holds 175 million 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.

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	
	A	B
Mr Peter Ernest Hatfull	*10*	10
Garnet Earl McConchie	*10*	10
Roger Sydney Stroud (resigned 16 September 2014)	*10*	10
Malcolm James (appointed 16 September 2014)	-	-

A **–** Number of meetings attended

B – Number of meetings held during the time the director held office during the year.

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 commercialising the technology towards the fast growing nutraceutical market.

Overview of the Group

The year to 30 June 2014 has been a breakout year for Algae.Tec Ltd with the signing of an agreement with the Reliance Group of India, validating our technology and our approach to forming strong strategic relationships to assist in commercialising our unique technology. The agreement with Reliance Industrial Investment and Holdings Limited (RIHL) was signed in January 2014 and it is expected will lead to the first commercial algae plant being built.

The Group's strategic plan of working with significant groups in a range of industries as a step to commercialising our technology has progressed well in the period, with announcements being made regarding partners in industries from power generators to waste to energy companies.

Various funding strategies have been entered into during the year but the Company has not yet finalised the funding for a small scale plant for the nutraceutical market. Discussions regarding this funding are continuing.

Review of financial position

The consolidated loss of the Group amounted to $2,179,072 (2013: Loss $4,420,514) after including a tax refund due for R & D activities in the financial year of $2,174,210.

Net cash expensed through operating activities for the financial year was $1,547,499, a 71.6% decrease on the $5,450,444 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.

Directors' Report

For the year ended 30 June 2014

Major events during the year were as follows:

Macquarie Generation

On 2 July 2013 the Group announced a deal with Australia's largest power company, Macquarie Generation, to site a commercial algae production facility alongside a 2640 MW coal-fired power station near Sydney. Macquarie Generation is owned by the New South Wales Government and the agreement is to site the algae plant next to the Bayswater power station and feed waste carbon dioxide directly into the enclosed algae growth system. The ownership of Macquarie Generation is currently under discussion and the plans are therefore on hold until this is resolved.

Biofuels Refinery Deal

Algae.Tec announced a biofuels refinery deal with Biodiesel Industries Australia (BIA) for 50 million litres on 8 July 2013. The oil, to be produced from the Algae.Tec facility planned for 2014 at Macquarie Generation's Bayswater coal-fired power station in Hunter Valley will be refined by BIA, and then used locally by mining and industry in the Hunter region. BIA currently produces biodiesel for Caltex, local councils and the mining industry. As stated above, the discussions regarding an offtake agreement are pending whilst the above situation is resolved.

Corporate Placement and Share Purchase Plan

On 16 July 2013 the Group announced the completion of a share purchase plan which raised AU$724,399. In addition, corporate placements of AU$2.3 million were made being $1.5 million from Reliance Industrial and Investment Holdings Ltd (RIIHL) as disclosed below, and $800,000 from a strategic investor being part of the $1 million placement disclosed in the previous financial year.

Convertible Note – Platinum Road

On 16 October 2013, the Group announced the raising of up to $1,000,000 via Platinum Bond to sophisticated investors. Of this total, $750,000 has been drawn down at 30 June 2014. These funds were utilised to progress key projects and for general working capital. The bond is repayable in 12 months or converted to shares at a price of $0.22 cents or at 95% of the lowest VWAP for the previous 10 days if Algae.Tec's share price falls below $0.15 for 15 consecutive trading days.

Phoenix Energy Australia

On 29 October 2013, Algae.Tec signed a carbon capture agreement with Phoenix Energy Australia to provide algae to biofuels technology for waste to energy (W2E) facilities for Australia and New Zealand. Phoenix Energy Australia is currently negotiating contracts to build and manage centralised W2E facilities from groups of municipalities in Australia.

Nowra Demonstration Facility – Growth System Validated

17 December 2013, Algae.Tec announced the validation of the algae growth system. The validation was conducted by Sydney Environmental and Soil Laboratory Pty Ltd (SESL), a NATA approved company. The report confirms the validation for the application and production capability of the Algae.Tec system in an industrial setting for the nutraceutical market. With the successful completion of the validation process, Algae.Tec will focus on commercialising the technology to establish a strong, profitable revenue base for the Group.

Reliance Industrial Investments and Holdings Limited (RIHL)

On 21 January 2014 Algae.Tec Ltd announced an initial investment of AU$1.5 million by Reliance Industrial and Investment Holdings Ltd (RIIHL) with additional investments of AU$1.2 million over the next 2 years. In February 2014, Algae.Tec Ltd received its first purchase order for $2.4 million for the supply of certain Algae.Tec production technology and associated technical expertise. The work and equipment ordered under this purchase order will be supplied and completed over approximately the next nine months.

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.

Directors' Report

For the year ended 30 June 2014

Events subsequent to reporting date

On 22 July 2014, Reliance Industrial Investments and Holdings Limited (RIHL) exercised 1,833,740 options at $0.1636 generating $300,000 in new equity for the Group. The conversion was part of $5 million of options granted to Reliance (RIHL) as part of a finance agreement announced on 21 January 2014. A minimum of $1.2 million of options are to be exercised within 2 years of the date of the agreement.

On 16 September 2014, the Executive Chairman Mr Roger Stroud retired. Mr Malcolm James was appointed as the new Non-Executive Chairman.

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 8 and 9, which forms part of the Directors' report.

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

Environmental regulation

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

Directors' interest

The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the companies within the Group and other related bodies corporate, as notified by directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report are as follows:

	Algae.Tec Limited Ordinary Shares	**Options over ordinary shares**
Peter Hatfull	9,961,178	-
Roger Stroud *(resigned 16 September 2014)*[3]	201,625,866[2]	-
Malcolm James *(appointed 16 September 2014)*	20,000	-
Earl McConchie	204,070,000[1]	-

1. *By virtue of Section 608(3) of the Corporations Act, as Mr McConchie controls Dot-Bio Inc which holds 50% of Teco.Bio LLC which in turn holds 200 million Shares. Related parties of Mr McConchie together hold 4.07 million Shares.*
2. *By virtue of Section608 (3) of the Corporations Act, as Mr Stroud controls Teco Pty Ltd which holds 50% of Teco.Bio LLC which in turn holds 200 million Shares.*
3. *As at 16 September 2014, Mr Stroud resigned as a director and shareholder of Teco.Bio LLC. As at the date of this report, Teco.Bio LLC allocated 25 million shares to Mere View Investment Pty Ltd, a company controlled by Mr Stroud. The transfer of these shares is still being completed.*

Options and Rights Granted

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

All options outstanding at 30 June 2014 are as follows:

Number of options	**Issued to**	**Class**
49,584,334	GEM	Options exercisable at $0.75 on or before 13 January 2016
1,000,000	Advides	Options exercisable at $1.00 on or before 14 October 2015
30,562,347	The Reliance Group	Options exercisable at $0.1636 on or before 20 January 2019

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 Roger Stroud, 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.

Directors' Report
For the year ended 30 June 2014

Indemnification *(continued)*
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.

Non-Audit services
During the year BDO Audit (WA) Pty Ltd ("BDO"), 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 370C of the Corporations Act 2011 is set out on page 49.

Remuneration Report – *audited*
The Directors are pleased to present Algae.Tec Limited's 2014 remuneration report which sets out remuneration information of the Group's executive directors and key management personnel.

Key management personnel disclosed in this report are:

Executive Directors
Peter Hatfull
Roger Stroud *(resigned 16 September 2014)*
Earl McConchie

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 and senior executives for the Group.

Compensation levels for key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- The capability and experience of the key management personnel
- The key management personnel's ability to control the relevant 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.

Directors' Report
For the year ended 30 June 2014

Remuneration Report – *audited* *(continued)*

Principles of compensation *(continued)*

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.

	2014	2013	2012	2011
Quoted price of ordinary shares at period end (cents)	0.09	0.17	0.34	0.30
Profit/(loss) per share (cents)	(0.01)	(0.02)	(0.03)	(0.01)

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**:

Term

From 1 October 2010 until one of the following occurs:

a. The Group gives the Managing Director one month written notice;
b. The Managing Director gives the Group one month written notice; or
c. The Group terminates the contract due to actions of the Managing Director such as serious misconduct, dishonesty and bankruptcy.

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, Peter has agreed to continue with the reduced rate of pay. 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).

Directors' Report
For the year ended 30 June 2014

Remuneration Report – *audited* *(continued)*

Principles of compensation – audited *(continued)*

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

Term	From 1 July 2010 to end on July 2014 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 a monthly rate of $30,000 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. As from 1 July 2014 this consultancy agreement has expired and has not been renewed. No further consultancy agreement has been put into place, and Mr Stroud retired from his position as Executive Chairman on 16 September 2014.

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

Term	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.
Payments on Termination	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.
Remuneration	**Fixed annual remuneration:** US$360,000 gross salary per annum not inclusive of superannuation and health insurance benefits. **Review of remuneration:** The remuneration will be reviewed at least annually, with any increase at the absolute discretion of the Group. **Annual leave:** 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.

No options issued for remuneration remain on issue.

Directors' Report

For the year ended 30 June 2014

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				Post-employment	Other long term		Share-based payments	
in dollars		Salary & fees $	Non-monetary benefits $	Unused annual leave	Total $	Superannuation benefits $	$	Termination benefits $	Options and rights $	Total $
Directors										
Executive Directors										
Roger Stroud (resigned 16 September 2014)	2014	299,508	-	-	299,508	-	-	-	-	299,508
	2013	335,727	-	-	335,727	-	-	-	-	335,727
Peter Hatfull	2014	162,500	-	21,153	183,653	15,031	-	-	-	198,684
	2013	212,500	-	19,230	231,730	19,125	-	-	-	250,855
Earl McConchie	2014	349,540	18,573	42,577	410,690	13,981	-	-	-	424,671
	2013	263,629	36,996	43,345	343,970	7,346	-	-	-	351,316
Sub-total executive directors remuneration	2014	811,548	18,573	63,730	893,851	29,012	-	-	-	922,863
	2013	811,856	36,996	62,575	911,427	26,471	-	-	-	937,898
Total directors' remuneration	2014	811,548	18,573	63,730	893,851	29,012	-	-	-	922,863
	2013	811,856	36,996	62575	911,427	26,471	-	-	-	937,898
Total key management personnel remuneration	2014	811,548	18,573	63,730	893,851	29,012	-	-		922,863
	2013	811,856	36,996	62,575	911,427	26,471	-	-		937,898

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 yet taken. 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

Directors' Report

For the year ended 30 June 2014

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 2013	Other Changes	Received on exercise of options	Sales	Held at 30 June 2014
Directors					
Peter Hatfull	9,871,178	90,000	-	-	9,961,178
Roger Stroud	201,625,866[1]	-	-	-	201,625,866
Earl McConchie	204,500,000[2]	-	-	(430,000)[3]	204,070,000

1. *By virtue of Section608 (3) of the Corporations Act, as at 30 June 2014 Mr Stroud controlled Teco Pty Ltd which held 50% of Teco.Bio LLC which in turn holds 200 million Shares. On 16 September 2014, Mr Stroud stepped down from Teco.Bio LLd and Mere View Investments, a company controlled by Mr Stroud was allocated 25 million shares previously owned by Teco.Bio LLC.*
2. *By virtue of Section 608(3) of the Corporations Act, as at 30 June 2014 Mr McConchie controlled Dot-Bio Inc which held 50% of Teco.Bio LLC which in turn holds 200 million Shares. On 16 September 2014 Mr Stroud stepped down from Teco.Bio LLC leaving Dot.Bio Inc, a company controlled by Mr McConchie in control of Teco.Bio LLC which in turn held 200 million shares. 25 million of these shares were then allocated to Mere View Investments Pty Ltd, a company controlled by Mr Stroud. Related parties of Mr McConchie together hold 4.07 million Shares.*
3. *Sale of shares by related party.*

No options are held by key management personnel.

Other related party transactions

Five 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$443,350 (US$421,493) as salaries, wages and benefits.

Amount totaling A$32,187 (US$30,600) were paid to Dot-Bio in respect of the leasing of office furniture and equipment. Dot-Bio is a Corporation wholly owned by Mr Earl McConchie and family members.

Dot-Bio was owed a sum of A$4,613 (US$4,500) as at 30 June 2014, in relation to the leasing of the office furniture. This formed part of the balance of trade creditors at the year end.

Use of remuneration consultants

The Group did not use remuneration consultants during the year.

Voting at the Group's 2013 Annual General Meeting

The company received 70% of proxy votes in favour of its 2013 remuneration report at the 2013 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,

Peter Hatfull

Managing Director
25 September 2014

Consolidated Statement of Financial Position

As at 30 June 2014

	Notes	30 June 2014	30 June 2013
Assets			
Cash and cash equivalents	11	302,766	234,431
Trade and other receivables	9	3,161,688	3,486,316
Tax receivable		32,225	-
Prepayments	10	54,953	97,399
Total current assets		3,551,632	3,818,146
Property, plant and equipment	7	800,813	907,907
Deferred tax assets	8	230,164	239,283
Total non-current assets		1,030,977	1,147,190
Total assets		4,582,609	4,965,336
Liabilities			
Trade and other payables	19	452,214	853,371
Loans and borrowings	16	2,197,165	3,503,869
Tax payable	8	-	29,745
Provisions	18	196,993	74,501
Total current liabilities		2,846,372	4,461,486
Non-current liabilities			
Loans and borrowings	16	-	3,768
Total non-current liabilities		-	3,768
Total liabilities		2,846,372	4,465,254
Net assets		1,736,237	500,082
Equity			
Contributed equity	13	16,679,797	13,204,749
Reserves	13	72,686	132,507
Accumulated losses		(15,016,246)	(12,837,174)
Total equity		1,736,237	500,082

The notes of pages 20 to 46 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 2014

	Notes	30 June 2014	30 June 2013
Revenue from operating activities			
Provision of services and equipment		2,299,929	150,482
Interest		5,854	8,200
Other income			
R & D Tax incentive		2,174,210	3,350,560
		4,479,993	3,509,242
Expenditure			
Employee benefits		(2,761,757)	(2,619,558)
Depreciation expense		(198,994)	(193,000)
Advertising expense		(108,425)	(282,095)
Property, rent & lease expenses		(353,069)	(334,598)
Communication expenses		(51,366)	(94,145)
Consultancy expenses		(504,045)	(495,966)
Loss of modification of financial instrument		(95,714)	-
Gain on early conversion		175	-
Filling and listing fees		(102,361)	(151,038)
Freight and courier expenses		(16,570)	(62,991)
Insurance expenses		(110,228)	(132,239)
Legal fees		(75,557)	(175,569)
Materials and supplies		(180,080)	(174,132)
Professional fees (share based payments)	13	(25,000)	(164,000)
Professional fees (other)		(656,846)	(938,915)
Repairs and maintenance expenses		(20,751)	(114,925)
Travel expenses		(273,141)	(540,796)
Finance costs (convertible note)		(293,228)	-
Finance costs (other)		(333,951)	(494,130)
Unrealised foreign exchange profit/(loss)		17,389	(38,331)
Withholding taxes unrecoverable		(82,774)	-
Other expenses		(400,676)	(377,062)
Research and development expenses		(54,455)	(740,665)
Loss on sale on fixed assets		-	(15,139)
Loss before income tax		(2,201,431)	**(4,630,052)**
Income tax benefit	8	22,359	209,538
Net loss attributable to members of the company		(2,179,072)	**(4,420,514)**
Other comprehensive income/(loss)			
Items that may be reclassified to the profit and loss			
Effect of exchange rate translation	13	(59,822)	(19,926)
Other comprehensive income/(loss) for the year		(59,822)	(19,926)
Total comprehensive income/(loss) for the year attributable to members of the company		(2,238,894)	(4,440,440)
Earnings per share			
Basic loss per share (cents per share)	15	(0.01)	(0.02)
Diluted loss per share (cents per share)		(0.01)	(0.02)

The notes of pages 20 to 46 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2014

	Note	Contributed equity	Accumulated losses	Foreign exchange reserve	Share based payment reserve	Total equity
Balance at 1 July 2013		13,204,749	(12,837,174)	35,508	97,000	500,082
Loss for the period		-	(2,179,072)	-	-	(2,179,072)
Other comprehensive loss	13(iii)	-	-	(59,822)	-	(59,822)
Total comprehensive loss for the year		-	(2,179,072)	(59,822)	-	(2,238,894)
Transactions with owners in their capacity as owners						
Share issued during the period	13	3,450,048	-	-	-	3,450,048
Share based payments	13(ii)	25,000	-	-	-	25,000
Balance at 30 June 2014		**16,679,797**	**(15,016,246)**	**(24,314)**	**97,000**	**1,736,237**

	Contributed equity	Accumulated losses	Foreign exchange reserve	Share based payment reserve	Total equity
Balance at 1 July 2012	11,878,665	(8,416,660)	55,434	-	3,517,439
Loss for the period	-	(4,420,514)	-	-	(4,420,514)
Other comprehensive loss	-	-	(19,926)	-	(19,926)
Total comprehensive loss for the year	-	(4,420,514)	(19,926)	-	(4,440,440)
Transactions with owners in their capacity as owners					
Share issued during the period	1,326,084	-	-	-	1,326,084
Value of share options issued	-	-	-	97,000	97,000
Balance at 30 June 2013	**13,204,749**	**(12,837,174)**	**35,508**	**97,000**	**500,082**

The notes of pages 20 to 46 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

For the year ended 30 June 2014

	Notes	2014	2013
Cash flow from operating activities			
Cash receipts from customers		1,483,282	14,441
Cash paid to suppliers and employees		(6,037,741)	(7,015,663)
Cash outflows from operating activities		(4,554,459)	(7,001,222)
Interest paid		(261,107)	(235,642)
Interest received		5,854	8,200
Income taxes R & D refund		3,262,213	1,778,220
Net cash inflows/(outflows) from operating activities	12	(1,547,499)	(5,450,444)
Cash flows from investing activities			
Net movement in loans		(75,750)	-
Purchases of property, plant and equipment		(102,627)	41,675
Net cash inflows\(outflows) from investing activities		(178,377)	41,675
Cash flows from financing activities			
Proceeds from issue of share capital		3,024,400	1,209,920
Proceeds from borrowings (convertible note)		750,000	1,383,524
Proceeds from borrowings (R & D facility)		1,543,572	3,640,953
Proceeds from borrowings (other)		83,628	147,464
Repayment of borrowings (La Jolla)		(890,598)	(963,480)
Repayment of borrowings (R & D facility)		(2,610,270)	(1,260,301)
Repayment of borrowings (other)		(64,088)	(43,410)
Net cash inflow/(outflow) in financing activities		1,836,644	4,114,670
Net increase/(decrease) in cash and cash equivalents		110,768	(1,294,099)
Cash and cash equivalents at beginning of financial period		234,431	1,586,787
Effect of exchange rate fluctuations on cash held		(42,433)	(38,331)
Cash and cash equivalents at end of financial period	11	302,766	234,431

The notes of pages 20 to 46 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the year ended 30 June 2014

1. Reporting entity

Algae.Tec Limited (the 'Group') is a company domiciled in Australia. The address of the Group's registered office Ground Floor, 516 Hay Street, Subiaco WA 6008. The consolidated financial statement of the Group as at and for the year ended 30 June 2014 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 authorised for issue by the Board of Directors on 25 September 2014.

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 normal course of business.

Whilst the cash balance at 30 June 2014, stands at AUD$303,000 a further USD$720,000 was received in July with relation to the Reliance purchasing agreement and also a further AUD$300,000 by the exercise of options by the Reliance Group.

Continued support from Macquarie Bank for research and development is anticipated over the coming year and the Group has further funds available from the issue of further convertible notes.

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

(c) New and amended standards adopted by the group

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the period ended 30 June 2014, except for the adoption of new standards and interpretations as of 1 July 2013 as noted below.

Notes to the Financial Statements

For the year ended 30 June 2014

2. Basis of accounting *(continued)*

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

Adoption of these standards and interpretations did not have any material impact on the financial position or performance of the Group.

- AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting standards arising from the consolidation and Joint Arrangements standards'
- AASB 11 'Joint arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 ;Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'
- AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)
- AASB 2012-2 'Amendments to Australian Accounting Standards –Disclosures-Offsetting Financial Assets and Financial Liabilities'
- AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'
- AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'
- AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'

New accounting standards and amendments to accounting standards that are not yet effective

AASB 9 *Financial Instruments and consequential amendments*

AASB 9 includes the classification, measurement, recognition and derecognition for financial instruments. A financial asset is measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the contractual terms of the asset give rise to cash flows on specified dates that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are measured at fair value. Changes in the fair value of investments in equity securities that are not part of a trading activity may be reported directly in other comprehensive income, but upon realization, those accumulated changes in value are not recycled to the income statement. Dividends on such investments are recognized in profit or loss, unless they clearly represent a recovery of the cost of the investment. Changes in the fair value of all other financial assets carried at fair value are reported in the income statement.

In respect of financial liabilities, the component of change in fair value of financial liabilities designated at fair value through profit or loss due to an entity's own credit risk are present in other comprehensive income unless such presentation creates an accounting mismatch. If a mismatch is created or enlarged, all changes in fair value (including the effects of changes in credit risk) are presented in profit or loss.

All other key requirements for classification and measurement of financial liabilities have been carried forward unamended from AASB 139. The recognition and derecognition requirements in AASB 139 have also been retained and relocated to AASB 9 unamended.

Notes to the Financial Statements

For the year ended 30 June 2014

2. Basis of accounting *(continued)*

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

New accounting standards and amendments to accounting standards that are not yet effective *(continued)*

AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial instruments makes amendments to AASB 9 to : (i) replace the general hedge accounting requirement to more closely align hedge accounting with risk management activities undertaken when hedging financial and non-financial risks: (ii) permit fair value changes due to changes in 'won credit risk' of financial liabilities measured at fair value to be recognizes through other comprehensive income, without applying all other requirements of AASB 9 at the same time; and (iii) defer the mandatory application date of AASB 9 to annual reporting periods beginning on or after 1 January 2017. This application date is subject to review and is expected to be revised by the IASB.

AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities*

AASB 2013-5 defines and investment entity and provides an exception to the consolidation requirements in AASB 10. Investment entities are required to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. However, where a non-investment entity parent ultimately controls an investment entity and all the underlying subsidiaries, reversing fair value used by the investment entity. The amendments also set out new disclosure requirements for investment entities.

IFS 15 – Revenue from Contract with Customers – 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. This means that revenue will be recognized when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under *IAS 18 Revenue.*

IFS 9 0- Financial Instruments – introduces a third measurement category of financial assets (fair value through other comprehensive income) and ads additional application guidance to the contractual cash flows characteristics test and the business model assessment. It includes the requirement for accounting for expected credit losses on financial assets. It is no longer necessary for a credit event to have occurred before credit losses are recognized. Credit losses will be recognized from initial recognition and updated at each reporting period.

The Group has reviewed the impact of these Standards and Interpretations and are continuing to assess whether they will have a significant effect on the financial position or performance of the Group and has not elected to early adopt any new standards or amendments.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Certain comparative amounts in the consolidated statement of profit or loss and other comprehensive income have been reclassified to conform to the current year's presentation.

(a) Basis of consolidation

(i) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognitions under AASB3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB5 'Non-current Assets Held for Sale and Discontinued Operations' which are recognised and measured at fair value less cost of sale.

Notes to the Financial Statements

For the year ended 30 June 2014

3. Significant accounting policies *(continued)*

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

(i) Business combinations (continued)

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iii) Transactions eliminated on consolidation

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

(iv) Transactions eliminated on consolidation

The following details information related to the parent entity, Algae.Tec Limited at 30 June 2014. The information presented here has been prepared using consistent accounting policies as presented in Note 3.

(b) Foreign currency

(i) *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currency of the Group at exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency is retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognised in profit or loss. However, foreign currency differences arising from the retranslation of the following items are recognised in other comprehensive income.

Available for sale equity investments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss).

(ii) *Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences arising from the translation above are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the foreign operation is a non-wholly-owned subsidiary, then the relevant proportion of the translation difference is allocated to the non-controlling interest.

Notes to the Financial Statements
For the year ended 30 June 2014

3. Significant accounting policies *(continued)*
(b) Foreign currency (continued)
(ii) Foreign operations (continued)

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the Group dispose of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests, when the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such items are considered to form part of the net investment in the foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

(c) Financial instruments
(i) Non-derivative financial assets

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

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

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 realise the asset and settle the liability simultaneously.

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

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

Loans and receivables

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

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

Cash and Cash equivalents

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

(ii) Non-derivative financial liabilities

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

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

Notes to the Financial Statements
For the year ended 30 June 2014

3. Significant accounting policies *(continued)*

(c) Financial instruments (continued)

(ii) Non-derivative financial liabilities (continued)

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

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

(iii) Share capital

Ordinary shares

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

(iv) Compound financial instruments

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

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

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

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

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 recognised 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 recognised 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
- Capitalised borrowing costs.

Notes to the Financial Statements
For the year ended 30 June 2014

3. Significant accounting policies *(continued)*

(d) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)
Cost includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchase of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Subsequent costs
Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation
Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is generally recognised in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonable certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative year of significant items of property, plant and equipment are as follows:

• 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.

Notes to the Financial Statements

For the year ended 30 June 2014

3. Significant accounting policies *(continued)*

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

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

(iii) Other intangible assets

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

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increase the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(v) Amortisation

There are no amortisation costs for the financial year ended 30 June 2014.

(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 recognised 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 recognised in the provision for employees' benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expect future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the reporting date of national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(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.

Notes to the Financial Statements

For the year ended 30 June 2014

3. Significant accounting policies *(continued)*

(iii) Share-based payment transactions

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.

(g) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment losses on the assets associated with that contract.

(h) Revenue

(i) Sale of goods

Revenue from sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

(ii) Rendering of services

Revenue from rendering of services is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. Consulting services are performed by the parent for the Group's controlled entity. Revenue is recognised by reference to the actual labour hours delivered at standard rates and direct expenses incurred.

(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.

Notes to the Financial Statements

For the year ended 30 June 2014

3. Significant accounting policies *(continued)*

(i) Leases

(i) Leased assets

Assets held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

(ii) Lease payments

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

(j) Finance income

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, fair value gains on financial assets at fair value through profit or loss, gains on the remeasurement to fair value of any pre-existing interest in an acquiree in a business combination, gains on hedging instruments that are recognised in profit or loss and reclassifications of net gains previously recognised in other comprehensive income. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

(k) Finance costs

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, fair value losses on financial assets at fair value through profit or loss and contingent consideration, impairment losses recognised on financial (other than trade receivables), losses on hedging instrument that are recognised in profit or loss using the effective interest method.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as wither finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(l) Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from declaration of dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

Notes to the Financial Statements

For the year ended 30 June 2014

3. Significant accounting policies *(continued)*

(l) Tax *(continued)*

(ii) *Deferred tax (continued)*

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects either neither accounting nor taxable profit or loss.
- Temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future
- Taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxed levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Tax exposures

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of 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.

(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. The group estimates its tax liabilities based on the understanding of the tax laws and advice from tax experts. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period such determinations are made.

In addition, the group has recognised deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilised.

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

Notes to the Financial Statements
For the year ended 30 June 2014

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

Research & Development Income and Receivables

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

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

5. Convertible notes carried at fair value through profit or loss.

The Group recognises 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 company and share price of the Group. See details on notes 16 & 17.

6. Operating segments

The Group operates in the environmental energy industry. The Group operates in two geographical locations being Australia and USA. This internal reporting framework is the most relevant to assist the Board with making decisions regarding the Group and its ongoing activities.

Information about reportable segments	**2014**	**2013**
USA Profit/(loss)	58,913	1,664,122
Australia Profit /(loss)	351,521	(3,074,374)
Reportable segment (Profit)	410,434	(1,410,252)
Interest	5,854	8,200
Unrealised exchange gain/(loss)	17,389	(38,331)
Corporate expenses	(2,635,108)	(3,189,669)
Loss before tax	(2,201,431)	(4,630,052)
Reportable segment assets		
Australia	3,472,660	3,868,965
USA	1,109,949	1,096,371
	4,582,609	4,965,336
Reportable segment liabilities		
Australia	2,626,355	4,331,592
USA	220,018	133,662
	2,846,372	4,465,254
Revenue by geographical segment		
India	51%	4%
Australia	49%	96%
USA	0%	0%

Notes to the Financial Statements
For the year ended 30 June 2014

7. Property, plant and equipment	2014	2013
Plant and Equipment		
Plant and Equipment - at cost	867,561	795,589
Less: Accumulated depreciation	(273,504)	(159,191)
	594,057	**636,398**
Computer Equipment		
Computer Equipment - at cost	85,602	69,992
Less: Accumulated depreciation	(49,732)	(31,131)
	35,870	**38,861**
Office Equipment		
Office Equipment - at cost	63,890	64,587
Less: Accumulated depreciation	(27,917)	(17,881)
	35,973	**46,706**
Facility Improvements		
Facility Improvements - at cost	199,901	202,611
Less: Accumulated depreciation	(87,155)	(49,635)
	112,746	**152,976**
Laboratory Systems		
Laboratory Systems - at cost	6,807	6,931
Less: Accumulated depreciation	(2,955)	(2,019)
	3,852	**4,912**
Motor Vehicles		
Motor Vehicles - at cost	29,364	29,364
Less: Accumulated depreciation	(14,811)	(10,586)
	14,553	**18,778**
Furnishings		
Furnishings - at cost	15,211	15,211
Less: Accumulated depreciation	(11,449)	(5,935)
	3,762	**9,276**
Totals		
Asset at cost	1,268,336	1,184,285
Less: Accumulated depreciation	(467,523)	(276,378)
	800,813	**907,907**

Notes to the Financial Statements

For the year ended 30 June 2014

7. 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

No assets of the Group have been pledged as security.

	Total	P&E	C&E	O&E	F&I	L&S	MV	F
	$	$	$	$	$	$	$	$
Carrying amount of 1 July 2013	907,907	636,398	38,861	46,706	152,976	4,912	18,778	9,276
Additions	102,627	85,933	16,461	233	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Depreciation	(198,994)	(120,078)	(19,137)	(10,449)	(38,593)	(998)	(4,225)	(5,514)
Foreign currency exchange reserve effect	(10,727)	(8,196)	(315)	(517)	(1,637)	(62)	-	-
Carrying amount at 30 June 2014	**800,813**	**594,057**	**35,870**	**35,973**	**112,746**	**3,852**	**14,553**	**3,762**

	Total	P&E	C&E	O&E	F&I	L&S	MV	F
	$	$	$	$	$	$	$	$
Carrying amount of 1 July 2012	1,095,532	716,347	100,898	53,253	177,246	5,464	35,668	6,656
Additions	35,357	21,823	5,182	959	-	-	7,393	7,819
Disposals	(84,909)	(34,530)	(40,995)	-	-		(9,384)	-
Depreciation	(193,000)	(109,395)	(27,272)	(10,329)	(33,075)	(897)	(7,260)	(4,772)
Foreign currency exchange reserve effect	54,927	42,153	1,048	2,823	8,805	345	(246)	(1)
Carrying amount at 30 June 2013	**907,907**	**636,398**	**38,861**	**46,706**	**152,976**	**4,912**	**18,778**	**9,276**

Notes to the Financial Statements
For the year ended 30 June 2014

8. Taxes

Tax recognised in profit or loss

	2014	2013
Current tax expense		
Current year	22,359	(29,745)
Adjustment for prior years	-	-
	22,359	(29,745)
Deferred tax expense		
Origination and reversal of temporary differences	-	-
Reduction in tax rate	-	-
Recognition of previously unrecognised tax benefit	-	239,283
Change in recognised deductible temporary differences	-	-
Change in accounting policy	-	-
	22,359	239,283
Tax expense benefit from continuing operations	22,359	209,538

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

Tax recognised directly in equity

	Before Tax	2014 Tax (expense) benefit	Net of tax	Before tax	2013 Tax (expense) benefit	Net of tax
Convertible notes	-	-	-	-	-	-

Reconciliation of effective tax rate	2014	2014	2013	2013
Profit before tax from continuing operations	%	(2,201,431)	%	(4,630,052)
Tax using the Group's domestic rate	30%	(660,429)	30%	(1,389,016)
Effect of tax in foreign jurisdictions	-	3,998	-	67,461
Reduction in tax rate	-	-	-	-
Deductible expenses	-	(325,748)	-	(101,637)
Non-deductible expenses	-	212,445	-	283,941
Share based payments	-	7,500	-	49,200
Research and Development	-	767,063	-	1,087,384
Tax exempt income	-	-	-	-
Tax incentives	-	-	-	-
Others	-	(32,445)	-	(7,432)
Current year losses for which no deferred tax asset was recognised	-	5,257	-	66,820
Recognition of deferred tax assets not previously recognised	-	-	-	(266,261)
	-	(22,359)	-	(209,538)

Notes to the Financial Statements

For the year ended 30 June 2014

8. Taxes *(continued)*

Deferred tax assets

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

	2014	2013
Net deductible temporary differences	324,601	349,834
Tax losses	1,471,345	1,595,873
Deferred tax assets not recognised	(1,565,782)	(1,706,424)
	230,164	239,283

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
Property, plant and equipment	-	-	(151,238)	(225,200)	(151,238)	(225,200)
Employee benefits	66,490	26,500	-	-	66,490	26,500
Share-based payment transactions	-	-	-	-	-	-
Provisions	97,587	146,800	-	-	97,587	146,800
Other items	334,925	401,732	(23,163)	-	311,762	401,733
Tax loss carry-forwards	1,471,345	1,595,873		-	1,471,345	1,595,873
Tax assets (liabilities)	1,970,347	2,170,707	(174,401)	(225,200)	1,795,946	1,945,707
Deferred tax assets not recognised	(1,565,782)	(1,706,424)	-	-	(1,565,782)	(1,706,424)
Net tax assets (liabilities)	404,565	464,283	(174,401)	(225,200)	230,164	239,283

9. Trade and other receivables

	2014	2013
Trade receivables	818,908	156,527
R & D incentives	2,174,210	3,262,213
GST refund	29,420	-
Other receivables	139,150	67,576
Total receivables	3,161,688	3,486,316

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The Group's exposure to credit and market risks, and impairment losses related to trade and other receivables are disclosed in note 20.

There are no past due or impaired receivables.

10. Prepayments

	2014	2013
Wages	5,068	-
Prepaid bank facility fees	-	73,333
Prepaid insurance	49,797	23,344
Prepaid interest	88	722
	54,953	**97,399**

Notes to the Financial Statements
For the year ended 30 June 2014

11. Cash and cash equivalents

	2014	2013
Bank balances	302,766	234,431
Bank overdrafts used for cash management process	-	-
Cash and cash equivalents in the statement of cash flows	302,766	234,431

Refer to note 20, financial risk management.

12. Reconciliation of cash flows from operating activities

	2014	2013
Cash flows from operating activities		
Loss for the year	(2,179,072)	(4,420,514)
Adjustments for:		
Movement in valuation of convertible note	368,784	-
Depreciation	198,994	193,000
Foreign Exchange Translation	(17,389)	38,331
Loss on sale of property, plant and equipment	-	15,139
Equity-settled share-based payments, net of tax	25,000	164,000
	(1,603,683)	(4,010,044)
Change in trade and other receivables	292,403	(1,512,286)
Change in other current assets	42,446	(18,122)
Change in trade and other payables	(401,157)	261,265
Change in provisions and employee benefits	122,492	38,281
Cash generated from operating activities	(1,547,499)	(5,240,906)
Income taxes	-	(209,538)
Net cash from operating activities	(1,547,499)	(5,450,444)

There were no non-cash investing or financing activities.

13. Capital and reserves

Share capital	2014 $	2014 Number	2013 $	2013 Number
Movements in capital during the year were as follow:				
Issued capital at the beginning of the financial year	13,204,749	271,370,190	11,878,665	266,616,782
Issue of shares pursuant of Conversion notice	425,648	3,085,062	1,059,084	3,644,317
Issue of shares pursuant to placement	2,300,000	12,805,068[1]	200,000	909,091
Issue of shares via share purchase plan	724,400	3,292,727	-	-
Issue of shares in exchange for services provided	25,000	238,584	67,000	200,000
	16,679,797	290,791,631	13,204,749	271,370,190

1. *9,168,704 of these shares relate to an investment from The Reliance Group announced to the market on 21 January 2014.*

(i) Share options at year end

Expiry date	Exercise price	Number of options
Oct-15	$1.00	1,000,000
Jan-16	$0.75	49,584,334
Jan-19	$0.16	30,562,347[1]

[1] *These options were issued to The Reliance Group as part of the placement announced to the market on 21 January 2014*

(ii) Share Based Payments

Platinum Road received a fee of $50,000 for arranging funding of which 50% ($25,000) was paid by issue of 238,584 ordinary shares in the capital of the Group.

(iii) 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.

	2014	2013
Foreign exchange reserve	(24,314)	35,508

Notes to the Financial Statements
For the year ended 30 June 2014

14. Capital and reserves *(continued)*

(iv) Share option reserve

	2014	2013
Share option reserve	97,000	97,000

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%

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

There were no options issued in return for goods or services during 2014. Refer to page 10 of the Directors' report for details of options issued to The Reliance Group.

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

15. Earnings per share
Basic earnings per share

	2014 Continuing operations	Total	2013 Continuing operations	Total
Profit (loss) for the year attributable to owners of the Company	(2,179,072)	(0.01)	(4,420,514)	(0.02)
Profit (loss) attributable to ordinary shareholders	(2,179,072)	(0.01)	(4,420,514)	(0.02)

Weighted average number of ordinary shares (basic)

	2014	2013
Issued ordinary shares at 1 July	271,370,190	266,616,782
Effect of own shares held	11,222,813	3,165,877
Weighted average number of ordinary shares at 30 June	282,593,003	269,782,659

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 2014, the Group had on issue 79,312,941 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.

Notes to the Financial Statements

For the year ended 30 June 2014

16. Loans and borrowings

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

	2014	2013
Non-current liabilities		
Finance lease liabilities	-	3,768
Total trade and other payables	**-**	**3,768**
Current liabilities		
Convertible note at fair value through profit or loss	716,089	-
Macquarie R & D loan facility	1,313,954	2,380,652
La Jolla Investors	121,298	1,007,023
HP liability	3,768	7,538
Centrepoint Alliance	42,056	15,882
Directors' loans	-	92,774
Trade and other payables	**2,197,165**	**3,503,869**
Totals	**2,197,165**	**3,507,637**

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				30-Jun-14		30-Jun-13	
	Currency	Nominal interest rate	Year of maturity	Face value A$	Carrying amount A$	Face value A$	Carrying amount A$
Convertible Notes at fair value through profit or loss	AUD	7.5%	2014	798,125	716,089	-	-
Macquarie Facility	AUD	15%	2014	1,313,954	1,313,954	2,380,652	2,380,652
La Jolla Cove	USD	4.75%	2014	-	-	874,749	874,749
La Jolla Cove	USD	0%	2014	121,298	121,298	132,274	132,274
HP Liability	AUD	4.73%	2015	3,850	3,768	19,800	11,306
Centrepoint	AUD	7.25%	2014	45,072	42,056	54,690	15,882
Directors Loans	USD	10%	2014	-	-	15,653	15,653
Directors Loans	USD	0%	2014	-	-	17,178	17,178
Directors Loans	AUD	0%	2014	-	-	59,943	59,943
Total interest bearing liabilities		AUD		2,161,001	2,075,867	3,345,544	3,298,242
Total non-interest bearing liabilities		AUD		121,298	121,298	209,395	209,395
Total borrowings		AUD		2,282,299	2,197,165	3,554,939	3,507,637

Finance lease liabilities

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

Notes to the Financial Statements

For the year ended 30 June 2014

16. Loans and borrowings *(continued)*

Convertible note

(i) La Jolla Cove Investors

Originally a convertible note which was cancelled on 19 April 2013 gave rise to a penalty amount of US$125,830. At 30 June 2014 an amount of US$118,338 (AU$121,298) remained outstanding. Subsequent to this report, a further US$25,000 has been repaid and the remaining balance is due within the next six months.

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

On 15th October 2013 the Group entered into an agreement with Platinum Road Pty Ltd to raise up to $1,000,000 (Bond Amount) through the issue of convertible bonds to sophisticated investors (Convertible Bonds) under the following terms;

- The Bond Amount is secured under the terms of a charge.
- At the election of the Lender interest is either;
  - Paid monthly in arrears in cash at a rate of 7.5% per annum applied to the Bond Amount commencing from the Advance Date; or
  - Paid at the Advance Date by increasing the Bond Amount by 7.5%. This was the method adopted against the advance of $750,000.
- The agreement expires on 15th October 2014.
- The conversion price was set at $0.22 per fully paid ordinary share in the capital of Algae.Tec Limited.
- In the event that the closing price of the Shares is below $0.15 for 15 consecutive trading days during the term the conversion price is the lesser of:
  - An amount not less than 95% of the VWAP on any day nominated by the Lender from 10 days of trading in the shares on the ASX immediately preceding the conversion date; and
  - $0.22 per share;
- The lender may serve notice in writing on Algae.Tec Limited (the Group) at any time prior to the expiration of the Term requesting the Group to convert the Bond Amount (or part thereof in minimum increments of $25,000 each) whereupon the Group must within 2 days of service of such notice convert the amount so notified using the Conversion Price and do all things necessary to cause the Lender to become entitled to be registered as the holder of the relevant number of fully paid ordinary shares in the Group. Conversion is not subject to shareholder approval.
- To the extent that the Bond Amount is not converted into Shares in accordance with the Group, the issuer must repay the Bond Amount and any other monies owing upon expiry of the Term.

  An aggregate of $750,000 was advanced to the Group under the Convertible Bond Deed on 15th October (Advanced Monies) and Convertible Bonds with a face value of $831,250 (which is inclusive of interest payable) were issued by the Group (Issued Convertible Bonds).
  The Convertible Bond Deed was varied on 23rd December 2013 the effect of which was to;

- Increase the face value of the Issued Convertible Bonds from $831,250 up to $1,209,375 (inclusive of interest payable); and
- To fix the conversion price at $0.22 per share until 3rd February 2014

The intent of the Variation Deed is that no further funds will be advanced to the Group under the Convertible Bond Deed and no further Convertible Bonds will be issued.

Holders of Convertible Bonds have (as at 30 June 2014) elected to convert $411,350 of Convertible Bonds to 2,718,584 ordinary shares in the Group in accordance with the terms of the Convertible Bond Deed and the Variation Deed. Platinum Road Pty Ltd received a fee of $50,000 for arranging this funding and of which 50% ($25,000) was paid by issue of 238,584 ordinary shares of the Group.

Notes to the Financial Statements

For the year ended 30 June 2014

17. Fair value measurement of financial instruments

Recurring fair value measurements

The following financial instruments are subject to recurring value measurements:

	2014	2013
	$	$
Level 3 – Convertible note	716,089	714,309

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 2014, there were no transfers of available-for-sale equity securities or derivatives between level 1 and 2 of the fair value hierarchy. There were also no transfers into or out of level 3 during the period.

Valuation techniques used to derive level 3 fair values

The fair value of convertible notes not traded in an active market is determined using an internally prepared discounted cash flow valuation technique using a combination of observable inputs (such as share price and the terms and conditions of the convertible notes as disclosed per note 16) and unobservable inputs (discount rate – 48.37% to calculate the present value of estimated future cash flows. The Group has determined that there is a relationship between the unobservable inputs (discount rate) and the fair value but do not consider it to be material unless there is a change in the terms and conditions of the convertible note.

Fair value of financial instruments not measured at fair value.

The following financial instruments are not measured at fair value in the Statement of Financial Position. These had the following fair values at 30 June 2014.

	Carrying amount	Fair value
	$	$
Non - Current Assets		
Receivables	3,132,267	3,132,267
Current Liabilities		
Bank loan - Macquarie	1,313,954	1,313,954
Centrepoint Alliance	42,056	42,056
La Jolla Cove Investors	121,298	121,298
Lease liabilities	3,768	3,768
	1,481,076	1,481,076

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.

Notes to the Financial Statements
For the year ended 30 June 2014

18. Provisions
An annual leave provision for employees exists in the amount of $196,993 (2013: $74,501). There is no non-current annual leave.

19. Trade and other payables

	Note	2014	2013
Trade payables			
Current			
Trade payables due to related parties		4,613	-
Other trade payables		50,765	269,856
Accrued expense		380,109	507,426
		435,487	777,282
Other payables			
Current			
GST Liability		-	47,474
Payroll Liabilities		16,727	28,615
		16,727	76,089
Trade and other payables			
Non-current		-	-
Current		452,214	853,371
		452,214	853,371

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 20.

20. 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.

Notes to the Financial Statements

For the year ended 30 June 2014

20. Financial instruments *(continued)*

Financial risk management *(continued)*

Credit Risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, including outstanding receivables. For banks and financial institutions, only major Australian banking institutions are used. For customers, individual risk limits are set based on internal or external ratings in accordance with limits set by the Board.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of the financial assets. The Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Group. Cash is only held in AA credit rated financial institutions.

Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms.

- Preparing forward looking cash flow analysis in relation to its operational, investing and financing activities;
- Obtaining funding from a variety of sources;
- Maintaining a reputable credit profile;
- Managing credit risk related to financial assets;
- Only investing surplus cash with major financial institutions; and
- Comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

Aged Payables and Borrowings

Item	0 < 6 months	6 < 12 months	12 months +	Total Contractual cashflows	Carrying Value
Trade Payables	55,378	-	-	55,378	55,378
Accrued Expenses *	380,109	-	-	380,109	380,109
Macquarie Facility *	1,313,954	-	-	1,313,954	1,313,954
La Jolla Cove	121,298	-	-	121,298	121,298
HP Liability	3,768	-	-	3,768	3,768
Centrepoint	37,626	4,430	-	42,056	42,056
Convertible Notes	798,125	-	-	798,125	716,089
TOTALS	2,710,258	4,430	-	2,714,688	2,632,652

Items marked * nearly all refer to borrowings and liabilities against the research and development tax refund expected for the year ended 30 June 2014 ($2,174,210) and are payable upon receipt of these funds.

Notes to the Financial Statements

For the year ended 30 June 2014

20. Financial instruments *(continued)*

Financial risk management *(continued)*

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 unrealised exchange gain in the USD cash holdings for the year.

It is the Group's policy that future US development costs will be assessed at regular intervals and where deemed appropriate, further purchase of USD will occur to minimise exchange rate exposure of US expenditure.

The following table shows the foreign currency risk on the financial assets and liabilities of the Groups operations denominated in currencies other than the functional currency of the operations. This included all cash holdings of USD.

	2014 USD	2013 USD
Financial assets		
Cash and cash equivalents	88,139	6,510
Trade and other receivables	845,639	171,666
	933,778	178,176
Financial liabilities		
Trade and other payables and borrowings	333,188	1,110,572
Net exposure	600,590	(932,396)

(ii) Consolidated Entity - sensitivity

Based on financial instruments held at 30 June 2014, 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 $120,118 higher/lower, mainly as a result of foreign exchange losses/gains on translation of US dollar denominated financial instruments as detailed in the above table.

(iii) Cash flow and fair value interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

At the date of this report, the Group was not exposed to interest rate risk as all rates had been fixed for the term of the borrowings and all borrowings are carried at amortised cost 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 2014.

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 17 for details.

Capital management

The Management controls the capital of the Group in order to maintain a good debt to equity ratio, proved the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary shares financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

Notes to the Financial Statements
For the year ended 30 June 2014

20. Financial instruments *(continued)*

Financial risk management *(continued)*

Capital Management *(continued)*

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

21. Operating leases

Leases as leasee

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

The Corporate offices located in Subiaco, Western Australia are leased as follows; Lease term was 36 months from 1 January 2012 at rental of $127,453 per annum and was increased to $131,202 (2013) and $134,291 (2014) under the rent review provisions. 6 months remain on the current lease with an option for a further 36 months. Rent review has been conducted and will be due again January 2014.

	2014	2013
Less than one year	67,145	131,202
Between one and five years	-	65,601
More than five years	-	-
	67,145	196,803

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;

	2014	2013
Less than one year	97,370	95,944
Between one and five years	382,987	-
More than five years	26,344	-
	506,701	95,944

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;

	2014	2013
Less than one year	64,750	64,750
Between one and five years	106,439	171,189
More than five years	-	-
	171,189	235,939

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

	2014	2013
Within 1 year	4,242	5,089
Later than 1 year but within 5 years	-	4,242
	4,242	9,331

Contingencies

Algae. Tec Limited has no contingent liabilities.

Notes to the Financial Statements

For the year ended 30 June 2014

22. Related parties

Parent and ultimate controlling party

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

Subsidiaries

Interests in subsidiaries are set out in note 23.

Key management personnel compensation

The key management personnel compensation comprised:	2014	2013
Short-term employee benefits	893,851	911,427
Post-employment benefits	29,012	26,471
Termination benefits	-	-
Other long term benefits	-	-
Share-based payments	-	-
	922,863	937,898

Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation disclosures as required by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the Director's report. Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were not material contracts involving directors' interests existing at year end.

23. Group entities

Significant subsidiaries

	Country of incorporation	Ordinary Share Consolidated Equity Interest 2014 %	2013 %
Controlled entity			
Algae Energy Inc	USA	100	100

24. Subsequent events

On 22 July 2014, Reliance Industrial Investments and Holdings Limited (RIHL) exercised 1,833,740 options at $0.1636 generating $300,000 in new equity for the Group. The conversion was part of $5 million of options granted to Reliance (RIHL) as part of a finance agreement announced on 21 January 2014. A minimum of $1.2 million of options are to be exercised within 2 years of the date of the agreement.

On 16 September 2014, the Executive Chairman Mr Roger Stroud retired. Mr Malcolm James was appointed as the new Non-Executive Chairman.

25. Auditors' remuneration

	2014	2013
Audit and review of financial statements – Somes and Cooke	-	17,500
Audit and review of financial statements - BDO	51,420	33,683
Audit and review of financial statements – BDO (USA)	26,650	-
Total paid	**78,070**	**51,183**
Other services		
Other assurances, taxation and due diligence – BDO	**-**	**20,003**
Other assurance services – Somes & Cooke	**-**	**2,000**
Total paid	**-**	**22,003**

Notes to the Financial Statements

For the year ended 30 June 2014

26. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2014, the parent entity of the Group was Algae. Tec Limited.

	2014	2013
Result of parent entity		
Profit/(loss) for the period	(2,260,342)	(6,316,571)
Other comprehensive income	-	-
Total comprehensive income for the period	(2,260,342)	(6,316,571)
Financial position of parent entity at year end		
Current assets	3,409,558	2,877,914
Non-current assets	823,894	1,903,698
Total assets	4,233,452	4,781,612
Current liabilities	2,626,354	4,326,669
Non-current liabilities	-	3,768
Total liabilities	2,626,354	4,330,437
Total equity of the parent entity comprising of:		
Contributed equity	16,678,916	13,262,652
Share Option reserve	97,000	97,000
Accumulated losses	(15,168,819)	(12,908,477)
Total equity	1,607,097	451,175

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 16 to 46 and the Remuneration report in pages 11 to 15 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 2014 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 2014.

Signed in accordance with a resolution of the Directors

On behalf of the Board

Peter Hatfull
Managing Director

Date: 25 September 2014
Perth, Western Australia

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Algae.Tec Limited

Report on the Financial Report

We have audited the accompanying financial report of Algae.Tec Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entity it controlled at the year'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 Standard AASB 101 *Presentation of Financial Stat*ements, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Opinion

In our opinion:

(a) the financial report of Algae.Tec Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Peter Toll

Director

Perth, 25 September 2014

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

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

As lead auditor of Algae.Tec Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

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

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

Peter Toll

Director

BDO Audit (WA) Pty Ltd

Perth, 25 September 2014

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 2014.

Number of Holders of Equity Securities

Ordinary Share Capital
293,282,290 fully paid ordinary shares are held by 1,356 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

Size of holdings	As at 31 August 2014 No. of fully paid ordinary shares
1 - 1,000	14,577
1,001 - 5,000	988,407
5,001 - 10,000	3,359,079
10,001 - 100,000	19,296,181
100,001 and over	269,624,046
	293,282,290

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 2014

Name	Number of ordinary shares held	Percentage of capital held
Teco Bio LLC	200,000,001	68.19
Reliance Industrial Investsments Holdings Ltd	11,002,444	3.75
Mr Peter Ernest Hatfull	8,095,000	2.76
FMR Investments Pty Ltd	5,000,000	1.70
Citicorp Nominees Pty Limited	4,245,790	1.45
Inverse Investments Pty Ltd <Cyclopean/F A/C	2,533,000	0.86
National Nominees Limited	1,923,806	0.66
JP Morgan Nominees Australia Limited	1,804,272	0.62
Mr Peter Ernest Hatfull & Mrs Julie Ellen Hatfull <Hatfull S/Fund A/C>	1,802,678	0.61
Mr Robert Alan Nurthen & Miss Sarah Ann Norris	1,649,399	0.56
Omega Health Pty Ltd	1,625,866	0.55
Tinkler Investments Pty Ltd <Tinkler Family A/C>	1,610,000	0.55
Mr Raffaele De Maria	1,314,209	0.45
Jason Brown Pty Ltd <the Brown Family A/C>	1,310,000	0.45
Mr Send Chai chua & Mrs suse Ying Kiang <Chua and Kian S/F A/C>	1,280,543	0.44
Dr Rodger Guy Loosemore	1,275,000	0.43
Mr Duncan Neil Preston	1,000,000	0.34
ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	999,207	0.34
Mr Tung Hui Chung & Mr Tong Hong chumg <TH&TH chung Super fund A/C>	806,000	0.27
Mr David Leslie Bridgeman	737,000	0.25
	251,191,853	**85.65**

Substantial Shareholders

As at 31 August 2014, the register of substantial shareholders disclosed the following information:

	Number of ordinary shares held	Percentage of capital held
Teco Bio LLC	200,000,001	68.19

Offices and officers

Principal Registered Office

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

Company Secretary

Mr Peter Ernest Hatfull

Location of Share Registry

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