



Appendix 4D – Half Year Report

31 December 2016

Algae.Tec Limited

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The reporting period is the Half – Year ended 31 December 2016 with the previous corresponding period being the Half – Year ended 31 December 2015. This report should be read in conjunction with the most recent annual financial report.

Algae.Tec Limited

Appendix 4D – Half Year Report

Results for Announcement to the Market

Operating Results				
	%	change	6 months ended 31 Dec 2016	6 months ended 31 Dec 2015
Revenue from ordinary activities		(4.3%)	1,378,585	1,440,176
Loss from ordinary activities after tax attributable to members		(16.4%)	(2,431,536)	(2,088,719)
Net loss for the period attributable to members		(16.4%)	(2,431,536)	(2,088,719)
Dividends				
It is not proposed to pay any dividends				
			31 Dec 2016	30 Jun 2016
Net tangible asset per security			(0.01)	0.00
There were no entities over which control was gained or lost during the period.				
No interest is held in any joint ventures or entities over which the consolidated entity has significant influence.				

Company Details

Directors

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

Company Secretary

Peter Hatfull

Principal Registered Office in Australia

Unit 2, 100 Railway Road
Subiaco WA 6008

Share Register

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

Auditors

Bentleys
Level 3, 216 St Georges Terrace
Perth WA 6000

Bankers

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

Securities Exchange

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

Directors' Report

For the half – year ended 31 December 2016

Directors

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

Peter Ernest Hatfull **Managing Director**

Earl McConchie **Executive Director**

Malcolm James **Non – Executive Chairman**

Review of financial position

The consolidated loss of the Group amounted to \$2,431,536 (2015: Loss \$2,088,719) after including a tax refund due for R & D activities in the six months of \$1,219,450.

Net cash expensed through operating activities for the six months was \$426,142 compared to an outflow of cash of \$453,767 expensed in the corresponding period last year.

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

Major events during the half year were as follows:

Nutraceutical Supply Agreement

Algae. Tec is pleased to announce the signing of an exclusive supply agreement with Gencor, a leading worldwide supplier of health supplements through it's worldwide operations and group companies.

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

Investment Announcement

Algae.Tec is pleased to announce that it has secured a US\$500,000 investment from the highly regarded New York Investment fund Magna Management LLC.

This funding facility supports the recent announcement regarding an investment into the Company's operations by Gencor Pacific, and will be utilised for working capital whilst revenue is being generated from the Company's nutraceutical products.

This investment completes the capital raising announced in January 2016 of up to \$1.5m via a convertible note structure.

Market Update

The Company is pleased to announce that with the completion of the US\$1m injection by Gencore the nutraceutical plant upgrade is progressing extremely well and ahead of schedule.

The goals of the upgrade project primarily target improvements in the plant's production efficiency, enhancements in product quality, and upgrades in the plant's flexibility to produce multiple nutraceutical products and will continue the development of the Company's core technology.

Product Launch

Algae.Tec recently launched it's Alganics range of products at the Supply Side West 2016 show which is regarded as the worlds leading nutraceutical ingredient and solutions tradeshow. This was in conjunction with our major customer Gencor Pacific.

The launch coincided with the first delivery of product from Algae.Tec's upgraded plant to Gencor.

Subsequent events

On 24 January 2017, the Company announced it had raised a potential gross amount of up to USD1,500,000 (before costs) under convertible notes to be issued by the Company to 707 Holdings Ltd., a sophisticated international investor. USD166,667 of this amount is to be drawn at the time of this report, USD333,334 is to potentially be drawn down over the next two months, with the remaining USD1,000,000 subject to the satisfactory completion of certain conditions precedent.

The funds raised will provide working capital for Company operations and increase the Company's flexibility to take advantage of opportunities that may arise in the near future.

The parties have also signed agreements to explore the application of Company licensed technology for the Middle East region. Should the conditions precedent be met, the parties intend to enter into a joint venture regarding development of a facility in the Middle East region that is intended to focus on algae for nutraceuticals. The Company will receive payments for EPC work undertaken and other contingent payments and ownership rights depending on performance of a facility.

Directors' Report

For the half-year ended 31 December 2016

Dividends

No dividends were paid or recommended by the Directors

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on Page 20.

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

On behalf of the Directors



Peter Hatfull
Managing Director
27 February 2017

Consolidated Statement of Financial Position as at 31 December 2016

	Notes	31 December 2016	30 June 2016
Assets		\$	\$
Cash and cash equivalents		180,658	269,796
Trade and other receivables		1,304,944	2,620,362
Prepayments		44,809	101,846
Total current assets		1,530,411	2,992,004
Property, plant and equipment		539,194	601,229
Deferred tax assets		600,737	583,599
Total non-current assets		1,139,931	1,184,828
Total assets		2,670,342	4,176,832
Liabilities			
Trade and other payables		571,347	600,526
Loans and borrowings	4	4,142,805	3,936,024
Provisions		318,617	285,490
Total current liabilities		5,032,769	4,822,040
Total liabilities		5,032,769	4,822,040
Net assets/(liabilities)		(2,362,427)	(645,208)
Equity			
Contributed equity	3	20,449,164	20,156,981
Reserves		616,663	194,529
Accumulated losses		(23,428,254)	(20,996,718)
Total equity		(2,362,427)	(645,208)

The notes of pages 10 to 16 are an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Half – Year to 31 December 2016

	Notes	31 December 2016	31 December 2015
Revenue from operating activities		\$	\$
Provision of services and equipment		156,138	61,259
Interest		2,997	2,987
Other income			
R & D Tax incentive		1,219,450	1,375,930
		<u>1,378,585</u>	<u>1,440,176</u>
Expenditure			
Employee benefits		(1,637,430)	(1,537,478)
Directors share based payments		(69,515)	(70,086)
Depreciation expense		(108,798)	(117,087)
Property, rent & lease expenses		(177,197)	(197,308)
Consultancy expenses		(121,847)	(38,355)
Insurance expenses		(57,082)	(37,737)
Materials and supplies		(568,409)	(864,932)
Professional fees (other)		(186,544)	(196,993)
Travel expenses		(73,681)	(107,721)
Finance costs (other)		(330,028)	(60,374)
Net foreign exchange profit/(loss)		(138,570)	53,318
Administration Costs		(74,613)	(99,112)
Other expenses		(151,961)	(254,990)
Provision for Bad Debts		(114,445)	-
Loss before income tax		<u>(2,431,536)</u>	<u>(2,088,679)</u>
Income tax expense		-	(40)
Net loss attributable to members of the company		<u>(2,431,536)</u>	<u>(2,088,719)</u>
Other comprehensive income/(loss)			
Items that may be reclassified to the profit and loss			
Effect of exchange rate translation		103,663	5,084
Other comprehensive income/(loss) for the year		<u>103,663</u>	<u>5,084</u>
Total comprehensive income/(loss) for the year attributable to members of the company		<u>(2,327,873)</u>	<u>(2,083,635)</u>
Earnings per share			
Basic loss per share (cents per share)		(0.71)	(0.62)
Diluted loss per share (cents per share)		(0.71)	(0.62)

The notes of pages 10 to 16 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the Half – Year ended 31 December 2016

Note	Contributed Equity \$	Accumulated losses \$	Foreign exchange reserve \$	Share based payment reserve \$	Equity Other reserve \$	Total equity \$
Balance at 1 July 2016	20,156,981	(20,996,718)	(43,026)	237,555	-	(645,208)
Loss for the period	-	(2,431,536)	-	-	-	(2,431,536)
Other comprehensive loss	-	-	103,663	-	-	103,663
Total comprehensive loss for the period	-	(2,431,536)	103,663	-	-	(2,327,873)
Transactions with owners in their capacity as owners	-	-	-	-	-	-
Share issued during the period	292,183	-	-	-	-	292,183
Equity component of convertible notes issued	-	-	-	-	248,956	248,956
Share based payments	-	-	-	69,515	-	69,515
Balance at 31 Dec 2016	20,449,164	(23,428,254)	60,637	307,070	248,956	(2,362,427)

	Contributed Equity \$	Accumulated losses \$	Foreign exchange reserve \$	Share based payment reserve \$	Total equity \$
Balance at 1 July 2015	19,594,200	(17,734,411)	64,828	98,524	2,023,142
Loss for the period	-	(2,088,719)	-	-	(2,088,719)
Other comprehensive loss	-	-	5,084	-	5,084
Total comprehensive loss for the period	-	(2,088,719)	5,084	-	(2,083,635)
Transactions with owners in their capacity as owners	-	-	-	-	-
Share issued during the period	500,000	-	-	-	500,000
Share based payments	-	-	-	70,086	70,086
Balance at 31 Dec 2015	20,094,200	(19,823,130)	69,912	168,610	509,592

The notes of pages 10 to 16 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows for the Half – Year ended 31 December 2016

	Half – Year ended 2016	Half – Year ended 2015
Notes	\$	\$
Cash flow from operating activities		
Cash receipts from customers	155,882	584,501
Cash paid to suppliers and employees	(2,862,449)	(3,201,170)
Interest paid	(150,500)	(105,874)
Interest received	2,997	2,987
Income taxes R & D refund	2,427,928	2,265,789
Net cash inflows/(outflows) from operating activities	(426,142)	(453,767)
Cash flows from investing activities		
Purchases of property, plant and equipment	(32,870)	(39,312)
Net cash inflows\ (outflows) from investing activities	(32,870)	(39,312)
Cash flows from financing activities		
Proceeds from issue of share capital	-	500,000
Proceeds from borrowings	2,526,509	836,645
Proceeds from borrowings from related party	13,958	-
Repayment of borrowings	(2,175,166)	(1,762,618)
Net cash inflow/(outflow) in financing activities	365,301	(425,973)
Net increase/(decrease) in cash and cash equivalents	(93,711)	(919,052)
Cash and cash equivalents at beginning of financial period	269,796	1,105,130
Effect of exchange rate fluctuations on cash held	4,573	(60,420)
Cash and cash equivalents at end of financial period	180,658	125,658

The notes of pages 10 to 16 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the half - year ended 31 December 2016

1. Basis of accounting

The consolidated interim financial statements for the half-year reporting period ended 31 December 2016 has been prepared in accordance with Australian Accounting Standards AASB134 *Interim Financial Reporting* 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 27 February 2017.

Going concern

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

The Group incurred a loss after tax for the half-year of \$2,431,536 (2015: \$2,088,719) and net cash outflows from operating activities of \$426,142 (2015: \$453,767).

As at 31 December 2016, the Group has a working capital deficit of \$3,502,358 (30 June 2016: deficit of \$1,830,036). Current liabilities include convertible notes of \$2,977,687 of which \$677,778 expired on 9 July 2016 and is due and payable as at the date of this report. As at the date of this report a formal agreement has not been entered into to convert, extend or settle this debt. The Directors are confident as has been demonstrated previously that convertible note holders will convert their notes to equity or if required extend the terms of the facilities.

Subsequent to year end the Group announced it had raised a potential gross amount of up to USD1,500,000 (before costs) under convertible notes to be issued by the Company to 707 Holdings Ltd., a sophisticated international investor, and have also signed agreements to explore the application of Company licensed technology for the Middle East Region. As at the date of this report, the Group has received USD \$166,667 of this amount.

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

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

- The commencement of profitable sales of nutraceutical products under the supply agreement with Gencor Pacific;
- Convertible notes (of which \$2,977,687 has or will mature within 12 months of this report) being converted to equity or if required extending the terms of the facilities; and
- The expected refinancing of its R&D facility with Innovative Technology Funding Pty Ltd for the year ended 30 June 2018.

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

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

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

New, revised or amending Accounting Standards and Interpretations adopted

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

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

New accounting standards and interpretations not yet mandatory or early adopted

There were no new standards issued since 30 June 2016 that have been applied by the consolidated entity. The 30 June 2016 annual report disclosed that the consolidated entity anticipated no new material changes arising from initial application of those standards issued but not yet applied at that date and this remains the assessment as at 31 December 2016.

Notes to the Financial Statements

For the half - year ended 31 December 2016

2. 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.

Information about reportable segments	Half-year ended 2016 \$	Half-year ended 2015 \$
USA Profit/(loss)	196,711	208,561
Australia Profit / (loss)	(1,143,487)	(1,232,913)
Reportable segment Profit/(loss)	(946,776)	(1,024,352)
Interest	2,997	2,987
Net Foreign Exchange Gain/(Loss)	(138,570)	(65,504)
Corporate expenses	(1,349,187)	(1,001,810)
Loss before tax	(2,431,536)	(2,088,679)
Reportable segment assets		
Australia	1,444,230	1,675,951
USA	1,226,112	1,104,874
	2,670,342	2,780,825
Reportable segment liabilities		
Australia	4,395,865	1,783,254
USA	636,904	487,979
	5,032,769	2,271,233
Revenue by geographical segment		
India	11%	18%
Australia	89%	82%
USA	0%	0%

Notes to the Financial Statements

For the half - year ended 31 December 2016

3. Capital and reserves

	Half year ended 31 Dec 2016		Year ended 30 June 2016	
	\$	Number	\$	Number
Movements in capital during the half year were as follows:				
Issued capital at the beginning of the financial half year	20,156,981	339,879,095	19,594,201	331,454,988
Issue of shares pursuant of Conversion notice	242,027	5,379,177	-	-
Issue of shares via take up of options	-	-	500,000	7,142,857
Issue of shares via conversion of interest	50,156	1,023,596	27,030	551,658
Issue of shares in exchange for services provided	-	-	35,750	729,592
	20,449,164	346,281,868	20,156,981	339,879,095

(i) Share option at year end

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

(ii) 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.

	31 Dec 2016	30 Jun 2016
	\$	\$
Foreign exchange reserve	60,637	(43,026)

(iii) Share option reserve

	31 Dec 2016	30 Jun 2016
	\$	\$
	307,070	237,555

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

(iv) Other reserve

	31 Dec 2016	30 Jun 2016
	\$	\$
	248,956	-

The other reserve has arisen following the issue of a convertible note to Gencor with a fixed conversion rate for debt to equity, representing the equity component of the convertible note.

Share based payments

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

- Grant Date of Options was 29 June 2015
- Expiry Date is 4 years after date of issue
- Exercise price of the options is \$0.09 per share
- The Share Based Payment expense has been split evenly between the Directors as follows;
 - Expense for Year end 30 June 2015 \$ 1,524
 - Expense for Year end 30 June 2016 \$ 139,031
 - Expense for Year end 30 June 2017 \$ 139,031
 - Expense for Year end 30 June 2018 \$ 139,031
 - Expense for Year end 30 June 2019 \$ 137,507

Notes to the Financial Statements

For the half-year ended 31 December 2016

3. Capital and reserves (continued)

Share based payments (continued)

The expected volatility during the term of the options is based around assessments of the volatility of similar-sized listed, including newly listed entities in similar industries at grant date. For the purposes of the Black and Scholes valuation the following variables were used.

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

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

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

4. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost.

	31 Dec 2016 \$	30 June 2016 \$
Current liabilities		
Convertible notes	2,977,687	2,057,363
Ebbesen – F Scarfone Loan	125,000	-
Macquarie R & D loan facility	-	1,730,744
ITF R & D loan facility	900,000	-
Attvest	1,295	-
Hunter Premium funding	-	30,081
Directors' loans	138,823	117,836
Totals	4,142,805	3,936,024

Related party transactions

At 31 December 2016, Mr Garnet Earl McConchie, a director of Algae.Tec Limited, had advanced funds of \$138,823 (US\$104,950) to the Group on a short term basis. US\$90,000 was advanced with interest payable at a rate of 5% per annum and accrued to the value of US\$3,950 at 31 December 2016. A further US\$11,000 was advanced upon which no interest is currently payable.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31-Dec-16		30-Jun-16	
	Currency	Nominal interest rate	Year of maturity	Face value A\$	Carrying amount A\$	Face value A\$	Carrying amount A\$
China Finance Strategy							
Convertible Note (i)	USD	12%	2016	695,837	677,778	695,837	679,053
Sophisticated Investors							
Convertible Notes (ii)	AUD	12.5%	2017	883,579	884,043	883,579	883,579
Magna Equities Convertible							
Note (iii)	USD	0%	2017	495,489	271,164	495,489	494,731
Gencor Ltd (iv)	USD	10%	2018	1,327,900	1,144,701	-	-
Ebbesen – F Scarfone (v)	AUD	10%	2018	125,000	125,000	-	-
Macquarie Bank Ltd (vi)	AUD	15%	2016	-	-	1,730,744	1,730,744
ITF Pty Ltd (vii)	AUD	15%	2017	900,000	900,000	-	-
Hunter Premium Funding	AUD	7.5%	2016	-	-	71,666	30,081
Attvest	AUD	6.5%	2017	4,353	1,295	-	-
Directors Loans (viii)	USD	0%	2017	11,000	14,550	-	-
Directors Loans (ix)	USD	5%	2017	119,048	124,274	117,836	117,836
Total interest bearing liabilities	AUD			4,055,717	3,857,091	3,499,662	3,441,293
Total non-interest bearing liabilities	AUD			510,039	285,714	495,489	494,731
Total borrowings	AUD			4,565,756	4,142,805	3,995,151	3,995,151

Notes to the Financial Statements

For the half - year ended 31 December 2016

4. Loans and borrowings (continued)

Finance lease liabilities

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

Convertible note

(i) China Finance Strategies Investment Holdings Ltd

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

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

The Milestones incorporated into the agreement are as follows:

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

(ii) Sophisticated Investors

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

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

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

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

All of the above were issued with the following terms:

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

Notes to the Financial Statements

For the half - year ended 31 December 2016

4. Loans and borrowings (continued)

Convertible note (continued)

(iii) Magna Equities II, LLC

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

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

(iv) Gencor Pacific

On 7th July 2016 the Group announced and investment of US\$1,000,000 from Gencor Pacific in the form of a convertible note.

- The funding is secured
- The term of the loan is 18 month
- Interest is payable at a rate of 10% per annum
- Conversions are at a fixed price of A\$0.10 per share

The proceeds received from the issue have been split between the financial liability element and an equity component (which has been credited to reserves within equity – refer Note 3). The liability component is measured at amortised cost, with an effective interest rate of 23% applicable to the instrument.

(v) Ebbesen (F Scarfone)

On 30th December 2016 the Group received A\$125,000 from Ebbesen as part of the proceeds of a convertible note (A\$250,000) under a term sheet signed in January 2017. Under the term sheet, the convertible note has the following terms:

- The funding is unsecured
- The term of the loan is 18 months
- Interest is payable at the rate of 10% per annum and payable quarterly in arrears
- Conversion are at a fixed price of A\$0.10 per share

(vi) Macquarie Bank Limited

Algae.Tec limited established a facility with Macquarie Bank Limited on 6 September 2012 and following repayment of the loan in full in September 2016 the facility was not renewed.

(vii) ITF Funding Limited

In September 2016 the Group established a facility with Innovative Technology Funding Pty Ltd (ITF) to replace the line of credit in respect of R & D expenditure previously provided by Macquarie Bank Limited.

- The funding is secured against the ATO tax refund
- The facility is up to \$1,800,000 of which \$900,000 had been drawn down by 31 December 2016
- The remaining funds will be drawn down at the rate of \$150,000 per month providing that the total drawn down at any point does not exceed 80% of the funds estimated for refund from the ATO in relation to R & D expenditure.
- Interest is payable at a rate of 15% per annum and is deducted monthly from the drawdowns.

Notes to the Financial Statements

For the half - year ended 31 December 2016

4. Loans and borrowings (continued)

(viii) Directors Loans

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

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

(ix) Directors Loans

A Director, Mr Garnet Earl McConchie advanced funds to the subsidiary Algae Energy Inc. in December 2016 totaling US\$11,000. This was fully repaid with no interest accruing in January 2017.

5. Contingencies

Algae Tec Limited has no known contingent liabilities at the end of the period.

6. Events after reporting date

On 24 January 2017, the Company announced it had raised a potential gross amount of up to USD1,500,000 (before costs) under convertible notes to be issued by the Company to 707 Holdings Ltd., a sophisticated international investor.

USD166,667 of this amount is to be drawn at the time of this report, USD333,334 is to potentially be drawn down over the next two months, with the remaining USD1,000,000 subject to the satisfactory completion of certain conditions precedent.

The funds raised will provide working capital for Company operations and increase the Company's flexibility to take advantage of opportunities that may arise in the near future.

The parties have also signed agreements to explore the application of Company licensed technology for the Middle East region. Should the conditions precedent be met, the parties intend to enter into a joint venture regarding development of a facility in the Middle East region that is intended to focus on algae for nutraceuticals. The Company will receive payments for EPC work undertaken and other contingent payments and ownership rights depending on performance of a facility.

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 6 to 16, are in accordance with the *Corporations Act 2001*, including:
 - (i) Giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the half - 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 half - year ended 31 December 2016.

Signed in accordance with a resolution of the Directors

On behalf of the Board



Peter Hatfull
Managing Director

Date: 27 February 2017
Perth, Western Australia

Independent Auditor's Review Report

To the Members of Algae.Tec Limited

We have reviewed the accompanying half-year financial report of Algae.Tec Limited ("the Company") and Controlled Entities ("the Consolidated Entity") which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the Consolidated Entity, comprising the Company and the entities it controlled during the half-year.

Directors Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Consolidated Entity, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- a. Giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- b. Complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

Emphasis of Matter

Without qualifying our conclusion, we draw attention to Note 1 in the half-year financial report which indicates that the Consolidated Entity incurred a net loss of \$2,431,536 during the half-year ended 31 December 2016. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Consolidated Entity to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the half-year financial report.



BENTLEYS
Chartered Accountants



DOUG BELL CA
Director

Dated at Perth this 27th day of February 2017

**Bentleys Audit & Corporate
(WA) Pty Ltd**

London House

Level 3,

216 St Georges Terrace

Perth WA 6000

PO Box 7775

Cloisters Square WA 6850

ABN 33 121 222 802

T +61 8 9226 4500

F +61 8 9226 4300

bentleys.com.au

To the Board of Directors

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

As lead audit director for the review of the financial statements of Algae.Tec Limited for the half year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- any applicable code of professional conduct in relation to the review.

Yours faithfully



BENTLEYS
Chartered Accountants



DOUG BELL CA
Director

Dated at Perth this 27th day of February 2017