

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

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

Name of entity

Algae.Tec Limited

ABN

16 124 544 190

Quarter ended ("current quarter")

31 December 2016

Consolidated statement of cash flows	Current quarter \$A	Year to date (6 months) \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	5,500	155,881
1.2 Payments for		
(a) research and development	-7,084	-17,631
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	-714	-2,414
(d) leased assets	-	-
(e) staff costs	-860,455	-1,592,898
(f) administration and corporate costs	-449,855	-1,716,473
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	2,982	2,997
1.5 Interest and other costs of finance paid	-84,619	-193,849
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	2,427,928
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	-1,394,245	-936,459

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-1,170	-33,868
(b) businesses (see item 10)		
(c) investments		

Consolidated statement of cash flows		Current quarter \$A	Year to date (6 months) \$A
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment		
	(b) businesses (see item 10)		
	(c) investments		
	(d) intellectual property		
	(e) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	-1,170	-33,868

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	190,679	292,183
3.2	Proceeds from issue of convertible notes	-	1,327,900
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	1,087,084	1,260,693
3.6	Repayment of borrowings	-8,514	-1,999,587
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	1,269,249	881,189

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	306,824	269,796
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-1,394,245	-936,459
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-1,170	-33,868
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,269,249	881,189

Consolidated statement of cash flows		Current quarter \$A	Year to date (6 months) \$A
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	180,658	180,658

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A	Previous quarter \$A
5.1	Bank balances	181,061	307,181
5.2	Call deposits		
5.3	Bank overdrafts	-403	-357
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	180,658	306,824

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A
239,564
-

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A
Nil

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
8.1 Loan facilities	5,042,805	4,142,805
8.2 Credit standby arrangements		
8.3 Other (please specify)		
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

See attached

9. Estimated cash outflows for next quarter	\$A
9.1 Research and development	10,000
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	1,000
9.4 Leased assets	-
9.5 Staff costs	860,000
9.6 Administration and corporate costs	500,000
9.7 Other (provide details if material)	100,000
9.8 Total estimated cash outflows	1,471,000

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

Compliance statement

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

Sign here:
(Director/Company secretary)

Date: 28 February 2017

Print name: PETER HATFULL

Notes

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

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	31-Dec-16		30-Jun-16	
				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

Loans and borrowings

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

(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.

(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.