ALGAE.TEC

2017 Annual Report

Algae.Tec Limited

Contents

Company Details

Directors

Peter Hatfull	Managing Director
Earl McConchie	Executive Director
Malcolm James	Non-Executive Chairman
Jonathan Lim	Non-Executive Director (Appointed 15 August 2017)
Ramasamy Venkatesh	Non-Executive Director (Appointed 15 August 2017)
Jith Veeravalli	Non-Executive Director – Alternate (Appointed 15 August 2017)
Allan Tan	Non-Executive Director – Alternate (Appointed 15 August 2017)

Company Secretary
Peter Hatfull

Principal Registered Office in Australia
Unit 2, 100 Railway Road
Subiaco WA 6008

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

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

Bankers

Commonwealth Bank of Australia

Business and Private Banking
Level 1, 38 Adelaide Street
Fremantle WA 6160

Wells Fargo Bank
464 California
Street
San Francisco
USA

Securities Exchange

Australian Securities Exchange
ASX
Level 5, 20 Bridge Street
Sydney NSW 2000
AEB

Frankfurt Stock Exchange
FSE
60485 Frankfurt am Maim
Germany
GZA:GR

New York Stock Exchange
NYSE
11 Wall Street
New York NY 10005
ALGXY:US

Directors

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

Peter Ernest Hatfull
Managing Director

Peter has over 30 years' experience in a range of senior executive positions with Australian and international companies. He has an extensive skill-set in the areas of business optimisation, capital raising and Group restructuring.

Prior to becoming Managing Director of Algae.Tec Ltd, Peter held senior financial and board positions in Australia, Africa and the UK. Peter graduated as a Chartered Accountant in the United Kingdom where he worked for Coopers and Lybrand (now PriceWaterhouseCoopers), and subsequently moved to Africa, where he spent 8 years in Malawi.

Peter Hatfull currently holds 12,210,936 ordinary shares in Algae.Tec Ltd and 7,000,000 unlisted options and 868,379 listed options.

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

Earl McConchie
Executive Director

Earl has over 35 years' experience over a broad field of chemistry and associated technologies. Earl's field experience includes international business management, plant operations, and project engineering in the US, Europe (especially Germany, Holland, Switzerland, UK and CIS), Latin America (Brazil, Argentina and Mexico) and Asia (Korea, China and Australia).

Earl has over 10 years of specific technical and business experience in the biodiesel and glycerin industry sectors. He is the founding director and joint controlling shareholders of Teco.Bio LLC and is based in Atlanta, Georgia where he has coordinated the microalgae development.

Earl has received a BSc (Chem.Eng) from Virginia Polytechnic Institute & State University, and a ME Chemical Engineering from Teas A & M University. He is a registered Professional Engineer, Member of the National society of Professional Engineers, the American Institute of Chemical engineers, and the society of Plastic Engineers.

Earl McConchie was appointed as Director of Algae.Tec Limited on 18 August 2008. Earl McConchie, controls Dot.Bio Inc which owns 100% of Teco.Bio LLC which now holds 175,000,001 shares in Algae.Tec Limited.

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

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

Malcolm James
Non-Executive Chairman

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

Malcolm James currently holds 200,000 ordinary shares in Algae.Tec Ltd and 7,000,000 unlisted options and 50,000 listed options. Malcolm James was appointed as Non- Executive Chairman of Algae.Tec Limited on 16 September 2014.

Ramasamy V Venkatesh
Non – Executive Director

Mr R.V.Venkatesh is one of the founders and Managing Director of Gencor Pacific Limited, part of the Gencor group worldwide, which is Algae.Tec's offtake partner for algae oils. He is a Chemist with over 30 years' experience in key industries namely Healthcare, Pharmaceuticals and Nutraceuticals. He has extensive experience in International Business in the Pharmaceutical and Nutraceutical sectors worldwide, having done business in over 70 countries. His expertise includes R&D Management, scientific reviews, product development, clinical trials, product branding, strategic partnerships and he has a track record of successful nutraceutical product launches worldwide.

Mr R.V. Venkatesh was appointed as Non-Executive Director on 15 August 2017.

Jonathan Lim
Non – Executive Director

Mr. Lim is an entrepreneur who founded Romar Positioning Equipment Pte Ltd in 1984 and grew Romar into a leading global heavy automation equipment manufacturer, principally in the energy, alternative energy, and oil & gas sector. Romar was ranked 3rd place in the Singapore Enterprise E50 Awards in 2007. Mr. Lim was Non-Executive Chairman of Enzer Corporation Limited and Adventus Holdings Limited, listed on the sponsored Catalyst Platform of the Singapore Stock Exchange. Mr Lim was also until recently the Non-Executive Vice Chairman of the ASX listed company, Terran Minerals Limited.

Mr Lim currently holds 16,666,666 shares in Algae Tec Ltd and 8,333,333 listed options.

Mr lim was appointed as Non-Executive Director on 15 August 2017.

Allan Tan
Alternate Non – Executive Director

Mr. Allan Tan is a lawyer with 22 years of corporate and regulatory experience. He is currently lead independent director of Nico Steel Holdings Limited and independent director of CNMC Goldmine Holdings Limited, both listed on the Singapore Stock Exchange.

Mr Allan Tan was appointed as Alternate Non-Executive Director on 15 August 2017.

Jith Veeravalli
Alternate Non – Executive Director

Mr Veeravalli has advanced degrees in Engineering and Management and over 40 years of experience in evolving technologies. He is a serial entrepreneur and is the founder and President of Gencor, a boutique nutraceutical and pharmaceutical company based in Irvine, California. He is also very active in giving back to society and is involved in the eye and general nutrition of children with malnutrition around the world.

Mr Jith Veeravalli was appointed as Alternate Non-Executive Director on 15 August 2017.

Meetings of Directors

The following table sets out the number of directors' meetings held during the financial year and the number of meetings attended by each Director.

Director	Board Meetings	
	Held	Attended
	A	B
Mr Peter Ernest Hatfull	*7*	*7*
Mr Garnet Earl McConchie	*7*	*7*
Mr Malcolm James	*7*	*7*

Principal Activities

The principal activity of the Group during the course of the financial year was the development of the technology for the production of algal oil and algal biomass for sale into the fast growing nutraceutical market. The Group also continued its move towards commercialisation of its technology into the production of sustainable fuels and the capture of CO2.

Overview of the Group

The year to 30 June 2017 has seen Algae.Tec Ltd achieve a number of milestones. The contract with the Reliance Group of India has continued strongly and has been a strong validation of our technology, with further developments and improvements to our core technology. The elements of the pilot plant have been set up in India and are waiting for the final commissioning by Reliance

The Group's strategic plan of developing markets for its technology of efficient growing of plants in controlled environments has taken significant steps forward during the year, with the commencement of the small scale plant in Cumming, Atlanta to produce algae for the nutraceutical market, and the signing of an agreement to develop products in the medicinal marijuana industry. This is exciting for the Group as it will develop a number of significant income streams, reducing risk whilst bringing cash flows and profits to account within the next financial year.

Review of financial position

The consolidated loss of the Group amounted to $3,787,794 (2016: loss of $3,262,307) after including a tax refund due for R & D activities in the financial year of $2,116,586.

Net cash expensed through operating activities for the financial year was $2,799,237 a 2% decrease on the $2,872,709 spent in the prior year.

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

Major events during the year were as follows:

Gencor Investment

In July 2016, the Company announced a US$1M investment into the Company by Gencor Pacific, the global Lifestage Solutions Company. This investment will enable Algae.Tec to accelerate the development of its production capacity and improve the efficiency of its nutraceutical plant, expand its laboratory capabilities and cater to the demand for nutraceutical products for Gencor's clients.

Algae.Tec recently announced the signing of a supply agreement with Gencor, whose clients include some of the largest nutraceutical and pharmaceutical companies in the world. Gencor has agreed to purchase the full production of Algae.Tec's nutraceutical plant.

Investment Announcement

On 8 July 2016, the Company announced that it has secured a US$500,000 investment from the highly regarded New York Investment firm, Magna and its affiliate fund Magna Equities II, LLC ("Magna").

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

Algae.Tec Products Launch

Algae.Tec launched its Alganics range of products at the Supply Side West 2016 show which is regarded as the world's 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.

MOU, Capital Raising and Potential Joint Venture

In January 2017, the company announced it has 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 announcement, 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.

Plant Update

Algae.Tec was pleased to announce the start-up of its nutraceutical plant in Cumming Atlanta in early February 2017.

The plant has been substantially upgraded following the injection of US$1million in July 2016 by Gencor to increase product flexibility, expand plant capacity and focus on multiple high quality products.

Algae.Tec Enters Medicinal Marijuana Market

In May 2017, Algae.Tec Limited announced that it entered into a Collaboration and Licence Term Sheet ("Agreement") with Jardin De Invierno SA ("JDL") to expand its technology and product footprint into the rapidly growing medicinal marijuana and associated markets.

The annual medical cannabis and related markets exceeded US$6 billion in 2016 with a projected compound annual growth rate of 26% through to 2021 when the market is expected to reach US$21 billion. This is in addition to the global nutraceuticals market which currently exceeds US$205 billion and growing at a significant global rate.

Algae.Tec is at the forefront of developing technologies that optimize controlled growing environments for high value natural products, including medical cannabis. The unique technology platform developed by Algae.Tec is able to significantly increase yield whilst dramatically reducing costs when applied to controlled cannabis production. This will position Algae.Tec as a market leader in the controlled cannabis production space globally.

Algae.Tec Launches Expanded Product Range

Algae.Tec Limited announced that it has successfully launched its FeedMe™ algae product line to the aquaculture and animal feed markets, as part of its planned expansion into a range of high value product lines.

The controlled growth proprietary technology developed by Algae.Tec combined with the substantive algae species research and development has enabled the Company to develop a series of high quality liquid and powder algae-based products with the optimum balance of essential amino acids, omega-3 fatty acids, vitamins and minerals for applications in the human nutriceutical, aquaculture and animal feed markets.

The FeedMe™ algae product line was officially launched in April with first sales through its website, www.feedmealgae.com, and to leading downstream product formulators and distributors.

The 2017 aquafeed market is valued at more than US$100B with industry projections reporting continued strong growth rates at 12% per year. The global animal feed market is valued at $25B with growth rates of 6% per year. Within these markets there has been a sharp increase in demand for natural and sustainable food supplements, containing essential proteins, omega-3 fatty acids, vitamins and minerals to enhance nutritional value.

Algae.Tec Signs Product and Technology Agreement

On 21 June 2017, Algae.Tec Limited entered into a formal Collaboration and Licence Agreement with Jardin De Invierno SA ("**JDL**") ("**Agreement**").

The Agreement is the definitive transaction document referred to in AEB's announcement of 2 May 2017, and underpins the Company's expansion of its technology into the rapidly growing medical marijuana market.

Environmental regulation

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

Significant Changes in State of Affairs

There have been no significant changes in the state of affairs of the Group during the financial year.

Dividends

No dividends were paid or recommended by the Directors.

Events subsequent to reporting date

In July 2017, the Company announced the offer of a Renounceable Pro-Rata Entitlement Issue to eligible shareholders to raise up to approximately $8.0 million.

Algae.Tec received total applications of 213,393,662 new shares and 113,196,792 free attaching options, which also includes the redemption of various convertible notes to raise approximately $6.4m. A further $708,000 was received in September 2017.

The Company is currently working to allocate the remaining shortfall of approximately 31,673,033 shares ($950,000) to be issued on the same terms as the rights issue to a mixture of sophisticated investors and investment funds.

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

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

Directors' interest

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

	Algae.Tec Limited	
	Ordinary Shares	**Options over ordinary shares**
Peter Hatfull	12,210,936	7,868,379
Malcolm James	200,000	7,050,000
Earl McConchie[1]	175,000,001	-
Ramasamy V Venkatesh *(appointed 15 August 2017)*	-	-
Jonathan Lim *(appointed 15 August 2017)*	16,666,666	8,333,333
Jith Veeravalli *(Alternate – appointed 15 August 2017)*	-	-
Allan Tan *(Alternate – appointed 15 August 2017)*	-	-

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

Options and Rights Granted

Number of options	Issued to	Class
28,728,607	The Reliance Group	Options exercisable at $0.1636 on or before 20 January 2019
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

Indemnification and Insurance of Officers and Executives

Indemnification

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

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

Insurance premiums

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses' insurance contracts, as such disclosure is prohibited under the terms of the contract.

Corporate Governance

The Company's Corporate Governance Statement can be found at:
http://algaetec.com.au/index.php/about-us/corporate-governance

Non-Audit services

During the year Bentleys, did not perform any other services in addition to the audit and review of financial statements.

Proceedings on behalf of the Group

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 51.

Remuneration Report – *audited*

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

Key management personnel disclosed in this report are:

Peter Hatfull
Malcolm James
Earl McConchie

Remuneration Report – *audited* *(continued)*

Principles of compensation - audited

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group, including directors of the Group and other executives. Key management personnel comprise of the Group directors.

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

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

- The capability and experience of the key management personnel
- The key management personnel's ability to control the relevant segments' performance; and
- The Group's performance including:
  - The Group's earnings;
  - The growth in share price and delivering constant returns on shareholders wealth; and
  - The amount of incentives within each key management person's compensation.

Compensation packages include a mix of fixed and variable compensation, and short and long-term performance based incentives.

Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles) as well as leave entitlements and employer contribution to superannuation funds.

Compensation levels are reviewed annually by the Board through a process that considers individual, segment and overall performance of the Group.

Additional information

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

	2017	2016	2015	2014
Quoted price of ordinary shares at period end (cents)	0.045	0.05	0.06	0.09
Profit/(loss) per share	(0.01)	(0.01)	(0.01)	(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.

Remuneration Report – *audited* *(continued)*

Principles of compensation – audited *(continued)*

Service contracts *(continued)*

Payments on Termination	If the contract is terminated under (a) or (b) above, the Group is obliged to pay the Managing Director equivalent amount of Remuneration in lieu of notice. If the contract is terminated under (c) above, the Group is only obliged to pay the Managing Director any accrued remuneration, including superannuation and leave entitlements.
Remuneration	**Fixed annual remuneration:** $300,000 base salary per annum, plus superannuation contributions at the rate stipulated under the Australian Government SG and benefits as allocated by the Managing Director in accordance with the Group's policies. From approximately January 2013, the base salary was temporarily reduced to $150,000 per annum whilst the Group continues its research and development, His salary was increased in January 2015 to $225,000 and to $250,000 in November 2015. However, his annual leave entitlement continues to be accrued at his full rate. **Review of remuneration:** The remuneration will be reviewed at least annually, with any increase at the absolute discretion of the Group. **Annual leave:** Four weeks annual leave per annum (in addition to public holidays).

Non – Executive Chairman

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

Term	From 16 September 2014 for a period up to 3 years unless otherwise negotiated a. Either party may cancel this agreement on 30 days written notice. b. The Group can terminate the agreement due to actions of the Consultant such as serious misconduct, dishonesty and bankruptcy.
Payments on Termination	If the contract is terminated under (a) above, the Group is obliged to pay the Consultant equivalent amount in lieu of notice.
Remuneration	The Consultant is paid an annual rate of $72,000 for work performed in accordance with the agreement. The Group and Consultant agree that the Consultant will act as an independent contractor and is responsible for payment of all taxes.

Remuneration Report – *audited* *(continued)*

Principles of compensation – audited *(continued)*

Service contracts *(continued)*

Executive Director

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

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.

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	
AUD		Salary & fees $	Non-monetary benefits $	Unused annual leave	Total $	Superannuation benefits $	$	Termination benefits $	Options and rights $	Total $
Directors										
Executive Directors										
Peter Hatfull	2016	319,836	-	(29,679)*	290,157	30,384	46,731	-	69,516	436,788
	2017	253,846	-	23,070	276,916	24,115	7,500	-	69,515	378,046
Earl McConchie	2016	462,606	20,084	26,689	509,379	18,496	-	-	-	527,875
	2017	344,389	13,573	-	357,962	13,774	-	-	-	371,736
Sub-total executive directors remuneration	2016	782,442	20,084	(2,990)	799,536	48,880	46,731	-	69,516	964,663
	2017	598,235	13,573	23,070	634,878	37,889	7,500	-	69,515	749,782
Non- executive directors Remuneration										
Malcolm James	2016	72,000	-	-	72,000	-	-	-	69,515	141,515
	2017	72,000	-	-	72,000	-	-	-	69,516	141,516
Total directors' remuneration	2016	854,442	20,084	(2,990)	871,536	48,880	46,731	-	139,031	1,106,178
	2017	670,235	13,573	23,070	706,878	37,889	7,500	-	139,034	891,298
Total key management personnel remuneration	2016	854,442	20,084	(2,990)	871,536	48,880	46,731	-	139,031	1,106,178
	2017	670,235	13,573	23,070	706,878	37,889	7,500	-	139,034	891,298

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

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

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

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

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

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

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

*Peter Hatfull and Earl McConchie both took a voluntary reduction of 50% of salary from April 2017 until such time as the Group is generating income. This is reflected in the salary and fees numbers above. However an accrual in the accounts has been made for this underpayment in the amount of $45,736 (Hatfull) and $58,327 (McConchie) with a view to the reduction being reimbursed at a later date.

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 2016	Other Changes	Received on exercise of options	Sales	Held at 30 June 2017
Directors					
Peter Hatfull	10,271,178	1,939,758	-	-	12,210,936
Malcolm James	100,000	100,000	-	-	200,000
Earl McConchie	179,070,001	-	-	-	179,070,001

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

Other related party transactions

Four members of Mr. Earl McConchie's immediate family were employed by Algae Energy Inc. during the year. The Group paid the family members a total of A$515,108 (US$414,198) compared to A$504,347 (US$392,483) in 2016 as salaries, wages and benefits.

An amount of A$38,024 (US$30,000) was paid to Dot-Bio Inc. is respect of the leasing of office furniture and equipment. Dot-Bio is Corporation wholly owned by Mr. Earl McConchie and family members.

Mr Earl McConchie advanced the Group US$90,000 in prior year and interest is payable at a rate of 5% per annum, which as at 30 June 2017 the balance was A$119,637.

Use of remuneration consultants

The Group did not use remuneration consultants during the year.

Voting at the Group's 2016 Annual General Meeting

The Company received 94% of proxy votes in favor (5% against) of its 2016 remuneration report at the 2016 Annual General Meeting. The Company did not receive any specific feedback at the Annual General Meeting or throughout the year on its remuneration practices.

End of Audited Remuneration Report

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

On behalf of the Directors

Peter Hatfull
Managing Director
28 September 2017

Consolidated Statement of Financial Position

As at 30 June 2017

	Notes	30 June 2017	30 June 2016
Assets		$	$
Cash and cash equivalents	10	102,882	269,796
Trade and other receivables	8	2,547,866	2,620,362
Prepayments	9	80,414	101,846
Total current assets		2,731,162	2,992,004
Property, plant and equipment	6	423,759	601,229
Deferred tax assets	7	649,372	583,599
Total non-current assets		1,073,131	1,184,828
Total assets		3,804,293	4,176,832
Liabilities			
Trade and other payables	17	901,921	600,526
Loans and borrowings	14	6,183,971	3,936,024
Provisions	16	244,208	285,490
Total current liabilities		7,330,100	4,822,040
Total liabilities		7,330,100	4,822,040
Net assets/(liabilities)		(3,525,807)	(645,208)
Equity			
Contributed equity	12	20,745,945	20,156,981
Reserves	12	512,760	194,529
Accumulated losses		(24,784,512)	(20,996,718)
Total equity		(3,525,807)	(645,208)

The notes of pages 20 to 47 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 2017

	Notes	30 June 2017	30 June 2016
Revenue from operating activities		$	$
Provision of services and equipment		665,813	608,477
Interest		5,505	5,550
Other income			
R & D Tax incentive		2,116,586	2,427,928
		2,787,904	3,041,955
Expenditure			
Employee benefits		(3,066,975)	(3,350,279)
Directors share based payments		(139,030)	(139,031)
Depreciation expense		(213,475)	(227,067)
Property, rent & lease expenses		(347,446)	(454,803)
Consultancy expenses		(126,245)	(177,884)
Insurance expenses		(126,633)	(123,343)
Materials and supplies		(639,849)	(922,798)
Professional fees		(568,794)	(488,457)
Travel expenses		(246,095)	(193,542)
Finance costs		(679,772)	(307,945)
Net foreign exchange gain/(loss)		70,833	135,495
Administration expenses		(145,841)	(208,202)
Other expenses		(282,579)	(151,875)
Provision for bad debts		(116,925)	-
Loss before income tax		(3,840,922)	(3,567,776)
Income tax benefit	7	53,128	305,469
Net loss attributable to members of the company		(3,787,794)	(3,262,307)
Other comprehensive income/(loss)			
Items that may be reclassified to the profit and loss			
Effect of exchange rate translation	12	(69,755)	(107,854)
Total comprehensive income/(loss) for the year attributable to members of the company		(3,857,549)	(3,370,161)
Earnings per share			
Basic loss per share	13	(0.01)	(0.01)

The notes of pages 20 to 47 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2017

For the year ended 30 June 2017	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		-	(3,787,794)	-	-	-	(3,787,794)
Other comprehensive loss		-	-	(69,755)	-	-	(69,755)
Total comprehensive loss for the year		-	(3,787,794)	(69,755)	-	-	(3,857,549)
Transactions with owners in their capacity as owners							
Share issued during the period	12	588,964	-	-	-	-	588,964
Equity component of convertible notes issued		-	-	-	-	248,955	248,955
Value of share options issued	12(iii)	-	-	-	139,031	-	139,031
Balance at 30 June 2017		**20,745,945**	**(24,784,512)**	**(112,781)**	**376,586**	**248,955**	**(3,525,807)**

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

The notes of pages 20 to 47 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

For the year ended 30 June 2017

	Notes	2017 $	2016 $
Cash flow from operating activities			
Cash receipts from customers		338,156	1,100,594
Cash paid to suppliers and employees		(5,299,369)	(5,977,561)
Interest paid		(266,457)	(262,081)
Interest received		505	550
Income taxes R & D refund		2,427,928	2,265,789
Net cash outflows from operating activities	11	(2,799,237)	(2,872,709)
Cash flows from investing activities			
Purchases of property, plant and equipment		(51,156)	(38,338)
Net cash outflows from investing activities		(51,156)	(38,338)
Cash flows from financing activities			
Proceeds from issue of share capital		-	500,000
Proceeds from borrowings		4,742,484	3,252,401
Proceeds from borrowings from related party		-	117,836
Repayment of borrowings		(2,053,990)	(1,808,452)
Net cash inflow from financing activities		2,688,494	2,061,785
Net decrease in cash and cash equivalents		(161,899)	(849,262)
Cash and cash equivalents at beginning of financial period		269,796	1,105,130
Effect of exchange rate fluctuations on cash held		(5,015)	13,928
Cash and cash equivalents at end of financial period	10	102,882	269,796

The notes of pages 20 to 47 are an integral part of these consolidated financial statements.

1. Reporting entity

Algae.Tec Limited is a company domiciled in Australia. The address of the Group's registered office Unit 2, Spectrum Offices, 100-104 Railway Road, Subiaco WA 6008. The consolidated financial statement of the Group as at and for the year ended 30 June 2017 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 condensed financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorized for issue by the Board of Directors on 28 September 2017.

Going concern

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

The Group incurred a loss after tax for the year of $3,787,794 (2016: $3,262,307) and net cash outflows from operating activities of $2,799,237 (2016: $2,872,709).
As at 30 June 2017, the Group had a working capital deficit of $4,598,938 (2016: deficit of $1,830,036). Current liabilities include convertible notes of $4,382,183.

Subsequent to year end the Group:

- announced an offer of a Renounceable Pro-Rate Entitlement Issue to raise up to approximately $8.0million;
- received total applications of 213,393,662 new shares and 113,196,792 free attaching options, which includes the redemption of various convertible notes to raise $6.4m;
- A further $708,000 was raised in September 2017
- raised $275,000 via a convertible note facility with L1 Global Opportunities Fund which has been converted into equity during the Entitlement Issue to accelerate development of its production facility; and
- the completion of all conditions precedent of the Collaboration Agreement with Winter Gardens.
- Had these transactions occurred as at 30 June 2017, it would result in the Group having a working capital surplus.

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.

2. Basis of accounting *(continued)*

Going concern (continued)

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

- Achieving forecasted cash flows from its sale of nutraceutical and medicinal marijuana products;
- The Group continuing to receive refunds under the Research and Development ("R&D") tax incentive scheme;
- The Group securing a funding provider for its R&D claim for the financial year 2018; and

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

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

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

Basis of measurement

The consolidated financial statements have been prepared on the accruals basis, and on the basis of historical cost except for the revaluation of financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. Comparative information is reclassified where appropriate to enhance comparability.

(a) Functional and presentation currency

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

(b) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(c) New or revised standards and interpretations that are first effective in the current reporting period

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

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

2. Basis of accounting *(continued)*

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

New Accounting Standards for Application in Future Periods

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

AASB 9 : Financial Instruments and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).

The Standard will be applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Based on preliminary analysis the directors anticipate that the adoption of AASB 9 is unlikely to have a material impact on the Group's financial instruments.

AASB 15 : Revenue from Contracts with Customers (applicable to annual reporting periods beginning on or after 1 January 2018,).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Apart from a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

identify the contract(s) with a customer;

identify the performance obligations in the contract(s);

determine the transaction price;

allocate the transaction price to the performance obligations in the contract(s); and

recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108 : Accounting Policies, Changes in Accounting Estimates and Errors (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

2. Basis of accounting *(continued)*

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

New Accounting Standards for Application in Future Periods *(continued)*

AASB 16 : Leases (applicable to annual reporting periods beginning on or after 1 January 2019).

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117 : Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard are as follows:

recognition of a right-of-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);

depreciation of right-of-use assets in line with AASB 116 : Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;

inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;

application of a practical expedient to permit a lessee to elect not to separate non-lease components and instead account for all components as a lease; and

inclusion of additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

Although the directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.
Certain comparative amounts in the consolidated statement of profit or loss and other comprehensive income have been reclassified to conform to the current year's presentation.

(a) Basis of consolidation

(i) Business combinations

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

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

(ii) Subsidiaries

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

3. Significant accounting policies *(continued)*

(a) Basis of consolidation (continued)

(iii) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

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

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

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

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

(ii) Foreign operations

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

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

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

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

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

3. Significant accounting policies *(continued)*

(c) Financial instruments

(i) Non-derivative financial assets

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

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

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends whether to settle them on a net basis or to realize the asset and settle the liability simultaneously.

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

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

Loans and receivables

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

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

Cash and Cash equivalents

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

(ii) Non-derivative financial liabilities

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

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

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

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

(iii) Share capital

Ordinary shares

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

3. Significant accounting policies *(continued)*

(c) Financial instruments (continued)

(iv) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

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

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

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

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

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- The cost of materials and direct labour.
- Any other costs directly attributable to bringing the assets to a working condition for their intended use,
- When the Group has an obligation to remove the assets or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located, and
- Capitalized borrowing costs.

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

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

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

(ii) Subsequent costs

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

3. Significant accounting policies *(continued)*

(d) Property, plant and equipment (continued)

(iii) Depreciation

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

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

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

• Computer Equipment	20% to 50%	(2 – 5 years)	Straight Line
• Computer Software	25%	(4 years)	Straight Line
• Office Equipment	20%	(5 years)	Straight Line
• Furniture & Fittings	14.3%	(7 years)	Straight Line
• Facility Improvements	14.3%	(7 years)	Straight Line
• Plant and equipment	14.3%	(7 years)	Straight Line
• Laboratory Systems	14.3%	(7 years)	Straight Line
• Motor Vehicles	22.5%		Reducing Balance

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Intangible assets and goodwill

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is presented with intangible assets.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity accounted investee as a whole.

(ii) Research and development

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

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

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

3. Significant accounting policies *(continued)*

(e) Intangible assets and goodwill (continued)

(iii) Other intangible assets

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

(iv) Subsequent expenditure

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

(v) Amortization

There are no amortization costs for the financial year ended 30 June 2017.

(f) Employee benefits

(i) Short-term employee benefits

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

(ii) Long-service leave

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

(iii) Share-based payment transactions

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

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

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

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

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

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

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

3. Significant accounting policies *(continued)*

(g) Provisions

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

Onerous contracts

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

(h) Revenue

(i) Sale of goods

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

(ii) Rendering of services

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

(iii) Research and development claims

Research and development income is accrued on a monthly basis, thus bringing the income into account in the same period that the related expenditure is incurred.
The Group is able to accurately estimate accrued research and development income and has successfully received previous claims made.

(i) Leases

(i) Leased assets

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

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

(ii) Lease payments

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

3. Significant accounting policies *(continued)*

(j) Finance income

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

(k) Finance costs

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

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

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

(l) Tax

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

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

3. Significant accounting policies *(continued)*

(l) Tax (continued)

(ii) Deferred tax (continued)

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

(iii) Tax exposures

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that caused the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(iv) GST

GST is accounted for on an accrual basis.

(m) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

4. Critical accounting judgments and key sources of estimation uncertainty

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Income taxes

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

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

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

Research & Development Income and Receivables

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

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

Share-based Payments

The group measures the cost of equity settled transactions by reference to the fair value of the equity instrument at the date at which they are granted (for employees) or their measurement date (for other service providers). For Options, the fair value is determined by an internal valuation using a Black Scholes option pricing model. The valuation relies on the use of certain assumptions. If the assumptions were to change, there may by an impact on the amounts reported. For ordinary shares which are traded on the stock exchange, the fair value is determined by reference to the closing price of the security on the measurement date.

5. Operating segments

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

	2017	2016
Information about reportable segments	**$**	**$**
USA Profit/(loss)	5,235	315,986
Australia Profit /(loss)	(1,806,199)	(2,061,187)
Reportable segment (Profit)	(1,800,964)	(1,745,201)
Interest	5,505	5,550
Net foreign exchange gain/(loss)	70,833	135,495
Corporate expenses	(2,116,296)	(1,963,620)
Loss before tax	(3,840,922)	(3,567,776)
Reportable segment assets		
Australia	2,571,206	2,831,934
USA	1,233,087	1,344,898
	3,804,293	4,176,832
Reportable segment liabilities		
Australia	6,828,633	4,311,314
USA	501,467	510,726
	7,330,100	4,822,040
Revenue by geographical segment		
India	23%	20%
Australia	77%	80%
USA	-	-

	2017	2016
6. Property, plant and equipment	**$**	**$**
Plant and Equipment – P&E		
Plant and Equipment - at cost	1,166,345	1,153,520
Less: Accumulated depreciation	(802,680)	(658,988)
	363,665	**494,532**
Computer Equipment – C&E		
Computer Equipment - at cost	99,677	100,414
Less: Accumulated depreciation	(95,749)	(91,805)
	3,928	**8,609**
Office Equipment – O&E		
Office Equipment - at cost	78,412	80,221
Less: Accumulated depreciation	(65,885)	(57,194)
	12,527	**23,027**
Facility Improvements – F&I		
Facility Improvements - at cost	182,181	188,244
Less: Accumulated depreciation	(139,650)	(116,150)
	42,531	**72,094**
Laboratory Systems – L&S		
Laboratory Systems - at cost	8,259	8,535
Less: Accumulated depreciation	(7,151)	(6,167)
	1,108	**2,368**
Furnishings - F		
Furnishings - at cost	16,038	16,038
Less: Accumulated depreciation	(16,038)	(15,439)
	-	**599**
Totals		
Asset at cost	1,550,912	1,546,972
Less: Accumulated depreciation	(1,127,153)	(945,743)
	423,759	**601,229**

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

	Total	P&E	C&E	O&E	F&I	L&S	MV	F
	$	$	$	$	$	$	$	$
Carrying amount of 1 July 2016	601,229	494,532	8,609	23,027	72,094	2,368	-	599
Additions	51,156	49,529	1,355	272	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Depreciation	(213,475)	(167,791)	(5,870)	(10,246)	(27,763)	(1,206)	-	(599)
Foreign currency exchange reserve effect	(15,151)	(12,605)	(166)	(526)	(1,800)	(54)	-	-
Carrying amount at 30 June 2017	**423,759**	**363,665**	**3,928**	**12,527**	**42,531**	**1,108**	**-**	**-**

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

7. Taxes

Tax recognized in profit or loss

	2017 $	2016 $
Current tax expense		
Current year	(12,645)	(21,819)
Deferred tax expense		
Origination and reversal of temporary differences	65,773	327,288
Tax (expense) benefit from continuing operations	53,128	305,469

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

Reconciliation of effective tax rate	2017	2017	2016	2016
Profit before tax from continuing operations	-	(3,840,922)	-	(3,567,775)
Tax using the Group's domestic rate	27.5%	(1,056,254)	30%	(1,070,332)
Effect of tax in foreign jurisdictions	-	33,531	-	(120,091)
Deductible expenses	-	(187,605)	-	(149,109)
Non-deductible expenses	-	299,247	-	198,857
Research and Development	-	636,494	-	676,101
Others	-	12,083	-	-
Current year losses for which no deferred tax asset was recognized	-	209,376	-	159,105
Tax benefit	-	(53,128)	-	(305,469)

7. Taxes *(continued)*

Deferred tax assets

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

	2017 $	2016 $
Net deductible temporary differences	891,473	768,117
Tax losses	1,689,170	1,455,216
Deferred tax assets not recognized	(1,931,269)	(1,639,734)
	649,374	583,599

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
Property, plant and equipment	-	-	(76,757)	(122,538)	(76,757)	(122,538)
Employee benefits	67,928	102,440	-	-	67,928	102,440
Share-based payment transactions	-	-	-	-	-	-
Provisions	180,614	96,367	-	-	180,614	96,367
Other items	723,813	695,755	(4,125)	(3,000)	719,688	692,755
Tax loss carry-forwards	1,689,170	1,455,216	-	-	1,689,170	1,455,216
Tax assets (liabilities)	2,661,525	2,349,778	(80,882)	(125,538)	2,580,643	2,224,240
Deferred tax assets not recognized	(1,931,269)	(1,640,639)	-	-	(1,931,269)	(1,640,641)
Net tax assets (liabilities)	730,256	709,139	(80,882)	(125,538)	649,374	583,599

8. Trade and other receivables

Current	2017 $	2016 $
Trade receivables	319,923	-
R & D incentives	2,116,586	2,427,928
GST refund	15,512	13,373
Other receivables	95,845	179,061
Total receivables	2,547,866	2,620,362

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

The trade receivable is represented by invoices to Reliance Industries in May 2017 (USD$257,250) and which were due at 30 June 2017. At the date of this report, USD$184,428 had been received (AUD$229,359).

A receivable from Phoenix Energy in the amount of $116,925 (being principal and interest) is past due. Whilst Algae.Tec believe that this debt will be repaid within the next 12 months the accounts provide 100% provision against non-payment at 30th June 2017. Interest continues to accrue on the principal at 5% per annum.

9. Prepayments

	2017 $	2016 $
Consulting	-	8,567
Prepaid rent	4,770	5,189
Prepaid insurance	37,060	41,551
Prepaid interest	38,584	46,539
	80,414	**101,846**

10. Cash and cash equivalents

	2017 $	2016 $
Bank balances	102,882	269,796
Cash and cash equivalents in the statement of cash flows	102,882	269,796

Refer to note 18, financial risk management.

11. Reconciliation of cash flows from operating activities

	2017 $	2016 $
Cash flows from operating activities		
Loss for the year	(3,787,794)	(3,262,307)
Adjustments for:		
Movement in valuation of convertible note	191,246	(29,104)
Depreciation	213,475	227,067
Foreign Exchange Translation	(55,990)	52,143
Equity-settled share-based payments, net of tax	298,430	201,812
	(3,140,633)	(2,810,389)
Change in trade and other receivables	72,496	211,693
Change in other current assets	21,432	(33,610)
Change in trade and other payables	301,395	(32,689)
Change in provisions and employee benefits	(41,282)	97,755
Cash generated from operating activities	(2,786,592)	(2,567,240)
Income taxes	(12,645)	(305,469)
Net cash from operating activities	(2,799,237)	(2,872,709)

Conversion of debt to shares pursuant to conversion notice as shown in Note 14.

12. Capital and reserves

Share capital	2017 $	2017 Number	2016 $	2016 Number
Movements in capital during the year were as follow:				
Issued capital at the beginning of the financial year	20,156,981	339,879,095	19,594,201	331,454,988
Issue of shares pursuant of Conversion notice	429,564	10,000,310	-	-
Issue of shares pursuant to exercise of options	-	-	500,000	7,142,857
Issue of shares via Conversion of Interest	92,500	1,887,753	27,030	551,658
Issue of shares in exchange for services provided	66,900	1,338,000	35,750	729,592
	20,745,945	353,105,158	20,156,981	339,879,095

(i) Share options at year end

Number of options	Issued to	Class
28,728,607	The Reliance Group	Options exercisable at $0.1636 on or before 20 January 2019
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

12. Capital and reserves *(continued)*

(ii) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation.

	2017 $	2016 $
Foreign exchange reserve	(112,781)	(43,026)

(iii) Share option reserve

	2017 $	2016 $
Share option reserve	376,586	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

	2017 $	2016 $
Other reserve	248,955	-

The other reserve has arisen following the issue of convertible notes issued 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 $ 1,523.62
  - Expense for Year end 30 June 2016 $ 139,030.50
  - Expense for Year end 30 June 2017 $ 139,030.50
  - Expense for Year end 30 June 2018 $ 139,030.50
  - Expense for Year end 30 June 2019 $ 137,506.88

The expected volatility during the term of the options is based around assessments of the volatility of similar-sized listed, including newly listed entities in similar industries at grant date. For the purposes of the Black and Scholes valuation 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 2017 (2016: nil).

13. Earnings per share
Basic earnings per share

	2017 Continuing operations	Total	2016 Continuing operations	Total
Profit (loss) attributable to ordinary shareholders	(3,787,794)	(0.01)	(3,262,307)	(0.01)

Weighted average number of ordinary shares (basic)

	2017	2016
Issued ordinary shares at 1 July	339,879,095	331,454,988
Effect of shares issued during the period	6,244,309	5,283,689
Weighted average number of ordinary shares at 30 June	346,123,404	336,738,677

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 2017, the Group had on issue 45,728,607 (12i) options over unissued capital. As the Group incurred a loss for the year, the options are anti-dilutive, thus the dilutive loss per share is the same as the basic earnings per share.

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

	2017 $	2016 $
Current liabilities		
Convertible notes (i), (ii), (iii), (iv), (vii), (viii), (ix)	4,382,183	2,057,363
R & D loan facility (v)	1,650,000	1,730,744
Hunter Premium funding	32,151	30,081
Directors' loans (vi)	119,637	117,836
Trade and other payables	**6,183,971**	**3,936,024**
Totals	**6,183,971**	**3,936,024**

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

14. Loans and borrowings *(continued)*

Convertible note

(i) China Finance Strategies Investment Holdings Ltd

- 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

14. Loans and borrowings *(continued)*

Convertible note *(continued)*

(iii) 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 12(iv)). The liability component is measured at amortised cost, with an effective interest rate of 23% applicable to the instrument.

(iv) Ebbesen (F Scarfone)

On 6th January 2017 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. A further A$30,000 was received on 28 April 2017 under the same terms.

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

(v) 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 $1,200,000 had been drawn down by 31 March 2017
- 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.

(vi) 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.

14. Loans and borrowings *(continued)*

Convertible note *(continued)*

(vii) 707 Holdings Limited

On 24 January 2017, Algae.Tec Limited announced the potential raising of USD$1,500,000 under convertible notes to be issued to 707 Holdings Ltd. At 31 March 2017, USD$500,000 had been drawn.

- The funding is unsecured.
- Term: Three (3) years
- Conversion right: Convertible into fully paid ordinary shares in the Company at a conversion price that is the lower of (i) AUD0.05 per share and (ii) a 10% discount to the 5-day VWAP to the date of exercise of the conversion right;
- Options: If applicable, if the final tranche of US$500,000 is converted, the noteholder will receive 45.5 million of separate unlisted options with a term of 12 months from the date of the notes maturity and be exercisable at the lower of AUD0.10 per share and a 10% discount to the 5-day VWAP to the date of exercise of the conversion right;
- Interest rate: 10% per annum;
- Covenants: The Company will be subject to a number of negative covenants during the term;
- Break costs: In the case of breach, the Company is potentially liable to redeem and repay any or all outstanding amounts due under the note plus a break cost equal to 10% of the redemption.

(viii) Magna Equities II, LLC

At 30th June 2017 an amount of US$62,500 was outstanding pursuant to convertible securities issued in the previous financial year and under the same terms as those listed below. This was fully redeemed in July 2017.

On 10th May 2017 the Group entered into an agreement with Magna Equities II, LLC under which Algae.Tec will receive US$250,000 through the issue of convertible securities and a further US$75,000 in June 2017.

- The funding is unsecured
- 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

(ix) Advance Opportunities Fund

On 23rd June 2017 the Group entered into an agreement with Advance Opportunities Fund under which Algae.Tec will receive A$200,000 through the issue of convertible securities.

- The funding is unsecured
- The term of the loan is 3 months
- Interest accrues at a rate of 2% per month for the term of the loan plus 7% on the principal regardless of the repayment date.

The debt may be converted to shares at a rate of A$0.03 per share at the lenders choosing and will also give rise to the granting of options of 1 share to every 2 converted in line with the rights issue announced in July 2017.

15. Fair value measurement of financial instruments

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).

Fair value of financial instruments not measured at fair value.

The following financial instruments are carried at cost, which approximates their fair value.

	Carrying amount	Fair value
	$	$
Current Assets		
Receivables	2,628,280	2,628,280
Current Liabilities		
R & D Loan – ITF	1,650,000	1,650,000
Centrepoint Alliance/Hunter Premium funding	32,151	32,151
Directors Loan	119,637	119,637
	1,801,788	1,801,788

Due to their short-term nature, the carrying amounts of current receivables, current trade and other payables and current interest-bearing liabilities is assumed to approximate their fair value. The non-current receivables' fair value is also not significantly different to its carrying amount.

16. Provisions

An annual leave provision for employees exists for the amount of $126,262 (2016: $200,635), and a long service leave provision exists of $102,818 (2016: $84,855). There is no non-current leave as all the leave provided for is or will become an entitlement within the next 12 months.

17. Trade and other payables

	Note	2017 $	2016 $
Trade payables			
Current			
Other trade payables		366,008	65,667
Accrued expense		490,618	494,713
		856,626	560,380
Other payables			
Current			
Payroll Liabilities		45,295	40,146
		45,295	40,146
Trade and other payables			
Current		901,921	600,526

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

18. Financial instruments

Financial risk management

Overview

The Group has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board of directors is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks face by the Group.

Credit Risk

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

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

Financial risk management

Liquidity risk

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

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

18. Financial instruments *(continued)*

Financial risk management (continued)

Aged Payables and Borrowings

Item	0 < 6 months	6 < 12 months	12 months >	Total Contractual cashflows	Carrying Value
	$	$	$	$	$
Trade Payables	366,008	-	-	366,008	366,008
Accrued Expenses *	490,618	-	-	490,618	490,618
Macquarie Facility *	1,650,000	-	-	1,650,000	1,650,000
Centrepoint/Hunter Premium	32,151	-	-	32,151	32,151
Directors Loans	-	119,637	-	119,637	119,637
Convertible Notes	4,382,183	-	-	4,382,183	4,382,183
	6,920,960	119,637	-	7,040,597	7,040,597

$1,872,452 of the items marked *refer to borrowings and liabilities against the research and development tax refund for the year ended 30 June 2017 and are payable upon receipt of these funds.

Market risk

(i) Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

With instruments being held by overseas operations, fluctuations in the US Dollar may impact on the Group's financial results unless those exposures are appropriately hedged.
The movements in the AUD/USD cross rates has given rise to a substantial unrealized exchange gain in the USD cash holdings for the year.

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

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

	2017 USD	2016 USD
Financial assets		
Cash and cash equivalents	79,180	121,281
Trade and other receivables	279,140	470,756
	358,320	592,037
Financial liabilities		-
Trade and other payables and borrowings	2,851,384	1,174,336
Net exposure	(2,493,064)	(582,299)

(ii) Consolidated Entity - sensitivity

Based on financial instruments held at 30 June 2017, 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 $498,613 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.

18. Financial instruments *(continued)*

Financial risk management (continued)

Foreign exchange risk (continued)

(iii) Cash flow and fair value interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognized at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.
At the date of this report, the Group was not exposed to interest rate risk as all rates had been fixed for the term of the borrowings and all borrowings are carried at amortized cost except for convertible note at fair value. Whilst cash rates on deposits are not fixed there is no significant exposure to interest rate movements with the carrying values in the Group at 30 June 2017.

Fair value estimation

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

Capital management

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

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

19. Operating leases

Leases as lessee

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

The Corporate offices located in Subiaco, Western Australia are leased as follows; Lease term is 24 months from 1 October 2016 (with an option of a further 24 months) at rental of $56,885 per annum.

	2017 $	2016 $
Less than one year	56,885	15,471
Between one and five years	14,221	-
More than five years	-	-
	71,106	15,471

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 commitments;

	2017 $	2016 $
Less than one year	117,641	119,411
Between one and five years	152,477	279,108
More than five years	-	-
	270,118	398,519

19. Operating leases *(continued)*

The premises located at 2480 Industrial Park Boulevard are leased for 60 months commencing 1 June 2017 and expiring 31 May 2022. Rental is pre-determined for the term of the lease giving rise to the following commitments;

	2017 $	2016 $
Less than one year	123,414	105,130
Between one and five years	612,262	-
More than five years	-	-
	735,676	105,130

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

	2017 $	2016 $
Within 1 year	6,660	6,660
Later than 1 year but within 5 years	1,665	8,325
	8,325	14,985

Contingencies

Algae. Tec Limited has no contingent liabilities.

20. Related parties

Parent and ultimate controlling party

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

Subsidiaries

Interests in subsidiaries are as follows.

Group entities

Significant subsidiaries

	Country of incorporation	Ordinary Share Consolidated Equity Interest 2017 %	2016 %
Controlled entity			
Algae Energy Inc	USA	100	100

Key management personnel compensation

The key management personnel compensation comprised:	2017	2016
Short-term employee benefits	706,878	871,536
Post-employment benefits	37,889	48,880
Termination benefits	-	-
Other long term benefits	7,500	46,731
Share-based payments	139,031	139,031
	891,298	1,106,178

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.

21. Subsequent events

In July 2017, the Company announced the offer of a Renounceable Pro-Rata Entitlement Issue to eligible shareholders to raise up to approximately $8.0 million.

Algae.Tec received total applications of 213,393,662 new shares and 113,196,792 free attaching options, which also includes the redemption of various convertible notes to raise approximately $6.4m. A further $708,000 was received in September 2017.

The Company is currently working to allocate the remaining shortfall of approximately 31,673,033 shares ($950,000) to be issued on the same terms as the rights issue to a mixture of sophisticated investors and investment funds.

22. Auditors' remuneration

	2017 $	2016 $
Audit and review of financial statements – Bentleys	41,000	30,019
Audit and review of financial statements – BDO (USA)	24,167	38,225
Total paid	**65,167**	**68,244**

23. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2017, the parent entity of the Group was Algae. Tec Limited.

	2017 $	2016 $
Result of parent entity		
Profit/(loss) for the period	(3,873,829)	(3,719,484)
Other comprehensive income	-	-
Total comprehensive income for the period	(3,873,829)	(3,719,484)
Financial position of parent entity at year end		
Current assets	2,586,070	2,818,846
Non-current assets	4,954	8,317
Total assets	2,591,024	2,827,163
Current liabilities	7,122,592	4,422,138
Non-current liabilities	-	-
Total liabilities	7,122,592	4,422,138
Total equity of the parent entity comprising of:	-	-
Contributed equity	20,745,945	20,156,982
Reserves	540,432	192,159
Accumulated losses	(25,817,945)	(21,944,116)
Total equity	(4,531,568)	(1,594,975)

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 47 and the Remuneration report in pages 10 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 2017 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 2017.

Signed in accordance with a resolution of the Directors

On behalf of the Board

Peter Hatfull
Managing Director

Date: 28 September 2017
Perth, Western Australia

Independent Auditor's Report

To the Members of Algae.Tec Limited

Bentleys
THINKING AHEAD

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Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Algae.Tec Limited ("the Company") and its subsidiaries ("the Consolidated Entity"), which comprises the consolidated statement of financial position as at 30 June 2017, 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, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

a. the accompanying financial report of the Consolidated Entity 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 2017 and of its financial performance for the year then ended; and

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

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

Basis for Opinion

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. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial report, which indicates that the Consolidated Entity incurred a net loss after tax of $3,787,794 during the year ended 30 June 2017. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Research and development grant - $2,116,586 Under the Research and Development ("R&D") tax incentive scheme, the Consolidated Entity receives a 43.5% refundable tax offset of eligible expenditure. An R&D submission has been filed with AusIndustry, and a receivable has been recorded at year end representing the claim to be received for the year ended 30 June 2017. This area is a key audit matter due to the inherent subjectivity that is involved in the Consolidated Entity making judgements in relation to estimation and recognition of the R&D tax incentive income and receivable.	Our procedures amongst others included: › obtaining an understanding of the objectives and activities in the R&D program; › reviewing the lodgment documents and related working papers utilised by the expert engaged by the Consolidated Entity; › assessing the scope of services and capabilities of the expert engaged by the Consolidated Entity; and › comparing the eligible expenditure used in the receivable calculation to the expenditure recorded in the general ledger.
Convertible note – $4,382,183 As disclosed in Note 14 of the financial statements, the Consolidated Entity holds a number of convertible notes with a balance as at 30 June 2017 of $4,382,183. Convertible Notes are considered to be a key audit matter due to: › the value of the notes; and › the complexities involved in the recognition and measurement of debt and equity components of compound financial instruments.	Our procedures amongst others included: › analysing contractual agreements to identify the key terms and conditions for each convertible note; › verification of the funds received from the issue of convertible notes during the year; › assessing the accounting treatment of the financial instruments in accordance with the recognition and measurement as well as the disclosure requirements of the relevant Australian Accounting Standards; › assessing the calculation including relevant assumptions to determine the equity component of the convertible notes; and › verifying the issue of shares upon conversion notice of convertible notes.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Consolidated Entity's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 Australian Accounting Standard *AASB 101 Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the directors are responsible for assessing the Consolidated Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Consolidated Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Consolidated Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Consolidated Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Consolidated Entity audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2017. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with s 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.

Auditor's Opinion

In our opinion, the Remuneration Report of the Company, for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

BENTLEYS
Chartered Accountants

DOUG BELL CA
Director

Dated at Perth this 28th day of September 2017

Bentleys
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To The Board of Directors

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

As lead audit director for the audit of the financial statements of Algae.Tec Limited for the financial year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully

Bentleys

BENTLEYS
Chartered Accountants

DOUG BELL CA
Director

Dated at Perth this 28th day of September 2017

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 2017.

Number of Holders of Equity Securities

Ordinary Share Capital

635,388,038 fully paid ordinary shares are held by 1,410 individual shareholders.

115,846,076 listed options.

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 2017 No. of fully paid ordinary shares
1 - 1,000	9,690
1,001 - 5,000	664,276
5,001 - 10,000	2,769,141
10,001 - 100,000	23,091,108
100,001 and over	608,853,823
	635,388,038

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 2017

Name	Number of ordinary shares held	Percentage of capital held
TECO BIO LLC	175,000,001	27.54
BLOOMGOLD RESOURCES PTY LTD	63,347,270	9.97
RELIANCE INDUSTRIAL INVESTMENTS AND HOLDINGS LTD	45,288,158	7.13
GENCOR PACIFIC LTD	42,735,042	6.73
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	27,850,191	4.38
MR JONATHAN KENG HOCK LIM	16,666,666	2.62
CITICORP NOMINEES PTY LIMITED	12,175,868	1.92
MR FRANCESCO SCARFONE	9,333,333	1.47
VINDICATION PTY LTD <MARSHALL&ASSOCIATES S/F A/C>	8,739,672	1.38
MR PETER ERNEST HATFULL	8,095,000	1.27
PYNMIST PTY LTD <THE S MARSHALL FAMILY A/C>	7,775,000	1.22
MR STEPHEN CROTTY	6,271,150	0.99
MR GREGORY KENNETH JACK	6,127,231	0.96
MR LEIGH SCOTT-KEMMIS	5,126,150	0.81
FMR INVESTMENTS PTY LTD	5,000,000	0.79
NEVA SUPER PTY LTD <MACKENZIE SFUND NO 1 A/C>	4,854,907	0.76
L1 CAPITAL GLOBAL OPPORTUNITIES MASTER FUND LTD	4,812,500	0.76
MILLSIDE INVESTMENTS PTY LTD <MILLSIDE INVESTMENT A/C>	4,695,469	0.74
FALLON FORMICA FIRST ONE REALTY PTY LTD	4,333,333	0.68
MR PETER ERNEST HATFULL + MRS JULIE ELLEN HATFULL <HATFULL S/FUND A/C>	4,052,436	0.64
	462,279,377	**72.76**

Substantial Shareholders

As at 31 August 2017, the register of substantial shareholders disclosed the following information:

	Number of ordinary shares held	Percentage of capital held
Teco Bio LLC	175,000,001	51.31
Bloomgold Resources Pty Ltd	63,347,270	9.97

Offices and officers

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

Location of Share Registry

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

Company Secretary
Peter Hatfull