



31 October 2017

ASX Announcement

## September Quarterly Activities Report

### Highlights:

- **First cannabis crop planted in Uruguay under Research and Collaboration Agreement with Jardin De Invierno**
- **Growing operations scaled up at JDI including propagation of Sativa strain cannabis seeds at Montevideo-based laboratory**
- **Oversubscribed shortfall placement completed post-quarter-end, raising over \$8 million to scale up Algae. Tec's cannabis and algae growing operations respectively**

**Plant-based health and wellbeing company Algae. Tec Ltd (the "Company" or "AEB") (ASX: AEB)** is pleased to provide shareholders with its Quarterly Activities Report for the period ended 30 September 2017.

### Jardin De Invierno Collaboration

In May, the Company entered into a formal Collaboration and Licence Agreement with Jardin De Invierno ("JDI"), (trading as Winter Garden Biosciences), to expand its technology and product footprint into the rapidly growing medicinal cannabis and associated markets.

AEB is at the forefront of developing technologies that optimise controlled growing environments for high value natural products, including medicinal cannabis.

JDI is a biosciences company focused on the production and development of cannabis extract derivatives and related intellectual property. JDI utilises state of the art research & development facilities and is the only company federally licensed in Uruguay to research, cultivate and export Cannabis Sativa L Specie for human and agricultural applications.

AEB is currently in discussion with JDI to increase the level of participation in Uruguay and extend the Collaboration Agreement to a more streamlined and beneficial joint venture arrangement, utilising AEB's management, technical skills and technology.

The global medicinal cannabis and related markets exceeded US\$6 billion in 2016 with a projected compound annual grown rate of 26% through to 2021 when the market is expected to reach US\$ 21 billion.

### Planting First Medicinal Cannabis Crop in Uruguay

On September 7, the Company confirmed that planting was underway for the first 10-acre (40,000m<sup>2</sup> or 4 hectares) cannabis crop JDI in Uruguay.



JDI reported that the open field in Uruguay was seeded with JDI 3.0 Sativa strain of cannabis. Subject to density, seeding utilises between 2 and 10 kilograms per acre. The current seed stockpile is sufficient for 100+ acres (see Figure 1 of JDI 3.0 Sativa strain seeds being utilised).

JDI also confirmed that initial preparation for the installation of supplementary process equipment including irrigation, nutrient distribution, drying and extraction facilities was finalised.

AEB will earn 75% of revenue from this first crop under the Agreement with JDI.

Recent legislative decisions in Canada have resulted in the ability of JDI to export flower and bud from the first crop direct to registered Canadian medicinal cannabis companies, reducing initial capital requirements in Uruguay.



**Figure 1: JDI genetic seeds being utilised**

### Cannabis Growing Operations Scaled Up

On September 12, the Company advised that cannabis growing operations in Uruguay are continuing to be scaled up under the Collaboration and Licensing Agreement with JDI.

The Collaboration continued propagation of Sativa strain cannabis seeds in a controlled environment at laboratory facilities in Montevideo, Uruguay (see Figures 2&3). Cannabis plants gestated via the controlled growing process provide the seeds and necessary feedstock for future crop plantings, underpinning the Collaboration's future expansion plans. In the short-term the planning is to develop three greenhouses adjacent to the first 10-acre crop plantation with the first having been constructed with internal nutrient, watering and other facilities now being installed.

Additional benefits of the controlled environment growing process include accelerated growth rates, more frequent crop cycles (in excess of four per year), substantially higher oil yields upon extraction, and a consistently high-quality finished product.



Figure 2: Controlled environment micro propagation, Montevideo



Figure 3: Semi controlled greenhouse growing Montevideo

### Aqua and Animal Feed Algae Products

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

On August 24, the Company provided an update on sales and development initiatives for its FeedMe™ algae product range, which was launched in April 2017.

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

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

Algae.Tec is targeting significant revenue growth in the 2018 calendar year from sales of FeedMe™ algae products into the North American aquarist market. The global aquarist market is a high value, high margin industry with the aqua feed sector alone valued at an US\$25 billion in 2014, and forecast to grow to US\$30 billion by 2020.

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



## Omega 3 Trials and Product Development Initiatives

Following successful trials at Algae.Tec's Atlanta facility, product testing initiatives are underway with commercial partners in North America, Australia and Ecuador to develop a market-leading aqua feed product to enhance the growth and Omega-3 levels in farmed fish.

A naturally-derived, high performance Omega-3 aqua feed product will enable Algae.Tec to capture a share of the global aquaculture market.

Feedback from aquaculture producers on the FeedMe™ with Omega-3 product has been overwhelmingly positive and the Company will provide updates on product development in the near-term.

Over the last decade farmed fish has grown to represent ~85% of fish consumed worldwide. As this growth has escalated the Omega-3 content (fish oils) in farmed fish has decreased to almost negligible levels in so far as benefits to humans from consumption.

## Corporate Overview

### Oversubscribed Shortfall Placement Complete

Post quarter-end, the Company announced the successful allocation of the remaining shortfall shares under the Entitlement Offer ("the Offer") announced in July 2017, taking the total amount raised to over \$8 million.

The shortfall placement ("the Placement") closed oversubscribed with a total of 56,534,187 shares and 28,267,093 free attaching options placed at \$0.03 under the same terms as the Offer (see ASX release dated 3 July 2017), raising an additional approximately \$1.6 million before costs.

The placement was strongly supported by both new and existing shareholders, with current major shareholder Gencor Pacific, North America's largest wholesaler of algae based nutraceutical products, allocated \$650,000 of the available shortfall.

Proceeds from the placement will be deployed towards scaling up the Company's vertically integrated cannabis business and algae growing operations respectively.

### Key Appointments

During the quarter, the Company appointed Mr Jonathan Lim Keng Hock and Mr R.V Venkatesh to the Board as Non-Executive Directors.

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. Mr Lim was Non-Executive Chairman of Enzer Corporation Limited and Adventus Holdings Limited, and is listed on the sponsored Catalyst Platform of the Singapore Stock Exchange.

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. A chemist with over 30 years' experience in Healthcare, Pharmaceuticals and Nutraceuticals, his expertise includes R&D management, scientific reviews, product development and branding, clinical trials and strategic partnerships.



The Company has also appointed experienced hemp industry executive Mr James Vosper to assist and advise on the Company's application for licenses for cultivation, research and development and the manufacturing of medicinal cannabis in Australia.

Mr Vosper is the President of the Industrial Hemp Association of NSW and Vice President of the Australian Industrial Hemp Alliance (AIHA). He is also the Chair of the AIHA subcommittee on medicinal cannabis.

### **Management Commentary**

**Algae.Tec Ltd Managing Director, Peter Hatfull commented:** "The September quarter was a very productive period for the business with a number of key operational and corporate milestones achieved.

"Our partnership with JDI has enabled AEB to implement an aggressive cannabis cultivation strategy in Uruguay which strongly complements our existing algae growing operations in North America. We look forward to delivering on a number of additional milestones and opportunities in the near-term."

### **For further information please contact:**

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### **About Algae.Tec Limited (ASX: AEB)**

Algae.Tec (ASX: AEB) is a specialist producer, focused on developing technology that captures waste carbon dioxide to produce commercial quantities of a range of plant derived products for supply to three key markets:

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

## Appendix 4C

### Quarterly report for entities subject to Listing Rule 4.7B

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

**Name of entity**

Algae.Tec Limited

**ABN**

16 124 544 190

**Quarter ended ("current quarter")**

30 September 2017

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A</b>	<b>Year to date (3 months) \$A</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	225,800	225,800
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	-6,989	-6,989
(d) leased assets	-	-
(e) staff costs	-781,580	-781,580
(f) administration and corporate costs	-655,750	-655,750
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	7	7
1.5 Interest and other costs of finance paid	-227,578	-227,578
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)		
<b>1.9 Net cash from / (used in) operating activities</b>	<b>-1,446,090</b>	<b>-1,446,090</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)		
(c) investments		
<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A</b>	<b>Year to date (3 months) \$A</b>
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment		
(b) businesses (see item 10)		
(c) investments		
(d) intellectual property		
(e) other non-current assets		
2.3 Cash flows from loans to other entities		
2.4 Dividends received (see note 3)		
2.5 Other (provide details if material)		
2.6 <b>Net cash from / (used in) investing activities</b>	<b>-</b>	<b>-</b>
<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares	3,757,731	3,757,731
3.2 Proceeds from issue of convertible notes	245,000	245,000
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-518,036	-518,036
3.5 Proceeds from borrowings	122,158	122,158
3.6 Repayment of borrowings	-395,472	-395,472
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
<b>3.10 Net cash from / (used in) financing activities</b>	<b>3,211,381</b>	<b>3,211,381</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>			
4.1	Cash and cash equivalents at beginning of quarter/year to date	102,882	102,882
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-1,446,090	-1,446,090
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,211,381	3,211,381
<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A</b>	<b>Year to date (3 months) \$A</b>
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>1,868,173</b>	<b>1,868,173</b>

<b>5. Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		<b>Current quarter \$A</b>	<b>Previous quarter \$A</b>
5.1	Bank balances	1,867,899	102,601
5.2	Call deposits	274	281
5.3	Bank overdrafts	-	-
5.4	Other (provide details)		
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,868,173</b>	<b>102,882</b>

<b>6. Payments to directors of the entity and their associates</b>		<b>Current quarter \$A</b>
6.1	Aggregate amount of payments to these parties included in item 1.2	201,064
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	



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

<b>8. Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A</b>	<b>Amount drawn at quarter end \$A</b>
8.1 Loan facilities	3,368,033	3,368,033
8.2 Credit standby arrangements		
8.3 Other – -		-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

See attached

There is an anticipated refund from the Research and Development fund of the Australian Government of approximately \$2,116,586 and the ITF loan will be repaid from these funds.

<b>9. Estimated cash outflows for next quarter</b>	<b>\$A</b>
9.1 Research and development	10,000
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	10,000
9.4 Leased assets	-
9.5 Staff costs	700,000
9.6 Administration and corporate costs	500,000
9.7 Other (provide details if material)	90,000
<b>9.8 Total estimated cash outflows</b>	<b>1,310,000</b>

<b>10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	<b>Acquisitions</b>	<b>Disposals</b>
10.1 Name of entity	-	-

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**Quarterly report for entities subject to Listing Rule 4.7B**

10.2	Place of incorporation or registration	-	-
10.3	Consideration for acquisition or disposal	-	-
10.4	Total net assets	-	-
10.5	Nature of business	-	-

Please refer September Quarterly Activities Report

**Compliance statement**

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

Sign here: .....  
(Director/Company secretary)

Date: 31 October 2017

Print name: PETER HATFULL

**Notes**

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

## Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

		Nominal interest rate	Year of maturity	Security	30 Sep 17 Carrying amount A\$	30 Jun 17 Carrying amount A\$
	Currency					
China Finance Strategy Convertible Note	USD	12%	2016	Unsecured	368,422	657,180
Sophisticated Investors Convertible Notes	AUD	12.5%	2017	Unsecured	-	883,645
Magna Equities Convertible Note	USD	0%	2017	Unsecured	-	77,727
Gencor Ltd	USD	10%	2018	Unsecured	-	1,123,431
Ebbesen – F Scarfone	AUD	10%	2018	Unsecured	-	286,673
ITF Pty Ltd *1	AUD	15%	2017	Secured	1,800,000	1,650,000
Hunter Premium Funding	AUD	7.1%	2016		15,867	29,488
L1 Convertible Note	AUD	0%	2017	Unsecured	137,500	-
Directors Loans	USD	5%	2017		118,458	119,637
707 Holdings	USD	10%	2020	Unsecured	645,410	643,262
Magna Equities*2	USD	0%	2018	Unsecured	69,377	102,762
Magna Equities*2	USD	0%	2018	Unsecured	212,999	341,997
Advance Opportunities Fund	AUD	6%	2017	Unsecured	-	214,921
<b>Total borrowings</b>		<b>AUD</b>			<b>3,368,033</b>	<b>6,130,773</b>

\*1 This debt will be fully repaid from the Research and Development refund. (\$1,800,000)

\*2 These debts were repaid in October 2017.

The effect of \*1 and \*2 above will be a reduction in debt to \$1,285,657 based upon the schedule above.