



9 January 2018

ASX Announcement

### Updated Independent Equity Research Report Published

PERTH, Australia, 9 January 2018: Algae.Tec Limited (ASX:AEB) an Australian listed company with interest in the fields of Algae-based Nutraceuticals, Aqua-feed and Medicinal Marijuana, today announced the publication of an updated independent equity research report.

A copy of the report by Empire Capital Partners is attached and will be made available at the company's website <http://www.algaetec.com.au/>

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## ALGAE.TEC (AEB)

Plant-based health & wellbeing company Algae.Tec (ASX:AEB) is a specialist producer focused on supplying key algae-based nutraceutical, animal and aquaculture and medical cannabis markets. AEB produces algae from the Company's state-of-the-art product development facility in Atlanta which produces multiple high-demand species to service both the growing nutraceutical and aqua feed markets. In addition, AEB has recently applied its industry-leading growing technology towards medical cannabis-focused R&D and cultivation activities in Uruguay.

### Algae-based nutraceuticals

AEB owns a state-of-the-art algae product development facility in Atlanta which produces high quality products for the nutraceuticals market. Currently, AEB has a supply agreement signed with USA's leading wholesaler of algae based nutraceutical products, Gencor Pacific. AEB is targeting circa \$2 million revenue per annum commencing Q1 2018 from sale of oils and powders to Gencor Pacific

### Algae-based aqua feed

In addition to supplying the nutraceutical markets, AEB also produces a variety of high value algae strains for the growing global aqua feed markets. These aqua feed products are sold via this Company's 'FeedMe' range. AEB has estimated a conservative revenue of \$1 million targeted for CY18 and is currently amidst discussions with major retail outlets in North America

### Medicinal cannabis

AEB has a clear near-term focus on scaling up its medicinal cannabis cultivation and R&D activities in Uruguay, having recently announced plans to acquire a direct 25% equity interest in Uruguay-based partner Auberina SA (trading as United Biogenics) ("United") (see ASX release dated 22 November).

The initial crop has commenced plantation with a forecast revenue of \$6-8m in H1 2018 with an additional crop cited later in 2018.

AEB made major inroads into the Australian medical cannabis markets in December, 2017 through a licensing agreement between AEB and Medical Cannabis Limited ("MCL") (a subsidiary of Queensland Bauxite Limited (ASX:QBL) see ASX release dated 22 December). The agreement states that AEB will exclusively license MCL's low THC Delta 9 Cannabis cultivars from the unique Australian Cannabis seed bank owned by MCL. AEB also submitted an application to the *Office of Drug Control* for a license to Cultivate and Produce medicinal cannabis in Australia. It is anticipated that the license will be granted early in 2018.

### Recommendation

AEB presents a speculative buy with major developments coming into fruition and multiple projects scheduled for significant ramp ups in 2018. Significant revenues are forecasted as AEB continues along a realistic pathway to production in Uruguay and off-take agreements with Gencor are scheduled for positive cash flow in Q1 2018. Shares prices will be further driven up upon receipt of AEB's license to Cultivate and Produce medical cannabis in Australia.

Share price	\$0.057*
52 Week High/Low	A\$0.070/0.018
30 Day Avg Volume	16,366,780
<b>Recommendation</b>	<b>Speculative Buy</b>

### Brief Company Description:

Algae. Algae.Tec is an Australian listed company with interests in the fields of Medicinal Marijuana, Algae-based Nutraceuticals and Aqua-feed.

### Board of Directors:

Malcolm James (Exec Chairman, Managing Director)  
Peter Hatful (Exec Director)  
Earl McConchie (Exec Director)  
Ramasamy Venkatesh (Non-exec)  
Jonathon Lim (Non-exec)

### Company Address:

Unit 2, 100 Railway Rd  
Subiaco, WA 6008

<b>Issued Capital</b>	687.3M
-fully diluted	874.9M
<b>Market Cap</b>	39.8M*
-fully diluted	50.6M*

### Share Price (08 Jan. 18)



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\*as of 08/01/2018





## Summary Model (AEB)

Algae.Tec AEB		Share Price \$0.057		8-Jan-2018 Speculative Buy		
<b>Key Market Information</b>				<b>Directors</b>		
Share Price		\$0.057		Malcolm James (Exec Chairman/Managing Director)	Level 1, 100	
Market Capitalisation		39.8M		Peter Hatful (Exec Director)	Railway Rd	
Market Capitalisation – full dil.		50.6M		Earl McConchie (Exec Director)	Subiaco, WA 6008	
Net Cash (Debt)				Ramasamy Venkatesh (Non-exec)		
Issued Capital		687.3M		Jonathon Lim (Non-exec)		
Options – listed		141.8M				
Options – unlisted		45.7M				
Issued Capital (fully dil. all options)		874.9M				
<b>Projects</b>				<b>Top Shareholders</b>		
Interest	Location	Commodity		m she	%	
Atlanta	100%	America	Algae-based Nutraceuticals/ Aqua-feed	Teci Bio LLC	175	25.5
Uruguay	50%	South America	Medicinal Cannabis	Gencor	84	9.3
				Reliance Indust. Investments & Holdings LTD	45	6.6
				HSBC Custody Nominees LTD	25	3.7
				Bloomgold Resources Pty Ltd	19.9	2.9
<b>P&amp;L</b>				<b>Investment Summary</b>		
		FY2017F		The company has two solid projects with a good cash position to develop them further. Atlanta is a Nutraceuticals and Aqua-feed project, plus a promising Medicinal Cannabis project in Uruguay.		
Net Revenue		2,787,904		<b>News flow</b>		
Net Loss		3,787,794			Project	
Total Assets		3,804,293		Q3 CY17	\$8M Rights issue	
Total Liabilities		7,330,100			First med. Cannabis crop planted	
Total Equity (-)		3,525,807			Strong take-up of FeedMe products	
Basic loss/share		0.00		Q4 CY17	License Application Submission	
					Management Q&A session	
					Appointment of MD	
					AEB invest in med. Cannabis partner	
					Atlanta plant upgrade	
				Q1 CY18	QBL:MLC&QBL join to develop Cannabis	
					Veterinary medications	
Last updated: 08/01/2018						





## Algae.tec - Nutraceuticals

### Market Overview

The global Nutraceutical market has been growing rapidly and offering immense opportunities for players involved in the business.

The global nutraceuticals market will continue to grow at a CAGR of 7.3% through 2022, according to Transparency Market Research. The market was valued at USD 205.39 billion in 2016, and is expected to reach USD 297 billion by the end of 2022. Nutraceuticals can be seen as the latest and most current trending in succession of health food concepts. Bulk market prices range from US\$15 to over US\$100 per kilogram, dependent on algal species, product form (algae biomass, algae oil or extracts thereof), product quality and nutritional value.

### Current Status of AEB

AEB has a State-of-the-art algae product development facility in Atlanta – producing multiple high-demand species.



A\$35m invested in plant technology to date. Well over \$2m revenue per annum commencing Q1 2018 is expected from sale of oils and powders to Gencor Pacific. Gencor are expected to buy all nutraceutical offtake from AEB. Currently, The Atlanta plant is producing at 70% of its 50MT per year capacity. It is

expected to ramp up to its 50MT per year capacity by the end of January 2018. Projected production capacity is at 50MT per year with plans to scale up to 300 tonnes per year for production of multiple algal species and products thereof, utilizing AEB's unique technology platform and facility infrastructure.

### Key Points

- Circa \$2m revenue per annum (based on 50MT pa) commencing Q1 2018 from sale of oils and powders to Gencor Pacific
- Supply agreement with Gencor underpins future revenue
- Covers all corporate costs and CAPEX

### Technology

AEB's technology has demonstrated and validated exceptional performance versus competitive algae process technologies:

- Enclosed photo-bioreactor system
- 10-fold productivity improvement
- 99+% biomass & oil product yields
- Optimum algae product quality
- Carbon dioxide sequestration
- Step-change reduction in plant footprint requirements
- Substantial capital/cost savings





## Algae.Tec – Medical Cannabis

### Market Overview

By most industry metrics, the legal cannabis is the fastest growing industry in the United States. Propelled by legalization in 29 states, Washington DC, and even Canada, the meteoric rise of the cannabis industry has resulted in consistent, year after year growth only matched by the dawning of broadband access.

Early **CAGR** estimates are set to linger between **25% to 27%** over the course of the next few years to hit an approximate \$22.6 billion in 2021.

### AEB Involvement

In May 2017, the Company entered into a formal Collaboration and License 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 optimize controlled growing environments for high value natural products, including medicinal cannabis.

### Medical Cannabis Peer Comparison

Company	Ticker	Current Price (\$)	Market Cap	52 week range	Price Change YTD
Zelda Therapeutics	ZLD	0.125*	94.35M*	0.022 - 0.1425	107.69%
Auscann Group	AC8	1.74*	431.4M*	0.19 - 0.94	218.75%
MMJ Phytotech	MMJ	0.59*	123.3M*	0.17 - 0.83	86.36%
MGC Pharmaceuticals	MXC	0.115*	125.6M*	0.04 - 0.12	55.56%
Creso Pharma	CPH	1.21*	128.1M*	0.19 - 0.93	231.91%
Cann Group	CAN	3.61*	528.6M*	0.45 - 2.80	317%
The Hydroponics Company	THC	0.89*	144.0M*	0.19-0.70	60.49%
Queensland Bauxite	QBL	0.052*	81.4M*	0.006 - 0.38	315.38%
Algae.Tec	AEB	0.057*	39.8M*	0.018-0.070	~115%

\*as of 08/01/2018

JDI is a biosciences company focused on the production and development of cannabis extract derivatives and related intellectual property.

### Key Points

- In late November, AEB entered into an agreement to acquire a 25% equity interest in a Uruguayan cannabis producer, Auberna SA (the commercialization vehicle for JDI).
- Under the HoA, AEB will invest a further US\$1,000,000 (above the US\$1,500,000 under the Collaboration Agreement) into Auberna.
- Forecast revenue of \$6-8m for Q1 2018 from one crop.
- Expected to yield 1000kg of oils, seed extracts and fibre products.
- Capacity to expand to two crops Q2 2018 with Established markets/buyers in place.
- In late December, AEB entered into an agreement with QBL to exclusively license Medical Cannabis Limited's Low THC Delta 9 Cannabis cultivars.
- Under the Licensing agreement, it is intended that MCL be issued with AEB shares in order for MCL to become a 19.99% shareholder of AEB, subject to milestones.





## Algae.Tec – Aqua Feed

### Market Overview

The 2017 aqua feed market is valued at more than \$100B and 75M tonnes demand with industry projections 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.

### AEB Involvement

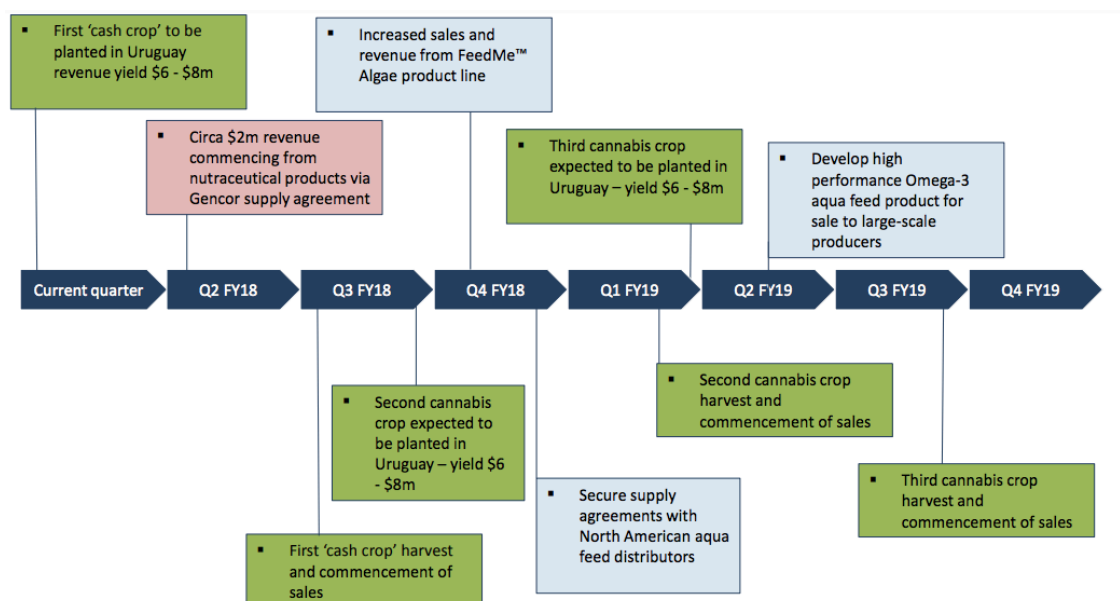
AEB has developed a series of high quality liquid and powder algae-based products with the optimum balance of essential amino acids, omega-3 fatty acids, vitamins and minerals for applications in the aquaculture and animal feed markets. The FeedMe algae product line was officially launched in April with first commercial sales through its website, [www.feedmealgae.com](http://www.feedmealgae.com), and to leading downstream distributors

Future Forecast Revenue		
Nutraceuticals ex Phototrophic System		
Product	\$/kg	Annualized
-Chlorella Powder	\$20	\$139,930
-Nanno EPA Oil	\$80	\$28,530
-Nanno Refined Protein Biomass Powder	\$10	\$11,850
Nutraceuticals ex Heterotrophic System		
Product	\$/kg	Annualized
-Chlorella Powder	\$22	\$153,960
-Schizo DHA Oil	\$80	\$406,090
-Schizo Refined Protein Biomass Powder	\$10	\$87,670

### Key Points

- Conservative revenue of \$1m expected for CY18 (based on 50MT pa)
- Discussions well advanced with major retail outlets in North America
- Potential to exponentially increase sales pipeline in the coming months

### Algae.tec Near Term Growth Factors





## Summary

AEB is a premium producer of nutraceutical, aqua cultural and cannabis goods. It presents a solid investment opportunity, particularly in the highly sought after medical cannabis market. Peer comparisons with like-minded companies show it is the cheapest entry point into an already booming and competitive market with a share price of 5.7c. AEB is gearing up for a huge year in 2018 with major developments coming into fruition and both the Atlanta and Uruguay projects scheduled for significant ramp ups. AEB is well positioned within all three markets to take full advantage of both the current and future climate.

## Empire Capital Research Recommendation Categories

Care has been taken to define the level of risk to return associated with a particular company. Our recommendation ranking system is as follows:

- |                        |  |
|------------------------|--|
| <b>Buy</b>             | Companies with 'Buy' recommendations have been cash flow positive for some time and have a moderate to low risk profile. We expect these to outperform the broader market.           |
| <b>Speculative Buy</b> | We forecast strong earnings growth or value creation that may achieve a return well above that of the broader market. These companies also carry a higher than normal level of risk. |
| <b>Hold</b>            | A sound well managed company that may achieve market performance or less, perhaps due to an overvalued share price, broader sector issues, or internal challenges.                   |
| <b>Sell</b>            | Risk is high and upside low or very difficult to determine. We expect a strong underperformance relative to the market and see better opportunities elsewhere.                       |

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