



Appendix 4D – Half Year Report

31 December 2017

Algae.Tec Limited

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The reporting period is the Half - Year ended 31 December 2017 with the previous corresponding period being the Half - Year ended 31 December 2016. This report should be read in conjunction with the most recent annual financial report.

Algae.Tec Limited

Appendix 4D – Half Year Report

Results for Announcement to the Market

Operating Results				
	%	change	6 months ended 31 Dec 2017	6 months ended 31 Dec 2016
Revenue from ordinary activities		(31%)	954,962	1,378,585
Loss from ordinary activities after tax attributable to members		(49%)	(3,628,775)	(2,431,536)
Net loss for the period attributable to members		(49%)	(3,628,775)	(2,431,536)

Dividends				
It is not proposed to pay any dividends				
			31 Dec 2017	30 Jun 2017
Net tangible asset per security			0.00	(0.01)

There were no entities over which control was gained or lost during the period.

No interest is held in any joint ventures or entities over which the consolidated entity has significant influence.

Company Details

Directors

Malcolm James	Executive Chairman/Managing Director(appointed 28 November 2017)
Peter Hatfull	Executive Director
Earl McConchie	Executive Director
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 Audit & Corporate (WA) Pty Ltd
Level 3, 216 St Georges Terrace
Perth WA 6000

Bankers

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

Securities Exchange

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

Directors' Report

For the half-year ended 31 December 2017

Directors

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

Malcolm James	Executive Chairman/Managing Director (Appointed 28 November 2017)
Peter Hatfull	Executive Director
Earl McConchie	Executive Director
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)

Review of financial position

The consolidated loss of the Group amounted to \$3,628,775 (2016: Loss \$2,431,536) after including accrued income in relation to a tax refund due for R & D activities in the six months of \$1,040,480 (2016: \$1,219,450).

Net cash expensed through operating activities for the six months was \$1,097,159 compared to an outflow of cash of \$426,142 expensed in the corresponding period last year.

Major events during the half year were as follows:

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

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.

Capital Raising

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.

The placement closed oversubscribed taking the total amount raised under the offer to over \$8 million.

First Medicinal Cannabis Collaboration and Licensing Agreement

On 12 September 2017, Algae.Tec Ltd announced the first project to be funded under its Collaboration and Licensing Agreement with Winter Garden Biosciences ("Winter Garden") is the development of an initial crop of active heirloom cannabis, without genetically altered structures and with naturally high levels of cannabinoids.

Strong Take-up of Algae.Tec FeedMe™ Product in North America

Since the launch of FeedMe™ in April 2017, the product has established a reputation as a trusted, high quality brand in the growing North American aquarist market. The entry into this market has initially been through both 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 five retail stores in the Southeast and over 50 additional retail stores have been supplied and are undergoing product testing and evaluations. The FeedMe™ product line has been introduced at three major marine tradeshow to-date with direct product sales and excellent customer feedback having been received.

Atlanta Plant Upgrade

In November, the Company completed some notable upgrades at its Atlanta growing facility which will see the plant reach its targeted production capacity of 50Mt per year.

Algae.Tec to Invest in Medicinal Cannabis Partner

Algae.Tec Limited announced that it had entered into a Heads of Agreement with Auberna SA- (trading as United Biogenics "BioU") to acquire a direct 25% equity interest in Auberna.

This HoA represents the commercialisation phase of the Collaboration Agreement entered into by the Company with Jardin de Invierno S.A. in May 2017. The commercialisation of the Collaboration Agreement had been achieved much earlier than anticipated.

Importantly, upon completion the Agreement would provide Algae.Tec with direct equity in a federally licensed commercial cannabis businesses in Uruguay, facilitating access to a number of key export markets globally.

Directors' Report

For the half-year ended 31 December 2017

Appointment of Executive Chairman/Managing Director

On 28 November, the Company advised that Malcolm James was appointed Executive Chairman and Managing Director.

Malcolm has over 30 years' experience in Australia and internationally in identifying, acquiring, funding and developing projects across many sectors, having previously raised over \$2 billion in capital and debt. Malcolm is a Fellow of the Australian Institute of Company Directors.

Algae.Tec Submits Australian License Application

Algae.Tec Limited announced the submission of an application to the *Office of Drug Control* for a license to cultivate and produce medicinal cannabis in Australia.

MCL and AEB join to develop Cannabis veterinary medications

The Boards of Queensland Bauxite Limited and Algae.Tec Ltd announced the significant Australian ground breaking agreement whereby Algae.Tec will exclusively license Medical Cannabis Limited's Low THC Delta 9 Cannabis cultivars from the unique Australian Cannabis seed bank owned by Medical Cannabis Limited. Medical Cannabis Limited's License to Algae.Tec is in order to establish a breeding program to identify cultivars for use in cannabinoid product development to research and develop stock and veterinary medications, supplements and sophisticated animal therapeutics.

Medical Cannabis Limited to provide Algae.Tec with additional assistance and expertise required to cultivate the Cannabis plants, while Medical Cannabis Limited retains the exclusive rights to develop these cultivars for human medical research and development.

Subsequent events

The Company announced a capital raising of A\$2.5 million ("the Placement") at \$0.04 a share to be utilised to advance the ongoing roll out of Company's Uruguayan partner, Australian cannabis operations (once licenced) and key developments for the Company's state of the art algae plant in Atlanta in respect of product sales for the human nutraceutical market.

On 12 February 2018 the Company advised that it had entered into a binding Heads of Agreement ("HOA or "the Agreement") to acquire a significant interest in private Australian-based pharmaceutical delivery company, NS Technologies Pty Ltd ("NST").

The NST delivery platform was patented after successful clinical trials, supervised by Professor (Dr) Fiona Woods (Australia's leading burn victim specialist) at Royal Perth Hospital in 2011 and 2012. The technology is one where a 'mini-emulsion' was developed to allow complex molecules, up to 1000 in molecular weight, to penetrate the epidermis skin layer, and enter the subdermal layer of the human body.

Under the agreement, AEB will acquire 19.9% of NST and exclusively license a patented delivery platform technology developed by NST for use across any medical application developed by AEB. NST has also agreed to use AEB's algae oil as the base component of its emulsion delivery platform.

On 19 February 2018, Algae.Tec Limited also reported that it had entered into an exclusive commercial supply and collaboration agreement with North America's largest aquarist supplier Seachem Laboratories Inc. ("Seachem"). Under the agreement, AEB will manufacture and package an exclusive line of aquarist products for sale through Seachem's established and large network of distribution outlets and retail customers in North America, and internationally.

AEB has the right of first offer to supply Seachem for all other products that may be used in Seachem formulations. Both parties have also established a Collaboration Program for the joint development and commercialisation of new products for supply into global aquarist and aqua feed markets respectively.

On 7 February 2018, the Company announced the appointment of Mr Allan Tan replacing Jonathan Lim as non-executive director. Allan has over 22 years of experience as a corporate and regulatory lawyer. He is currently lead independent director of Nico Steel Holdings Limited and independent director of CNMC Goldmine Holdings Limited, both of which are listed and quoted on the Singapore Stock Exchange.

Directors' Report

For the half-year ended 31 December 2017

Dividends

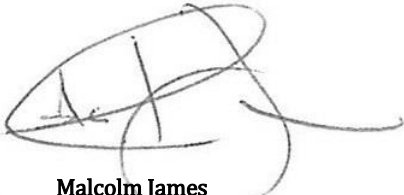
No dividends were paid or recommended by the Directors

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on Page 23.

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

A handwritten signature in black ink, appearing to be 'Malcolm James', written over a faint rectangular box.

Malcolm James
Managing Director
28 February 2018

Consolidated Statement of Financial Position as at 31 December 2017

	Notes	31 December 2017	30 June 2017
		\$	\$
Assets			
Cash and cash equivalents		577,196	102,882
Trade and other receivables	4	2,308,577	2,547,866
Prepayments		58,663	80,414
Total current assets		2,944,436	2,731,162
Property, plant and equipment		319,765	423,759
Intangible assets	5	1,420,564	-
Deferred tax assets		640,294	649,372
Total non-current assets		2,380,623	1,073,131
Total assets		5,325,059	3,804,293
Liabilities			
Trade and other payables		738,841	901,921
Loans and borrowings	6	2,152,442	6,183,971
Provisions		244,057	244,208
Total current liabilities		3,135,340	7,330,100
Total liabilities		3,135,340	7,330,100
Net assets/(liabilities)		2,189,719	(3,525,807)
Equity			
Contributed equity	3	30,311,266	20,745,945
Reserves		291,740	512,760
Accumulated losses		(28,413,287)	(24,784,512)
Total equity		2,189,719	(3,525,807)

The notes of pages 11 to 19 are an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Half – Year to 31 December 2017

	Notes	31 December 2017	31 December 2016
Revenue from operating activities		\$	\$
Provision of services and equipment		(92,571)	156,138
Interest		7,053	2,997
Other income		-	
R & D Tax incentive		1,040,480	1,219,450
		<u>954,962</u>	<u>1,378,585</u>
Expenditure			
Employee benefits		(1,667,357)	(1,637,430)
Directors share based payments		(69,515)	(69,515)
Depreciation expense		(102,541)	(108,798)
Amortisation expense		(418,798)	-
Property, rent & lease expenses		(144,057)	(177,197)
Consultancy expenses		(567,151)	(121,847)
Insurance expenses		(63,271)	(57,082)
Materials and supplies		(237,244)	(568,409)
Professional fees (other)		(246,450)	(186,544)
Travel expenses		(251,902)	(73,681)
Finance costs (other)		(327,173)	(330,028)
Net foreign exchange profit/(loss)		(186,470)	(138,570)
Administration Costs		(180,756)	(74,613)
Other expenses		(118,532)	(151,961)
Provision for Bad Debts		(2,520)	(114,445)
Loss before income tax		<u>(3,628,775)</u>	<u>(2,431,536)</u>
Income tax expense		-	-
Net loss attributable to members of the company		<u>(3,628,775)</u>	<u>(2,431,536)</u>
Other comprehensive income/(loss)			
Items that may be reclassified to the profit and loss			
Effect of exchange rate translation		(41,580)	103,663
Other comprehensive income/(loss) for the year		<u>(41,580)</u>	<u>103,663</u>
Total comprehensive income/(loss) for the year attributable to members of the company		<u>(3,670,355)</u>	<u>(2,327,873)</u>
Earnings per share			
Basic loss per share (cents per share)		(0.63)	(0.71)
Diluted loss per share (cents per share)		(0.63)	(0.71)

The notes of pages 11 to 19 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the Half – Year ended 31 December 2017

<i>For the half year ended 31 December 2017</i>	Note	Contributed Equity \$	Accumulated losses \$	Foreign exchange reserve \$	Share based payment reserve \$	Equity other reserve \$	Total equity \$
Balance at 1 July 2017		20,745,945	(24,784,512)	(112,781)	376,586	248,955	(3,525,807)
Loss for the period		-	(3,628,775)	-	-	-	(3,628,775)
Other comprehensive loss		-	-	(41,580)	-	-	(41,580)
Total comprehensive loss for the year		-	(3,628,775)	(41,580)	-	-	(3,670,355)
Transactions with owners in their capacity as owners							
Share issued during the period	3	9,316,366	-	-	-	-	9,316,366
Equity component of convertible notes issued	3(iv)	248,955	-	-	-	(248,955)	-
Value of share options issued	3(iii)	-	-	-	69,515	-	69,515
Balance at 31 Dec 2017		30,311,266	(28,413,287)	(154,361)	446,101	-	2,189,719
<i>For the half year ended 31 December 2016</i>		Contributed Equity \$	Accumulated losses \$	Foreign exchange reserve \$	Share based payment reserve \$	Equity other reserve \$	Total equity \$
Balance at 1 July 2016		20,156,981	(20,996,718)	(43,026)	237,555	-	(645,208)
Loss for the period		-	(2,431,536)	-	-	-	(2,431,536)
Other comprehensive loss		-	-	103,663	-	-	103,663
Total comprehensive loss for the year		-	(2,431,536)	103,663	-	-	(2,327,873)
Transactions with owners in their capacity as owners							
Share issued during the period	3	292,183	-	-	-	-	292,183
Equity component of convertible notes issued	3(iv)	-	-	-	-	248,955	248,955
Value of share options issued	3(iii)	-	-	-	69,515	-	69,515
Balance at 31 Dec 2016		20,449,164	(23,428,254)	60,637	307,070	248,955	(2,362,427)

The notes of pages 11 to 19 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows for the Half – Year ended 31 December 2017

	Half – Year ended 2017	Half – Year ended 2016
Notes	\$	\$
Cash flow from operating activities		
Cash receipts from customers	227,596	155,882
Cash paid to suppliers and employees	(3,147,490)	(2,862,449)
Interest paid	(299,499)	(150,500)
Interest received	4,532	2,997
Income taxes R & D refund	2,117,702	2,427,928
Net cash inflows/(outflows) from operating activities	(1,097,159)	(426,142)
Cash flows from investing activities		
Purchases of property, plant and equipment	(4,224)	(32,870)
Net cash inflows\ (outflows) from investing activities	(4,224)	(32,870)
Cash flows from financing activities		
Proceeds from issue of share capital	3,910,850	-
Share Issue Costs	(539,486)	-
Proceeds from borrowings	935,613	2,526,509
Proceeds from related party	276,056	13,958
Loans to Other Entities	(529,006)	-
Repayment of borrowings	(2,478,330)	(2,175,166)
Net cash inflow/(outflow) in financing activities	1,575,697	365,301
Net increase/(decrease) in cash and cash equivalents	474,314	(93,711)
Cash and cash equivalents at beginning of financial period	102,882	269,796
Effect of exchange rate fluctuations on cash held	-	4,573
Cash and cash equivalents at end of financial period	577,196	180,658

The notes of pages 11 to 19 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the half - year ended 31 December 2017

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 interim financial statements for the half-year reporting period ended 31 December 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 interim financial statements for the half-year reporting period ended 31 December 2017 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 interim financial statements for the half-year reporting period ended 31 December 2017 were authorised for issue by the Board of Directors on 28 February 2018.

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 half-year of \$3,628,775 (2016: \$2,431,536) and net cash outflows from operating activities of \$1,097,159 (2016: \$426,142). As at 31 December 2017, the Group had a working capital deficit of \$190,904 (30 June 2017: deficit of \$4,598,738).

These conditions indicate a material uncertainty that may cast significant doubt about the ability of the Consolidated Entity to continue as a going concern.

Subsequent to year end the Group announced it had raised \$2,500,000 via a placement to advance existing nutraceutical and medicinal cannabis operations.

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

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

- The commencement of profitable sales of nutraceutical, aqua feed and marijuana products; and
- The continued successful raising of R&D funding under the arrangements described in Note 6(iii); and

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

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

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

New 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.

Notes to the Financial Statements

For the half-year ended 31 December 2017

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.

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.

Notes to the Financial Statements

For the half-year ended 31 December 2017

2. Segment Reporting

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

Information about reportable segments	Half-year ended 2017 \$	Half-year ended 2016 \$
USA Profit/(loss)	117,789	196,711
Australia Profit / (loss)	(1,885,889)	(1,143,487)
Reportable segment Profit/(loss)	(1,768,100)	(946,776)
Interest	7,052	2,997
Net Foreign Exchange Gain/(Loss)	(186,470)	(138,570)
Corporate expenses	(1,681,257)	(1,349,187)
Loss before tax	(3,628,775)	(2,431,536)

Revenue by geographical segment

India	0%	11%
Australia	100%	89%
USA	0%	0%

	31 December 2017	30 June 2017
Reportable segment assets		
Australia	4,226,168	2,571,206
USA	1,098,891	1,233,087
	5,325,059	3,804,293
Reportable segment liabilities		
Australia	2,293,414	6,828,633
USA	841,926	501,467
	3,135,340	7,330,100

Notes to the Financial Statements

For the half - year ended 31 December 2017

3. Capital and reserves

	Half year ended 31 Dec 2017		Year ended 30 June 2017	
	\$	Number	\$	Number
Movements in capital during the half year were as follows:				
Issued capital at the beginning of the financial half year	20,745,945	353,105,158	20,156,981	339,879,095
Issue of Shares via Rights Issue	7,146,657	245,485,121	-	-
Issue of Shares pursuant to Auberna Collaboration	1,900,418	63,347,270	-	-
Issue of shares pursuant of Conversion notice	82,248	2,098,958	429,564	10,000,310
Issue of shares via take up of options	3,198	63,953	-	-
Issue of shares via conversion of interest	23,125	770,831	92,500	1,887,753
Issue of shares in exchange for services provided	700,206	22,448,200	66,900	1,338,000
Transfer from Equity Other Reserve	248,955	-	-	-
Capital Raising Costs	(539,486)	-	-	-
	30,311,266	687,319,491	20,745,945	353,105,158

(i) Share option at year end

Number of options	Issued to	Class
28,728,607	The Reliance Group	Options exercisable at \$0.1636 on or before 20 January 2019
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
141,779,826	Listed Options	Options exercisable at \$0.05 on or before 28 July 2020

(ii) Translation reserve

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

	31 Dec 2017	30 Jun 2017
	\$	\$
Foreign exchange reserve	(154,361)	(112,781)

(iii) Share option reserve

	31 Dec 2017	30 Jun 2017
	\$	\$
	446,101	376,586

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

(iv) Other reserve

	31 Dec 2017	30 Jun 2017
	\$	\$
	-	248,955

The other reserve has arisen following the issue of a convertible note to Gencor with a fixed conversion rate for debt to equity, representing the equity component of the convertible note. During the period the convertible was converted into ordinary shares, and therefore the reserve has been transferred to issued capital.

Notes to the Financial Statements

For the half - year ended 31 December 2017

Capital and reserves (continued)

Share based payments

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

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

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

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

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

There were no options issued in return for goods or services during the half year ended 31 December 2017.

4. Trade and other receivables

	31 Dec 2017	30 June 2017
	\$	\$
Current assets		
Trade receivables	-	319,923
Gencor Loan * ¹	613,121	-
R & D Incentives	1,040,478	2,116,586
Winter Garden/JDI Loan * ²	502,759	-
GST Refund	51,532	15,512
Other Receivables	100,687	95,845
Total	2,308,577	2,547,866

*¹ The Gencor Loan is in relation to shares issued to Gencor on 13 October 2017 as part of the rights issue. This amount will be repaid via repayment of the loan from GE Nutrients made to Algae Energy (US\$225,000), consulting fees that will be levied against Algae Energy in 2018 for the provision of services (US\$200,000) and a cash payment in August 2018 of US\$75,000.

Gencor is an entity related to director Ramasamy Venkatas.

*² This *represents* unsecured and non-interest bearing loan to Winter Garden/JDI of US\$410,000. The loan is unsecured and non-interest bearing, and the intention is that the loan will be utilised either as funding under the Collaboration and Licensing Agreement or as consideration for the investment to acquire 25% of Auberna SA.

Notes to the Financial Statements

For the half-year ended 31 December 2017

5. Intangible Assets

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

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.

As part of this agreement Algae Tec issued on 28 August 2017, 63,347,270 shares @ \$0.03 per share being US\$1,500,000 equivalent for the exclusive right of use of the IP globally and distribution rights for any products associated within the Asia Pacific and African continents for a period of 18 months from the time of issue of shares.

	31 Dec 2017	30 June 2017
	\$	\$
Auberna Collaboration		
Cost	1,839,362	-
Amortisation	(418,798)	-
Net Intangible Asset	1,420,564	-

6. Loans and borrowings

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

	31 Dec 2017	30 June 2017
	\$	\$
Current liabilities		
Convertible notes (i), (ii), (vi)	1,187,034	4,382,183
R & D loan facility (iii)	568,629	1,650,000
GE Nutrients (v)	276,056	-
Hunter Premium funding	-	32,151
Directors' loans (iv)	120,723	119,637
Total	2,152,442	6,183,971

Finance lease liabilities

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

Convertible notes

(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 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, and as at 31 December 2017 is past due and payable
- The conversion price is set at \$0.075 per fully paid ordinary share in the capital of Algae.Tec Limited
- In the event that there is any future issue of equity securities (other than the issue of equity pursuant to the conversion of any convertible security issued prior to the date of this agreement) at any time or times during the period before the Note is converted or redeemed and the consideration for such securities is less than the \$0.075 per equity security, then the
- Conversion price will be adjusted down to the lower of, if there is more than one occasion when such securities are issued, the lowest price.
- The lender may serve notice in writing on Algae.Tec Limited requesting the Company to convert the Bond or any part thereof.
- If the share price at any one or more times have been above \$0.20 for 20 consecutive days, the subscriber will be entitled to convert all or a portion of the Convertible Note, subject to a minimum conversion of \$100,000 by delivering notice any time prior to the Maturity Date.
- If the share price has not been above \$0.20 for 20 consecutive days, the subscriber may exercise its rights during the 10 business days before the Maturity Date or any time after achievement of Milestone One.

Notes to the Financial Statements

For the half - year ended 31 December 2017

6. Loans and borrowings

Convertible notes (continued)

(ii) L1 Capital Global Opportunities Master Fund

On 21 July 2017 the Group entered into an agreement with L1 Capital Global Opportunities Master Fund under which Algae.Rec received A\$250,000 through the issue of convertible securities.

- The funding is unsecured
- The term of the loan is 12 months
- Convertible Notes were issued at a value of \$1.10 for each \$1.00 advanced to Algae .Tec
- No interest is payable on the Notes
- The debt may be converted to shares at a rate of 85% of VWAPs during the 3 trading days prior to the Conversion Note date.

(iii) R & D Loan – Innovation Structured Finance Co., LLC

Following the full repayment of the previous year's facility, arrangements were made with Innovation Structured Finance for a Secured Loan of \$568,629 obtained on 18 December 2017. The key terms of the loan are:

- The funding is secured against the 30 June 2018 ATO tax refund
- The loan amount shall not exceed 80% of the eligible estimated expenditure for refund from the ATO in relation to R & D expenditure
- Interest is payable at a rate of 15% per annum and is deducted from the refund from the ATO following submission of the tax return estimated to be September 2018.
- The loan matures at the earlier of the date that the refund is received or 31 December 2018

The Group intends to obtain further financing with Innovation Structured Finance under the security, which are subject to separate application by the Group and approval from the lender.

(iv) Directors Loans

During the 30 June 2017 financial year, Director Mr Garnet Earl McConchie advanced funds to subsidiary Algae Energy Inc. totaling US\$90,000.

- The loan is unsecured
- Interest is payable at a rate of 5% per annum
- The repayment of these funds was made in February 2018.

(v) GE Nutrients Inc.

On 11 December 2017 Algae Energy agreed to borrow US\$480,000 from GE Nutrients Inc for the purposes of funding the completion of the Reliance Pilot Plant.

- The Loan is unsecured
- Algae Energy is to receive the loan funds in 3 tranches being US\$225,000 due 15 Dec 2017, US\$160,000 due 15 Jan 2018 and US\$95,000 due on 15 Feb 2018.
- The first tranche was received on 29 December 2017 and the remaining amounts are still to be drawn.
- Interest is payable at a rate of 10% per annum
- Repayment is due upon payment by Reliance for the completion of the project and which is anticipated to be August 2018
- GE Nutrients is an entity related to Ramasamy Venkatash

(vi) 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;

Notes to the Financial Statements

For the half - year ended 31 December 2017

6. Loans and borrowings

Convertible note (continued)

- 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.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				Security	31 Dec 17	30 Jun 17
	Currency	Nominal interest rate	Year of maturity		Carrying amount A\$	Carrying amount A\$
China Finance Strategy Convertible Note	USD	12%	2016	Unsecured	384,080	657,180
Sophisticated Investors Convertible Notes	AUD	12.5%	2017	Unsecured	-	883,644
Magna Equities Convertible Note	USD	0%	2017	Unsecured	-	77,727
Gencor Ltd	USD	10%	2018	Unsecured	-	1,174,017
Ebbesen – F Scarfone	AUD	10%	2018	Unsecured	-	286,673
ITF Pty Ltd	AUD	15%	2017	Secured	-	1,650,000
Hunter Premium Funding	AUD	7.1%	2016	Unsecured	-	32,151
Directors Loans	USD	5%	2017	Unsecured	120,723	119,637
707 Holdings	USD	10%	2020	Unsecured	665,454	643,262
Magna Equities	USD	0%	2018	Unsecured	-	102,762
Magna Equities	USD	0%	2018	Unsecured	-	341,997
Advance Opportunities Fund	AUD	6%	2017	Unsecured	-	214,921
L1 Capital	AUD	0%	2018	Unsecured	137,500	-
GE Nutrients	USD	10%	2018	Unsecured	276,056	-
Innovation Structured Finance	AUD	15%	2018	Secured	568,629	-
Total borrowings		AUD			2,152,442	6,183,971

7. Related party transactions

At 31 December 2017, Mr Garnet Earl McConchie, a director of Algae.Tec Limited, had advanced funds of \$120,723 (US\$98,450) to the Group on a short term basis. US\$90,000 was advanced with interest payable at a rate of 5% per annum and accrued to the value of US\$8,450 at 31 December 2017. This was fully repaid in February 2018.

Gencor Pacific and GE Nutrients are both entities related to Ramasamy Venkatas. There is a receivable of US\$500,000 from Gencor Pacific, a payable to GE Nutrients of US\$225,000 (at 10% Interest per annum). It is expected that one of these entities will provide expertise by way of consulting to Algae Energy during 2018 and that settlement of all outstanding amounts will be finalised in August 2018.

8. Contingencies

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

Notes to the Financial Statements

For the half - year ended 31 December 2017

9. Events after reporting date

The Company announced a capital raising of A\$2.5 million (“the Placement”) at \$0.04 a share to be utilised to advance the ongoing roll out of Company’s Uruguayan partner, Australian cannabis operations (once licenced) and key developments for the Company’s state of the art algae plant in Atlanta in respect of product sales for the human nutraceutical market.

On 12 February 2018 the Company advised that it had entered into a binding Heads of Agreement (“HOA or “the Agreement”) to acquire a significant interest in private Australian-based pharmaceutical delivery company, NS Technologies Pty Ltd (“NST”).

The NST delivery platform was patented after successful clinical trials, supervised by Professor (Dr) Fiona Woods (Australia’s leading burn victim specialist) at Royal Perth Hospital in 2011 and 2012. The technology is one where a ‘mini-emulsion’ was developed to allow complex molecules, up to 1000 in molecular weight, to penetrate the epidermis skin layer, and enter the subdermal layer of the human body.

Under the agreement, AEB will acquire 19.9% of NST and exclusively license a patented delivery platform technology developed by NST for use across any medical application developed by AEB. NST has also agreed to use AEB’s algae oil as the base component of its emulsion delivery platform.

On 19 February 2018, Algae.Tec Limited also reported that it had entered into an exclusive commercial supply and collaboration agreement with North America’s largest aquarist supplier Seachem Laboratories Inc. (“Seachem”). Under the agreement, AEB will manufacture and package an exclusive line of aquarist products for sale through Seachem’s established and large network of distribution outlets and retail customers in North America, and internationally.

AEB has the right of first offer to supply Seachem for all other products that may be used in Seachem formulations. Both parties have also established a Collaboration Program for the joint development and commercialisation of new products for supply into global aquarist and aqua feed markets respectively.

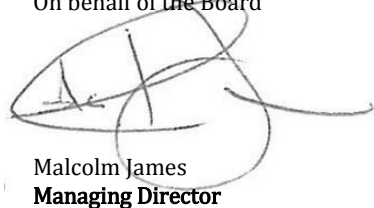
On 7 February 2018, the Company announced the appointment of Mr Allan Tan replacing Jonathan Lim as non-executive director. Allan has over 22 years of experience as a corporate and regulatory lawyer. He is currently lead independent director of Nico Steel Holdings Limited and independent director of CNMC Goldmine Holdings Limited, both of which are listed and quoted on the Singapore Stock Exchange.

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 7 to 19, are in accordance with the *Corporations Act 2001*, including:
 - (i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the half - year ended on that date; and
 - (ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
- 2 This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the half - year ended 31 December 2017.

Signed in accordance with a resolution of the Directors

On behalf of the Board

A handwritten signature in black ink, appearing to read 'Malcolm James', is written over a faint, light-colored rectangular stamp or watermark.

Malcolm James
Managing Director

Date: 28 February 2018
Perth, Western Australia

Independent Auditor's Review Report

To the Members of Algae.Tec Limited

We have reviewed the accompanying half-year financial report of Algae.Tec Limited ("the Company") and Controlled Entities ("the Consolidated Entity") which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the Consolidated Entity, comprising the Company and the entities it controlled during the half-year.

Directors Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Consolidated Entity, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- a. Giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- b. Complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the half-year financial report, which indicates that the Consolidated Entity incurred a net loss of \$3,628,775 during the half year ended 31 December 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 conclusion is not modified in respect of this matter.



BENTLEYS
Chartered Accountants



DOUG BELL CA
Director

Dated at Perth this 28th day of February 2018

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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 review of the financial statements of Algae.Tec Limited for the half year ended 31 December 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 review; and
- any applicable code of professional conduct in relation to the review.

Yours faithfully



BENTLEYS
Chartered Accountants



DOUG BELL CA
Director

Dated at Perth this 28th day of February 2018