

30 April 2018

ASX Announcement

March Quarterly Activities Report

Highlights:

Operations

- Commercial supply and collaboration agreement secured with North America's largest aquarist supplier – Seachem.
- AEB aquarist products endorsed by Georgia Aquarium (world's largest post expansion) .
- AEB to exclusively license NS Technologies' (NST) cutting-edge emulsion-based pharmaceutical delivery platform for any medicinal application developed by AEB.
- Phase 2 of the contract with Reliance Group to build a pilot algae plant in India has commenced – plant commissioning scheduled Q4 CY18.
- Australian Cannabis licence progressing – analysis on initial five (5) cultivars commenced
- Auberina SA (Uruguay) enters into collaboration with Ma Genetics providing access to multiple international cultivars.

Corporate

- A\$2,500,000 placement issued at \$0.04 per share.
- Allan Tan appointed Non-Executive Director, replacing Jonathan Lim.
- Updated Independent Equity Research Report Published.

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 31 March 2018.

Operations:

Algae Division Overview

AEB secures commercial supply and collaboration agreement with North America's largest aquarist supplier

In February, the Company 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. The initial product range is to be labelled under Seachem's premium line - Aquavitro™.



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

The first four products under the collaboration agreement have (post the quarter end) been released and sales commenced. AEB is now formulating an additional 10 products, including live products that are suitable for long distance/export markets.

In addition the Georgia Aquarium (see release dated 23rd April, 2018) has endorsed the AEB products. As the world's largest aquarium (post US\$100m expansion) the endorsement by the Georgia Aquarium is a significant recognition of the quality of the AEB products.

Initial studies have now commenced in Florida to restore coral to health and vitality utilising AEB's products.

Algae.Tec to Exclusively License Pharmaceutical Delivery Platform

During the quarter, Algae.Tec entered into a binding Heads of Agreement ("HOA") to acquire a substantial interest in private Australian-based pharmaceutical development company, NS Technologies Pty Ltd ("NST").

Under the HOA, AEB acquires 19.9% of NST and exclusively licence a patented delivery platform technology developed by NST for use across any plant-based medicinal application developed by AEB. NST has also agreed to use AEB's algae oil as the base component of its emulsion delivery platform with AEB to commence first supply to NST this quarter.

Furthermore, under the HOA AEB will collaborate with NST's in-house team to develop a range of mini-emulsion products to be used across a range of medicinal applications for both human and veterinary purposes.

NS Technologies is a Western Australian business founded in 2007 that has developed and patented a unique and effective drug delivery system for topical (spray and patch), nasal and sub-lingual applications, which enables drugs to be delivered without the use of a syringe, or ingesting a pill or potion, or through any direct inhalation procedure.

Development of Phase 2 Pilot Algae Plant in India Underway

The Company has commenced Phase 2 of the contract with Reliance Group to build a pilot algae plant in India. Subject to the requirements of Reliance, the Company anticipates completion of Phase 2 and full commissioning of the plant during Q4 CY18.

Phase 2 includes the fabrication and installation of photovoltaic panels, the Fresnel solar collector system, and LED light panels. Upon completion and operation, the Company will have an operating plant demonstrating the capacity to produce biofuels from CO₂ sequestrations which are the key fuel source that grows the algae.

The initial purpose of the pilot plant is to demonstrate the effectiveness at CO₂ sequestration (environmental benefits) and the economic production of biofuels.



Medicinal Cannabis Division Overview

Auberna SA Enters Strategic Collaboration Agreement with Ma Genetics

During the quarter, the Company announced that Auberna SA (AEB has a 25% equity earn in right – see ASX Announcement dated 22 Nov 2017) had entered into a strategic collaboration agreement with Ma Genetics Limited, which includes the right to access live plants and seeds to further the growing, licensing and research and development of medicinal cannabis.

Ma Genetics has significant expertise in breeding cannabis with its unique portfolio of live plants and seeds originating from the Netherlands. Significant synergies exist with Auberna SA given Uruguay's federal licensing system, golden patent history and enhanced ability to commercialise strains and genetic varieties (see AEB Q&A announcement dated 1 Dec 2017).

Under the original Collaboration Agreement with Jardine de Inverno the initial 10 acre crop was planned to be harvested H1C18. With the establishment of Auberna SA (as the commercialisation company) and the resulting management changes the Uruguyan government required that licences be transferred prior to any continuation of production. This has allowed AEB to have a greater involvement through the earn in right but has delayed the harvesting of the initial crop. Plans are now being finalised for the first crop to be harvested during the remainder of C18 once the transfer of the licences is completed. An announcement will be made to the market on completion of the transfer.

Federal Government Approves Medicinal Cannabis Exports

On January 4, Federal Government Health Minister Mr. Greg Hunt outlined the Government's plans to allow the export of medicinal cannabis products from Australia.

Commenting on the announcement, Mr Hunt said:

“Allowing the export of medicinal cannabis products will help the developing domestic market to grow further.

“We believe it is appropriate to amend the regulations governing the export of cannabis products to provide a level playing field.”

This announcement further underpinned Algae.Tec's strategy to increase its product base by investing directly into the production of medicinal cannabis.

Corporate Overview

A\$2.5 million Capital Raising

On January 25, the Company announced a capital raising of \$2,500,000 (the “Placement”) to be utilised to advance existing nutraceutical and medicinal cannabis operations. The Placement was issued at \$0.04 per share with an attaching one for one listed option (AEBO). Empire Equity acted as lead manager to the Placement with clients of Cove Capital major participants.



Funds from the Placement were deployed towards the following initiatives:

- Key developments for the Company's state of the art algae product development plant in Atlanta
- Development of the Company's Uruguayan partner (Auberna SA – trading as United Biogenetics) (which AEB has a 25% equity earn in right) under the agreement dated 22 November 2017.
- Ongoing costs associated with the Australian medicinal cannabis facility currently under license application.

Appointment of Non-Executive Director

On February 7, the Company appointed Allan Tan as Non-Executive Director, following the resignation of Jonathan Lim.

Empire Capital Research Report

In January, Empire Capital Partners published an updated independent equity research report on Algae.Tec. A copy of the report is available from the Company's website <http://www.algaetec.com.au/>.

Management Commentary

Algae.Tec Ltd Managing Director, Malcolm James commented: *"The focus this quarter has been one of consolidation. With a number of key operational agreements secured across both algae and medicinal cannabis divisions, we are primed for significant growth into the next financial year.*

"This consolidation has been underpinned by the robust response to the Placement announced in January, and these funds have already been deployed to key areas of the business.

"We thank our loyal shareholders for their support during the quarter, and we look forward to providing future updates in due course."



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About Algae.Tec Limited (ASX. AEB)

Algae.Tec (ASX. AEB) is a plant-based health and wellbeing company that develops a broad range of plant-derived products for supply to three key markets:

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

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

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

Name of entity

Algae.Tec Limited

ABN

16 124 544 190

Quarter ended ("current quarter")

31 March 2018

Consolidated statement of cash flows	Current quarter \$A	Year to date (9 months) \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	5,157	232,748
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	-29,177	-95,989
(d) leased assets	-	-
(e) staff costs	-779,821	-2,270,851
(f) administration and corporate costs	-1,047,557	-2,613,314
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	68	4,600
1.5 Interest and other costs of finance paid	-23,772	-323,271
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	2,117,702
1.9 Net cash from / (used in) operating activities	-1,875,102	-2,948,375
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-4,224
(b) businesses (see item 10)	-100,000	-100,000
(c) investments		

Consolidated statement of cash flows	Current quarter \$A	Year to date (9 months) \$A
(d) intellectual property	-	-
(e) other non-current assets	-128,288	-657,293
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)	-228,288	-761,517
2.6 Net cash from / (used in) investing activities		
3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	2,436,250	6,343,957
3.2 Proceeds from issue of convertible notes	-	245,000
3.3 Proceeds from exercise of share options	-	3,143
3.4 Transaction costs related to issues of shares, convertible notes or options	-87,500	-626,986
3.5 Proceeds from borrowings	600,945	1,567,614
3.6 Repayment of borrowings	-66,715	-2,568,931
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	2,882,980	4,963,797
4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	577,197	102,882
4.2 Net cash from / (used in) operating activities (item 1.9 above)	-1,875,102	-2,948,375
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-228,288	-761,517
4.4 Net cash from / (used in) financing activities (item 3.10 above)	2,882,980	4,963,797

Consolidated statement of cash flows		Current quarter \$A	Year to date (9 months) \$A
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	1,356,787	1,356,787

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A	Previous quarter \$A
5.1	Bank balances	1,356,483	576,931
5.2	Call deposits	304	274
5.3	Bank overdrafts	-	-
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,356,787	577,197

6.	Payments to directors of the entity and their associates	Current quarter \$A
6.1	Aggregate amount of payments to these parties included in item 1.2	225,331
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	

7.	Payments to related entities of the entity and their associates	Current quarter \$A
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	

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
8.1 Loan facilities	3,049,928	2,615,234
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

9. Estimated cash outflows for next quarter	\$A
9.1 Research and development	10,000
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	200,000
9.4 Leased assets	-
9.5 Staff costs	800,000
9.6 Administration and corporate costs	1,000,000
9.7 Other (provide details if material)	50,000
9.8 Total estimated cash outflows	2,060,000

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

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: 30 April 2018

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	31 Mar 18 Carrying amount A\$	31 Dec 17 Carrying amount A\$
China Finance Strategy						
Convertible Note	USD	12%	2016	Unsecured	315,323	384,079
GE Nutrients Inc *1	USD	10%	2018	Unsecured	606,063	276,056
Brevet Direct Lending	AUD	15%	2018	Secured	865,306	568,629
ITF Pty Ltd	AUD	15%	2017	Secured	-	-
L1 Convertible Note	AUD	0%	2017	Unsecured	137,500	137,500
Directors Loans	USD	5%	2017		-	120,723
707 Holdings	USD	10%	2020	Unsecured	691,042	665,454
Total borrowings		AUD			<u>2,615,234</u>	<u>2,152,441</u>

*1 This debt provider has an associated entity which currently owes US\$500,000 to Algae.Tec Limited

The effect of *1 above will be a reduction in debt to \$1,991,559 based upon the schedule above.