



8 June 2018

ASX Announcement

Algae.Tec Secures Funding to Fast-Track Development of Algae and Medicinal Cannabis Divisions

- Up to A\$7 million finance facility secured to drive key operational developments within algae and medicinal cannabis divisions respectively
- AEB finalising proposed spin-off of Uruguay medicinal cannabis interests via in specie distribution to shareholders – subject to necessary shareholder and regulatory approvals and market conditions
- Spin-off to include a strategic collaboration with Auberna SA and Ma Genetics to develop a 4,000m² - 8,000m² controlled environment facility to produce medicinal cannabis products for export to the North and South American markets
- Feasibility Study to be undertaken in association with Radient Technologies Inc. - a 2018 Venture 50 Company (tsx.com/venture50) - in relation to proposed development of a 300+ tpa algae plant in North America
- Radient extracts natural compounds from a range of biological materials using microwave assisted processing (“MAP™”), a patented technology platform which provides superior customer outcomes in terms of ingredient purity, yield, and cost
- Radient customer base includes market leaders across pharmaceutical, food, beverage, natural health and personal care markets. In addition, Radient has expanded its offerings to enter the cannabinoids market utilising its MAP™ platform to process and extract cannabinoids including cannabidiol and tetrahydrocannabinol from cannabis biomass
- AEB recently commenced commercial sales of its product through the strategic alliance with Seachem for aquarist products in North America

Plant-based health and wellbeing company Algae.Tec Limited (“the Company” or “AEB”) (ASX: AEB) is pleased to provide the following update on a number of key operational and corporate developments within the Company.

Medicinal Cannabis Division Update

Uruguay Expansion Plans and Strategic Spin-off

Further to the Company’s announcements on the direct 25% equity earn in right with Auberna SA (**Auberna**), and the strategic collaboration (“**the collaboration**”) and earn in (20%) agreement between Auberna SA (**Auberna**) and Ma Genetics (**MGL**), the collaboration is now finalising plans and necessary arrangements for the development of a 4,000m² – 8,000m² controlled environment facility (the “**Uruguay Facility**”).



This includes attached harvesting and extraction capabilities to produce medicinal cannabis products (including oils, extracts and powders) for export to the North and South American markets (as legally permitted).

Importantly, the collaboration provides the necessary regulatory regime for cultivation, harvesting, product sale and export utilising the unique genetics available from the Ma Genetics' seed bank.

Furthermore, AEB has entered into a Heads of Agreement with Auberna and MGL to spin off and list a wholly-owned AEB subsidiary which holds AEB's medical cannabis interests on either the Australian Stock Exchange, or other appropriate stock exchange, to fully unlock the value of the medicinal cannabis operations in Uruguay.

Upon listing, the spin off company would have a portfolio of assets including the following:

- (a) a 20% interest in MGL;
- (b) a 100% interest in the Auberna Uruguay medicinal cannabis venture which will have its own cannabis license and operations;
- (c) a 25% direct equity interest in Auberna;
- (d) possible interests in first Zambian Cannabis licence and licensed operations in Fiji, PNG and China operations.; and
- (e) circa A\$10M cash raised as part of the listing of the spin off company onto ASX or another recognised exchange.

As part of the proposed spin-off of AEB's medical cannabis assets, AEB will be required to contribute further funds to earn its interest in Auberna (as per an agreed use of funds schedule), which AEB understands will be used in part by Auberna to progress the Uruguay Facility.

The parties to the Heads of Agreement have agreed that a targeted raise for the capital raising would be \$10m and the Company and its advisors have received strong interest from institutional investors for the whole amount of this funding.

Implementation of the spin off would be subject to satisfaction of the conditions set out in Annexure A.

Australian Medicinal Cannabis Strategy

AEB's application for a medicinal cannabis cultivation and manufacturing license in Australia continues to be progressed by the Federal Office of Drug Control and the Company anticipates the license to be issued in Q3 CY18.

Whilst the application process continues, the Company has undertaken parallel discussions with research institutes, industry bodies and commercial entities with the objective of finalising collaboration and research and development agreements contemporaneously with the granting of the license. Initial design and engineering of a secure facility have commenced and will be completed for the Company to begin immediate construction and fit-out upon license issuance.



Algae Division Update

Radiant Technologies Partnership

As previously advised (refer ASX release dated 10 May 2018), Radiant Technologies Inc. (“RTI”) through its proprietary MAP™ platform, is currently undertaking testing on algae biomass containing high DHA and EPA contents. Upon successful completion of this testing program (scheduled for Q3 2018), the partnership will complete a Feasibility Study into the development of a large-scale commercial algae plant (“the Plant”) in North America.

The Plant will have a capacity of +300 tonnes per annum (subject to algae species) and will be focussed on production for the nutraceutical and health food markets. Furthermore, the Plant will continue to operate for the aquarist market and product development testing.

It is anticipated that the Feasibility Study will be completed in Q4 2018.

Seachem Sales Underway

During the past 12 months, AEB has been able to maintain consistent and high-quality production at its Product Development Plant in Atlanta, and as a result has commenced commercial sales of its aquarist product range through a strategic alliance with Seachem Laboratories Inc. (“Seachem”).

Seachem is a market leader in the international manufacturer and supply of aquarium industry products with more than 2,500 dealers and outlets in the USA alone. Under this alliance, AEB is currently producing four product lines for Seachem’s premier product range – Aquavitro- and also has a further ten products under development.

These new products include innovative aquarist products of the highest quality and a shelf life exceeding two years – a breakthrough in the aquarium market.

In addition, the Company is working with substantial organisations in the nutritional health food sector, animal feed and aquaculture markets to develop unique products for each market respectively.

As previously advised (see ASX release dated 23 April 2018), the Company’s **FeedMe™** product range has now been approved for supply to the Georgia Aquarium - a major institution, housing more than a hundred thousand animals representing several thousand species.

Funding Secured to Fast-Track Growth

To fund the near-term expansion and development of the Company’s respective algae and medicinal cannabis-based operations, the Company advises that it has entered into a conditional funding agreement with MEF I, L.P. (**Magna**) for up to A\$7 million by way of the issue of convertible securities. An initial amount of A\$1 million will be available for drawdown immediately, and a further A\$1 million upon shareholder approval, with the balance available to AEB upon completion of agreed upon key milestones and the satisfaction of conditions precedent and subject to shareholder approval.

Full terms and conditions outlined in Annexure B.

**Management Commentary****Algae.Tec Limited's Executive Chairman and Managing Director, Mal James commented:**

"We are very pleased to have secured the funding support of Magna at this time, as it provides us with the financial flexibility to execute a number of exciting initiatives across both our algae and medicinal cannabis operations that have the ability to generate significant shareholder value in the near-term.

"With this funding now in place, we turn our focus to the full-scale commercialisation of both our algae and medicinal cannabis operating divisions and we look forward to providing our shareholders with further updates on these strategic initiatives shortly, as we enter this transformative period for the business."

-ENDS-

For further information please contact:

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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:

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

**Annexure A:**

Implementation of the spin-off will be subject to the following conditions precedent:

- (a) ASX confirming it has no objection to the structure of the spin off;
- (b) payment of amounts to Auberna to earn AEB's 25% interest in Auberna in accordance with an agreed time frame;
- (c) completion by AEB to its satisfaction (in its sole discretion) of all necessary due diligence investigations in respect of MGL, Auberna and the spin off within 60 days;
- (d) a minimum of \$2 million is to be raised by Auberna for its Uruguay medicinal cannabis venture within 45 days of the date that satisfactory due diligence, in the sole discretion of AEB, is finalised;
- (e) execution of formal agreements;
- (f) ASX, or other exchange, providing in principle approval to the proposed listing of the spin off company;
- (g) ASX conditionally approving the admission of the spin off company to ASX and AEB being satisfied on a reasonable basis that it is able to comply with the conditions of such admission;
- (h) receipt of all necessary ministerial consent, government, regulatory, shareholder and third-party approvals, in respect of the spin off, including shareholder approval under ASX Listing Rule 11.4; and
- (i) receipt of all applicable waivers of any applicable pre-emption or similar rights that have been obtained or have lapsed in respect of the transfer of any Interests that relate to the spin off.



Annexure B

Magna Convertible Securities Agreement – Terms & Conditions

- Total Facility – A\$7M
- Drawdowns:
 - \$1M 5 days after entry into the agreement;
 - \$1M 5 days after shareholder approval of all securities which can be issued by the Company under the Agreement
 - \$2M upon the first sale by the Company of nutraceutical algae oil and the receipt of all necessary ASX waivers and shareholder approval and;
 - \$3M upon the first sale by the Company of a new algae product or algae to a new market and the receipt of all necessary ASX waivers and subject to shareholder approval.
- A commitment fee of 5% of the total aggregate amount of the drawdowns is payable
- A face value of US\$110% per convertible security
- A conversion price of the lessor of:
 - 80% of the lowest daily VWAP during the 5 trading days prior to a conversion notice date; and
 - AU\$0.035
 - Save that the conversion price cannot be less than the floor price of AU\$0.01.
- Conversion of the convertible securities at the election of Magna
- Security over the Company's assets to be granted pursuant to a General Security Agreement
- A maturity date of 12 months following the 4th tranche (or 3 months following the 1st tranche where shareholder approval is not obtained)
- The notes are redeemable by the Company at 110% of face value for the 6 months following drawdown of the relevant tranche or 115% thereafter
- The notes are redeemable at 115% of face value at the election of Magna in the event the Company does not obtain shareholder approval within 75 days of the initial drawdown or where the Company's daily VWAP is less than \$0.01 on 5 consecutive trading days
- All drawdowns other than the initial drawdown of \$1M are subject to shareholder approval