



31 July 2018

ASX Announcement

## **June Quarterly Activities Report For Period Ended 30 June 2018**

### **Highlights:**

#### **Algae Operations**

- **Research and Collaboration Agreement signed with Radient Technologies (major shareholder Aurora Cannabis Inc (TSX: ACB)) to utilise market-leading extraction technology in the production of AEB's algae products for supply into global nutraceutical market:**
  - **Radient's Microwave Assisted Processing ("M.A.P.") technology has consistently shown substantially higher yields and purity when compared to conventional natural extraction methods - initial testing indicates similar results are likely for AEB's algae products;**
  - **Radient currently serves multiple market leaders across pharmaceutical (medicinal cannabis), food, beverage, natural health, personal care and biofuels sectors.**
- **AEB approved to supply FeedMe™ Algae product range to Georgia Aquarium - one of the largest aquariums in the world:**
  - **Georgia Aquarium houses more than 100,000 animals and covers 600,000 square feet – significant opportunity to secure potential long-term supply agreement.**
- **Two new products developed for distribution via strategic agreement with Seachem Laboratories Inc. - the largest aquarist distributor in the USA.**

#### **Medicinal Cannabis Operations**

- **First delivery of CBD oils from Auberma remain on-track to arrive this quarter:**
  - **Product samples for 50%, 60%, 70% and 99% grade CBD oils and powders tested in Australia by a NATA accredited laboratory;**
  - **Results demonstrate that each of the product samples exceeded the product specifications for CBD concentrations and complied with the Australian TGO#93 standard for grades and impurities for medicinal cannabis set by the Australian Therapeutics Good Administration; and**



- Following this, AEB has since received strong interest from potential offtake partners and is in negotiations with a number of parties in respect to long-term offtake agreements.
- Discussions progressing with a large North American company regarding a potential Joint Venture (“JV”) to develop an Australian-based medicinal cannabis production facility (JV is subject to approval of AEB’s Australian medicinal cannabis license application).
- AEB continuing to advance proposed spin-off of Uruguay medicinal cannabis interests (subject to market conditions):
  - Spin-off to include a strategic collaboration with Auberna SA and Ma Genetics to develop a 4,000m<sup>2</sup> - 8,000m<sup>2</sup> controlled environment facility to produce medicinal cannabis products for export to the North and South American markets.

### **Corporate Overview**

- Up to A\$7 million funding commitment secured to drive key operational developments within algae and medicinal cannabis divisions respectively.

Plant-based health and wellbeing company Algae. Tec Ltd (the “Company” or “AEB”) (ASX: AEB) is pleased to provide shareholders with its Quarterly Activities Report for the period ended 30 June 2018.

### **June Quarter Operational Summary:**

#### ***Algae Division Overview***

AEB approved to supply FeedMe™ Algae product range to Georgia Aquarium

In April, the Company confirmed that it had obtained approvals to supply its leading FeedMe™ Algae product range to Georgia Aquarium, one of the largest aquariums globally, housing more than a hundred thousand animals representing several thousand species.

The Company collaborated with the Georgia Aquarium over a six-month period to provide and refine algae-based products to support the nutritional and health needs of the marine animals and sea life, both in fresh and salt water environments.

This partnership with a major US institution further diversifies AEB’s algae revenue base and the Company will provide further updates on sales and revenue stemming from this agreement in due course.

#### **FeedMe™ Algae Sales Overview**

In February, the Company entered into an exclusive commercial supply and collaboration agreement (“Collaboration”) with North America’s largest aquarist supplier Seachem Laboratories Inc. (“Seachem”).



Furthermore, during the June quarter Seachem officially launched the first four products under the Collaboration, with early sales exceeding expectations. AEB expects to be in a position to provide shareholders with a comprehensive update on sales progress this quarter.

In addition, Seachem requested that the Company develop a further 10 product lines for distribution to key global aquarist markets. These new lines would include “live” algae capable of world-wide shipping. The first two additional products have been developed and will be launched this quarter.

#### Partnership with Radiant Technologies Inc. to Develop High-End Nutraceutical Products

During the quarter, the Company entered into a Research and Collaboration Agreement (the “Agreement”) with Radiant Technologies Inc. (TSXV: RTI) (“Radiant” or “RTI”).

Under the Agreement, AEB is able to utilise RTI’s market-leading extraction technology as the final step in the production of its high-value algae-based products for supply into the rapidly growing global nutraceutical market.

A key focus of the Agreement centred on the extraction of high quality lipid content from AEB’s algae powders, with initial algae samples having already being shipped to Radiant’s state-of-the-art facility in Edmonton, Canada.

Initial results from this extraction testing have been positive and the final results are expected to be received in Q3.

Over the last decade, Radiant’s proprietary Microwave Assisted Processing MAP™ technology has successfully increased the yield and consistency of the active ingredients from plants, including algae, in a cost-efficient manner.

Radiant 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.

#### ***Medicinal Cannabis Division Overview***

##### Uruguay Expansion Plans

Earlier this year, the Company announced that Auberna SA (AEB has a 25% equity earn in right – see ASX Announcement dated 22 November 2017) had entered into a strategic Collaboration Agreement (the “Collaboration”) with Ma Genetics Limited, which included the right to access live plants and seeds to further growing, licensing and research and develop of medicinal cannabis. Further to these Company’s announcements, during the June quarter it announced that the Collaboration was finalising plans and necessary arrangements for the development of a 4,000m<sup>2</sup> – 8,000m<sup>2</sup> controlled environment facility (the “Uruguay Facility”) with 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.



## First Delivery of CBD Oils

AEB is pleased to advise that the first delivery of CBD oils is on-track. Product samples for 50%, 60%, 70% and 99% grade CBD oils and powders have been tested in Australia by a National Association of Testing Authorities (“NATA”) accredited laboratory. Results received to date have shown that each of the product samples exceeded the product specifications for CBD concentrations reported (See Figure 1) and complied with the Australian TGO#93 Standards on grade and impurities including heavy metals, pesticides and aflatoxins (TGO#93 is the standard for medicinal cannabis set by the Australian Therapeutics Good Administration <https://www.legislation.gov.au/Details/F2017L00286>).

**Figure 1. CBD Analysis**

			<b>Results - FINAL</b>			
ACS ID			16900-1	16900-2	16900-3	16900-4
Sample ID			Polyphenol Resin Lot NO20170625-2 99% Powder	Polyphenol Resin Lot NO 201701201 -5 50%	Polyphenol Resin Lot NO 201701201 -5 60%	Polyphenol Resin Lot NO 201701201 -5 70%
Cannabinoids	Cas No's	Units				
Cannabigerol (CBG)	25654-31-3	% w/w	<0.01	12.6	9.0	6.4
Cannabidiol (CBD)*	13956-29-1	% w/w	99.8	57.4	69.6	77.9
Cannabidiol acid (CBD-A)	1244-58-2	% w/w	<0.01	<0.1	<0.1	<0.1
Cannabinol (CBN)	521-35-7	% w/w	<0.01	<0.1	<0.1	<0.1
d9-THC	1972-08-3	% w/w	<0.01	<0.1	<0.1	<0.1
d9-THC-A	23978-85-0	% w/w	<0.01	<0.1	<0.1	<0.1
d9-THC: Tetrahydrocannabinol						
d9-THC-A: Tetrahydrocannabinolic acid						

As a result, AEB has received strong interest from offtake partners to take the products and is in negotiations with a number of parties for long-term offtake agreements for these products. The Company looks forward to providing further updates on these discussions in due course.

## Proposed Strategic Spin-off

During the quarter the Company entered into a Heads of Agreement (“HOA”) with Auberma and MGL to spin-off and list a wholly-owned AEB subsidiary which holds AEB’s medicinal cannabis interests on either the Australian Stock Exchange, or other appropriate stock exchange. The aim of this transaction would be allow the full underlying value of AEB’s medicinal cannabis operations in Uruguay to be realised in the near-term.

Subject to all required statutory and regulatory approvals and market conditions, AEB will consider to demerge its interest in the spin-off assets by way of a proposed in specie distribution to shareholders on a pro rata basis at a nominated record date.

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 Auberma Uruguay medicinal cannabis venture which will have its own cannabis license and operations;
- c. a 25% direct equity interest in Auberma;



- d. possible interests in first Zambian Cannabis licence and licensed operations in Fiji, PNG and China operations; and
- e. ca. 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 medicinal 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.

Furthermore, the parties to the HOA have agreed that a targeted raise for the capital raising would be A\$10 million, with AEB having recently received strong support from a number of potential key funding partners in support of the proposed spin-off transaction.

Further details on these funding discussions will be provided in due course.

### Strategic Partnerships

AEB is pleased to advise that during the quarter the Company was approached by a number of potential partners seeking to expand their footprint in the medicinal cannabis industry in Australia. As a result, AEB is in advanced discussions with a major North American company – considered one of the most dominant cannabis enterprises in the emerging legal marijuana industry - for a JV to develop an Australian-based medicinal cannabis production facility.

The potential JV is subject to approval of AEB's Australian medicinal cannabis license application, which is anticipated in Q3 CY 18.

### **Corporate Overview**

#### Funding Secured to Fast-Track Growth

During the quarter the Company entered into a funding agreement with MEF I, L.P ("Magna") for up to A\$7 million by way of a convertible note to fund the near-term expansion and development of the Company's respective algae and medicinal cannabis-based operations.

An initial amount of A\$1 million was made 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.

#### Strategic Outlook CY18

Looking ahead to the remainder of CY18, management expects a number of key corporate and operational initiatives to materialise during the next 3-6 months, with a key focus on delivering the following:

- Formalising the partnership with Radiant on algae processing and production moving forward predicated on the success of the MAP microwave processing technology;
- Increasing and reporting on growth in algae product sales across key aquarist and nutraceutical markets;
- Completing the spin-off of non-Australian cannabis interests with a possible listing on the TSX or CSE – with an in specie distribution to shareholders once complete;



- Completing first sales of CBD oils from Uruguay;
- Securing a strategic partner for financing and development of the Australian cannabis operations – securing of additional strategic partnerships with globally recognised industry participants;
- Hiring new experienced personnel to drive Australian cannabis operations upon securing of licence and strategic partner; and
- Meeting KPIs with Indian pilot plant with the Reliance Group.

### **Management Commentary**

**Algae.Tec Ltd Managing Director, Malcolm James commented:** “A key focus during the June quarter was implementing a number of strategic initiatives aimed at strengthening key industry partnerships and further underpinning AEB’s revenue profile.

“With exposure to key rapidly expanding global markets – both algae and medicinal cannabis – management remains committed to delivering on a number of key commercial objectives over the coming months and we look forward to providing further corporate and operational updates in due course.”

### **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:

- 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
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**ABN**

16 124 544 190
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**Quarter ended ("current quarter")**

30 June 2018
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<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A</b>	<b>Year to date (12 months) \$A</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	3,523	236,271
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	-184,712	-280,701
(d) leased assets	-	-
(e) staff costs	-760,234	-3,031,085
(f) administration and corporate costs	-743,142	-3,356,456
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	110	4,710
1.5 Interest and other costs of finance paid	-2,974	-326,245
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	2,117,702
<b>1.9 Net cash from / (used in) operating activities</b>	<b>-1,687,429</b>	<b>-4,635,804</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	-11,232	-15,456
(b) businesses (see item 10)	-	-100,000
(c) investments		

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A</b>	<b>Year to date (12 months) \$A</b>
	(d) intellectual property	-	-
	(e) other non-current assets	-270,646	-927,939
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)	-281,878	-1,043,395
2.6	<b>Net cash from / (used in) investing activities</b>		
<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	-	6,343,957
3.2	Proceeds from issue of convertible notes	982,500	1,227,500
3.3	Proceeds from exercise of share options	-	3,143
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-626,986
3.5	Proceeds from borrowings	617,436	2,185,050
3.6	Repayment of borrowings	-101,160	-2,670,091
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	<b>Net cash from / (used in) financing activities</b>	<b>1,498,776</b>	<b>6,462,573</b>
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of quarter/year to date	1,356,787	102,882
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-1,687,429	-4,635,804
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-281,878	-1,043,395
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,498,776	6,462,573



<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A</b>	<b>Year to date (12 months) \$A</b>
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>886,256</b>	<b>886,256</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A</b>	<b>Previous quarter \$A</b>
5.1	Bank balances	885,917	576,931
5.2	Call deposits	339	274
5.3	Bank overdrafts	-	-
5.4	Other (provide details)		
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>886,256</b>	<b>577,205</b>

**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

198,104

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. <b>Financing facilities available</b> <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	10,930,743	4,404,593
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 schedule for drawn amounts.

Total facility includes undrawn of \$6,000,000 from Magna Equities and \$526,150 from Brevet Lending in respect of R & D funding drawn down in July 2018.

9. <b>Estimated cash outflows for next quarter</b>	\$A
9.1 Research and development	10,000
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	50,000
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
<b>9.8 Total estimated cash outflows</b>	<b>1,910,000</b>

10. <b>Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	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: 31 July 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	30 Jun 18 Carrying amount A\$	31 Mar 18 Carrying amount A\$
China Finance Strategy						
Convertible Note	USD	12%	2016	Unsecured	337,405	315,323
GE Nutrients Inc *1	USD	10%	2018	Unsecured	645,382	606,063
Brevet Direct Lending	AUD	15%	2018	Secured	1,539,799	865,306
Hunter Premium Funding	AUD	7.1%	2019		50,611	-
L1 Convertible Note	AUD	0%	2017	Unsecured	-	137,500
707 Holdings	USD	10%	2020	Unsecured	731,396	691,042
Magna Equities	USD	0%	2019	Unsecured	1,100,000	-
Total borrowings		AUD			<u>4,404,593</u>	<u>2,615,234</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 \$3,756,421 based upon the schedule above.