

29 May 2018

ASX Compliance Pty Ltd  
Level 40, Central Park  
152-158 St Georges Terrace  
Perth WA 6000

**Attention:** Anjuli Sinniah

**Via email:** [anjuli.sinniah@asx.com.au](mailto:anjuli.sinniah@asx.com.au)

**ALGAE.TEC LIMITED (“AEB”): APPENDIX 4C QUERY**

The following is in response to your query letter of 25<sup>th</sup> May 2018 regarding Algae.Tec’s (AEB) Appendix 4C quarterly report for the period ended 31 March 2018.

In response to the specific questions raised in your letter:

1. *Does AEB expect that it will continue to have negative operating cash flows for the time being and, if not, why not?*

AEB does expect to have negative operating cash flows in the short term. However, as previously announced to the market, Algae.Tec is currently receiving revenue generated from sales of its algae products, and is expecting these to increase and also receive revenue from its medicinal marijuana division within the next twelve months. These revenues are expected to result in an operating cash flow positive position within a twelve month period.

2. *Has AEB taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?*

AEB continually monitors its expected expenditure and revenue and is in ongoing discussions to ensure that it has the funds required to meet its obligations. The forecast expenditure stated in the Appendix 4C of \$2,060,000 was calculated dependent upon certain events happening and upon certain revenues being received, especially in AEB’s medicinal marijuana division. AEB will scale back its expenditure accordingly if there are delays in projects or funding to ensure that it continues to have sufficient funding to meet its expenditure.

***Research and Development Grant Funding***

AEB has previously reported that it has a pre-approved research and development grant from Innovation Australia. This grant has been successfully received for the last



7 years. The grant effectively returns back to the Company 43.5% of its expenditure in its algae development division. AEB also has a funding facility available, secured over this innovation grant, that is able to be drawn on a quarterly basis as expenditure is incurred. AEB received \$617,000 under this facility in April 2018 and expects a similar amount to be received in the next quarter.

The amount received under this facility will be approximately \$2 million for this financial year and it is expected that this funding will continue whilst AEB continues its current algae operations.

### ***Algae Biofuels Division***

The market is fully informed regarding the contracted work AEB has been doing for the Reliance Group of India. This work will culminate in a commissioned trial plant for carbon sequestration and biofuels generation over the next few months. A decision will then be taken by Reliance regarding the next stage of the collaboration between Reliance and AEB, which AEB believes will lead to increased revenues for AEB from this relationship.

AEB received a purchase order variation to contractual works in November 2017 from Reliance and the work detailed in this purchase order will be finalised within the next few months. The expenditure required for the completion of this purchase order has mostly already been incurred and will generate further contracted revenue of approximately US\$800,000 over the short term.

### ***Algae Nutraceutical Division***

Over the last six months AEB has made a number of announcements regarding the commercial milestones achieved by its algae nutraceutical division. These include entering into a supply agreement with Seachem, the USA's largest aquarist supplier, and a commercial arrangement with Georgia Aquarium, the world's largest aquarium. On 23<sup>rd</sup> April the Company gave a market update in which it stated that sales to Seachem had commenced, and that Seachem had requested that the first four products lines be increased by a further ten.

AEB is also in discussions with a number of other potential users of its high EPA/DHA powders which, if finalised, should see additional revenue generated.

The original guidance given to the market regarding potential sales of around US\$3 million from the algae division is therefore expected to be met or exceeded, underpinning AEB's expectation of being operationally cash positive within the next twelve months.

### ***Additional External Financing***

AEB has previously informed the market that it is in mature negotiations with external parties to fund an algae plant within Australia. These negotiations are "commercial in



confidence" and ongoing but are not yet at a stage where they can be announced to the market.

AEB is also in the final stages of negotiating financing terms for an algae plant outside of Australia plus funding for its commitments under current medicinal marijuana agreements. The terms of this funding are still being discussed but should be finalised over the next few days, at which time AEB will be in a position to make an announcement with respect to them.

3. *Does AEB expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?*

AEB expects to be able to continue its operations and meet its business objectives on the basis set out in paragraph 2 above.

AEB has in the recent past announced the achievement of a number of strategic key milestones and strategic relationships, and AEB considers that the combination of these achievements with the revenue initiatives set out in paragraph 2 above will enable AEB to not only continue but to expand its operations.

4. *Please confirm that AEB is in compliance with Listing Rule 3.1 and that there is no information that should be given to ASX about its financial condition in accordance with that Rule that has not already been released to the market.*

The Company confirms that it is in compliance with Listing Rule 3.1 and that there is no information that should currently be given to the ASX that has not already been released to the market.

5. *Please confirm that AEB's responses to the questions above have been authorized and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of AEB with delegated authority from the board to respond to ASX on disclosure matters.*

This response to the questions raised by the ASX is in accordance with AEB's continuous disclosure policy and is by an authorised officer with the delegated authority to respond to the ASX on disclosure matters.

Peter Hatfull  
Executive Director and Company Secretary  
Algae.Tec Ltd



25 May 2018

Jessica Rodrigues  
Assistant Company Secretary  
Unit 2, Spectrum Offices,  
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Subiaco WA 6008

By email: [JRodrigues@algaetec.com.au](mailto:JRodrigues@algaetec.com.au)

Dear Jessica

**Algae.Tech Limited ("AEB"): Appendix 4C Query**

I refer to AEB's Appendix 4C quarterly report for the period ended 31 March 2018 lodged with ASX Market Announcements Platform and released on 30 April 2018 (the "Appendix 4C").

ASX notes that AEB has reported:

- negative net operating cash flows for the quarter of \$1,875,102;
- cash at the end of the quarter of \$1,356,787; and
- estimated cash outflows for the next quarter of \$2,060,000.

It is possible to conclude, based on the information in the Appendix 4C, that if AEB were to continue to expend cash at the rate indicated by the Appendix 4C, AEB may not have sufficient cash to continue funding its operations. In view of that, ASX asks AEB to answer separately each of the following questions and provide the following confirmations in a format suitable for release to the market in accordance with Listing Rule 18.7A:

1. Does AEB expect that it will continue to have negative operating cash flows for the time being and, if not, why not?
2. Has AEB taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?
3. Does AEB expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?
4. Please confirm that AEB is in compliance with Listing Rule 3.1 and that there is no information that should be given to ASX about its financial condition in accordance with that Rule that has not already been released to the market.
5. Please confirm that AEB's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of AEB with delegated authority from the board to respond to ASX on disclosure matters.

Please also provide any other information that AEB considers may be relevant to ASX forming an opinion on whether AEB is in compliance with Listing Rule 12.2 (a listed entity's financial condition must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing).

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## When and where to send your response

This request is made under, and in accordance with Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, **by not later than 3pm AWST on Wednesday 30 May 2018**. If we do not have your response by then, ASX will have no choice but to consider suspending trading in AEB's securities under Listing Rule 17.3.

You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, AEB's obligation is to disclose the information "immediately". This may require the information to be disclosed before the deadline set out in the previous paragraph.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent to me by e-mail at [anjuli.sinniah@asx.com.au](mailto:anjuli.sinniah@asx.com.au) and [tardinhaltspert@asx.com.au](mailto:tardinhaltspert@asx.com.au). It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

## Listing Rule 3.1

Listing Rule 3.1 requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. Exceptions to this requirement are set out in Listing Rule 3.1A.

In responding to this letter, you should have regard to AEB's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*.

It should be noted that AEB's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

## Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in AEB's securities under Listing Rule 17.1.

If you wish to request a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted.

You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

If you have any queries or concerns about any of the above, please contact me immediately.

Kind regards

[Sent electronically without signature]

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Anjuli Sinniah, Listings Compliance (Perth)