

1 December 2017

ASX Announcement

Algae.Tec Management Q&A Session

Plant-based health and wellbeing company Algae.Tec Limited (“the Company” or “AEB”) (ASX: AEB) is pleased to provide shareholders with the below Q&A update with Executive Chairman and Managing Director Mal James.

The below update is on AEB’s medicinal cannabis division, with the Company having a clear near-term focus on scaling up its medicinal cannabis cultivation and R&D activities in Uruguay, having recently announced plans to acquire a direct 25% equity interest in Uruguay-based partner Auberna SA (trading as United Biogenics) (“United”) (see ASX release dated 22 November).

1. Mal, can you provide us with some background on the business and what was the reasoning behind AEB entering the medicinal cannabis sector earlier this year?

Firstly, I think it is important that we acknowledge that AEB is a specialist plant growing Company with a state-of-art facility in North America that has been developing the technology to grow high-value algae strains for close to 10 years.

The Company’s strategic and well considered decision to enter the global cannabis market was born out of the idea to apply our cutting-edge plant growing technology and expertise to the cultivation of medicinal cannabis. Not only is the move highly complementary to our existing business, but it also provides our shareholders with direct exposure to one of the fastest growing health and wellbeing markets globally.

AEB first entered the medicinal cannabis sector earlier this year through a Collaboration Agreement with Uruguay-based Jardin de Invierno S.A. As recently announced to the ASX, AEB has since moved to a more direct and encompassing arrangement via the acquisition of a 25% equity interest in United Biogenics.

2. When assessing a move into medicinal cannabis, what made Uruguay such an attractive investment destination for AEB, and what are some of the key advantages of operating in this jurisdiction?

A number of global jurisdictions were assessed, however Uruguay stood out as a compelling opportunity that ticked all the boxes required to build a large-scale cannabis business.

Uruguay is considered a global leader in the legalisation of cannabis, having established a fully-legalised recreational market in 2013. This market is now beginning to mature and is being progressively backed by a number of Government-led initiatives to support in-country R&D efforts.

By operating in this federally licensed jurisdiction and securing a 25% interest in our local partner, AEB will effectively secure direct access to a number of key international export markets. Most key markets will not allow imports unless they are received from federally licensed producers at source.

From a R&D perspective, Uruguay unlike any other country has a federal regulatory system for unfettered R&D of cannabinoids and Heirloom hemp. Older varieties of hemp have tremendous value for seed, ballast, fibre, flower and soil reclamation research and development.

By way of background, a number of modern operations have chemically altered the composition of hemp to have very little commercial value by shortening the plant and breeding the chemicals out of the plant while trying to reduce the THC. This has altered every aspect of the plant and it now requires more fertilisers and pesticides whilst also being predacious on the soil while offering little research benefits for chemical expressions.

Operators in Uruguay can use plants that no other country can use and due to the country's federal licensing and regulations, companies can apply its Golden Patent history to enhance their ability to commercialise strains and genetic varieties. AEB's in-country partner, United, can also utilise patent formulation and concentration while scaling to commercial production.

It is also worth noting that we are not the only public company active in Uruguay, as International Cannabis Corp (TSXV: ICC) recently listed in Toronto and has significant cannabis operations in Uruguay.

3. In regard to your partnership in Uruguay, AEB previously announced a \$1.5 million research and collaboration agreement which has now transitioned to a \$2.5 million farm-in ownership interest.

Can you provide some additional background on the latest agreement and what it means for AEB shareholders?

Essentially, the AEB Board identified an opportunity to fast-track the commercialisation of our partnership in Uruguay, and as such we are now working to secure an initial 25% equity stake in United.

One of the key drivers behind the decision was to significantly bolster our exposure to United's market-leading R&D activities in Uruguay, which we believe have the capacity to unlock significant value for our shareholders. Through our initial agreement we already had our first crop commenced, but we felt somewhat limited in our involvement with United's multiple R&D initiatives so this was a logical next step to increase this exposure.

Given some of the programs United currently have underway in Uruguay, the Board believed the investment of an additional A\$1 million was a highly strategic move.

With the additional support, United can now aggressively pursue a number of joint venture and licensing opportunities in conjunction with the previously agreed upon cultivation activities with AEB.

4. What would you estimate the addressable market size to be for the AEB / United partnership and how do you intend to penetrate this market?

When assessing the R&D market alone, we are looking at a potential global market value in the range of \$50-100 billion – so the opportunity and potential to scale our business rapidly is very clear.

United's R&D division is focused on providing consulting services and monetising its IP through strategic licensing agreements across a number of key markets globally.

Further to this, United already has in place a number of key partnerships with highly regarded global research facilities and these will be further leveraged over the coming months as R&D initiatives are scaled up.

In regard to United's cultivation / extracts division, the addressable market is estimated to be approximately \$10-20 billion and growing.

In conjunction with the partnership's R&D activities, additional revenues from the sale of cannabinoid extracts to manufactures and retailers in North America and South America respectively.

5. Can you elaborate on some of the R&D initiatives that United are undertaking at the moment which prompted AEB to secure an equity interest?

United is quickly developing a wide range of expertise in the development and production of high quality, botanical cannabinoids as the active pharmaceutical ingredients using proprietary technology and unique processes.

When it comes to medicinal cannabis, genetic engineering is deemed crucial for the effective treatment of a range of diseases, and scientists at United are among the world leaders in modifying cannabis' molecular structure to tailor cannabinoids to specific receptors for the treatment of a range of diseases.

Take both Cannabichromene (CBC) and Cannabigerol (CBG) for example.

Cannabichromene, like other cannabinoids, is proving to have some notable medicinal benefits. The fact that it is a non-psychoactive compound makes it particularly appealing for patients, doctors, and/or researchers. Research into CBC is limited due to the fact THC and CBD have taken front stage in cannabinoid research. This is mainly because THC and CBD are in abundant supply in many strains of cannabis available today.

To date, whilst still early stage, CBC's have shown promising results relating to pain management and neurogenesis.

CBG's have also been found to have neuroprotective and neurogenic properties, making it a very rare chemical that may stimulate the growth of new brain cells.

One of the aspects that excited us most is that United has the ability to provide, amongst other things, plant strains that have far higher CBC and CBG contents to enable cost effective and scientifically beneficial R&D programs into these strains to be undertaken.

Also, R&D of medicinal cannabis delivery systems is growing at an exponential rate - be it tablet, patch, nasal spray, vaporizer, chewing gum etc. United is partnering with innovative delivery system developers to offer advanced delivery systems combined with formulations that can be patented and produced in Uruguay.

We are very excited to be partnered with such a highly regarded in-country business and look forward to reporting further R&D developments in due course.

6. Mal, you mentioned the current cannabis crop has commenced in Uruguay - can you provide shareholders with an update on the crop and who will buy the processed oils?

The seeds have been propagated in purpose built facilities in Uruguay and will move to stage 2 planting in the coming weeks. United has a number of buying groups who will acquire processed oil from the crop scheduled for Q1 2018.

7. What are some of the key near-term catalysts expected to be delivered from the Uruguay partnership for AEB shareholders?

Essentially what we are looking to deliver to our shareholders in the next 6-12 months through this partnership is exposure to a highly scalable world-class cannabis cultivation business and to establish a highly valuable first-mover advantage in the pharmaceutical cannabis-based R&D market.

Probably one of the key catalysts on the horizon from AEB in Q1 next year is the cultivation and cannabinoid extraction of our initial cannabis crop in Uruguay. As a federally licensed producer of medical cannabis products AEB will have the ability to legally import and market the resulting cannabinoid formulations for the Australian market. This high margin business is anticipated to result in revenues approaching A\$10million per crop, at a gross margin of over 55%.

Following the cultivation of our first crop, AEB and United will look to immediately commence the growing of our second crop in Uruguay on a bigger footprint which at this point will be harvested in late Q2 / early Q3.

We have also lodged an Australian licence application for the growing of medicinal cannabis and see numerous synergies with United and our own indoor growing technologies developed through our other algae business units.

Importantly, we will be able leverage the opportunities created through United with Algae Tec being the logical joint venture partner in Australia and Asia for licencing and distribution. With United's aggressive business plan and the first crop completed and resulting oils sold, we believe the number of commercial opportunities will be significant.

-ENDS-

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About Algae.Tec Limited (ASX. AEB)

Algae.Tec (ASX. AEB) is a specialist producer, focused on developing technology that captures waste carbon dioxide to produce commercial quantities of a range of plant derived products for supply to three key markets:

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