

Algae.Tec Limited

ACN 124 544 190

NOTICE OF EXTRAORDINARY GENERAL MEETING AND EXPLANATORY MEMORANDUM

Date of General Meeting:	Monday, 29 June 2015
Time of General Meeting:	11.30 am WST
Place of General Meeting:	BDO Hay Room 38 Station Street Subiaco WA 6008

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a General Meeting of the Shareholders of Algae.Tec Limited will be held at BDO Hay Room, 38 Station Street, Subiaco on Monday, 29 June 2015 at 11.30 am WST.

An Explanatory Memorandum containing information in relation to each of the matters to be considered at the meeting accompanies and forms part of this Notice.

AGENDA

1. RESOLUTION 1 RATIFICATION OF SHARE PLACEMENT - RELIANCE INDUSTRIAL INVESTMENTS AND HOLDINGS LIMITED

To consider and if thought fit, pass the following resolution as an **ordinary resolution**:

“That for the purpose of ASX Listing Rule 7.4 approval is given for the issue on 19 December 2014 of 20,000,000 Shares at an issue price of 0.07 per Share to Reliance Industrial Investments and Holdings Limited on the terms and conditions set out in the Explanatory Memorandum.”

Voting Exclusion Statement

The Company will disregard any votes cast on this resolution by Reliance Industrial Investments and Holdings Limited and any Associate of Reliance Industrial Investments and Holdings Limited. However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

2. RESOLUTION 2 RATIFICATION OF OPTION PLACEMENT - RELIANCE INDUSTRIAL INVESTMENTS AND HOLDINGS LIMITED

To consider and if thought fit, pass the following resolution as an **ordinary resolution**:

“That for the purpose of ASX Listing Rule 7.4 approval is given for the issue on 19 December 2014 of 14,285,714 Options to Reliance Industrial Investments and Holdings Limited on the terms and conditions set out in the Explanatory Memorandum.”

Voting Exclusion Statement

The Company will disregard any votes cast on this resolution by Reliance Industrial Investments and Holdings Limited and any Associate of Reliance Industrial Investments and Holdings Limited. However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

3. RESOLUTION 3 – RATIFICATION OF CONVERTIBLE NOTE ISSUE – CHINA FINANCE STRATEGIES INVESTMENT HOLDINGS LIMITED

To consider and if thought fit, pass the following resolution as an **ordinary resolution**:

“That for the purpose of ASX Listing Rule 7.4 approval is given for the issue on 15 January 2015 of a Convertible Note to China Finance Strategies Investment Holdings Limited to the value of \$US 500,000 on the terms and conditions set out in the Explanatory Memorandum.”

Voting Exclusion Statement

The Company will disregard any votes cast on this resolution by China Finance Strategies Investment Holdings Limited and any Associate of China Finance Strategies Investment Holdings Limited. However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

4. RESOLUTION 4 – RATIFICATION OF OPTION ISSUE – CROSS BORDER VENTURES LIMITED

To consider and if thought fit, pass the following resolution as an **ordinary resolution**:

“That for the purpose of ASX Listing Rule 7.4 approval is given for the issue on 17 March 2015 of 1,000,000 Options to Cross Border Ventures Limited on the terms and conditions set out in the Explanatory Memorandum.”

The Company will disregard any votes cast on this resolution by Cross Border Ventures Limited and any Associate of Cross Border Ventures Limited. However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

5. RESOLUTION 5 – APPROVAL OF GRANT OF OPTIONS TO PETER HATFULL

To consider and if thought fit, pass the following resolution as an **ordinary resolution**:

“That for the purposes of ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act, approval is given for the Company to issue up to 7,000,000 Options to Peter Hatfull or his nominee under the Employee Option Scheme on the terms and conditions set out in the Explanatory Memorandum.”

The Company will disregard any votes cast on this resolution by Mr Hatfull and any Associate of Mr Hatfull. However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

6. RESOLUTION 6 - APPROVAL OF GRANT OF OPTIONS TO MALCOLM JAMES

To consider and if thought fit, pass the following resolution as an **ordinary resolution**:

"That for the purposes of ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act, approval is given for the Company to issue up to 7,000,000 Options to Malcolm James or his nominee under the Employee Option Scheme on the terms and conditions set out in the Explanatory Memorandum."

The Company will disregard any votes cast on this resolution by Mr James and any Associate of Mr James. However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

7. RESOLUTION 7 - APPROVAL OF GRANT OF OPTIONS TO GARNET EARL MCCONCHIE

To consider and if thought fit, pass the following resolution as an **ordinary resolution**:

"That for the purposes of ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act, approval is given for the Company to issue up to 7,000,000 Options to Garnet Earl McConchie or his nominee under the Employee Option Scheme on the terms and conditions set out in the Explanatory Memorandum."

The Company will disregard any votes cast on this resolution by Mr McConchie and any Associate of Mr McConchie. However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

DATED THIS 25th DAY OF MAY 2015

BY ORDER OF THE BOARD

Mr Peter Hatfull
Company Secretary

VOTING ENTITLEMENT

In accordance with Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), the Directors have set a date to determine the identity of those entitled to attend and vote at the General Meeting. For the purposes of determining voting entitlements at the General Meeting, Shares will be taken to be held by the persons who are registered as holding at 11.30 am WST on 27 June 2015. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the General Meeting.

PROXY INSTRUCTIONS

Members are advised that:

- each member has a right to appoint a proxy to attend and vote for them;
- the proxy need not be a member of the Company; and
- a member who is entitled to cast 2 or more votes may appoint either 1 or 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the appointment is for 2 proxies and does not specify the proportion or number of votes each proxy may exercise, then, in accordance with section 249X(3) of the *Corporations Act*, each proxy may exercise half of the votes.

The member may specify the manner in which the proxy is to vote on each resolution or may allow the proxy to vote at his or her discretion.

In accordance with section 250BA of the *Corporations Act*, the Company specifies that the proxy form (and the power of attorney or other authority, if any, under which the proxy form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and the power of attorney or other authority) must be posted or delivered to the registered office of the Company at Unit 2 100-104 Railway Road, Subiaco, WA, Australia 6008 or sent to the registered office by facsimile on (08) 9381 9161 (International: +61 8 9381 9161) or email to the company at phatfull@algaetec.com.au.

Those documents must be received by the Company at least 48 hours before the time for holding the General Meeting, or adjourned General Meeting as the case may be, at which the individual named in the proxy form proposes to vote.

The proxy form must be signed by the Shareholder or his/her attorney duly authorised in writing or, if the Shareholder is a body corporate, in a manner permitted by the *Corporations Act*. If the proxy form is sent by email the shareholder's SRN or HIN must also be included. In the case of Shares jointly held by two or more persons, at least one joint holder must sign the proxy form.

A proxy form is enclosed with this Notice.

DEFINITIONS

For assistance in considering the Notice and accompanying Explanatory Memorandum, the following words are defined here:

\$ means Australian dollars.

\$US means United States of America dollars.

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given to it by Division 2 of Part 1 of the Corporations Act.

ASX means ASX Limited ACN 008 624 691 or the Australian Securities Exchange as the context requires.

Board means the board of Directors.

Company means Algae.Tec Limited (ACN 124 544 190).

Convertible Notes means the Convertible Notes issued by the Company to China Finance Strategies Investment Holdings Limited on the terms and conditions set out in Schedule 2.

Corporations Act means the Corporations Act 2001 (Cth).

Directors mean the directors of the Company.

Employee Option Scheme means the Company's Employee Option Scheme approved by Shareholders at the Company's 2012 Annual General Meeting.

Equity Securities has the same meaning as in the Listing Rules.

Explanatory Memorandum means the explanatory memorandum accompanying the Notice of Meeting.

Listing Rules means the Listing Rules of ASX.

Meeting or **General Meeting** means a meeting of the Shareholders, holders or Directors;

Notice, Notice of Meeting or **Notice of Extraordinary General Meeting** means this Notice of General Meeting including the Explanatory Statement.

Option means an option to acquire a Share.

Resolutions means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires.

Shareholders means the holder of the Share.

Share means a fully paid ordinary shares in the Company.

Trading Day means a day determined by ASX to be a trading day in accordance with the Listing Rules.

VWAP means the volume weighted average price.

WST means Australian Western Standard Time.

ALGAE.TEC LIMITED**ACN 124 544 190****EXPLANATORY MEMORANDUM**

This Explanatory Memorandum is intended to provide Shareholders with information to assess the merits of the Resolutions contained in the accompanying Notice.

The Directors recommend Shareholders read this Explanatory Memorandum in full before making any decision in relation to the Resolutions.

RESOLUTION 1: Ratification of Share Placement to Reliance Industrial Investments and Holdings Limited**Background**

As announced to ASX on 19 December 2014, the Company entered into a subscription agreement with Reliance Industrial Investments and Holdings Limited to raise \$2.4 million.

Pursuant to the subscription agreement the Company issued 20,000,000 Shares at an issue price of \$0.07 per Share on 19 December 2014 to raise \$1.4 million.

Resolution 1 seeks Shareholder approval pursuant to ASX Listing Rule 7.4 to ratify the issue of these Shares.

Reason Approval Required

Under Chapter 7 of the Listing Rules there are limitations on the capacity of a company to enlarge its capital by the issue of Equity Securities without shareholder approval. Listing Rule 7.1A enables eligible entities to issue Equity Securities up to 10% of their issued capital through placements over a 12 month period after the Annual General Meeting. On 24 November 2014 the Company received shareholder approval by special resolution to have the ability to issue Equity Securities under the additional 10% placement capacity.

Listing Rule 7.4 provides that an issue under Listing Rule 7.1A is treated as having been made with Shareholder approval if each of the following applies:

- the issue did not breach Listing Rule 7.1A; and
- Shareholders subsequently approve it.

This placement of Shares was within the Company's additional 10% placement capacity and subsequent approval under Listing Rule 7.4 is now being sought.

Information Required by Listing Rules

For the purposes of Listing Rule 7.5, the following information is provided:

- (a) Number of Shares issued – 20,000,000 Shares.
- (b) Issue Price - \$0.07 per Share.

- (c) The Shares rank equally in all respects with the existing fully paid ordinary shares on issue.
- (d) The Shares were issued to Reliance Industrial Investments and Holdings Limited.
- (e) The funds raised from the issue of Shares are being used to provide additional working capital for the fast development of an algae pilot plant in Jamnagar, India, utilising the Company's technology for the creation of biofuel.
- (f) A voting exclusion statement is included in the Notice.

RESOLUTION 2: Ratification of Option Placement to Reliance Industrial Investments and Holdings Limited.**Background**

Pursuant to the subscription agreement with Reliance Industrial Investments and Holdings Limited referred to above in relation to Resolution 1, the Company also issued 14,285,714 Options to Reliance Industrial Investments and Holdings Limited on 19 December 2014, which when exercised will raise \$1.0 million.

Resolution 2 seeks Shareholder approval pursuant to ASX Listing Rule 7.4 to ratify the issue of these Options.

Reason Approval Required

Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any Equity Securities, including securities with rights of conversion to equity (such as options), if the number of those securities exceeds 15% of the number of ordinary shares on issue at the commencement of that 12 month period.

Listing Rule 7.4 provides however that an issue under Listing Rule 7.1 is treated as having been made with Shareholder approval if each of the following applies:

- the issue did not breach Listing Rule 7.1; and
- Shareholders subsequently approve it.

This placement of options was within the Company's 15% limit and subsequent approval under Listing Rule 7.4 is now being sought in order to reinstate the 15% limit.

Information Required by Listing Rules

For the purposes of Listing Rule 7.5, the following information is provided:

- (a) Number of Options issued – 14,285,714 Options.
- (b) The Options were issued as attaching Options for no additional consideration.
- (c) The terms of the Options are set out in Schedule 1. Reliance Industrial Investments and Holdings Limited have agreed to exercise 50% of the Options within 5 months of their issue and the remaining Options within a further 5 months providing that the Company has not committed a material breach of its Program Agreements with Reliance Industrial Investments and Holdings Limited neither the Equipment Supply

Agreement nor the Technical Services Agreement between the parties has been terminated. The Company has provided personnel in India to support the demonstration project as reasonably requested by Reliance Industrial Investments and Holdings Limited.

- (d) The Options were issued to Reliance Industrial Investments and Holdings Limited.
- (e) No funds were raised from the issue of the Options. The funds raised from the exercise of the Options will be used to provide additional working capital for the fast development of an algae pilot plant in Jamnagar, India, utilising the Company's technology for the creation of biofuel.
- (f) A voting exclusion statement is included in the Notice.

RESOLUTION 3: - Ratification of Convertible Note Issue to China Finance Strategies Investment Holdings Limited

Background

As announced to ASX on 9 January 2015 the Company has entered into an agreement to issue a \$US 0.5 million Convertible Note and subject to the achievement of certain milestones, \$US 5 million conditional options, to China Finance Strategies Investment Holdings Limited, who will in turn introduce the Company's technology into the greater China region.

Pursuant to the agreement the Company issued the Convertible Note on 16 January 2015.

Resolution 3 seeks Shareholder approval pursuant to ASX Listing Rule 7.4 to ratify the issue of the Convertible Notes.

Reason Approval Required

Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any Equity Securities, including securities with rights of conversion to equity (such as convertible notes), if the number of those securities exceeds 15% of the number of ordinary shares on issue at the commencement of that 12 month period.

Listing Rule 7.4 provides however that an issue under Listing Rule 7.1 is treated as having been made with Shareholder approval if each of the following applies:

- the issue did not breach Listing Rule 7.1; and
- Shareholders subsequently approve it.

This issue of convertible notes was within the Company's 15% limit and subsequent approval under Listing Rule 7.4 is now being sought in order to reinstate the 15% limit.

Information Required by Listing Rules

For the purposes of Listing Rule 7.5, the following information is provided:

- (a) Number of Convertible Note issued: 1 Convertible Note with a face value of \$US 500,000.
- (b) The Convertible Note was issued for a total subscription price of \$US 500,000.

- (c) The terms of the Convertible Note are set out in Schedule 2.
- (d) The Convertible Note was issued to China Finance Strategies Investment Holdings Limited.
- (e) The funds raised from the issue of the Convertible Note will be used for working capital and the further development of algae plants.
- (f) A voting exclusion statement is included in the Notice.

RESOLUTION 4: Ratification of Option Issue to Cross Border Ventures Limited

Background

As set out above in relation to Resolution 3, the Company has entered into an agreement with China Finance Strategies Investment Holdings Limited.

In consideration of facilitating the agreement the Company issued 1,000,000 Options to Cross Border Ventures Limited's nominee on 13 March 2015.

Resolution 4 seeks Shareholder approval pursuant to ASX Listing Rule 7.4 to ratify the issue of these Options.

Reason Approval Required

Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any Equity Securities, including securities with rights of conversion to equity (such as options), if the number of those securities exceeds 15% of the number of ordinary shares on issue at the commencement of that 12 month period.

Listing Rule 7.4 provides however that an issue under Listing Rule 7.1 is treated as having been made with Shareholder approval if each of the following applies:

- the issue did not breach Listing Rule 7.1; and
- Shareholders subsequently approve it.

This issue of options was within the Company's 15% limit and subsequent approval under Listing Rule 7.4 is now being sought in order to reinstate the 15% limit.

Information Required by Listing Rules

For the purposes of Listing Rule 7.5, the following information is provided:

- (a) Number of Options allotted - 1,000,000 Options.
- (b) The Options were issued for no monetary consideration in consideration of the facilitation of the agreement with China Finance Strategies Investment Holdings Limited.
- (c) The terms of the Options are set out in Schedule 3.
- (d) The Options were issued to Rohit Nayar, the Director of Cross Border Ventures Limited, as nominee of Cross Border Ventures Limited.

- (e) No funds were raised from the issue of the Options. In the event of the exercise of the Options the funds raised will be used for working capital.
- (f) A voting exclusion statement is included in the Notice.

RESOLUTIONS 5 to 7: Approval of Grant of Options to Peter Hatfull, Malcolm James and Garnet Earl McConchie

Background

Resolutions 5 to 7 seek Shareholder approval in accordance with Listing Rule 10.11 and Chapter 2E of the Corporations Act for the grant of a total of up to 21,000,000 Options, under the Employee Option Scheme to Directors (or their nominees).

At the Company's 2012 Annual General Meeting Shareholders approved the adoption of the Employee Share Scheme and the issue of Options under that Scheme. The Shareholder approval did not, however, include approval for the issue of Options to Directors pursuant to the Employee Share Scheme.

The purpose of the proposed grant of the Options is for the Company both to motivate and retain its directors, whilst minimising cash outflows through the payment of executive salaries and directors' fees below the average for comparable companies. In this regard it is noted that the total number of Options proposed to be granted would, if exercised, represent approximately 6% of the Company's share capital if no other Shares are issued in the meantime, and the exercise of the Options would deliver significant capital to the Company at a significant premium to the Company's share price as traded on ASX in the period leading up to the issue of the Options.

Reason approval required

Shareholder approval is required under Listing Rule 10.11 and section 208 of the Corporations Act because the Directors are related parties of the Company.

If Shareholder approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

Specific information required by Listing Rule 10.13 and section 219 of the Corporations Act

Listing Rule 10.13 and section 219 of the Corporations Act require that the following information be provided to Shareholders for the purpose of obtaining Shareholder approval for the grant:

- (a) It is proposed that up to 21,000,000 Options will be offered to the Directors (or their nominees) as follows:

Name of Director	Maximum Number of Options to be issued
Peter Hatfull	7,000,000
Malcolm James	7,000,000
Garnet Earl McConchie	7,000,000

- (b) Each Option will be granted for no monetary consideration and will be exercisable at 1.48 times the VWAP for Shares on the five Trading Days immediately prior to the issue of the Options at any time within 4 years after the issue date. The Company will announce the exercise price of the Options to ASX once it has been calculated.
- (c) The full terms of the Options are set out in Schedule 4.
- (d) The Company will issue the Options no later than one month after the date of the General Meeting.
- (e) Malcolm James and Garnet Earl McConchie recommend that Shareholders vote in favour of Resolution 5 as they believe that the proposed grant of Options will assist the company in both motivating and retaining its long-serving Managing Director, Mr Peter Hatfull, while minimising cash outflows through the payment of salary in circumstances where Mr Hatfull has agreed to a significant temporary reduction in his salary since January 2013 while the Company continues its research and development activities. Peter Hatfull has an interest in Resolution 5 and therefore believes it inappropriate to make a recommendation.
- (f) Peter Hatfull and Garnet Earl McConchie recommend that Shareholders vote in favour of Resolution 6 as they believe that the proposed grant of options will assist the company in both motivating and retaining the services of its Chairman, Mr Malcolm James. Malcolm James has an interest in Resolution 6 and therefore believes it inappropriate to make a recommendation.
- (g) Malcolm James and Peter Hatfull recommend that Shareholders vote in favour of Resolution 7 as they believe that the proposed grant of options will assist the company in both motivating and retaining the services of its long-serving Executive Director, Mr Garnet Earl McConchie. Mr Garnet Earl McConchie has an interest in Resolution 7 and therefore believes it inappropriate to make a recommendation.
- (h) The dilution effect if Resolutions 5 to 7 are approved and all Options are exercised and no additional Shares are issued is as follows:

Current Number of Shares on Issue	324,312,131
Maximum Number of Options to be issued	21,000,000
Dilution Effect if all Options exercised	6%

- (i) The current relevant interests in security holdings of the Directors are as follows:

Name of Director	Shares	Options
Peter Hatfull (direct)	8,158,500	Nil
Indirect	1,862,678	
Malcolm James (direct)	20,000	Nil
Indirect	80,000	
Garnet Earl McConchie (direct)	Nil	Nil
Indirect	175,000,000	

- (j) A voting exclusion statement is included in the Notice.
- (k) No funds will be raised by the grant of the Options. Any funds raised by the exercise of Options will be used for working capital.
- (l) The current remuneration of each of the Directors (excluding the proposed Options) is as follows:
 - (i) Peter Hatfull:

Mr Hatfull is currently entitled to a salary of \$300,000 per annum plus statutory superannuation. From January 2013 Mr Hatfull agreed to a temporary reduction in salary from \$300,000 per annum to \$150,000 whilst the Company continues its research and development activities. His salary was increased in January 2015 to \$225,000 per annum.
 - (ii) Malcolm James:

Mr James is entitled to directors fees of \$72,000 per annum.
 - (iii) Garnet Earl McConchie:

Mr McConchie is entitled to a salary of \$US 360,000 per annum.
- (m) On the basis of the assumptions below the Company has received a valuation from Stantons International Securities Pty Ltd who has determined the technical value of one Option approximates \$0.0425 at 18 May 2015. The valuation imputes a total value of \$892,500 (\$297,500 for each of Mr Hatfull, Mr James and Mr McConchie) for the proposed Options.

The value may go up and down as it will depend in part on the future price of a Share.

Black & Scholes' methodology has been used, together with the following assumptions:

- (i) interest rate set at 2.28% which is based on the Australian Government bond rate up to a 5 year term;
- (ii) the date of valuation for the purposes of setting the current market value of a Share and the exercise price of an Option is 18 May 2015;
- (iii) a Share price of A\$0.067 being the most recent traded price on ASX on 18 May 2015 before the valuation was completed;
- (iv) an exercise price of \$0.09916 being 1.48 times the 5 day VWAP of Shares traded on ASX prior to 18 May 2015;
- (v) volatility of 100% which is based on an option volatility calculator, the Company's share price over the last 12 months, the short to medium term of the Options and the general trend in shares of companies in similar businesses trading on ASX over the last 3 to 6 months; and
- (vi) no discount has been applied to reflect the fact the Options will be unlisted and non-transferrable without the consent of the Company.

- (n) There is no cash cost to the Company in issuing the Options. The value of the Options at the time of their issue are, however, recorded as an expense in the Company's accounts. If the Options are exercised and the Shares are trading at that time above the exercise price there may be a perceived cost to the Company as the Company may have been able to issue the Shares at a higher price.
- (o) Historical Share price information for the last three months prior to the date of lodgement of this Explanatory Memorandum with ASIC is as follows:

	Price	Date
Highest	\$0.07	13 May 2015
Lowest	\$0.040	2 Mar 2015
Last	\$0.065	15 May 2015

- (p) Other than the information above and otherwise in this Explanatory Memorandum, the Company believes that there is no other information that would be reasonably required by Shareholders to consider Resolutions 5 to 7.

SCHEDULE 1

Option Terms – Reliance Industrial Investments and Holdings Limited

- (a) Each Option gives the holder (**Optionholder**) the right to subscribe for 1 Share. To obtain the right given by each Option, the Optionholder must exercise the Options in accordance with these terms and conditions.
 - (b) The Options will expire at 5:00pm (AEST) on 18 December 2019 (**Expiry Date**). Any Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
 - (c) The amount payable upon exercise of each Option will be \$0.07 (7 cents) (**Exercise Price**).
 - (d) The Optionholder may exercise any number of their Options by lodging with the Company, before the Expiry Date:
 - (1) a written notice of exercise of Options specifying the number of Options being exercised; and
 - (2) a cheque or electronic funds transfer for the Exercise Price for the number of Options being exercised;
- (Exercise Notice).**
- (e) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
 - (f) Within 10 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of Options specified in the Exercise Notice.
 - (g) The Options are not transferable.
 - (h) All Shares allotted upon the exercise of Options will upon allotment rank pari passu in all respects with other Shares.
 - (i) The Company will apply for quotation of all Shares allotted pursuant to the exercise of the Options on ASX within 10 Business Days after the allotment of those Shares.
 - (j) If at any time the Issued capital of the Company is reconstructed (including consolidation, subdivision, reduction or return), all rights of the Optionholder shall be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
 - (k) There are no participating rights or entitlements inherent in the Options and the Optionholder will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options. However, the Company will ensure that for the purposes of determining entitlements to any such Issue, the record date will be at least 6 Business Days after the issue is announced. This will give the Optionholder the opportunity to exercise the Options prior to the date for determining entitlements to participate in any such issue.
 - (l) In the event the Company proceeds with a bonus Issue of securities to Shareholders after the date of issue of the Options, the number of securities over which an Option is exercisable may be increased by the number of securities which the Optionholder would have received if the Option had been exercised before the record date for the bonus issue.

SCHEDULE 2

Convertible Note Terms - China Finance Strategies Investment Holdings Limited

1 Key Terms

Issue Date:	9 January 2015
Interest Rate:	12% per annum
Maturity Date:	18 months from the Issue Date
Conversion Price:	<p> \$A 0.075 provided that if there is any future issue of equity securities (as defined in the ASX Listing Rules) other than the issue of equity pursuant to the conversion of any convertible security issued prior to the Issue Date by the Issuer at any time or times during the period before the Convertible Note is converted or redeemed and the consideration for such equity securities is less than \$0.075 per equity security, then the conversion price will be adjusted down to the lower or, if there is more than one occasion when such equity securities are issued, the lowest price. </p>
Principal:	US\$500,000
Interest Payment Dates:	Annually, commencing 12 months after the Issue Date

2 Conversion, redemption and security

2.1 Conversion and redemption

The Convertible Notes:

- 2.1.1 are convertible, as provided in clause 5, into Shares; and
- 2.1.2 where the whole of the Principal has not been converted into Shares, are redeemable in accordance with clause 4.

2.2 Security

The Convertible Notes are unsecured. The Subscriber shall rank as an unsecured general creditor of the Issuer.

3 Interest

3.1 Interest Rate

- 3.1.1 Interest will accrue on the Convertible Notes at the Interest Rate per annum from day to day prior to the Maturity Date and, subject to clause 3.2, will be payable in arrears on each Interest Payment Date.

3.1.2 The interest payment must be made to the Subscriber no later than 2 Business Days after each Interest Payment Date and if an Interest Payment Date falls after the Maturity Date, the Maturity Date will be deemed to be the Interest Payment Date in substitution for the Interest Payment Date that falls after the Maturity Date.

3.2 **Payment following Conversion or Redemption**

If all or part of the Convertible Notes are converted or redeemed then, because interest is expressed to be payable in arrears, the Issuer must pay to the Subscriber interest accrued in relation to that amount of the Principal converted or redeemed no later than 2 Business Days after the delivery to the Issuer of the Conversion Notice or the Redemption Notice (as the case may be).

3.3 **Interest payment**

Any interest earned on the Convertible Note is payable in cash only and will be paid by the Issuer delivering to the Subscriber a bank cheque or by depositing the cleared funds into the Subscriber's nominated bank account by electronic funds transfer.

4 **Redemption**

4.1 **Redemption**

The Convertible Notes may (at the election of the Subscriber) only be redeemed in accordance with clause 4.2 on the occurrence of any of the following:

- 4.1.1 the receipt by the Issuer of a Redemption Notice in respect of the Convertible Notes as a result of the exercise of the Subscriber's rights under clause 6.1.2;
- 4.1.2 the receipt by the Issuer of a Redemption Notice in respect of the Convertible Notes as a result of the exercise of the Subscriber's rights under clause 8.2.1;
- 4.1.3 the receipt by the Issuer of a Redemption Notice in the event that the closing price of Shares falls below 50% of the Conversion Price for 15 consecutive Trading Days at any time; or
- 4.1.4 the Maturity Date.

4.2 **Timing of redemption**

The Issuer must make payment of the Outstanding Monies in cleared funds without set-off or deduction to the Subscriber following redemption of the Convertible Notes as follows:

- 4.2.1 in the event the Issuer receives a Redemption Notice under clause 4.1.3, 6.1.2 or 8.2.1, within one month after receipt; or
- 4.2.2 on the Maturity Date.

5 Conversion

5.1 Conversion by Subscriber

- 5.1.1 Subject to clauses 6 and 8, and subject to a lock-up for the first 6 months from the Issue Date, if the Share price has at any one or more times been above \$0.20 for 20 consecutive days, the Subscriber will be entitled to convert all or a portion of the Convertible Note (including all or a portion of the Principal Amount Outstanding held by the Subscriber, subject to a minimum conversion amount of \$US 100,000), at the Conversion Price by delivering a Conversion Notice to the Issuer any time prior to the Maturity Date. If the Share price has not been above \$0.20 for 20 consecutive days, the Subscriber may (subject to clauses 6 and 8) elect to exercise its rights of conversion during the 10 Business Days before the Maturity Date, or any time after achievement of Milestone One. Upon receipt of a Conversion Notice the Issuer will immediately proceed to issue to the Subscriber that number of Shares as calculated at the Conversion Price.
- 5.1.2 The allotment and issue of Shares on conversion pursuant to this clause 5 will be, and be deemed for all purposes to be, in full satisfaction and discharge to the Subscriber of that part of the Principal Amount Outstanding of the Convertible Notes that is the subject of the Conversion Notice, but the conversion pursuant to this clause will in no way affect any liability of the Issuer for unpaid interest accrued up to the Date of Conversion.
- 5.1.3 The Shares issued upon the conversion pursuant to this clause will rank equally in all respects with all issued fully paid ordinary shares in the capital of the Issuer at the Date of Conversion and such Shares will be free and clear of all Encumbrances.
- 5.1.4 The Issuer must make application for Official Quotation by the ASX of all Shares issued upon conversion as soon as reasonably practicable but in any event within 5 Business Days after the Shares are issued.
- 5.1.5 Within 5 Business Days after the issue of Shares to the Subscriber the Issuer will deliver to the Subscriber a holding statement in respect of the Shares issued.
- 5.1.6 If only a portion of the Convertible Notes are converted, the Issuer will, within 5 Business Days after the issue of the Shares, deliver to the Subscriber a new certificate detailing the remaining Convertible Notes held by the Subscriber.

5.2 Reconstruction

- 5.2.1 If there is a reconstruction (including, consolidation, subdivision, reduction or return) (**Reconstruction Event**) of the Issuer's issued capital, the basis for conversion of the Convertible Notes will be reconstructed in the same proportion as the issued capital of the Issuer is reconstructed and in a manner which will not result in any additional benefits being conferred on the Subscriber which are not conferred on the Issuer's shareholders (subject to the same provisions with respect to rounding of entitlements as

sanctioned by the meeting of shareholders approving the Reconstruction Event), but in all other respects the terms for conversion of the Convertible Notes will remain unchanged and provided further that where the number of Shares on issue alter as a consequence of the Reconstruction Event, then the number of Shares into which the Convertible Notes is convertible must be adjusted so that the Convertible Note is convertible into the same percentage of the issued ordinary share capital of the Issuer as the percentage into which the Convertible Note is or would be convertible immediately before the relevant Reconstruction Event.

5.2.2 The adjustments in this clause 5.2 will, subject to the ASX Listing Rules and the terms hereof, be determined by the Issuer.

5.3 Rights issues

If prior to the Maturity Date there is a pro rata offer or issue to the holders of Shares the Conversion Price will be reduced according to the following formula:

$$NCP = CP - \frac{(P - S)}{N + 1}$$

Where:

NCP = the new Conversion Price;

CP = the old Conversion Price;

P = the VWAP during the five trading days ending on the day before the ex rights date or the ex-entitlements date;

S = the subscription price for Shares under the pro rata issue; and

N = the number of Shares with rights or entitlements that must be held to receive one new Share under the pro rata issue.

6 Takeover, change in control, or sale of main undertaking

6.1 If a takeover bid (as defined in the Corporations Act) is made for 50% or more of the Shares and that bidder is successful in acquiring a relevant interest in 50% or more of the Shares or if there is a Change in Control of the Issuer or there is a sale or disposal of the main undertaking of the Issuer then the Issuer must give the Subscriber written notice (**Notice**) of the takeover bid or Change in Control or sale or disposal within 5 Business Days of receiving notice of it and the Subscriber may elect within 10 Business Days after receipt of the Notice to either:

6.1.1 issue a Conversion Notice; or

6.1.2 to issue a Redemption Notice.

6.2 If no election is made under clause 6.1 within the time period specified in that clause, then the terms and conditions as to conversion and redemption will continue to apply.

7 Bonus issues

If a bonus share allotment is made by the Issuer to its ordinary shareholders prior to the Maturity Date, the Issuer will issue to the Subscriber on terms and conditions that are the same as or correspond with or are no more favourable to the Subscriber than the terms and conditions on which such shares are issued to any ordinary shareholder of the Issuer:

- 7.1 shares in the capital of the Issuer of the same class as the shares the subject of the bonus share allotment; and
- 7.2 the number of shares so issued will be equal to the number of shares in the capital of the Issuer to which that Subscriber would have been entitled if the Conversion Notice had been issued prior to the record date for the bonus share allotment,

and the Issuer shall ensure that such shares are capable of immediate on-sale under the Corporations Act.

8 Events of Default

8.1 Events

Each of the following is an Event of Default:

- 8.1.1 **(default in payment)** the Issuer defaults in the payment of any Outstanding Moneys in respect of the Convertible Notes;
- 8.1.2 **(default in issue of Shares)** the Issuer defaults in the issue of any Shares or conversion of the Convertible Notes;
- 8.1.3 **(unremedied breach)** the Issuer commits a breach of a covenant, condition or obligation imposed on it and that breach, if it is remedial, has not been remedied within 10 days of receiving notice of the breach from the Subscriber requiring that breach to be remedied;
- 8.1.4 **(insolvency)** an Insolvency Event occurs;
- 8.1.5 **(cross default)** the Issuer defaults in the payment of any other obligations to which it is subject in any amount in excess of \$100,000;
- 8.1.6 **(unenforceability)** these terms are unenforceable by the Subscriber for any reason;
- 8.1.7 **(material litigation)** any litigation is commenced against the Issuer other than by the Subscriber which if successful would reasonably likely have a material or adverse effect on the Issuer's ability to comply with its obligations;
- 8.1.8 **(incorrect representation or warranty)** any representation, warranty, undertaking or statement made by the Issuer shall prove to be materially incorrect as at the date it was made or given;
- 8.1.9 **(inability to comply)** any event occurs or circumstances arise which in the reasonable opinion of the Subscriber gives reasonable grounds for believing that the Issuer will, within a period of one month from that event occurring

or circumstance arising, fail to perform or comply with any one of more of its material obligations; or

8.1.10 **(acceleration of indebtedness)** any present or future monetary obligations of the Issuer or any of its related bodies corporate, other than amounts owed to trade creditors, employees or statutory authorities, are not satisfied on time (or at the end of their period of grace) or become prematurely payable, unless such obligation is being disputed in good faith and on reasonable grounds, to the reasonable satisfaction of the Subscriber.

8.2 **Action upon an Event of Default**

The Subscriber will be entitled where an Event of Default has occurred:

8.2.1 to issue a Redemption Notice; or

8.2.2 to issue a Conversion Notice.

SCHEDULE 3

Option Terms – Cross Border Ventures Limited

- (a) Each Option gives the Option holder the right to subscribe for one Share.
- (b) Each Option will expire at 5.00pm (WST) on 1 March 2018 (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
- (c) Subject to paragraph (k), the amount payable upon exercise of each Option will be \$0.20 (**Exercise Price**).
- (d) The Options held by each Option holder may be exercised in whole or in part, and if exercised in part, multiples of 1,000 must be exercised on each occasion.
- (e) An Option holder may exercise their Options by lodging with the Company, before the Expiry Date:
 - (i) a written notice of exercise of Options specifying the number of Options being exercised; and
 - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of Options being exercised;

(Exercise Notice).
- (f) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
- (g) Within 10 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of Options specified in the Exercise Notice.
- (h) Subject to the expiry of any applicable escrow period, the Options shall be freely transferable.
- (i) All Shares allotted upon the exercise of Options will upon allotment rank *pari passu* in all respects with other Shares.
- (j) The Company will apply for quotation of all Shares allotted pursuant to the exercise of Options on ASX within 10 Business Days after the date of allotment of those Shares.
- (k) If at any time the issued capital of the Company is reconstructed, all rights of an Option holder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (l) There are no participating rights or entitlements inherent in the Options and Option holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options without exercising the Options.
- (m) An Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the Option can be exercised.

SCHEDULE 4

Option Terms – Peter Hatfull, Malcolm James and Garnet Earl McConchie

- (a) Each Option gives the Option holder the right to subscribe for one Share.
 - (b) Each Option will expire at 5.00pm (WST) on the date that is 4 years after their issue date (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
 - (c) Subject to paragraph (k), the amount payable upon exercise of each Option will be 1.48 times the VWAP for Shares on the five Trading Days immediately prior to the issue date (**Exercise Price**).
 - (d) The Options held by each Option holder may be exercised in whole or in part, and if exercised in part, multiples of 1,000 must be exercised on each occasion.
 - (e) An Option holder may exercise their Options by lodging with the Company, before the Expiry Date:
 - (i) a written notice of exercise of Options specifying the number of Options being exercised; and
 - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of Options being exercised;
- (Exercise Notice).**
- (f) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
 - (g) Within 10 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of Options specified in the Exercise Notice.
 - (h) The Options will not be transferable except with the consent of the Company.
 - (i) All Shares allotted upon the exercise of Options will upon allotment rank *pari passu* in all respects with other Shares.
 - (j) The Company will apply for quotation of all Shares allotted pursuant to the exercise of Options on ASX within 10 Business Days after the date of allotment of those Shares.
 - (k) If at any time the issued capital of the Company is reconstructed, all rights of an Option holder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
 - (l) There are no participating rights or entitlements inherent in the Options and Option holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options without exercising the Options.
 - (m) An Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the Option can be exercised.

Notes

ALGAE.TEC LIMITED
ACN 124 544 190
PROXY FORM

Name:

Address:

Appointment of a proxy

I/We being a member(s) of Algae.Tec Limited hereby appoint:

(Write here the name of the person you are appointing)

or failing the person named, or if no person is named, the Chairman as my/our proxy and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Extraordinary General Meeting of Algae.Tec Limited to be held at 11:30am (WST) on 29 June 2015 at BDO Hay Room, 38 Station Street, Subiaco WA 6008 and at any adjournment of that meeting.

IMPORTANT - If the Chairman of the Meeting is your proxy or is appointed as your proxy by default and you do not mark any of the boxes below you are expressly authorising and directing the Chairman of the Meeting to exercise your proxy on that Resolution in accordance with the Chairman's voting intentions.

The Chairman of the Meeting intends to vote all non-directed proxies in favour of all Resolutions.

Votes on items of business

(Voting directions to your proxy – please mark X to indicate your directions)

	FOR	AGAINST	ABSTAIN*
Item 1 - Ratification of Share Placement – Reliance Industrial Investments and Holdings Limited	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 2 - Ratification of Option Placement - Reliance Industrial Investments and Holdings Limited	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 3 - Ratification of Convertible Note Issue – China Finance Strategies Investment Holdings Limited	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 4 - Ratification of Option Issue – Cross Border Ventures Limited	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 5 - Approval of Grant of Options – Peter Hatfull	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 6 - Approval of Grant of Options – Malcolm James	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 7 - Approval of Grant of Options – Earl McConchie	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*If you mark the abstain box for a particular item, you are directing your proxy not to vote on that item.

Appointment of a second proxy

If two proxies are being appointed, the proportion of voting rights this proxy represents is

Authorised signature(s)

This section must be signed in accordance with the instructions overleaf to enable your directions to be implemented.

INDIVIDUAL/SECURITY HOLDER 1

Individual/Sole Director and
Sole Company Secretary

SECURITY HOLDER 2

Director

SECURITY HOLDER 3

Director/Company Secretary

Contact Details

Contact Email address

Contact Telephone Number

Voting By Proxy - How to complete the Proxy Form

Your Name, Address and Shareholder Details

Please complete your name and address as it appears on the share register of Algae.Tec Limited. If you are returning the Proxy Form by email your SRN or HIN must also be included.

Appointment of a Proxy

Please write the name of that person you wish to appoint as proxy in the space indicated. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman will be your proxy and vote on your behalf. A proxy need not be a shareholder of Algae.Tec Limited

Votes on Items of Business

You may direct your proxy how to vote by placing a mark one of the three boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy will vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

Appointment of a Second Proxy

If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company or you may copy this form.

To appoint a second proxy you must state the percentage of your voting rights on each of the first Proxy Form and the second Proxy Form and return both forms together.

Authorised Signature/s

You must sign this form as follows in the spaces provided:

- Joint Holding in the case of joint holders the Proxy Form must be signed by all holders.
- Power of Attorney if signed under a Power of Attorney, you must have already lodged it with the Company, or alternatively, attach the Power of Attorney or a copy to this Proxy Form when you return it.
- Companies a Director can sign jointly with another Director or a Company Secretary. A sole Director who is also the sole Secretary can also sign. Please indicate the office held by signing in the appropriate space.

If a representative of the corporation is to attend the meeting and a Proxy Form is not used, then an appropriate "Certificate of Appointment of Representative" should be produced prior to admission.

Lodgement of Proxy Form

This Proxy Form and any Power of Attorney or other authority under which it is signed (or a copy or facsimile which appears on its face to be an authentic copy of the proxy, power or authority) must be received no later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Documents may be lodged by:

- delivering or posting it to Algae.Tec Limited, Unit 2 100-104 Railway Road Subiaco WA 6008, Australia; or
- faxing it to the Company on facsimile number (08) 9381 9161 (International +61 8 9381 9161); or
- emailing it to the Company at phatfull@algaetec.com.au

