



# Appendix 4D – Half Year Report

## 31 December 2015

Algae.Tec Limited

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The reporting period is the Half - Year ended 31 December 2015 with the previous corresponding period being the Half - Year ended 31 December 2014. This report should be read in conjunction with the most recent annual financial report.

## Algae.Tec Limited

### Appendix 4D – Half Year Report

#### Results for Announcement to the Market

<b>Operating Results</b>			
	<b>% change</b>	<b>6 months ended 31 Dec 2015</b>	<b>6 months ended 31 Dec 2014</b>
Revenue from ordinary activities			
Loss from ordinary activities after tax attributable to members	82.46%	(2,088,719)	(1,144,734)
Net loss for the period attributable to members	93.83%	(2,083,635)	(1,074,992)
<b>Dividends</b>			
It is not proposed to pay any dividends			
		<b>31 Dec 2015</b>	<b>30 Jun 2015</b>
Net tangible asset per security		0.00	0.01
There were no entities over which control was gained or lost during the period.			
No interest is held in any joint ventures or entities over which the consolidated entity has significant influence.			

## Company Details

### Directors

Peter Hatfull	Managing Director
Earl McConchie	Executive Director
Malcolm James	Non-Executive Chairman ( <i>Appointed 16 September 2014</i> )

### Company Secretary

Peter Hatfull

### Principal Registered Office in Australia

Unit 2, 100 Railway Road  
Subiaco WA 6008

### Share Register

Computershare Investor Services Pty Limited  
Level 11, 172 St George's Terrace  
Perth WA 6000

### Auditors

BDO Audit (WA) Pty Ltd  
38 Station Street  
Subiaco WA 6008

### Bankers

Commonwealth Bank of Australia	Wells Fargo Bank
Business and Private Banking	464 California Street
Level 1, 38 Adelaide Street	San Francisco
Fremantle WA 6160	USA

### Securities Exchange

Australian Securities Exchange	Frankfurt Stock Exchange	New York Stock Exchange
ASX	FSE	NYSE
Level 5, 20 Bridge Street	60485 Frankfurt am Maim	11 Wall Street
Sydney NSW 2000	Germany	New York NY 10005
AEB	GZA:GR	ALGX:US

## **Directors' Report**

For the half-year ended 31 December 2015

### **Directors**

The Directors of the Group at any time during or since the end of the financial year are:

**Peter Ernest Hatfull**                      **Managing Director**

**Earl McConchie**                         **Executive Director**

**Malcolm James**                         **Non – Executive Chairman**

### **Review of financial position**

The consolidated loss of the Group amounted to \$2,083,635 (2014: Loss \$1,074,992) after including a tax refund due for R & D activities in the six months of \$1,375,930.

Net cash expensed through operating activities for the six months was \$453,767 compared to an inflow of cash of \$497,337 received in the corresponding period last year.

Revenue derived from the provision of services and equipment is a result of the agreement with the Reliance Group of India for the research and development of algae species and the supply of a pilot plant.

### **Major events during the year were as follows:**

#### ***Reliance Industrial Investments and Holdings Limited (RIHL)***

On 19 December 2014 the Company announced a further subscription agreement with Reliance Industrial Investments and Holdings Limited (RIHL) to raise \$AUD2.4m. The highlights of the second subscription agreement was to raise \$AUD1.4m via issue of 20m shares at \$0.07 cents and the issue of 14,285,714 options at an exercise price of \$0.07 cents with RIHL exercising half of these options within 5 months and subsequently 10 months to the date of issue. These proceeds provided additional working capital for the fast development of an algae plant in Jamnagar, India, utilizing our technology for the creation of biofuel. \$500,000 of options was exercised in May 2015 with the balance of the remaining \$500,000 of options being exercised at an exercise price of \$0.07 cents on 25 October 2015.

The work on the small scale plant in Jamnagar for Reliance proceeded well during the period, however the commissioning of the plant has been delayed until the first half of 2016 due to other operational initiatives and priorities of Reliance on their refinery where the algae plant is being built.

#### ***Algae for Nutraceutical Products***

On 25 March 2015 the Group announced the expansion of its development and manufacturing facilities in Cumming, Georgia USA and the building of an initial small scale plant for the production of algae for the nutraceutical market.

On 6 January 2016, the Group announced that it had completed the commissioning and initial startup of the algae production plant to produce algae-based nutraceutical products.

The facility has an output capacity of up to 50 tonnes of algae per year with flexibility to produce and test multiple algal strains based on nutritional requirements. It is expected that the plant will obtain organic certification within the next few months.

### **Subsequent events**

On 22 January 2016, the Company announced it had finalised a capital raise of up to \$1.5m via a convertible note offer. The offer will comprise of up to 1,500,000 convertible unsecured notes with a face value of \$1.00 per Note to raise up to \$1,500,000. At the date of this report, applications totaling \$1.01m had been received and of which \$775,000 has been paid.

The proceeds of the offer will be utilised to accelerate the development of the Company's production facilities and ongoing product development of its Manufacturing and Development Centre in Atlanta, Georgia USA.

On 17 February 2016, the Company announced its partnership with W.R. Grace and Company, Gas Technologies Institute and Michigan Technological University for their involvement with a \$10M Department of Energy Grant.

Algae.Tec was selected as sole provider for its unique, high quality algal biomass, which will serve as a critical component of this multidisciplinary project.

### **Dividends**

No dividends were paid or recommended by the Directors

## **Directors' Report**

*For the half-year ended 31 December 2015*

### **Auditor's Independence Declaration**

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on Page 18.

Signed at Perth, in accordance with a resolution of the directors, pursuant to Section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'Peter Hatfull', written in a cursive style.

**Peter Hatfull**  
*Managing Director*  
26 February 2016

## Consolidated Statement of Financial Position as at 31 December 2015

	Notes	31 December 2015	30 June 2015
		\$	\$
<b>Assets</b>			
Cash and cash equivalents		125,658	1,105,130
Trade and other receivables		1,466,104	2,820,150
Tax receivable		12,513	11,905
Prepayments		73,260	68,236
<b>Total current assets</b>		<b>1,677,535</b>	<b>4,005,421</b>
Other receivables		109,445	106,925
Property, plant and equipment		724,453	762,909
Deferred tax assets		269,392	256,313
<b>Total non-current assets</b>		<b>1,103,290</b>	<b>1,126,147</b>
<b>Total assets</b>		<b>2,780,825</b>	<b>5,131,568</b>
<b>Liabilities</b>			
Trade and other payables		640,127	634,732
Loans and borrowings	6	1,444,306	2,285,959
Provisions		186,800	187,735
<b>Total current liabilities</b>		<b>2,271,233</b>	<b>3,108,426</b>
<b>Non-current liabilities</b>			
Loans and borrowings		-	-
<b>Total non-current liabilities</b>		<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>2,271,233</b>	<b>3,108,426</b>
<b>Net assets</b>		<b>509,592</b>	<b>2,023,142</b>
<b>Equity</b>			
Contributed equity	4	20,094,200	19,594,201
Reserves		238,522	163,352
Accumulated losses		(19,823,130)	(17,734,411)
<b>Total equity</b>		<b>509,592</b>	<b>2,023,142</b>

The notes of pages 10 to 14 are an integral part of these consolidated financial statements.

## Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Half – Year to 31 December 2015

	Notes	31 December 2015	31 December 2014
<b>Revenue from operating activities</b>		\$	\$
Provision of services and equipment		61,259	512,763
Interest		2,987	4,320
<b>Other income</b>			
R & D Tax incentive		1,375,930	886,261
		<u>1,440,176</u>	<u>1,403,344</u>
<b>Expenditure</b>			
Employee benefits		(1,537,478)	(1,235,052)
Directors share based payments		(70,086)	-
Depreciation expense		(117,087)	(100,837)
Advertising expense		(3,761)	(17,366)
Property, rent & lease expenses		(197,308)	(184,688)
Communication expenses		(21,241)	(17,681)
Consultancy expenses		(38,355)	(51,943)
Gain/(Loss) on early conversion		-	(43,679)
Filling and listing fees		(59,241)	(88,842)
Freight and courier expenses		(14,869)	(8,389)
Insurance expenses		(37,737)	(85,607)
Legal fees		(15,925)	(41,100)
Materials and supplies		(864,932)	(70,432)
Professional fees (other)		(196,993)	(210,463)
Repairs and maintenance expenses		(8,072)	(15,843)
Travel expenses		(107,721)	(34,896)
Finance costs (convertible note)		-	(127,489)
Finance costs (other)		58,448	(125,150)
Unrealised foreign exchange profit/(loss)		(65,504)	36,049
Withholding taxes unrecoverable		(40,313)	-
Other expenses		(177,923)	(87,230)
Research and development expenses		(12,757)	(19,288)
Loss on sale on fixed assets		-	(5,755)
<b>Loss before income tax</b>		<u>(2,088,679)</u>	<u>(1,132,337)</u>
Income tax expense		(40)	(12,397)
<b>Net loss attributable to members of the company</b>		<u>(2,088,719)</u>	<u>(1,144,734)</u>
Other comprehensive income/(loss)			
<b>Items that may be reclassified to the profit and loss</b>			
Effect of exchange rate translation		5,084	69,742
Other comprehensive income/(loss) for the year		<u>5,084</u>	<u>69,742</u>
Total comprehensive income/(loss) for the year attributable to members of the company		<u>(2,083,635)</u>	<u>(1,074,992)</u>
<b>Earnings per share</b>			
Basic loss per share (cents per share)		(0.62)	(0.36)
Diluted loss per share (cents per share)		(0.62)	(0.36)

The notes of pages 10 to 14 are an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity for the Half – Year ended 31 December 2015

Note	Contributed Equity \$	Accumulated losses \$	Foreign exchange reserve \$	Share based payment reserve \$	Total equity \$
<b>Balance at 1 July 2015</b>	19,594,200	(17,734,411)	64,828	98,524	2,023,142
Loss for the period	-	(2,088,719)	-	-	(2,088,719)
Other comprehensive loss	-	-	5,084	-	5,084
<b>Total comprehensive loss for the period</b>	-	(2,088,719)	5,084	-	(2,083,635)
<b>Transactions with owners in their capacity as owners</b>	-	-	-	-	-
Share issued during the period	500,000	-	-	-	500,000
Share based payments	-	-	-	70,086	70,086
<b>Balance at 31 Dec 2015</b>	<b>20,094,200</b>	<b>(19,823,130)</b>	<b>69,912</b>	<b>168,610</b>	<b>509,592</b>
	Contributed Equity \$	Accumulated losses \$	Foreign exchange reserve \$	Share based payment reserve \$	Total equity \$
<b>Balance at 1 July 2014</b>	16,679,797	(15,016,246)	(24,314)	97,000	1,736,237
Loss for the period	-	(1,144,734)	-	-	(1,144,734)
Other comprehensive loss	-	-	69,742	-	69,742
<b>Total comprehensive loss for the period</b>	-	(1,144,734)	69,742	-	(1,074,992)
<b>Transactions with owners in their capacity as owners</b>	-	-	-	-	-
Share issued during the period	1,989,403	-	-	-	1,989,403
Value of share options issued	-	-	-	-	-
<b>Balance at 31 Dec 2014</b>	<b>18,669,200</b>	<b>(16,160,980)</b>	<b>45,428</b>	<b>97,000</b>	<b>2,650,648</b>

The notes of pages 10 to 14 are an integral part of these consolidated financial statements



## Consolidated Statement of Cash Flows for the Half – Year ended 31 December 2015

	Half – Year ended 2015	Half – Year ended 2014
Notes	\$	\$
<b>Cash flow from operating activities</b>		
Cash receipts from customers	584,501	860,851
Cash paid to suppliers and employees	(3,201,170)	(2,491,273)
<b>Cash outflows from operating activities</b>	(2,616,669)	(1,630,422)
Interest paid	(105,874)	(81,645)
Interest received	2,987	4,320
Income taxes R & D refund	2,265,789	2,205,084
<b>Net cash inflows/(outflows) from operating activities</b>	(453,767)	497,337
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(39,312)	1,398
<b>Net cash inflows\ (outflows) from investing activities</b>	(39,312)	1,398
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	500,000	1,700,000
Proceeds from borrowings (R & D facility)	829,451	728,998
Proceeds from borrowings (other)	10,646	7,194
Repayment of borrowings (La Jolla)	-	(140,154)
Repayment of borrowings (Convertible Note)	-	(188,750)
Repayment of borrowings (R & D facility)	(1,725,000)	(1,500,000)
Repayment of borrowings (other)	(41,070)	(46,196)
<b>Net cash inflow/(outflow) in financing activities</b>	(425,973)	561,092
<b>Net increase/(decrease) in cash and cash equivalents</b>	(919,052)	1,059,827
Cash and cash equivalents at beginning of financial period	1,105,130	302,766
Effect of exchange rate fluctuations on cash held	(60,420)	105,791
<b>Cash and cash equivalents at end of financial period</b>	125,658	1,468,384

*The notes of pages 10 to 14 are an integral part of these consolidated financial statements.*

## Notes to the Financial Statements

For the half - year ended 31 December 2015

### 1. Basis of accounting

The consolidated interim financial statements for the half-year reporting period ended 31 December 2015 has been prepared in accordance with Australian Accounting Standards AASB134 *Interim Financial Reporting* and the *Corporations Act 2001*. The consolidated statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 26 February 2016.

### *New and amended standards adopted by the group*

A number of new and amended standards became applicable for the current period. However, the consolidated entity did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

### 2. Impact of New Standards issued but not yet applied

There were no new standards issued since 30 June 2015 that have been applied by the consolidated entity. The 30 June 2015 annual report disclosed that the consolidated entity anticipated no new material changes arising from initial application of those standards issued but not yet applied at that date and this remains the assessment as at 31 December 2015.

### 3. Operating segments

The Group operates in the environmental energy industry. The Group operates in two geographical locations being Australia and USA. This internal reporting framework is the most relevant to assist the Board with making decisions regarding the Group and its ongoing activities.

	Half-year ended 2015 \$	Half-year ended 2014 \$
<b>Information about reportable segments</b>		
USA Profit/(loss)	208,561	152,718
Australia Profit / (loss)	(1,232,913)	(683,154)
Reportable segment Profit/(loss)	(1,024,352)	(530,436)
Interest	2,987	4,320
Unrealised exchange gain/(loss)	(65,504)	36,049
Corporate expenses	(1,001,810)	(642,270)
Loss before tax	(2,088,679)	(1,132,337)
Reportable segment assets		
Australia	1,675,951	2,087,255
USA	1,104,874	2,001,908
	2,780,825	4,089,163
Reportable segment liabilities		
Australia	1,783,254	1,205,696
USA	487,979	232,819
	2,271,233	1,438,515
<b>Revenue by geographical segment</b>		
<b>India</b>	18%	37%
<b>Australia</b>	82%	63%
<b>USA</b>	0%	0%

## Notes to the Financial Statements

For the half - year ended 31 December 2015

### 4. Issues, repurchases and repayments of equity securities

	Half year ended 31 Dec 2015		Year ended 30 June 2015	
	\$	Number	\$	Number
Movements in capital during the half year were as follows:				
Issued capital at the beginning of the financial half year	19,594,200	331,521,779	16,679,797	290,791,631
Issue of shares pursuant of Conversion notice	-	-	714,404	11,753,551
Issue of shares pursuant to placement	-	-	2,200,000	28,976,597
Issue of shares via take up of options	500,000	7,142,857	-	-
Issue of shares in exchange for services provided	-	-	-	-
	<u>20,094,200</u>	<u>338,664,636</u>	<u>19,594,201</u>	<u>331,521,779</u>

### 5. Capital and reserves

Share option reserve

	31 Dec 2015	30 June 2015
	\$	\$
Share option reserve	<u>168,610</u>	<u>97,000</u>

The share option reserve arises on the grant of shares options to employees, directors and consultants (share based payments) and to record issue, exercise and lapsing of listed options.

#### Share based payments

1,000,000 options were issued to Advides during the financial year ended 30 June 2013 in return for the signing of the agreement with Lufthansa. The options are exercisable at \$1.00 each on or before 14 October 2015. These options have been assessed in value at \$97,000. The value of the options was calculated using the Black and Scholes model.

Model inputs used to value the options granted included;

- Exercise price is \$1.00
- Market price of shares at grant date \$0.31
- Expected volatility of the Group's shares is 90%
- Risk-free interest rate used is 2.62%
- Time to maturity, 3 years
- A dividend yield of 0%

7,000,000 options were issued to Mr Peter Hatfull and 7,000,000 options to Mr Malcolm James during the financial year ended 30 June 2015. The options have been assessed in value at \$556,122. The value of the options was calculated using the Black and Scholes model.

- Grant Date of Options was 29 June 2015
- Expiry Date is 4 years after date of issue
- Exercise price of the options is \$0.09 per share
- The Share Based Payment expense has been split evenly between the Directors as follows;
  - Expense for Year end 30 June 2015 \$ 1,523
  - Expense for Year end 30 June 2016 \$ 139,030
  - Expense for Year end 30 June 2017 \$ 139,030
  - Expense for Year end 30 June 2018 \$ 139,030
  - Expense for Year end 30 June 2019 \$ 137,506

The expected volatility during the term of the options is based around assessments of the volatility of similar-sized listed, including newly listed entities in similar industries at grant date. For the purposes of the Black and Scholes valuation a 0% dividend yield has been used as a model input. At this time the Group does not have a dividend policy.

There were no new options issued in return for goods or services during the half year.

## Notes to the Financial Statements

For the half-year ended 31 December 2015

### 6. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost.

	31 Dec 2015	30 June 2015
	\$	\$
<b>Non-current liabilities</b>		
Finance lease liabilities	-	-
<b>Total trade and other payables</b>	-	-
<b>Current liabilities</b>		
Convertible note at fair value through profit or loss (6 (ii))	685,014	653,168
Macquarie R & D loan facility	695,376	1,590,924
Hunter Premium funding	11,443	41,867
Directors' loans	52,473	-
<b>Trade and other payables</b>	<b>1,444,306</b>	<b>2,285,959</b>
<b>Totals</b>	<b>1,444,306</b>	<b>2,285,959</b>

### Related party transactions

At 31 December 2015, Mr Garnet Earl McConchie, a director of Algae.Tec Limited, had advanced funds of \$52,473 (US\$40,000) to the Group on a short term basis and on which no interest is payable.

### Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	31-Dec-15		30-Jun-15	
				Face value A\$	Carrying amount A\$	Face value A\$	Carrying amount A\$
Convertible Notes at fair value through profit or loss	AUD	12%	2016	695,837	685,014	695,837	653,168
Macquarie Facility	AUD	15%	2016	695,376	695,376	1,590,924	1,590,924
Hunter Premium	AUD	7.25%	2016	73,919	11,443	63,273	41,867
Directors Loans	USD	0%	2016	52,473	52,473	-	-
Total interest bearing liabilities		AUD		1,465,132	1,391,833	2,350,034	2,285,959
Total non-interest bearing liabilities		AUD		52,473	52,473	-	-
Total borrowings		AUD		1,517,605	1,444,306	2,350,034	2,285,959

#### (i) Finance lease liabilities

There were no finance lease liabilities payable other than those noted above.

#### (ii) Convertible note

*China Finance Strategies Investment Holdings Ltd*

On 9<sup>th</sup> January 2015 the Company entered into an agreement with China Finance Strategies Investment Holdings Ltd. ("CFS") under which Algae.Tec issued an initial USD 500,000 convertible bond. In addition, subject to the achievement of certain milestones further conditional options of USD 5,000,000 will be issued to CFS.

- The Bond Amount is unsecured
- Interest is paid annually in arrears at a rate of 12% per annum
- The agreement is for 18 months expiring on 9 July 2016
- The conversion price is set at \$0.075 per fully paid ordinary share in the capital of Algae.Tec Limited
- In the event that there is any future issue of equity securities (other than the issue of equity pursuant to the conversion of any convertible security issued prior to the date of this agreement) at any time or times during the period before the Note is converted or redeemed and the consideration for such securities is less than the \$0.075 per equity security, then the

## Notes to the Financial Statements

For the half - year ended 31 December 2015

### 6. Loans and borrowings (continued)

#### (ii) Convertible note (continued)

- conversion price will be adjusted down to the lower of, if there is more than one occasion when such securities are issued, the lowest price.
- The lender may serve notice in writing on Algae.Tec Limited requesting the Company to convert the Bond or any part thereof.
- If the share price at any one or more times have been above \$0.20 for 20 consecutive days, the subscriber will be entitled to convert all or a portion of the Convertible Note, subject to a minimum conversion of \$100,000 by delivering notice any time prior to the Maturity Date.
- If the share price has not been above \$0.20 for 20 consecutive days, the subscriber may exercise its rights during the 10 business days before the Maturity Date or any time after achievement of Milestone One.

The Milestones incorporated into the agreement are as follows:

- Milestone One means the Subscriber or a party introduced by the Subscriber and the Issuer entering into a binding memorandum of understanding for the construction in any location within the Greater China Area of an algae plant of at least one module using, amongst others, the Issuer's Intellectual Property. This will also entitle the Subscriber to subscribe to USD2, 000,000 of shares at the exercise price of \$0.075.
- Milestone Two means the Subscriber or a party introduced by the Subscriber and the Issuer entering into a binding memorandum of understanding for the construction in any location within the Greater China Area of an algae plant of between 20 and 100 modules using, amongst others, the Issuer's Intellectual Property. This will also entitle the Subscriber to subscribe to USD2, 000,000 of shares at the exercise price of \$0.075.
- Milestone Three means the Subscriber or a party introduced by the Subscriber and the Issuer entering into a binding memorandum of understanding for the construction in any location within the Greater China Area of one or more algae plants exceeding a total greater than 100 modules using, amongst others, the Issuer's Intellectual Property. This will also entitle the Subscriber to subscribe to USD1, 000,000 of shares at the exercise price of \$0.075.

### 7. Fair value measurement of financial instruments

#### Recurring fair value measurements

The following financial instruments are subject to recurring value measurements:

	31 Dec 2015	30 June 2015
	\$	\$
Level 3 – Convertible note	685,014	653,168

#### Fair value hierarchy

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – a valuation technique is used which takes into account inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices), or indirectly (i.e. derived from prices), and
- Level 3 – a valuation technique is used which takes into account inputs that are not based on observable market data (unobservable inputs).

#### Transfers

During the half - year ended 31 December 2015, there were no transfers into or out of level 3 during the period.

#### Valuation techniques used to derive level 3 fair values

##### CFS Convertible Note

The fair value of CFS convertible note is determined using internally prepared discounted cash flow valuation technique using a combination of observable inputs (such as Foreign Exchange rate, Share price and the terms of conditions of the convertible notes as disclosed above). The quantitative information about the significant unobservable inputs used in the CFS convertible note is as follows:

## Notes to the Financial Statements

For the half - year ended 31 December 2015

### 7. Fair value measurement of financial instruments (continued)

#### Valuation techniques used to derive level 3 fair values (continued)

Description	Fair value at 31 December 2015 \$	Unobservable inputs	Relationship of unobservable inputs to fair value
Convertible Note	685,014	The probability of issue of equity at below \$0.075 before expiry of the note. The probability is assessed as nil as 31 December 2015.	Should the price reset be triggered, the price of conversion is the underlying share price of the newly issued equity securities.
		The probability of achieving Milestone 1, 2 and 3 (per the milestone options above). This is assessed as nil at year ended 31 December 2015.	The greater the probability of achieving the milestones, the greater the value of the con note.

#### Fair value of financial instruments not measured at fair value.

The following financial instruments are not measured at fair value in the Statement of Financial Position. These had the following fair values at 31 December 2015.

	Carrying amount \$	Fair value \$
Current Assets		
Receivables	1,466,104	1,466,104
Non-current Assets		
Receivables	109,445	109,445
	<u>1,575,549</u>	<u>1,575,549</u>
Current Liabilities		
Bank loan - Macquarie	695,376	695,376
Centrepoint Alliance/Hunter Premium funding	11,443	11,443
	<u>706,819</u>	<u>706,819</u>

Due to their short-term nature, the carrying amounts of current receivables, current trade and other payables and current interest-bearing liabilities is assumed to approximate their fair value. The non-current receivables' fair value is also not significantly different to its carrying amount.

#### Capital management

The Management controls the capital of the Group in order to maintain a good debt to equity ratio, proved the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary shares financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

#### Contingencies

Algae. Tec Limited has no known contingent liabilities at the end of the period.

#### Parent entity guarantees in respect of debts of its subsidiaries

Algae.Tec Limited has not issued any guarantees to any subsidiaries. It is however committed to the ongoing funding of its American subsidiary Algae Energy Inc.

#### Events after reporting date

On 22 January 2016, the Company announced it had finalised a capital raise of up to \$1.5m via a convertible note offer. The offer will comprise of up to 1,500,000 convertible unsecured notes with a face value of \$1.00 per Note to raise up to \$1,500,000. At the date of this report, applications totaling \$1.01m had been received and of which \$775,000 has been paid.

On 17 February 2016, the Company announced its partnership with W.R. Grace and Company, Gas Technologies Institute and Michigan Technological University for their involvement with a \$10M Department of Energy Grant.

Algae.Tec was selected as sole provider for its unique, high quality algal biomass, which will serve as a critical component of this multidisciplinary project.

## ***Directors' Declaration***

- 1 In the opinion of the Directors of Algae. Tec Limited (the 'Group'):
  - (a) The consolidated financial statements and notes that are set out on pages 6 to 14, are in accordance with the *Corporations Act 2001*, including:
    - (i) Giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the half - year ended on that date; and
    - (ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
- 2 This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the half - year ended 31 December 2015.

Signed in accordance with a resolution of the Directors

On behalf of the Board



Peter Hatfull  
**Managing Director**

Date: 26 February 2016  
Perth, Western Australia

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Algae.Tec Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Algae.Tec Limited, which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

#### Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Algae.Tec Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Algae.Tec Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Algae.Tec Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'Ian Skelton', is written above a blue ink stamp of the BDO logo.

Ian Skelton  
Director

Perth, 26 February 2016

## DECLARATION OF INDEPENDENCE BY IAN SKELTON TO THE DIRECTORS OF ALGAE.TEC LIMITED

As lead auditor for the review of Algae.Tec Limited for the half-year ended 31 December 2015, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Algae.Tec Limited and the entities it controlled during the period.



Ian Skelton

Director

BDO Audit (WA) Pty Ltd

Perth, 26 February 2016