

24 January 2017

ASX Announcement

The Manager Announcements
Company Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

MOU, Capital Raising and Potential Joint Venture

Algae.Tec Limited (ASX Code: AEB) (the "**Company**") is pleased to announce that it has raised a potential gross amount of up to USD1,500,000 (before costs) under convertible notes to be issued by the Company to 707 Holdings Ltd., a sophisticated international investor. USD166,667 of this amount is to be drawn at the time of this announcement, USD333,334 is to potentially be drawn down over the next two months, with the remaining USD1,000,000 subject to the satisfactory completion of certain conditions precedent.

The funds raised will provide working capital for Company operations and increase the Company's flexibility to take advantage of opportunities that may arise in the near future.

The parties have also signed agreements to explore the application of Company licensed technology for the Middle East region. Should the conditions precedent be met, the parties intend to enter into a joint venture regarding development of a facility in the Middle East region that is intended to focus on algae for nutraceuticals. The Company will receive payments for EPC work undertaken and other contingent payments and ownership rights depending on performance of a facility.

The Managing Director of the Company, Peter Hatfull, stated "This funding will allow Algae.Tec to remain committed to achieving full scale production of algae for nutraceutical purposes at our Atlanta facility and deliver sales to Gencor in line with our past announcements. We are also extremely excited to enter into agreements to develop facilities in the Middle East which affords Algae.Tec the opportunity to take its next step forward to proving its technology and moving to a significantly larger, world class facility. We look forward to an exciting number of years ahead."

Principle terms for the convertible note deeds to be issued include:

- Term: Three (3) years
- Conversion right: Convertible into fully paid ordinary shares in the Company at a conversion price that is the lower of (i) AUD0.05 per share and (ii) a 10% discount to the 5-day VWAP to the date of exercise of the conversion right;
- Options: If applicable, if the final tranche of US\$500,000 is converted, the noteholder will receive 45.5 million of separate unlisted options with a term of 12 months from the date of the notes maturity and be exercisable at the lower of AUD0.10 per share and a 10% discount to the 5-day VWAP to the date of exercise of the conversion right;
- Interest rate: 10% per annum;
- Covenants: The Company will be subject to a number of negative covenants during the term;
- Break costs: In the case of breach, the Company is potentially liable to redeem and repay any or all outstanding amounts due under the note plus a break cost equal to 10% of the redemption.

The Convertible Note Deeds contain provisions customary to a loan agreement of this nature, including standard representations and warranties, undertakings and events of default.