



APPENDIX 4E

Preliminary final report For the year ended 30 June 2014

1. Company Details

Algae.Tec Limited
ACN 124 544 190

Reporting period: Year ended 30 June 2014
Previous reporting period: Year ended 30 June 2013

2. Results for announcement to the market

Comparison to previous period	Increase/ Decrease	Change %	To
Revenue from ordinary activities (Appendix 4E Item 2.1)	970,751	27.7	4,479,993
Profit/(Loss) from ordinary activities after tax attributable to members (Appendix 4E Item 2.2)	2,241,442	(50.7)	(2,179,072)
Net Profit/(Loss) from ordinary activities after tax attributable to members (Appendix 4E Item 2.3)	2,201,546	(49.6)	(2,238,894)
Earnings per share			
Basic loss per share (cents per share) (Appendix 4E Item 2.4)	0.01	(50.0)	(0.01)
Dividends It is not proposed to pay a dividend. There are no dividend or distribution investment plans in operation and there have been no dividend or distribution payments during the financial year ended 30 June 2013. (Appendix 4E Item 2.5)			

	2014	2013
Net tangible assets per ordinary security	0.006	0.002



Commentary on results for the year and significant information

Principal Activities

The principal activity of the Group during the course of the financial year was the development of the technology for the production of algal oil and algal biomass for sale as feedstock to producers of biodiesel, jet fuel and ethanol. During the year, the Group also focused on commercialising the technology towards the fast growing nutraceutical market.

Overview of the Group

The year to 30 June 2014 has been a breakout year for Algae.Tec Ltd with the signing of an agreement with the Reliance Group of India, validating our technology and our approach to forming strong strategic relationships to assist in commercializing our unique technology. The agreement with Reliance Industrial Investment and Holdings Limited (RIHL) was signed in January 2014 and it is expected will lead to the first commercial algae plant being built.

The Group's strategic plan of working with significant groups in a range of industries as a step to commercialising our technology has progressed well in the period, with announcements being made regarding partners in industries from power generators to waste to energy companies.

Various funding strategies have been entered into during the year but the Company has not yet finalised the funding for a small scale plant for the nutraceutical market. Discussions regarding this funding are continuing.

Review of financial position

The consolidated loss of the Group amounted to \$2,179,072 (2013: Loss \$4,420,514) after including a tax refund due for R & D activities in the financial year of \$2,174,210.

Net cash expended through operating activities for the financial year was \$1,547,499, a 71.6% decrease on the \$5,450,444 spent in the prior year.

Major events during the year were as follows:

Macquarie Generation

On 2 July 2013 the Group announced a deal with Australia's largest power company, Macquarie Generation, to site a commercial algae production facility alongside a 2640 MW coal-fired power station near Sydney. Macquarie Generation is owned by the New South Wales Government and the agreement is to site the algae plant next to the Bayswater power station and feed waste carbon dioxide directly into the enclosed algae growth system. The ownership of Macquarie Generation is currently under discussion and the plans are therefore on hold until this is resolved.

Biofuels Refinery Deal

Algae.Tec announced a biofuels refinery deal with Biodiesel Industries Australia (BIA) for 50 million litres on 8 July 2013. The oil, to be produced from the Algae.Tec facility planned for 2014 at Macquarie Generation's Bayswater coal-fired power station in Hunter Valley will be refined by BIA, and then used locally by mining and industry in the Hunter region. BIA currently produces biodiesel for Caltex, local councils and the mining industry. As stated above, the discussions regarding an offtake agreement are pending whilst the above situation is resolved.

Corporate Placement and Share Purchase Plan

On 16 July 2013 the Group announced the completion of a share purchase plan which raised AU\$724,399. In addition, corporate placements of AU\$2.3 million were made being \$1.5 million from Reliance Industrial and Investment Holdings Ltd (RIHL) as disclosed below, and \$800,000 from a strategic investor being part of the \$1 million placement disclosed in the previous financial year.

***Convertible Note – Platinum Road***

On 16 October 2013, the Group announced the raising of up to \$1,000,000 via Platinum Bond to sophisticated investors. Of this total, \$750,000 has been drawn down at 30 June 2014. These funds were utilised to progress key projects and for general working capital. The bond is repayable in 12 months or converted to shares at a price of \$0.22 cents or at 95% of the lowest VWAP for the previous 10 days if Algae.Tec's share price falls below \$0.15 for 15 consecutive trading days.

Phoenix Energy Australia

On 29 October 2013, Algae.Tec signed a carbon capture agreement with Phoenix Energy Australia to provide algae to biofuels technology for waste to energy (W2E) facilities for Australia and New Zealand. Phoenix Energy Australia is currently negotiating contracts to build and manage centralised W2E facilities from groups of municipalities in Australia.

Nowra Demonstration Facility – Growth System Validated

17 December 2013, Algae.Tec announced the validation of the algae growth system. The validation was conducted by Sydney Environmental and Soil Laboratory Pty Ltd (SESL), a NATA approved company. The report confirms the validation for the application and production capability of the Algae.Tec system in an industrial setting for the nutraceutical market. With the successful completion of the validation process, Algae.Tec will focus on commercialising the technology to establish a strong, profitable revenue base for the Group.

Reliance Industrial Investments and Holdings Limited (RIHL)

On 21 January 2014 Algae.Tec Ltd announced an initial investment of AU\$1.5 million by Reliance Industrial and Investment Holdings Ltd (RIHL) with additional investments of AU\$1.2 million over the next 2 years. In February 2014, Algae.Tec Ltd received its first purchase order for USD\$2.4 million for the supply of certain Algae.Tec production technology and associated technical expertise. The work and equipment ordered under this purchase order will be supplied and completed over approximately the next nine months.

**Consolidated statement of financial position***As at 30 June 2014*

	Notes	30 June 2014	30 June 2013
Assets			
Cash and cash equivalents		302,766	234,431
Trade and other receivables	3	3,161,688	3,486,316
Tax receivable		32,225	-
Prepayments		54,953	97,399
Total current assets		3,551,632	3,818,146
Property, plant and equipment	4	800,813	907,907
Deferred tax assets		230,164	239,283
Total non-current assets		1,030,977	1,147,190
Total assets		4,582,609	4,965,336
Liabilities			
Trade and other payables		452,214	853,371
Loans and borrowings	5	2,197,165	3,503,869
Tax payable		-	29,745
Provisions		196,993	74,501
Total current liabilities		2,846,372	4,461,486
Non-current liabilities			
Loans and borrowings		-	3,768
Total non-current liabilities		-	3,768
Total liabilities		2,846,372	4,465,254
Net assets		1,736,237	500,082
Equity			
Contributed equity	6	16,679,797	13,204,749
Reserves	6	72,686	132,507
Accumulated losses	2	(15,016,246)	(12,837,174)
Total equity		1,736,237	500,082

**Consolidated statement of profit or loss and other comprehensive income**

For the year ended 30 June 2014

	Notes	30 June 2014	30 June 2013
Revenue from operating activities			
Provision of services and equipment		2,299,929	150,482
Interest		5,854	8,200
Other income			
R & D Tax incentive		2,174,210	3,350,560
		4,479,993	3,509,242
Expenditure			
Employee benefits		(2,761,757)	(2,619,558)
Depreciation expense		(198,994)	(193,000)
Advertising expense		(108,425)	(282,095)
Property, rent & lease expenses		(353,069)	(334,598)
Communication expenses		(51,366)	(94,145)
Consultancy expenses		(504,045)	(495,966)
Loss of modification of financial instrument		(95,714)	-
Gain on early conversion		175	-
Filing and listing fees		(102,361)	(151,038)
Freight and courier expenses		(16,570)	(62,991)
Insurance expenses		(110,228)	(132,239)
Legal fees		(75,557)	(175,569)
Materials and supplies		(180,080)	(174,132)
Professional fees (share based payments)		(25,000)	(164,000)
Professional fees (other)		(656,846)	(938,915)
Repairs and maintenance expenses		(20,751)	(114,925)
Travel expenses		(273,141)	(540,796)
Finance costs (convertible note)		(293,228)	-
Finance costs (other)		(333,951)	(494,130)
Unrealised foreign exchange profit/(loss)		17,389	(38,331)
Withholding taxes unrecoverable		(82,774)	-
Other expenses		(400,676)	(377,062)
Research and development expenses		(54,455)	(740,665)
Loss on sale on fixed assets		-	(15,139)
Loss before income tax		(2,201,431)	(4,630,052)
Income tax benefit		22,359	209,538
Net loss attributable to members of the company		(2,179,072)	(4,420,514)
Other comprehensive income/(loss)			
Items that may be reclassified to the profit and loss			
Effect of exchange rate translation		(59,822)	(19,926)
Other comprehensive income/(loss) for the year		(59,822)	(19,926)
Total comprehensive income/(loss) for the year attributable to members of the company		(2,238,894)	(4,440,440)
Earnings per share			
Basic loss per share (cents per share)		(0.01)	(0.02)
Diluted loss per share (cents per share)		(0.01)	(0.02)

**Consolidated statement of changes in equity***For the year ended 30 June 2014*

	Contributed equity	Accumulated losses	Foreign exchange reserve	Share based payment reserve	Total equity
Balance at 1 July 2013	13,204,749	(12,837,174)	35,508	97,000	500,082
Loss for the period	-	(2,179,072)	-	-	(2,179,072)
Other comprehensive loss	-	-	(59,822)	-	(59,822)
Total comprehensive loss for the year	-	(2,179,072)	(59,822)	-	(2,238,894)
Transaction with owners in their capacity as owners					
Share issued during the period	3,450,048	-	-	-	3,450,048
Share based payments	25,000	-	-	-	25,000
Balance at 30 June 2014	16,679,797	(15,016,246)	(24,314)	97,000	1,736,237

	Contributed equity	Accumulated losses	Foreign exchange reserve	Share based payment reserve	Total equity
Balance at 1 July 2012	11,878,665	(8,416,660)	55,434	-	3,517,439
Loss for the period	-	(4,420,514)	-	-	(4,420,514)
Other comprehensive loss	-	-	(19,926)	-	(19,926)
Total comprehensive loss for the year	-	(4,420,514)	(19,926)	-	(4,440,440)
Transaction with owners in their capacity as owners					
Share issued during the period	1,326,084	-	-	-	1,326,084
Value of share options issued	-	-	-	97,000	97,000
Balance at 30 June 2013	13,204,749	(12,837,174)	35,508	97,000	500,082

**Consolidated statement of cash flows***For the year ended 30 June 2014*

	2014	2013
Notes		
Cash flow from operating activities		
Cash receipts from customers	1,483,282	14,441
Cash paid to suppliers and employees	(6,037,741)	(7,015,663)
Cash outflows from operating activities	(4,554,459)	(7,001,222)
Interest paid	(261,107)	(235,642)
Interest received	5,854	8,200
Tax paid	-	
Income taxes R & D refund	3,262,213	1,778,220
Net cash inflows/(outflows) from operating activities	(1,547,499)	(5,450,444)
Cash flows from investing activities		
Net movement in loans	(75,750)	-
Purchases of property, plant and equipment	(102,627)	41,675
Net cash inflows\ (outflows) from investing activities	(178,377)	41,675
Cash flows from financing activities		
Proceeds from issue of share capital	3,024,400	1,209,920
Proceeds from borrowings (convertible note)	750,000	1,383,524
Proceeds from borrowings (R & D facility)	1,543,572	3,640,953
Proceeds from borrowings (other)	83,628	147,464
Repayment of borrowings (La Jolla)	(890,598)	(963,480)
Repayment of borrowings (R & D facility)	(2,610,270)	(1,260,301)
Repayment of borrowings (other)	(64,088)	(43,410)
Net cash inflow/(outflow) in financing activities	1,836,644	4,114,670
Net increase/(decrease) in cash and cash equivalents	110,768	(1,294,099)
Cash and cash equivalents at beginning of financial period	234,431	1,586,787
Effect of exchange rate fluctuations on cash held	(42,433)	(38,331)
Cash and cash equivalents at end of financial period	302,766	234,431

There were no non-cash investing or financing activities.



The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The preliminary final report were authorised for issue by the Board of Directors.

1. 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.

Information about reportable segments

	2014	2013
USA Profit/(loss)	58,913	1,664,122
Australia Profit/(loss)	351,521	(3,074,374)
Reportable segment (Profit)	410,434	(1,410,252)
Interest	5,854	8,200
Unrealised exchange gain/(loss)	17,389	(38,331)
Corporate expenses	(2,635,108)	(3,189,669)
Loss before tax	(2,201,431)	(4,630,052)
Reportable segment assets		
Australia	3,472,660	3,868,965
USA	1,109,949	1,096,371
	4,582,609	4,965,336
Reportable segment liabilities		
Australia	2,626,355	4,331,592
USA	220,018	133,662
	2,846,372	4,465,254

2. Accumulated losses

	2014	2013
Accumulated losses at the beginning of the financial year	(12,837,174)	(8,416,660)
Net loss attributable to members	(2,179,072)	(4,420,514)
Accumulated losses at the end of the financial year	(15,016,246)	(12,837,174)

3. Trade and other receivables

	2014	2013
Trade receivables	818,908	156,527
R & D incentives	2,174,210	3,262,213
GST refund	29,420	-
Other receivables	139,150	67,576
Total receivables	3,161,688	3,486,316

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The Group's exposure to credit and market risks, and impairment losses related to trade and other receivables are disclose in note 19 of the annual report.

There are no past due or impaired receivables.

**4. Property, plant and equipment**

Property, plant and equipment at cost

Less: Accumulated depreciation

Property, plant and equipment

	2014	2013
Property, plant and equipment at cost	1,268,336	1,184,285
Less: Accumulated depreciation	(467,523)	(276,378)
Property, plant and equipment	800,813	907,907

5. 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 excepting the convertible note which is measured at fair value. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk arising from these loans and borrowings, see note 20 financial instruments

Non-current liabilities

Derivative liability

Convertible notes

Finance lease liabilities

Total trade and other payables**Current liabilities**

Convertible note – at fair value through profit or loss (ii)

Macquarie R & D loan facility

La Jolla Investors (i)

HP liability

Centrepont Alliance

Directors' loans

Trade and other payables**Totals**

	2014	2013
Derivative liability	-	-
Convertible notes	-	-
Finance lease liabilities	-	3,768
Total trade and other payables	-	3,768
Current liabilities		
Convertible note – at fair value through profit or loss (ii)	716,089	-
Macquarie R & D loan facility	1,313,954	2,380,652
La Jolla Investors (i)	121,298	1,007,023
HP liability	3,768	7,538
Centrepont Alliance	42,056	15,882
Directors' loans	-	92,774
Trade and other payables	2,197,165	3,503,869
Totals	2,197,165	3,507,637

(i) La Jolla Cove Investors

Originally a convertible note which was cancelled on 19 April 2013 gave rise to a penalty amount of US\$125,830.86. At 30 June 2014 an amount of US\$118,338.26 (AU\$121,298) remained outstanding. Subsequent to this report, a further US\$25,000 has been repaid and the remaining balance is due within the next six months.

(ii) Convertible note – at fair value through profit or loss

On 15th October 2013 the Group entered into an agreement with Platinum Road Pty Ltd to raise up to \$1,000,000 (Bond Amount) through the issue of convertible bonds to sophisticated investors (Convertible Bonds) under the following terms;

- The Bond Amount is secured under the terms of a charge.
- At the election of the Lender interest is either;
 - Paid monthly in arrears in cash at a rate of 7.5% per annum applied to the Bond Amount commencing from the Advance Date; or
 - Paid at the Advance Date by increasing the Bond Amount by 7.5%. This was the method adopted against the advance of \$750,000.
- The agreement expires on 15th October 2014.
- The conversion price was set at \$0.22 per fully paid ordinary share in the capital of Algae.Tec Limited.



- In the event that the closing price of the Shares is below \$0.15 for 15 consecutive trading days during the term the conversion price is the lesser of:
 - An amount not less than 95% of the VWAP on any day nominated by the Lender from 10 days of trading in the shares on the ASX immediately preceding the conversion date; and
 - \$0.22 per share;
- The lender may serve notice in writing on Algae.Tec Limited (the Group) at any time prior to the expiration of the Term requesting the Group to convert the Bond Amount (or part thereof in minimum increments of \$25,000 each) whereupon the Group must within 2 days of service of such notice convert the amount so notified using the Conversion Price and do all things necessary to cause the Lender to become entitled to be registered as the holder of the relevant number of fully paid ordinary shares in the Group. Conversion is not subject to shareholder approval.
- To the extent that the Bond Amount is not converted into Shares in accordance with the Group, the issuer must repay the Bond Amount and any other monies owing upon expiry of the Term. An aggregate of \$750,000 was advanced to the Group under the Convertible Bond Deed on 15th October (Advanced Monies) and Convertible Bonds with a face value of \$831,250 (which is inclusive of interest payable) were issued by the Group (Issued Convertible Bonds). The Convertible Bond Deed was varied on 23rd December 2013 the effect of which was to;
 - Increase the face value of the Issued Convertible Bonds from \$831,250 up to \$1,209,375 (inclusive of interest payable); and
 - To fix the conversion price at \$0.22 per share until 3rd February 2014

The intent of the Variation Deed is that no further funds will be advanced to the Group under the Convertible Bond Deed and no further Convertible Bonds will be issued.

Holders of Convertible Bonds have (as at 30 June 2014) elected to convert \$411,350 of Convertible Bonds to 2,718,584 ordinary shares in the Group in accordance with the terms of the Convertible Bond Deed and the Variation Deed. Platinum Road Pty Ltd received a fee of \$50,000 for arranging this funding and of which 50% (\$25,000) was paid by issue of 238,584 ordinary shares of the Group.

6. Capital and reserves

Share capital

Movements in capital during the year were as follow:

	2014		2013	
	\$	Number	\$	Number
Issued capital at the beginning of the financial year	13,204,749	271,370,190	11,878,665	266,616,782
Issue of shares pursuant of Conversion notice	425,648	3,085,062	1,059,084	3,644,317
Issue of shares pursuant to placement	2,300,000	12,805,068	200,000	909,091
Issue of shares via share purchase plan	724,400	3,292,727	-	-
Issue of shares in exchange for services provided	25,000	238,584	67,000	200,000
	16,679,797	290,791,631	13,204,749	271,370,190

(i) Share Based Payments

Platinum Road received a fee of \$50,000 for arranging funding of which 50% (\$25,000) was paid by issue of 238,584 ordinary shares in the capital of the Group.

(ii) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation.

	2014	2013
Foreign exchange reserve	(24,314)	35,508

(iii) Share option reserve

There were no transactions for the year ended 30 June 2014. The share option reserve is made up as follows:



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%

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.

	2014	2013
Share option reserve	97,000	97,000

7. Other significant information

Statement of financial position of the US subsidiary has been translated at a year-end rate of AUD=USD 0.9756 as published by the Australian Tax Office being the rate as at 30 June 2014.

Statement of profit or loss and other comprehensive income of the US subsidiary has been translated at an average rate for the financial year. This rate was AUD-USD 0.9507 as published by the Australian Taxation Office and being the average rate for the financial year ended 30 June 2014. The differences on translation have given rise to the Foreign Exchange Reserve of AUD\$(24,314).

The Australian government are providing research and development assistance through funding in the manner of income tax refunds for eligible expenditure.

In November 2013, we receive a payment of \$3,262,212 under this scheme for expenditure incurred in the financial year ended 30 June 2013.

A claim is in process of being lodged for the financial year ended 30 June 2014 in the amount of \$2,174,210.

On 21 January 2014 Algae.Tec Ltd announced an initial investment of AU\$1.5 million by Reliance Industrial and Investment Holdings Ltd (RIIHL) with additional investments of AU\$1.2 million over the next 2 years. In February 2014, Algae.Tec Ltd received its first purchase order for USD\$2.4 million for the supply of certain Algae.Tec production technology and associated technical expertise. The work and equipment ordered under this purchase order will be supplied and completed over approximately the next nine months.

8. Group entities

Significant subsidiaries

	Country of incorporation	Ordinary Share Consolidated Equity Interest
		2014 % 2013 %
Controlled entity		
Algae Energy Inc	USA	100

9. Status of audit

This report is based on accounts that are reviewed and in the process of being audited.