

Our Ref: CGL ASX Announce Market Update (434)

21 May 2015

ANNOUNCEMENT 434

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Australian Securities Exchange  
Level 4  
20 Bridge Street  
SYDNEY NSW 2000

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Dear Sir

**Seafarms Group Limited Market Update**

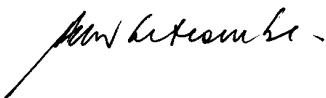
Seafarms Group Limited (**Seafarms** or the **Company**) will be providing updates to a number of brokers and analysts over coming days as well as meeting with potential investors with respect to the Company's Project Sea Dragon (**PSD**).

The following documents are provided to keep the market up to date with operations and PSD:

- Market Update May 2015;
- Location map and project layout for PSD proposed operations on Legune Station and at Kununurra; and
- Project Sea Dragon investment opportunity flyer.

For further information, please call Harley Whitcombe on (08) 9321 4111.

Yours faithfully  
**Seafarms Group Limited**



Harley Whitcombe  
Company Secretary

### **About Seafarms Group**

Seafarms Group Limited (ASX: SFG) (formerly Commodities Group Limited) is an ASX listed holding company with two separate subsidiary companies operating in non-conventional commodities: aquaculture and carbon. Seafarm Operations Limited operates aquaculture operations and CO2 Australia Limited the carbon and environmental operations.

For further information refer the company's web site: [www.seafarms.com.au](http://www.seafarms.com.au)

### **About Seafarm Operations Limited**

Seafarm – a new Australian agri-food company – operates, builds and invests in sustainable aquaculture production platforms producing high-quality seafood. Seafarms is currently the largest producer of farmed prawns – growing, processing and distributing the well-known Crystal Bay Prawns™ premium brand. The company is one of Australia's largest aquaculture enterprises and is also developing Project Sea Dragon – a large-scale, integrated, land-based prawn aquaculture project in northern Australia designed to produce high-quality, year-round reliable volumes for export markets.

For further information refer the company's web site: [www.seafarms.com.au](http://www.seafarms.com.au)



### **About CO2 Australia Limited**

CO2 Australia is a diversified environmental services business, with core competencies in environmental approvals, land management and carbon project management. CO2 Australia has a national reach and provides services across a diverse range of private and public sector clients around Australia. Established in 2004, the company has successfully delivered on over 70 contracts including landmark engagements with Qantas Airways, Santos, Macquarie Bank, Woodside Energy, INPEX Browse, Origin Energy, Newmont Mining and Wannon Water. CO2 Australia manages over 26,000 hectares of land, has developed some of Australia's largest dedicated carbon sinks, has delivered environmental offsets projects for some of Australia's largest infrastructure developments and is delivering large-scale revegetation programs and environmental approvals works across most Australian states and territories.

For further information refer the company's web site: [www.co2australia.com.au](http://www.co2australia.com.au)



# Seafarms Group Limited

**Seafarms Group Limited**

**Market Update**

**May 2015**

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# Seafarms Group Limited

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# Seafarms Group Limited

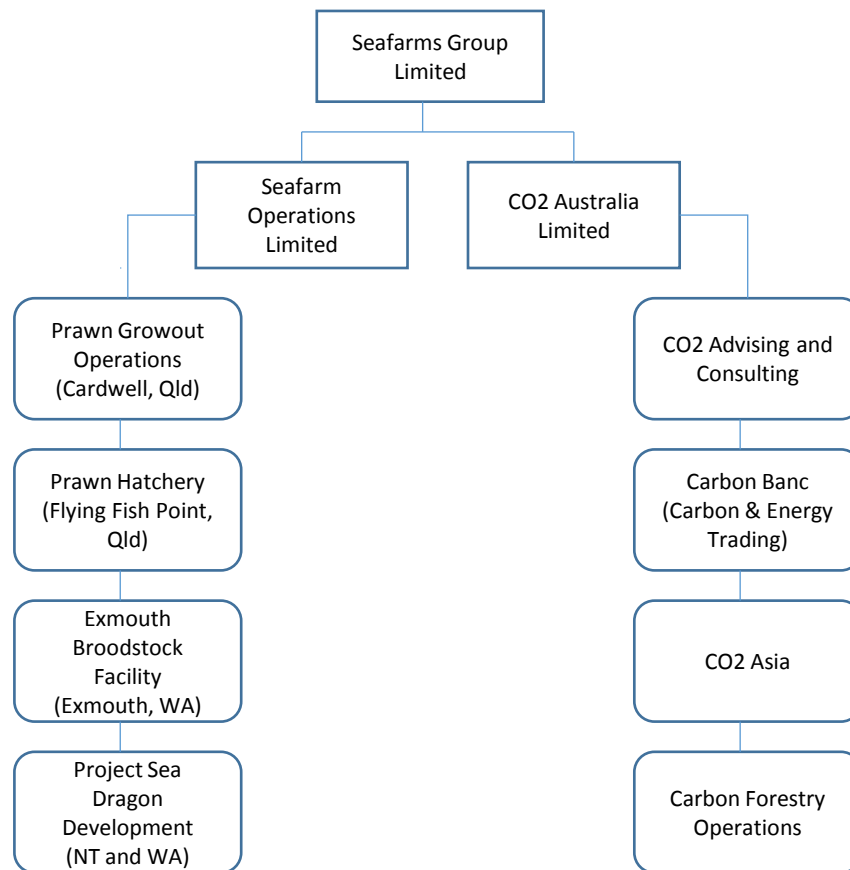
## Corporate Overview

| Corporate Overview                                  |  |
|---|--|
| ASX Listing Code                                    | SFG  |
| Market Capitalisation<br>(at May 2015)              | \$45m  |
| Shares on Issue                                     | 654 million  |
| Convertible Preference Shares                       | 30 million   |
| Cash, debtors and inventories<br>(at 31 March 2015) | \$13.2m  |
| Current Debt (at 31 March 2015)                     | \$3.4m   |
| Long Term Debt                                      | \$9.4m   |
| Financial Year End                                  | 30 September   |
| Directors Shareholdings                             | 57.1%  |
| Directors   | Ian Trahar (Executive Chairman)<br>Harley Whitcombe<br>Chris Mitchell<br>Paul Favretto |
| Company Secretary                                   | Harley Whitcombe   |

# Seafarms Group Limited (ASX: SFG)

## Organisation Structure

Seafarms Group now houses two separate operating businesses



# Group Financial Update

|                               | 31 March 2015       | 31 March 2014       |
|-------------------------------|---------------------|---------------------|
|                               | £                   | £                   |
| Revenue                       | 20.1m               | 14.3m               |
| Normalised half year result * | (1.3m)              | (0.7m)              |
| Current Assets                | 18.5m               | 16.7m               |
| Non-Current Assets            | 36.1m               | 35.2                |
| Current Liabilities           | 8.9m                | 7.2m                |
| Non-Current Liabilities       | 9.4m                | 5.0m                |
| Net Assets                    | 36.2m               | 39.6m               |
| Cash                          | 2.7m                | 3.5m                |
| Debtors                       | 4.3m                | 2.8m                |
| Inventory                     | <u>6.2m</u>         | <u>5.8m</u>         |
|                               | <b><u>13.2m</u></b> | <b><u>12.1m</u></b> |

# Seafarms Group Limited

## Commentary:

- \* Normalised loss takes into account:
  - Costs of restructuring the CO2 Australia business group with a significant redundancy component.
  - Impairment charges with respect to carrying values of CO2 Australia carbon estate.
  - Redundancies within the Seafarms management team with the departure of Australian management and the recruitment of international staff.
  - Project Sea Dragon expenses.
  - Costs and fees in respect of Aquaculture acquisitions related to securing Coral Seafarms and Legune Station.



# Seafarms Group Limited

## Balance Sheet:

- With the securing of the Legume Option and Access Agreement, Project Sea Dragon costs will be capitalised into the future rather than expensed.
- Seafarms debt position of circa \$12.8m being current debt of \$3.4m and long term debt of \$9.4m has been used to fund working capital growth with long term debt comprising principally vendor finance debt for the acquisition of Seafarms Cardwell operations (Farms 1 and 2) and Coral Seafarms (Farm 3) noting that Farm 3 commenced grow out in November 2014 and harvest processing was partially completed by 31 March 2015.
- The Company's Interim Report for half year 31 March 2015 will be available prior to the end of May 2015.
- Independent Broker Research is forecasting FY2015 consolidated performance between an EBITDA loss of \$500K to EBITDA positive of \$1.500k. Seafarms is comfortable with this range.

# CO2 Australia

## **Carbon Business**

- Restructure now complete
- Successful bid into Emissions Reduction Fund auction
  - Balance sheet carbon now committed to 10-year offtake
- New projects under 20 Million Trees program: \$6 million
- Biodiversity Fund projects continue on time and budget
- CO2 Asia projects in production and will realise cash with potential up-side

## **Advisory**

- Advisory (formerly Ecofund) continues to service key clients, continuous pipeline of work.

# Seafarms: Operational Report

## Contents

- Current Operations
  - Strategy Roll Out
  - Operational Commentary and Overview
  - Safety
  - Employment and Productivity
  - Capital Projects
  - Marketing
  - Looking Forward
  - Pilot Project
- Project Sea Dragon

# Seafarms: Operational Report

## Operational Commentary:

### Production

- Seafarms commenced harvesting and processing its first crop of Northern Territory sourced Black Tiger prawns at Farm 3, Ingham commencing in March and completing in April.
- Farm 3 produced an average yield of 9.7 tonnes per hectare over 30 hectares with our highest yielding pond producing 15 tonnes of product for a single crop.
- Seafarms budgeted production is based upon 5.0 tonnes per hectare per crop; two crops per annum. The performance of Farm 3 provides a clear demonstration of what is achievable.
- The broodstock used for Farm 3 were wild sourced with no breeding or domestication; the company's science pathways have only just commenced.
- Seafarms annualised production run rate is now in excess of 1,500 tonnes per annum.
- Seafarms is working more closely with third party PL suppliers to ensure that both hatchery supply volumes are achieved and PL survival is improved.
- Farm 1 continues to present challenges with the company terminating six ponds in May 2015 as it investigates survival issues in consultation with independent experts and government.

# Seafarms: Operational Report

## Markets

- Market conditions remain favourable with US\$/A\$ exchange rates making prawn imports more expensive whilst improving export prices.
- The company received its Export Approvals/Licence from Government during April 2015 and will commence export sales in the second half of 2015.
- Retail distribution channels are demonstrating increased customer resistance to imported Asian food; recent Federal Government initiatives in respect of improved food labelling are positive for building the Company's domestic market.
- Seafarms is continuing to expand its product offer through retail and wholesale channels that build on the success of its modified atmosphere packaging (MAP) which can extend fresh product shelf life to 14 days.

# Current Operations

- Hatcheries

- Flying Fish Point {1}
  - Capacity of 27 million Post-Larvae (PL) per run (up 68%)
  - Domestication program
  - R&D Project with ARC Research Hub for Advanced Prawn Breeding
- Exmouth {3}
  - Biosecure breeding facility

- Farms

- Cardwell (Farms 1 and 2) {2}
  - 128 ha of ponds
  - Processing plant
  - Maintenance division
  - Farm administration
- Ingham (Farm 3) {4}
  - 32 ha of ponds
- Processing (Cardwell) {2}
  - 20t/day capacity (up 66%)
  - Fresh/frozen
  - Cooked
  - MAP line



{1}



{2}



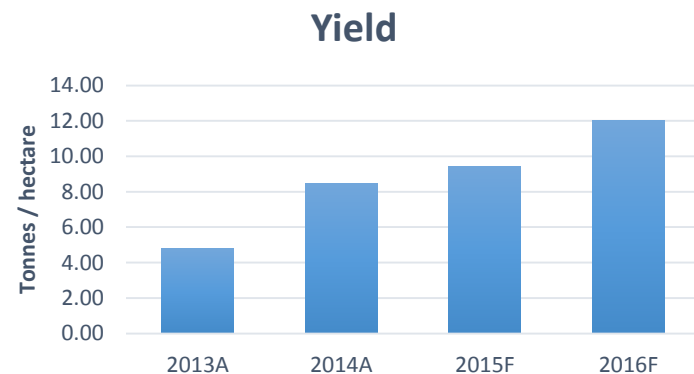
{3}



{4}

# Strategy Roll Out

- Acquired the Seafarm business in January 2014
- Began to move production to Black Tiger Prawns
  - Stocked in July 2014 for Christmas
- Acquired Ingham farm in November 2014
  - Stocked in November 2014
- Strong focus on data systems to improve visibility, analytics and drive \$5/kg GCM outcome
- 10% yield improvement July vs December crops
- The business now grows:
  - Banana prawns
  - Black Tiger prawns



# Operational Commentary and Overview

- Strong sales performance for Christmas 2014
  - Sales circa \$6 million for December
  - 34,000 retail ready branded packs in mass merchants
  - Distribution extended to Victoria and South Australia
- NT sourced broodstock progeny performed well on Farm 3 exceeding expectations
  - Performance (to date) is significantly better than East coast progeny
  - Reinforces the need for a domestication and breeding program
- First pond of domesticated (G1) animals have been stocked.
- Seafarms' involvement in the ARC Hub for Advanced Prawn Breeding (ARC funded project) has been launched.
- Professor Dean Jerry from James Cook University said the project will develop the world's most advanced breeding program for the farmed Black Tiger prawn. He said "the aim of the Hub is to achieve the same efficiency in farming the Tiger prawn as has been achieved for livestock such as pigs and chickens".

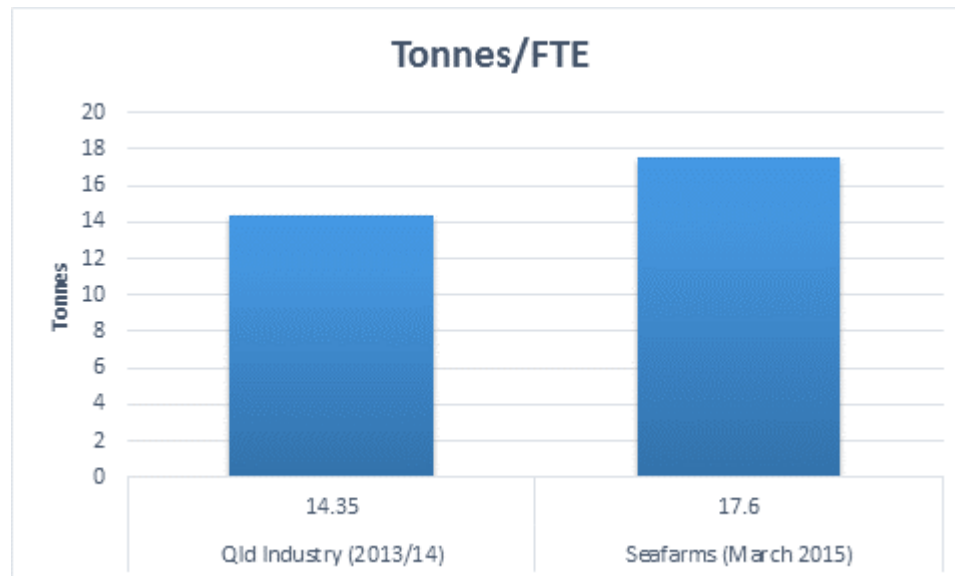


# Safety

- Focus on safety introduced to the organisation
- 3<sup>rd</sup> party consultant commissioned
- Total Injury Frequency Rate (**TIFR**) per million hours work target set for business
  - TIFR is down 75% since January 2014

# Employment and Productivity

- International recruitment completed in January 2015
  - Implemented new structure and processes
- 87 FTE across the organisation
  - Productivity 17 tonnes per FTE
  - 27% above industry average (Source Department Agriculture, Fisheries and Forestry)



# Capital Projects - 2014

- Hatchery

- 50% increase in capacity to 27 million PL's per run
- Development of under-utilised shed space and existing water supply

- Processing

- Integrated some equipment from Ingham acquisition
- Increase capacity to 20 tonnes per day
- New Modified Atmosphere Packaging (**MAP**) machine installed
  - 4kg wholesale pack
  - 1 kg retail ready pack

# Capital Projects – 2015/2016

On track with our two year refurbishment, maintenance and capital improvement program

Achievements to date:

- Pond refurbishment
- First hatchery upgrade
- Increased processing capacity to 20t per day

Planned in the coming year:

- Hatchery – no dependency on 3<sup>rd</sup> party, support domestication
- Pumps – more reliable and economical to run
- Processing - further capacity increase
- Selected equipment replacement
- Breeding program infrastructure
- Planning to install increased freezer capacity at Cardwell to reduce costs (no external provider) and significantly improve our logistical supply chain.

# Marketing

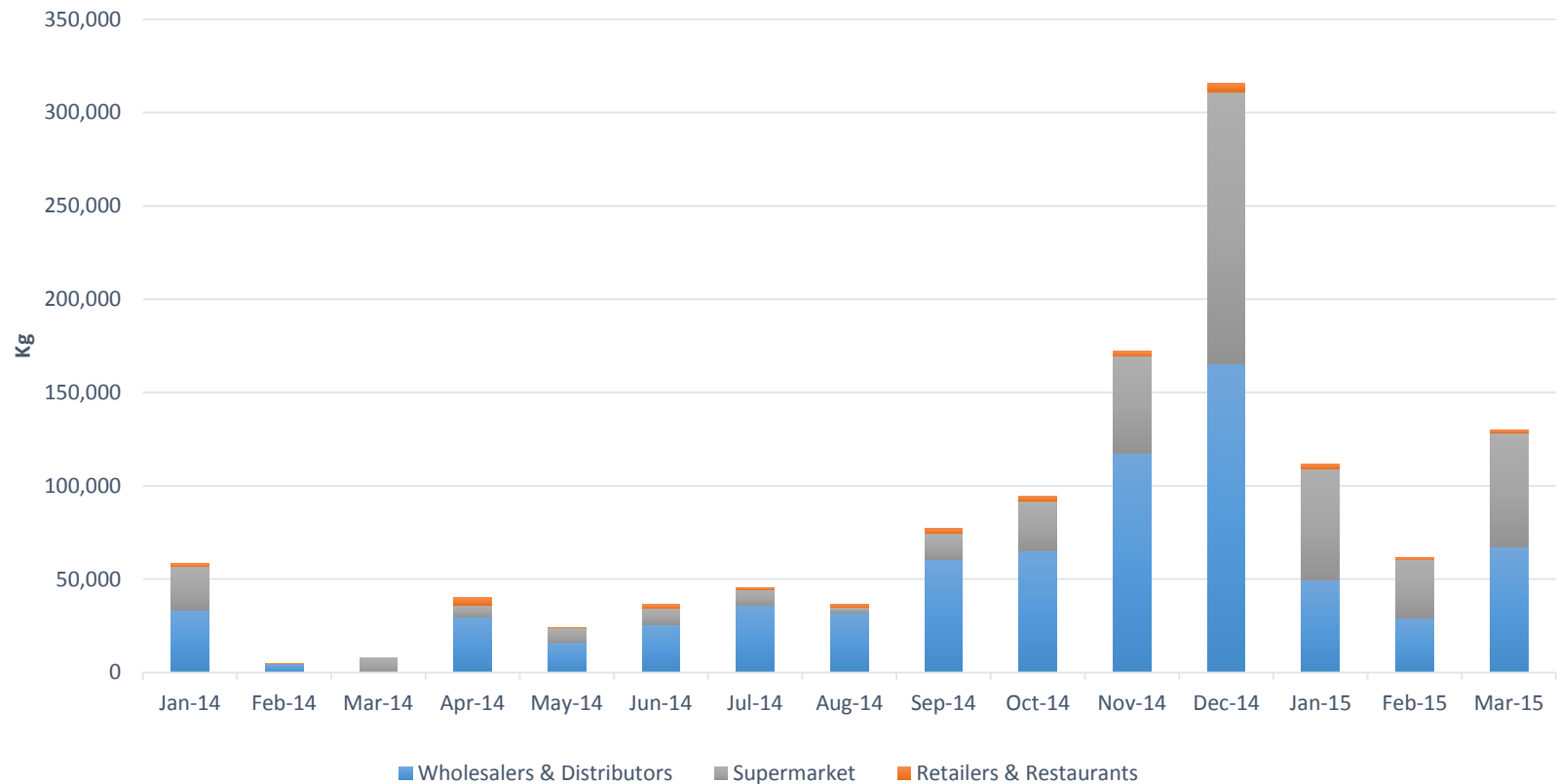
- Strategies
  - Maximise brand exposure and engagement opportunities.
  - Maximise consumer acquisition opportunities and drive purchase frequency
  - Develop an innovation funnel which addresses the category barriers to entry and maximises value
  - Maximise channel performance, delivering true partnerships with our customers
- Deliverables
  - Brand development including positioning and communication propositions
  - Marketing strategies and tactics which deliver true to our positioning.
  - A defined innovation pipeline
  - Delivering consistent marketing across all consumer touch points



# Marketing

## Sales and Distribution

### Monthly Sales



# Marketing

## Export Market

- Export approval received in April 2015
- Discussions underway
  - Wholesaler/distributor in Europe
  - Global supermarket chain
  - Japanese sashimi wholesaler
  - Distributors in Taiwan and Hong Kong
  - Speciality stores in Hong Kong
- Focus
  - High quality, niche supply
  - Provenance story to be strong demand driver

# Looking Forward

## Investment Projects

- The company is continuing to seek acquisition opportunities which meet its investment criteria. Currently, potential acquisition opportunities are too expensive.
- Continued improvement in production processes and outcomes
- Efficiency drives and cost reductions in Maintenance Division
- Investment in R&D – specifically domestication and breeding
- Export market development and trial export orders
- Continued brand development in the domestic market
- Operational and capital focus on achieving \$5/kg GCM



# Pilot Project

- The Cardwell production hub as a “pilot” for Project Sea Dragon (**PSD**) has established important building blocks:
  - Farm Management Team
  - Systems and processes
  - Science
  - Brand product range expansion
  - Trialling of incremental animal husbandry approaches (feed, stocking level, oxygenation regimes etc).

# Project Sea Dragon

## Project Sea Dragon

Creating a new world-class aquaculture enterprise for northern Australia

# Project Sea Dragon – the Project

## Industrial scale integrated black tiger prawn production

- Industrialise production using proven technology achieving lowest cost quartile of global production
- Leverage Australia's food safety, biosecurity and sustainable production integrity
- Capitalise on Free Trade Agreements
  - Reduce import tariffs into FTA countries by 8% to 10%
  - Softening Australian dollar will further increase export opportunities
- The \$1.45 billion (capex) project will generate forecast annual revenue of \$1.6 billion and will comprise of a 10,000 hectare grow out farm supported by:
  - Feed mill
  - Hatchery and Broodstock facility
  - Power Station
  - Processing Plant
  - Storage/Export facilities
- Development in 3 stages
- Stage 1
  - 1,000ha grow out + head works
  - Imported feed
  - Hatchery
  - Processing
  - ~ \$150m CAPEX

# Project Sea Dragon – Project Status

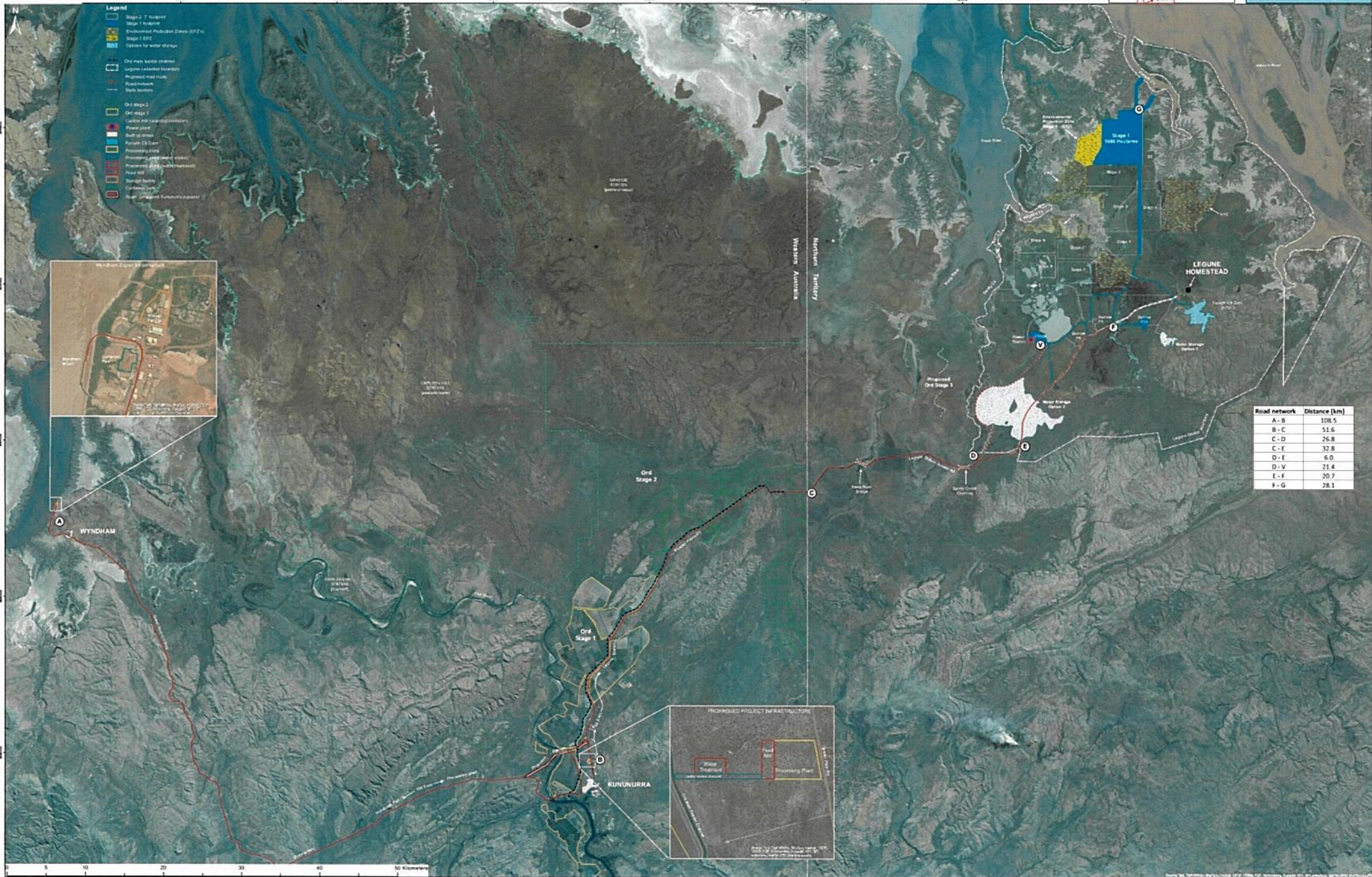
- Previously outlined timetable remains in place
- Bankable feasibility study has commenced
- Strong Government engagement: Commonwealth, NT and WA
- Licence to operate program is on-track
- Approvals relate to:
  - Land tenure – non-Pastoral Use
  - Environment
  - Indigenous engagement and heritage
- Key early recruits in place as team builds
- Re-engagement with off-take and/or equity participants from global shrimp producers/importers



# PROJECT SEA DRAGON - Regional Footprint

## Wyndham, Kununurra and Legune Station

Coordinate System: GDA 1984 MGA Zone 52  
Projection: Transverse Mercator  
Datum: GDA 1984  
24-03-2013, 11:00:00







# Significant Aquaculture Investment Opportunity

Large-scale, integrated, land-based aquaculture in Northern Australia

**Seafarms Group Limited is seeking expressions of interest for an initial \$25 million investment from potential joint venture partners and early-stage equity investors to fund Project Sea Dragon through completion of bankable feasibility.**



## Unique Opportunity

Project Sea Dragon ("PSD") is a unique opportunity to develop a large scale, land-based aquaculture project in northern Australia. PSD is being developed by Seafarms Group Limited ("Seafarms") to meet the growing global demand for seafood at a scale that enables it to leverage Australia's comparative advantages in biosecurity, marine science, access to key raw materials and expertise in large-scale agricultural development.

Seafarms is Australia's largest prawn farmer, currently producing around 1500 Mtpa from its operations in Australia. It has invested over US\$10 million in Project Sea Dragon with the pre-feasibility study completed in June 2014. This focused on the development of a production module of 10,000 ha of growout ponds producing over 100,000 tonnes of Black Tiger prawns annually. The production system is fully integrated with broodstock, hatchery and processing facilities.

Project Sea Dragon will be staged, with the first phase of the project (1000 ha/10,000 Mtpa) requiring a capital investment of US\$120 million. When fully operational in 2022, revenue is forecast to be US\$1.6 billion, generating an EBITDA over US\$750 million. The total project cost is estimated to be US\$1.4 billion (confirmed during the bankable feasibility process).

This opportunity represents a new future for Australian food production combining key natural environmental advantages, strategic capabilities in agri-development, marine science and civil engineering and implementation of sustainable domestic and international capital to deliver the benefits of scale to the production of seafood. PSD will take advantage of unfulfilled demand from China and other developed Asian economies for fish based protein sourced from countries with high food quality and safety standards.

## Why Land-based Aquaculture

Land-based aquaculture is the fastest growing animal protein producing sector in the world, growing production almost 8% per annum over the past 50 years, which is approximately twice the corresponding rate of global GDP growth. Today, seafood provides three billion people with around 15% of their average per capita intake of animal protein, with the average person consuming around 17 kilograms of seafood products per annum.

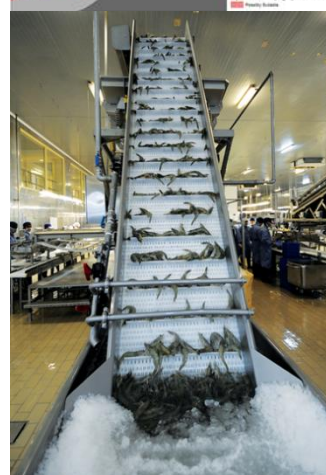
Fully exploited wild fisheries are failing to meet the ever increasing demand for seafood and seafood-based products. Land-based aquaculture has offset the decline in wild fisheries by adding nearly 40 million tonnes of annual production capacity over the past 30 years and will soon surpass wild fisheries as the dominant global provider of seafood products, already exceeding US\$100 billion in global industry sales.

With existing forecasts for population growth and per capita consumption of seafood products, the Food and Agriculture Organisation of the United Nations forecasts that aquaculture production will grow by 60% or around 30 million tonnes per annum from 2010 to 2020.



## Key Investment Considerations

|  |   |     |     |     |     |       |       |       |
|--|---|-----|-----|-----|-----|-------|-------|-------|
| <b>Large Scale Industrialised Seafood Production</b> | PSD combines Australia’s key natural environmental advantages, strong commercial/technical capabilities and an established history of best practice sustainable agri-food productivity to deliver the benefits of scale to the production of seafood.   |     |     |     |     |       |       |       |
| <b>Increasing Demand for Animal Protein</b>          | From now until 2050 global food demand is forecast to increase by 70% due to increases in the population and in the demand for animal protein resulting from increasing global affluence. Wild fish production has peaked and the relative cost efficiency of aquaculture and its health benefits means a large proportion of new animal protein demand will be met by seafood aquaculture. Fish, including crustaceans, have the best feed conversion ratios of any animals produced for food. |     |     |     |     |       |       |       |
| <b>World Class Development Sites</b>                 | Northern Australia is a highly suitable but under-developed region for large scale aquaculture. Unlike other aquaculture zones the region offers much room to expand, with little competition for land from other agriculture or urbanisation, and has established ports and logistics infrastructure. Australia’s political stability is attractive for foreign investment, as shown by the large mineral resource and agricultural developments.  |     |     |     |     |       |       |       |
| <b>Leading Science</b>                               | Seafarms is working with CSIRO, Australia’s national science agency, to develop PSD and is finalising an overarching agreement to conduct research and development into key aspects of commercial aquaculture including genetics, production design and feed technology, including fishmeal replacements. CSIRO is a recognised world leader in aquaculture research and development.   |     |     |     |     |       |       |       |
| <b>Biosecurity and Food Safety</b>                   | Northern Australia is an ideal place to establish a bio-secure project given its isolation and pristine waters. It also affords geographic risk diversification for any enterprise that is seeking to source seafood products on a global basis.  |     |     |     |     |       |       |       |
| <b>Proximity to Key Inputs Supply</b>                | Western Australia is one of the world’s largest exporters of grain – a key ingredient in the production of aquaculture feeds. In addition, Northern Australia has large underdeveloped gas resources that provide the potential for long term, low-cost energy security for PSD.  |     |     |     |     |       |       |       |
| <b>Strong Operational Focus</b>                      | Seafarms has assembled a strong team with demonstrable operational expertise in the fields of aquaculture operation, marine science, environmental sustainability, engineering, law and finance to deliver and the project.   |     |     |     |     |       |       |       |
| <b>Attractive Financial Returns</b>                  | Production Year   | 1   | 2   | 3   | 4   | 5     | 10    | 15    |
|  | Production (kt)   | 6   | 17  | 54  | 81  | 109   | 140   | 152   |
|  | Revenue (\$m)   | 46  | 145 | 549 | 881 | 1,259 | 1,989 | 2,445 |
|  | EBITDA (\$m)  | (1) | 12  | 196 | 359 | 565   | 1,093 | 1,450 |
|  | ROC   | -2% | -1% | 10% | 15% | 21%   | 49%   | 81%   |



### Next Steps

Interested parties are invited to contact Dr Chris Mitchell at Seafarms Group Limited. Pre-qualified parties will be invited to participate in management presentations and will be provided access to a detailed data room for Project Sea Dragon.

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[www.seafarms.com.au](http://www.seafarms.com.au)  
and more on our Crystal Bay Prawns products at:  
[www.crystalbayprawns.com.au](http://www.crystalbayprawns.com.au)