

ASX & Media Release

31 January 2018

Clean Seas Continues Growth in Sales, Farm Gate Prices and Cash Flow

Highlights:

- **Strong growth in Yellowtail Kingfish sales revenue in H1 FY18, increasing 25% over H1 FY17 to \$20.4 million**
- **Sales volume increased 17% over H1 FY17 to 1,270 tonnes in H1 FY18**
- **Significant improvement in domestic and international farm gate prices, with further gains expected in H2 FY18 driven by reduced processing and logistics costs**
- **Live fish net growth increased 77% over H1 FY17 to 734 tonnes in H1 FY18**
- **Positive Q2 and H1 FY18 cash flow from operations, with December quarter cash receipts up 36% year-on-year**
- **Cash balance of \$15.8 million as at 31 December 2017, with access to undrawn trade finance and lease facilities of \$15 million**

Clean Seas Seafood Limited (ASX: CSS), the global leader in full cycle breeding, production and sale of Yellowtail Kingfish, is pleased to present its Q2 FY18 cash flow report and provide an update on business progress.

The Company achieved continued sales growth at higher farm gate prices than H1 FY17, with the large fresh farm gate increasing by \$1.55 to \$13.77 per kg. The large fresh category represented 67% of Clean Seas' volume and 73% of the Company's revenue in H1 FY18.

The December quarter cash flow report highlights \$0.5m positive cash flow from operations, up from \$2.3m negative in Q2 FY17. For the half year, cash flow from operations was \$1.8m positive in H1 FY18 compared with \$2.0m negative in H1 FY17. This reflects both continued improvement in the fundamentals of the business and improved credit terms negotiated with feed suppliers during the quarter. Receipts from customers in Q2 FY18 were 36% above Q2 FY17. Capital expenditure of \$1.0m in Q2 FY18 mainly related to investment in farm infrastructure.

Revenue Growth on Target – With Continued Improvements in Farm Gate Pricing

Sales revenue of \$20.4m in H1 FY18 increased by 25% compared to H1 FY17.

Sales volume of 1,270 tonnes of Yellowtail Kingfish in H1 FY18 increased by 17% over H1 FY17. Fresh product sales volumes increased 6% to 989 tonnes at significantly higher farm gate prices. Premium frozen product sales (excluding clearance stock) increased 47% year-on-year, also at significantly higher farm gate prices.

The Company's farm gate price is its selling price less processing costs, freight and handling, sales commissions and packaging materials and is reported on a whole weight equivalent (WWE) basis. Farm gate price per kg for large fresh increased by 13% year-on-year during H1 FY18.

The improvement in farm gate prices in H1 FY18 was primarily driven by higher domestic and international selling prices. Farm gate prices are expected to continue to improve during H2 FY18 driven mainly by the benefit of reduced processing costs at Clean Seas' new in-house processing facility and logistics cost reductions.

Royal Park Processing Plant Progressing Toward Full Production

Clean Seas' new in-house facility is now processing all fish for the Australian fresh market and a significant proportion of export fresh processing. It is expected that Royal Park will absorb the balance of the fresh processing and commence frozen processing in Q3 FY18. This has brought end-to-end quality control and will generate significant cost savings from which the Company expects to benefit in H2 FY18 and beyond.

The new liquid nitrogen rapid-freezing equipment has arrived at Royal Park and it is anticipated that installation will be completed and the equipment commissioned in Q3 FY18 with full production commencing in Q4 FY18. This is expected to materially increase the Company's market opportunities while lowering its cost of processing and freight. This technology significantly reduces the freezing time and temperature which will improve freshness, texture and quality.

While Clean Seas will remain focussed on its ability to deliver the highest quality fresh Kingfish product globally, the flexibility provided by rapid freezing will enable Clean Seas to meet customer demand for premium quality frozen product and help smooth out any future imbalances between the rate of biomass growth and the ongoing expansion of market demand as the Company continues to increase production.

The Company is also implementing new packaging in Q3 FY18, featuring high-quality printing on recyclable waxed cardboard. This new design will enable better branding opportunities compared to the previous unbranded white polystyrene boxes, and with considerable environmental benefits. While these boxes will be more expensive, improved design and strength will deliver overall reduction in freight costs.

Sales Growth in Frozen Driving Inventory Improvements

Clean Seas has made further progress clearing the remaining product that had been frozen during the FY17 period of excess fresh fish production. The Company sold in H1 FY18 almost half of the inventory that was held at June 2017 at higher prices than expected.

Fish Health Remains Excellent with Growth Up 77%

Total biomass at 31 December 2017 of 2,147 tonnes is 15% higher than 12 months earlier. Fish health remains excellent.

Net growth of 734 tonnes in H1 FY18 was 77% higher than the 415 tonnes in H1 FY17.

Sea water temperature seasonality causes Yellowtail Kingfish growth in the Spencer Gulf of South Australia to be significantly higher in H2 than H1, with typically 25% to 35% of annual growth recorded in H1. Seawater temperatures in Q2 FY18 were around the long term average, compared with being approximately 1 degree cooler in Q2 FY17.

The Company is progressing plans to return to farming at its Fitzgerald Bay leases, at the top of the Spencer Gulf near Whyalla in South Australia, commencing with the 2019 year class fish in H1 FY19.

Feed Litigation Process Progressing

The Company is progressing through the discovery and expert report stages of its litigation against Gibson's Limited, trading as Skretting Australia, in relation to what it alleges was taurine deficient feed supplied from December 2008 to July 2012. Gibson's Limited is defending the proceedings and has denied all liability to the Group. A trial date is yet to be set.

Outlook

The Company reaffirms its previous FY18 guidance of:

- sales volume increasing to 2,650 to 2,850 tonnes (+16% to +25%)
- sales revenue increasing to \$43m to \$47m (+21% to +33%)
- profit significantly higher than FY17 based on increasing sales and higher farm gate prices

Financial results for H1 FY18 will be released in late February 2018 with a significant improvement from H1 FY17 anticipated, reflecting higher live fish net growth and improved farm gate pricing.

The Board notes that the inherent operational risks in aquaculture may impact future results.

Terry O'Brien
Chairman

David Head
Managing Director and CEO

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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Clean Seas Seafood Limited

ABN

61 094 380 435

Quarter ended ("current quarter")

31 December 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	11,542	19,915
1.2 Payments for		
(a) research and development	(129)	(260)
(b) product manufacturing and operating costs	(5,588)	(8,985)
(c) advertising and marketing	(119)	(237)
(d) leased assets	-	-
(e) staff costs	(2,273)	(3,933)
(f) administration and corporate costs	(680)	(1,165)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	4	4
1.5 Interest and other costs of finance paid	(14)	(28)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other - Feed	(2,251)	(3,525)
1.9 Net cash from / (used in) operating activities	492	1,786

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(1,008)	(2,566)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(1,008)	(2,566)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	17,656	17,656
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	(1,282)	(1,282)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	(151)	(311)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	16,223	16,063

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	100	524
4.2 Net cash from / (used in) operating activities (item 1.9 above)	492	1,786
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(1,008)	(2,566)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	16,223	16,063

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	15,807	15,807

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	15,807	175
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	(75)
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	15,807	100

6.	Payments to directors of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	260
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Directors Fees \$98k, rental payments \$6k, consulting \$57k, contract services, feed and equipment hire \$99k

7.	Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1	Aggregate amount of payments to these parties included in item 1.2	-
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities – CBA Trade Finance Facility	10,000	-
8.2 Credit standby arrangements	-	-
8.3 Other – CBA Lease Facility	6,000	1,030
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

The Commonwealth Bank \$10m Secured Trade Finance Facility was undrawn as at the end of the quarter.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	200
9.2 Product manufacturing and operating costs	5,000
9.3 Advertising and marketing	250
9.4 Leased assets	-
9.5 Staff costs	2,300
9.6 Administration and corporate costs	600
9.7 Other - Feed	6,000
9.8 Total estimated operating cash outflows	14,350

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:



Date: 31/1/2018

Print name: Wayne Materne – Company Secretary

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.