



ASX Announcement | 31 March 2022

Seafarms Group Limited (ASX: SFG)

SFG ASX Announcement No: 723

Project Sea Dragon Review - Investor Briefing Presentation

Enclosed is the Investor Briefing Presentation for today's online meeting at 12 noon AEST.

As previously announced (722), Shareholders can attend and participate by registering using the link below.

Please note the online meeting link is

https://webcast1.boardroom.media/watch_broadcast.php?id=623bc0daee603

Ends.

Authorised by the Board of Seafarms Group Limited.

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About Seafarms Group

Seafarms Group Limited (ASX: SFG) is a sustainable aquaculture company, producing the premium Crystal Bay® Prawns and developing the Project Sea Dragon prawn aquaculture project in northern Australia.

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Seafarms Group Limited
31 March 2022

Agenda

Project Sea Dragon (PSD) Project Review

- Background and Project Status
- Project Review Outcomes
 - Project Sea Dragon
 - Queensland Operations
- Implications and Actions
- Strategy Update
- Next Steps

PSD Project Review – Background

Background

- Project Sea Dragon (PSD) has been in development for 8+ years
- A Capital Raise to support PSD construction was completed in June 2021
- Construction was progressively mobilised through the latter half of 2021
- Major Construction activity proceeded at Legune until end Dec 2021
- PSD Cost update was provided to the market in October 2021
- Update on project debt financing was provided on 1 Nov 2021
 - Project debt financing not feasible / terms not in shareholders interests
- Announced PSD Project Review 1 Nov 2021
- Steps subsequently taken to reduce Project costs and overheads and preserve cash

PSD Project Scope – Phase 1a

- PSD is a greenfield project to build the world’s largest prawn farm and associated infrastructure capable of producing up to 180,000 tonnes of fresh and frozen product for domestic and export markets
- Phase 1a scope was reduced to producing approximately 6,000 tonnes p.a. with first stocking of ponds in November 2023 and first harvest by mid 2024
 - Construction of grow out farm at Legune 396 ha
 - Exmouth Founder Stock Centre upgrade and Bynoe Harbour Breeding/Hatchery construction
 - Construction of a Processing Plant at Kununurra
 - Associated infrastructure including power plants, roads, pumps, water channels, camps etc
- Support and IP were to be drawn from existing Queensland Operations

PSD Status Update – 31 March 2022



- Legume Grow Out Construction continued through until Christmas before being suspended for the Wet Season until the end of March 2022 (in line with contractual arrangements)
- At Legume 21 x 1Ha ponds partially constructed and work commenced on other ponds and infrastructure requirements
- Wet season suspension extended to end of April 2022 (in line with contractual arrangements)
- Bynoe Harbour works remain suspended
- Exmouth capital works and operations continuing
- Half year accounts as at 31 December
 - PSD setup and pre-project costs expensed
 - approximately \$70m cash on hand

PSD Project Review – Scope & Objectives

PSD Project Review –

Scope and Objectives

- Project Review initiated across the full PSD scope including;
 - Legune Grow Out facility, Exmouth Founder Stock Centre, Bynoe Harbour Breeding/Hatchery, Kununurra Processing Plant, associated infrastructure, processes and systems
- Assessed PSD against ability to meet existing scope, plan and objectives at acceptable cost and risk

Approach

- The Review team, led by Mick McMahon and Ian Brannan, has deep operational and commercial experience in agricultural supply chains, FMCG industries, retail and consumer businesses, international markets and supply chains, major project construction and resourcing
- The Project Review took an ‘outside in’ approach starting with consumer understanding and retail requirements, engaging with customers, suppliers and other industry participants, as well as third party contractors and other external stakeholders

Limitations

- While not considered likely to change the outcomes of the Project Review, COVID travel restrictions have limited the ability to review international operations, engage with global market participants or fully identify key skill and experience needs

Workstreams

| | |
|------------------------------------|----------------------------------|
| Domestic & International Markets | Logistics & Location |
| Breeding | Farming |
| Construction & Infrastructure | Processing |
| Capability / Operational Readiness | Capability / Systems & Processes |
| Financials & Funding | Project timeline |
| Foundations | |

PSD Project Review – Summary

Summary

- The company remains committed to delivering on the promise of Project Sea Dragon
- The Project Review has identified a number of challenges, as well as opportunities to de-risk the Project
- To deliver on its promise PSD will need to be export oriented, large scale, high quality and low cost, and the Review has identified areas of the Project that need to be modified to achieve this aim
- A key finding of the Project Review is the need to pilot and prove up the modelled Farming performance at Legune given the critical nature of the Farming element of the value chain
- The Project Review confirms that the existing Queensland operations and assets will be key to delivering increased volume to domestic customers for both the short and long term
- The Review has further identified opportunities to invest in the Queensland operations to improve performance while building scale, capability and improved quality
- Further investment into the Queensland operations is expected to provide support for future PSD requirements especially in respect of technology, systems, processes and capability

PSD Project Review – Key Outcomes (1 of 2)

PSD Project Review –

Key Outcomes

- PSD cannot proceed in its current form
 - There is no funding to proceed given failure of debt financing process
- In any event the Project Review recommends against proceeding with PSD in its current form
 - It will not generate acceptable financial returns, the existing scope cannot be completed for targeted costs or achieve target completion dates, and the Project currently involves unacceptable risk
- PSD viability is almost entirely dependent on farming out-performance at Legune against existing operations and competitors, as almost all other economic factors mitigate against viability
- For PSD to proceed in any form, Farming out-performance will need to be demonstrated
 - PSD Farming performance is premised on two crops p.a. and favourable biosecurity and environmental conditions
 - PSD is premised on construction of cost effective 10Ha ponds which are unproven in Australia
 - Prawn aquaculture is a complex, integrated, agricultural supply chain and the combination of a new location/environment, unproven 10Ha ponds and lack of an existing competitive farming system makes for unacceptable risk without piloting and proving Farming out-performance
 - PSD Farming must out-perform on yields, survivability, FCR, cost per tonne and capital cost per Hectare
- A Farming Pilot is being scoped, building on the existing partially constructed ponds at Legune
 - However it will take up to 3 years to re-scope, construct and conduct a Pilot with minimum infrastructure, revisit permits & licences, complete Pilot construction, stock and operate the ponds and assess outcomes

PSD Project Review – Key Outcomes (2 of 2)

PSD Project Review –

Key Outcomes

- All other economic factors for PSD (as currently scoped) are considered to be challenged or negative
 - Construction, breeding, processing, operating costs and logistics are all challenged due to distance and remoteness
 - Infrastructure requirements for water, power, roads, communications and all year access are significant
- PSD will need to be export oriented, high quality and low cost with well established systems & processes
 - However significant international market development is required with varying specifications, high value add, complex supply chains and with average price points lower than realised in the domestic market
- It is not considered feasible to service the domestic market for fresh, cooked product from PSD
 - Therefore existing Qld operations remain critical into the future to supply domestic customers
- Labour intensive, complex processing for high specification, value added international markets is unlikely to be competitive in Australia when competing against lower cost countries operating at significant scale
 - For a Farming Pilot, product would need to be graded and frozen on site and exported for re-processing
- Construction costs per hectare are not competitive (as currently scoped)
 - Pond construction \$/Ha are currently several times higher than local or international benchmarks
- Operational Readiness for PSD needs to be strengthened
- Full Year accounts (pending audit and Board review) may include further impairments of PSD capital spend

PSD Project Review – Key Actions

PSD Project Review –

Key Actions

- PSD construction will continue to be on hold pending the following
 - Completion of a successful Farming Pilot at Legune station
 - Refinement of other key Project elements eg further development of the Breeding strategy
 - Availability of sufficient funding to proceed with a Farming Pilot
- A Farming Pilot is being scoped, building on the existing partially constructed ponds at Legune
 - However it will take up to 3 years to complete a Pilot and assess the outcomes with indicative timing below;
 - re-scope Pilot with minimum infrastructure and revisit permits & licences as required (by Oct 2022)
 - reset contracting strategy and appoint construction contractors (by end 2022)
 - mobilise and complete Pilot construction within a dry season window (from eg March 2023 to Dec 2023)
 - stock and operate the ponds (for at least 2 stocking cycles of 6 months each to end 2024)
 - assess outcomes and prepare any expansion proposal (2025)
- Utilise the time to further develop operational readiness within existing Queensland Operations
 - Develop farming systems, technology, processes, skills, experience and resources to support a PSD Farming Pilot
- Invest in international market understanding and development
- Maintain all permits, licences, leases, agreements and relationships

Queensland Operations – Key Outcomes

Queensland Operations – Key Outcomes

- Qld operations will continue to supply fresh & frozen, cooked, high quality product to domestic customers
- There is strong domestic demand for quality product, supported by pressure on wild caught fisheries and a renewed drive to localise supply chains and replace imports in a post COVID, higher risk world
- Seafarms has a strong brand in Crystal Bay and long term, supportive customer relationships
- There is demand from end-consumers and retail customers for Banana Prawns as well as Tiger Prawns and Seafarms is well placed competitively to supply Banana Prawns (in addition to Tiger Prawns)
- The market is consolidating with the entrance of new players and investment in scale and new technology
- Seafarms operating and financial performance has not met expectations over 7+ years
 - Farming performance is below industry average and approximately half that of the best performers
 - Volumes have declined by approximately half from peak
 - The business generates losses and has been cash negative for 7 of 8 years
- Farming has fundamentally underperformed with Breeding/Hatchery & Processing operations competitive
- Investment is required in Farming systems, processes, technology and skills to improve existing operations
 - And build capability for future PSD requirements
- In a consolidating industry there is potential to invest in scale and accelerate capability development

Seafarms – Strategy Update

Increase domestic volumes

- Clear opportunity to increase domestic production to meet existing customer requirements
- Rebalance QLD production to best meet demand for high quality, fresh product
- Meet domestic customer demand for Banana prawns as well as Tiger prawns
- Reverse volume and market share declines over the last 5+ years
- Queensland production focused on the East Coast domestic market will complement any PSD export focused production

Improve QLD operations and profitability

- Opportunity to improve our existing operations and modernise where appropriate
- Refocus on multi-species¹ and simplifying operations to meet existing customer demand
- Grow volumes to support improved profitability and justify investment
- Consider investment in scale to accelerate development of systems, technology and skills

Implement outcomes of PSD Project Review

- Pilot PSD Farming performance and prove up economics
- Ensure PSD is viable at export cost and price points requiring low cost operations and efficient capital investment
- Develop operational readiness in existing operations to support PSD

We invite general questions and thank you for your participation today.



Thank You

Appendix: PSD Project Review – Summary

| Workstream | | Commentary |
|--|---------------------------|--|
| Market | Domestic and Int'l demand | <ul style="list-style-type: none"> • Clear domestic and international demand for high quality product, varying specifications across markets |
| | Domestic supply | <ul style="list-style-type: none"> • Not considered feasible to service fresh, cooked domestic market from PSD (esp. East Coast and peak periods) |
| | International supply | <ul style="list-style-type: none"> • Lower price points, fragmented markets, high specifications, complex supply chains, relationships required |
| Logistics & Location | | <ul style="list-style-type: none"> • Remote location gives rise to high logistics and labour costs and challenges with a complex, integrated, agricultural supply chain ultimately driving high cost per kilo and need to simplify operations |
| Breeding | | <ul style="list-style-type: none"> • Requires considerable investment in scaling up of capacity, commercialisation of the program and large capital requirements to build out Bynoe Harbour; long lead logistics challenges for live PL transport |
| Farming | | <ul style="list-style-type: none"> • PSD farming model unproven domestically especially 10Ha ponds; Farming performance needs to be proven • Must outperform competitors significantly to offset all other negative economic drivers • A Pilot of proposed Farming model is considered a critical step in establishing future project feasibility |
| Construction & Infrastructure | | <ul style="list-style-type: none"> • Capital costs / Ha several times higher than benchmarks; even more so if 1 Ha ponds replace 10Ha ponds • Infrastructure and utility specifications and costs are scaled for the 'big bang' project and need to be reset for a scaled down pilot (and potential slower expansion program) |
| Processing | | <ul style="list-style-type: none"> • Labour intensive local processing economics challenging; Not considered feasible in remote location • For Pilot and (at least) early phases frozen product would need to be exported for re-processing overseas |
| Foundations | Commercials | <ul style="list-style-type: none"> • Commercial reset required for Lease arrangements and review of Contracting strategy |
| | Permits & licenses | <ul style="list-style-type: none"> • All Permits, Licences, Approvals and relationships are being maintained |
| Capability | Systems & processes | <ul style="list-style-type: none"> • Lack of operational performance, track record of delivery, detailed operational systems, processes and capability in existing operations to support PSD; No established Farming system to apply to PSD |
| | Operational readiness | <ul style="list-style-type: none"> • Capacity and capability shortfall in existing operations; Operational readiness for PSD needs strengthening |
| Financials & Funding | | <ul style="list-style-type: none"> • PSD is not considered viable in its current form; Funding remains a challenge even for a Farming Pilot |
| Project Timeline | | <ul style="list-style-type: none"> • PSD Project Timeline will not be met • Legune on extended wet season suspension to end April, Bynoe on hold, Exmouth investment continuing • Up to a 3 year timeline to establish, fund, construct, operate and assess a Farming Pilot at Legune |

Appendix: Queensland Operations – Summary

| Workstream | | Commentary |
|------------------------------|-----------------------|--|
| Market | | <ul style="list-style-type: none"> Increasing domestic demand for high quality Banana and Tiger prawns Strong consumer and retailer preference for domestic supply, preference for cooked and fresh product Continued pressure on wild caught fisheries and post covid preference for local supply chains Attractive domestic pricing for on specification, high quality product |
| Brand & Customer | | <ul style="list-style-type: none"> Crystal Bay remains a leading brand; Seafarms enjoys continued support from key supermarket buyers Large customers want multiple supply options in the face of industry consolidation |
| Competitive landscape | | <ul style="list-style-type: none"> New entrant is employing a consolidation strategy in a largely unconsolidated market Competitors are investing in scale, technology and capability and outcompeting Seafarms in the market Seafarms experiencing declining volume, market share; Delivers half the yields of leading competitors Risk of losing volume to major competitors if current trends continue, need to grow volumes and sales Opportunity to become a consolidator and build scale, technical capability and experience |
| Breeding | | <ul style="list-style-type: none"> Seafarms is competitive for domestic Tiger prawns and well ahead of the competition on Banana prawns Hatchery in Qld performs well in current circumstances, single point sensitive remains a risk |
| Farming | | <ul style="list-style-type: none"> Farming is a significant underperformer versus competitors especially Farm 1 and 2 at Cardwell Lack clearly defined farming system, reliance on manual processes and judgement versus automation Below market production yields operating on average at half the best competitors (Farm 1&2 even lower) Biosecurity at Cardwell remains a challenge; Banana prawns will mitigate this issue |
| Processing | | <ul style="list-style-type: none"> Processing Plant is very competitive with opportunity to further modernise, upgrade and automate Opportunity over time to de-couple Processing from Farming locations and invest in upgraded processing |
| Capability | Systems & processes | <ul style="list-style-type: none"> Underinvestment in operational systems and processes, well behind on farming technology |
| | Operational readiness | <ul style="list-style-type: none"> Capacity and capability shortfall for existing Queensland operations before support for PSD |
| Financials | | <ul style="list-style-type: none"> Performing below other competitors with opportunity to correct and drive strong positive cash Loss making and negative cash for 7 out of 8 years with sizeable stay in business capex required |
| Funding | | <ul style="list-style-type: none"> Cash negative limits opportunity to invest in scale, capability, technology and market development |
| Current strategy | | <ul style="list-style-type: none"> Current strategy has failed resulting in losses, declining market share and under-invested assets Opportunity to reset strategy, invest in scale, capability, technology and grow volumes and sales |

Appendix: Assessment Criteria

Project Sea Dragon

Assessed against ability to meet existing scope, plan and objectives at acceptable cost and risk



Green – able to proceed with existing plan



Amber – not fully able to proceed but likely to be recoverable within the project time frame



Red – not able to proceed without significant reset

Queensland Operations

Assessed against ability to meet market, operational and financial targets with acceptable risk



Green – a competitive strength, out-performing against market and internal objectives



Amber – under performing against objectives, improvement required



Red – significantly under performing, major adjustment required

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