

ASX Announcement | 23 November 2023

Seafarms Group Limited (ASX: SFG)

SFG ASX Announcement No: 761

Project Sea Dragon Update

(This statement summarises key parts of the CEO AGM Presentation which follows this document)

At the Seafarms Group Limited (ASX: SFG) AGM today the Company presented an update on Project Sea Dragon as part of the CEO report to shareholders.

In June 2022 Seafarms announced that it had found no technical reason why the Project Sea Dragon should not proceed (ASX Announcement: 732).

CEO Rod Dyer reported at the 2023 AGM that despite challenges that have impacted momentum in the past year, important steps continue to be made on Project Sea Dragon.

Updates provided at 2023 AGM

Project status

There has been no change in underlying PSD assumptions as reported at the AGM last year and all licences and obligations were maintained during the year and all approvals remain in place for PSD Stage 1 for the installation of 1,120Ha of grow-out ponds enabling 15,000 tonnes of annual production.

The construction undertaken to date has significantly reduced uncertainty and risk associated with earthworks and construction at PSD. Ponds and walls built in 2021 have maintained their structural integrity and all construction costs were expensed in the previous financial year.

Breeding program

- Specific Pathogen Free animals have reached G4 (4th generation) at the Exmouth facility.
- Several ponds at Ingham (Qld) Farm 3 were stocked with the progeny of Exmouth and Queensland crossbred animals with improved performance results.
- Our Queensland hatchery won the Australian Prawn Farmers Association R&D innovation award in 2023 which was enabled by genetics from the Exmouth breeding program.

Business case

Business cases are being refined to consider the appetite of the different funders for the scale of the initial development at PSD. As reported in the June 2023 Shareholder Update (ASX Announcement: 756) the outputs of the financial model are pleasing.

Seafarms Group Limited

ABN 50 009 317 846

Level 10, 490 Upper Edward Street
Spring Hill, Queensland 4000
Australia

PO Box 252
Spring Hill, Queensland 4004

T +61 7 3248 0222
E info@seafarms.com.au
W <https://www.seafarms.com.au>

In terms of 2023 AGM updates to the business case and modelling:

- 📌 Lenders have been kept engaged and provisional business cases options are being tested with potential funders.
- 📌 A current potential substantial funder requires an offtake of nominally 100 tonnes per month of large prawns that if successful would see approximately 60% of the annual production sold as part of the offtake agreements.
- 📌 Growth in capex has been offset by reducing the number of grow out ponds.
- 📌 Specifically, Stage 1a was further optimised to 25 x 8 hectare ponds (originally 36 x 10 hectare ponds producing 6,000 tonnes of black tiger prawns per annum) to produce approximately 3,400 tonnes per annum.
- 📌 Funding agreements have been issued to the substantial funder for review with advanced legal and commercial terms currently being negotiated.
- 📌 Both Stage 1 (1,120 Ha of grow-out ponds, enabling the production of over 15,000 tonnes pa) or a smaller Stage 1a remain as options for the final business case.
- 📌 The final business case and Board Final Investment Decision will be structured as funding negotiations progress.

Authorised for release by the Seafarms Board

For further information, please contact:

Seafarms Group

Mr. Harley Whitcombe
Company Secretary
P: +61 8 8923 7924

Media / Investor Enquiries

John Fergusson
P: +61 407 826 952
E: info@seafarms.com.au

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.



CEO Update

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Agenda

- 🍷 Our Year
- 🍷 Financial Results Overview
- 🍷 Operating Performance
- 🍷 Sales & Exports Update
- 🍷 Project Sea Dragon Update
- 🍷 Final Observations



Our year

Seafarms continues to clear the way for Project Sea Dragon while lifting production at the Queensland operations.

- 🌿 **November 2022 AGM:** At the AGM Seafarms announced
 - 🌿 There are no technical reasons why Project Sea Dragon should not proceed. New business case pending.
 - 🌿 Canstruct had applied for adjudication of its payment claim following termination of construction contracts in April 2022, and that Project Sea Dragon Pty Ltd had responded.
 - 🌿 Primstar Offtake agreement needed to be extended and Primstar was receptive to extending their offtake agreement but wanted more product.
- 🌿 **Feb 2023:**
 - 🌿 The adjudication determined a total amount of \$13.9m was payable to Canstruct following termination of the contracts. Adjudication amounts are binding but not final, that is amounts paid can be recovered through court proceedings.
 - 🌿 Project Sea Dragon Pty Ltd is put into Voluntary Administration.
- 🌿 **March 2023:**
 - 🌿 Administrator (BDO) recommended, and creditors voted in favour of the Deed of Company Arrangement (DOCA) proposed by Seafarms Group Ltd.
 - 🌿 Project Sea Dragon Pty Ltd directors re-assume control of Project Sea Dragon Pty Ltd.
- 🌿 **April 2023:** Canstruct commences Federal Court proceedings seeking the DOCA be overturned and that a liquidator be appointed to Project Sea Dragon Pty Ltd.
- 🌿 **May 2023:** Federal Court issues an injunction preventing the Administrators administering the DOCA and therefore preventing the distribution of funds to creditors. Project Sea Dragon Pty Ltd remains subject to deed of company arrangement.
- 🌿 **June 2023:** Seafarms states the financial modelling is pleasing, confirms commitment to the development of Project Sea Dragon and is re-engaging with potential funders. Final business case is dependent upon funding.
- 🌿 **August 2023:** Litigation by Canstruct to terminate the DOCA was heard in the Federal Court 14 & 15 August. Judgement is pending.
- 🌿 **August 2023:** Seafarms reports a 46% increase in annual production from Queensland operations.

Financial Results

Our financial results reflect improved revenue from operations and short-term costs from investments in the future of the company, primarily Project Sea Dragon.

	2023	2022
Net Profit (loss) after Tax	(\$15.4m)	(\$86.3m)*
Project Sea Dragon impairment of non-current assets	(\$2.1m)	(\$18.4m)
Revenue from continuing operations	\$25.9m	\$19.5m*
Total production	1,260 tonnes	864 tonnes*

*Restated

- ❖ The loss of \$15.4m is largely attributable to Project Sea Dragon.
- ❖ Overall financial performance reflects investment being made to pursue our expansion in aquaculture operations.
- ❖ Revenue from continuing operations (Queensland) rose 33% to \$25.9m with strong first half performance driven by the Banana prawn crop.
- ❖ Second half performance impacted by extended wet weather conditions affecting Black Tiger prawn production at Ingham.
- ❖ Increased production costs experienced during the year due to global inflation and input costs for feed, power and labour.

Financial Position

	2023	2022*
Net Assets	\$34.1m	\$49.5m
Cash on hand	\$8.5m	\$36.2m
Net current assets	\$17.3m	\$33.6m
Non current assets	\$18.4m	\$17.0m
Provision for contractual liabilities**	\$1.0m	\$8.7m

* Restated

** Included in net current assets

- ✦ The provision for contract liabilities was reduced from \$8.7m to \$1.0m following the Voluntary Administration process and effectuation of the Deed of Company Arrangement (DOCA)
- ✦ Non current assets comprises mainly the aquaculture assets of the North Queensland operations. PSD assets have been fully impaired pending project funding.
- ✦ The decrease in cash reflects the operating cash outflow for the year of \$23.4m
- ✦ The cash balance does not include the cash contained in the DOCA which will return as cash at settlement.
- ✦ Expenditure on PSD has been reduced substantially pending project financing and the SFQ operation is cash flow positive to date.



Existing Operations Update



Taking stock and building forward momentum

Operating Performance

- ❖ Total production at the Seafarms Queensland operations was 1,260 tonnes, up 46% on the previous year.
- ❖ The result reflects a planned shift to Banana prawns from prior year as reported at the 2022 AGM:
 - ❖ Banana prawn production increased to 893 tonnes from 145 tonnes in the previous year.
 - ❖ Black Tiger prawn production decreased to 367 tonnes from 762 tonnes in the previous year.
- ❖ Shift to Banana prawns reduced risk of disease and associated impacts on production as water systems were progressively improved at Farms 1 & 2. Well received by customers and fully sold.
- ❖ Black Tiger prawn production limited to Farm 3 with production impacted by extended wet weather reducing the salinity of incoming water to problematic levels.
- ❖ All ponds were stocked with healthy prawn larvae from domesticated Broodstock avoiding the need for (disease-prone) wild caught broodstock.
- ❖ Three Farm 3 ponds were stocked with PL's from crosses of Exmouth WA and Qld broodstock with very encouraging results.
- ❖ Our Hatchery won the Australian Prawn Farmers Association for R&D innovation award that was enabled by the Exmouth breeding program.
- ❖ Environmental performance of operations progressed without issue during year.



Sales and Export Update

- Ongoing focus on high quality, premium branded offer domestically and for export.
- Domestic market experienced overall growth in the fresh prawn category.
- Production capacity at Queensland operations leveraged at key times (Australia Day, Christmas) delivering strong fresh prawn sales.
- December achieved a 60% increase in fresh prawn volume on previous year.
- Marketing focused on Crystal Bay Prawns® as best-in-class.
- Raw Crystal Bay Prawns® successfully introduced to market.



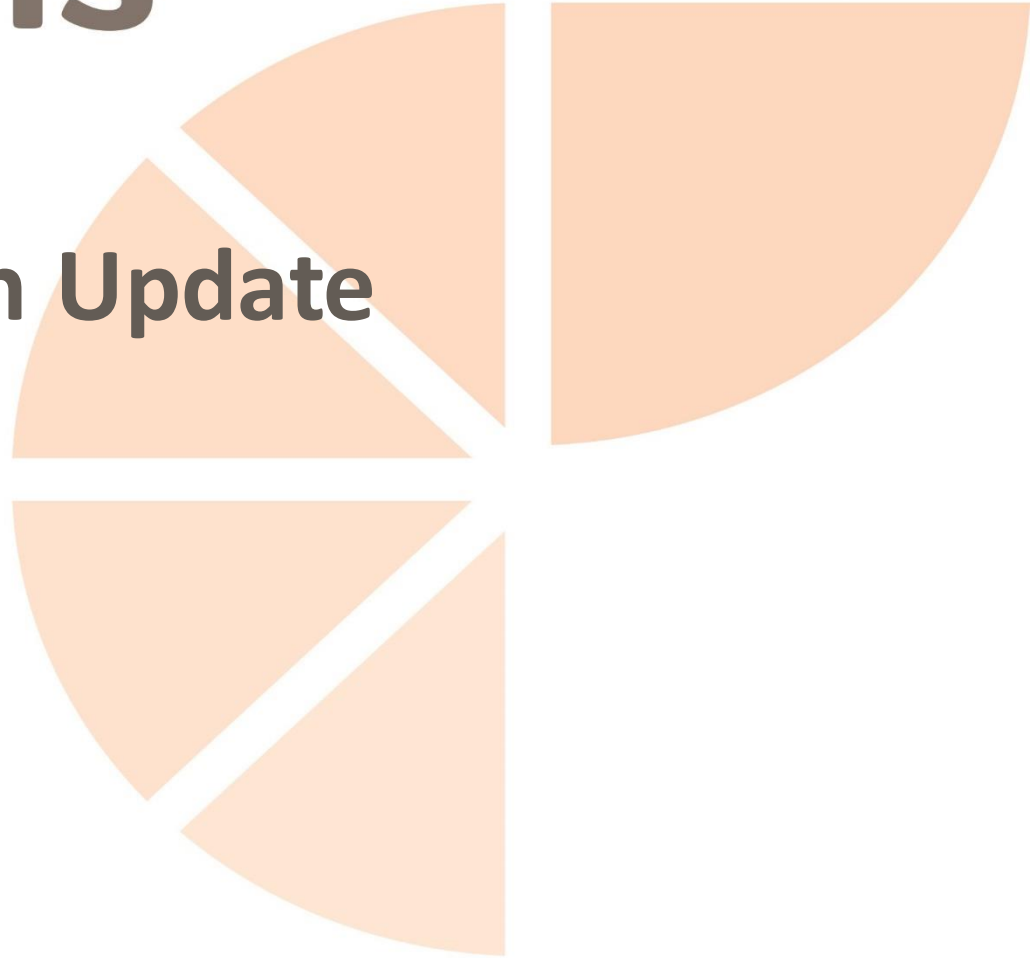
Export markets being developed in preparation for Project Sea Dragon

- 70 tonnes of Black Tiger prawns produced to European export standards and exported to European markets.
- European cooking trials produced premium quality product
- Primstar Offtake Agreement successfully extended with an increase to the price





Project Sea Dragon Update



Project Sea Dragon

Seafarms have undertaken significant assessment of the viability of PSD which has validated the effectiveness of large-scale prawn farms, hatcheries and packing, and 10 hectare ponds.

Project status outlined at the last AGM remain current

- As reported last year, a review was completed during the financial year showing no technical reason as to why Project Sea Dragon should not proceed.
- No change in underlying PSD assumptions as reported last year:
 - 10Ha ponds remain feasible including biomass and yield
 - Domestic distribution of fresh product remains feasible
 - International product placement remains positive.
- All licences and obligations maintained during the year.
- Sound relations with Legune Station.
- All approvals in place for PSD Stage 1 for the installation of 1,120Ha of grow-out ponds enabling 15,000 tonnes of annual production.
- All options are modular in design and scalable.



Project Sea Dragon

The construction undertaken to date has significantly reduced uncertainty and risk associated with earthworks and construction and thereby reducing the cost of debt.

- Sea water intake walls and access roads constructed on competent and incompetent ground.
- 21 nursery ponds completed.
- Area for 10Ha ponds partially cleared.
- 100,000 tonnes of crushed material for roads
- 50km of roads partially improved – rectification and more work required.
- Pre-cast concrete structures for ponds are partially completed and are in storage in Darwin.
- Exmouth Founder Stock Centre largely complete and in operation
- Bynoe water intake and water discharge ponds
- All construction costs expensed in the previous financial year



Project Sea Dragon Sites

Grow Out Facility

Land based grow out farms, water exchange and other infrastructure for growing and harvesting Black Tiger Prawns.

This site has the land area to establish up to 10,000 Ha of grow out ponds.

Broodstock Maturation & Hatchery

Receive animals from Exmouth to grow out and prepare for the Hatchery. The Bynoe site will now contain the hatchery to generate the post larvae prawns to stock the ponds at Legune.

Back-up Breeding Facility

Will accommodate a copy of the broodstock to minimise risk.

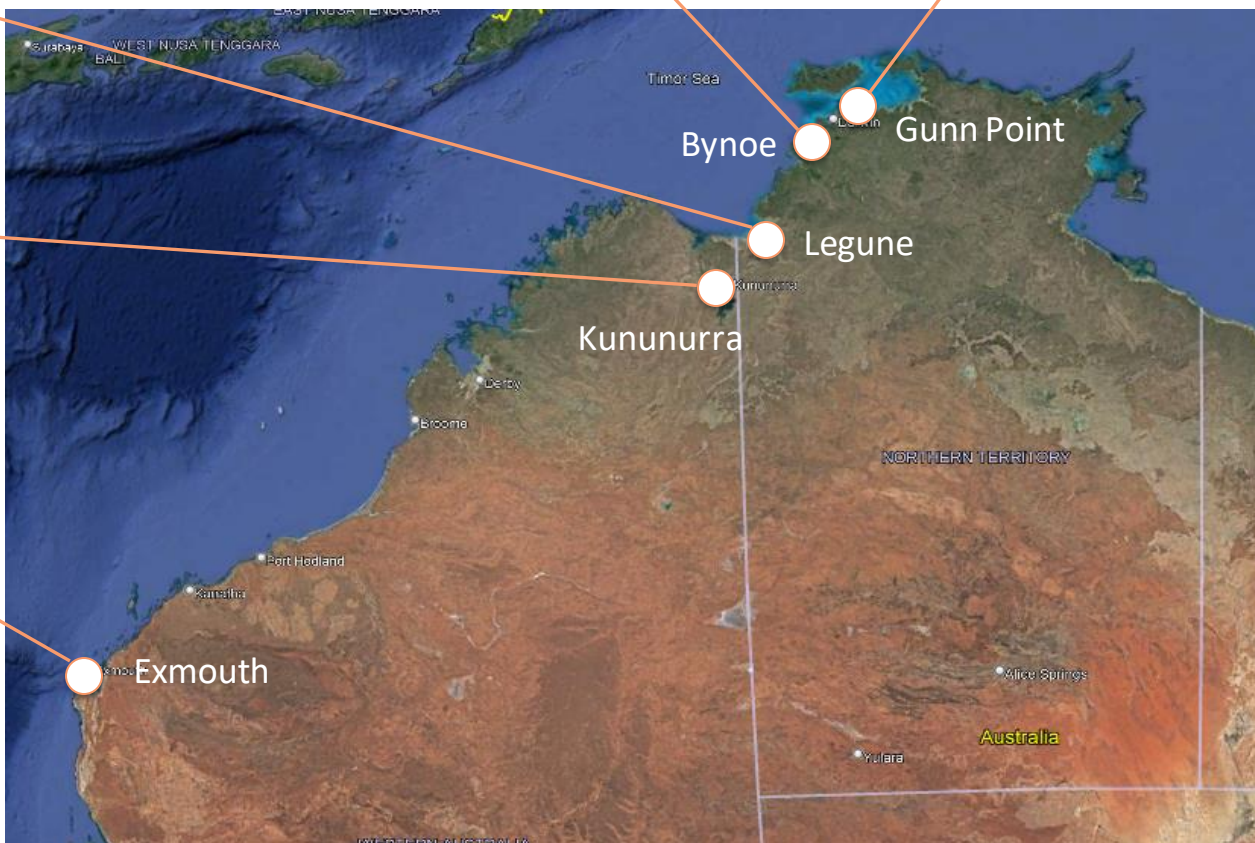
Not required at the outset.

Processing & Packing

Kununurra provides an accommodation centre for workers and a facility to receive the freshly harvested prawns for sorting, grading, freezing and packing ready for despatch to the port

Founder Stock & Breeding

Quarantine facilities capable of receiving and handling of wild caught broodstock. The facility is undertaking a breeding program to produce Specific Pathogen Free (SPF) high performance stock for the production system.



Project Sea Dragon

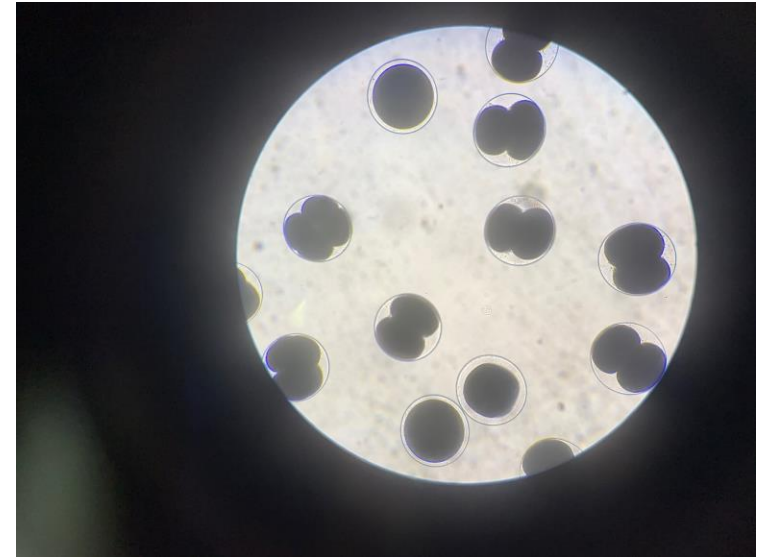
Despite challenges that have impacted momentum, important steps continue to be made on Project Sea Dragon.

Breeding program

- Specific Pathogen Free animals have reached G4 (4th generation) at our Exmouth facility.
- Several ponds at Ingham (Qld) Farm 3 stocked with the progeny of Exmouth and Queensland crossbred animals with improved performance results.
- R&D on breeding continues at Exmouth with in-pond trials underway.
- Exmouth, in concert with Qld enabled the commercial production of a succession of post larvae at our Qld hatchery that showed no viral pathogen targets – never been seen before in Australia and we won the APFA award for R&D Innovation.

Re-shaping Stage 1a - all options costed and financially modelled

- Stage 1a of Project Sea Dragon was originally envisaged to have 36 x 10 hectare ponds producing 6,000 tonnes of black tiger prawns per annum.
- Stage 1a was updated to 20 x 10 hectare ponds producing 3,400 tonnes of black tiger prawns per annum.
- Capex has been rebased to 1 January 2024.
- The increase to capex from escalation has been offset by a number of design changes.



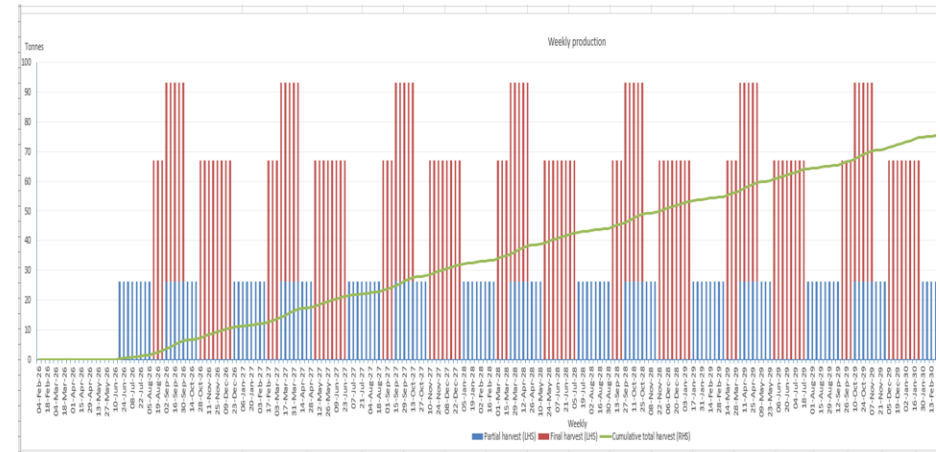
Project Sea Dragon

Despite challenges that have impacted momentum, important steps continue to be made on Project Sea Dragon.

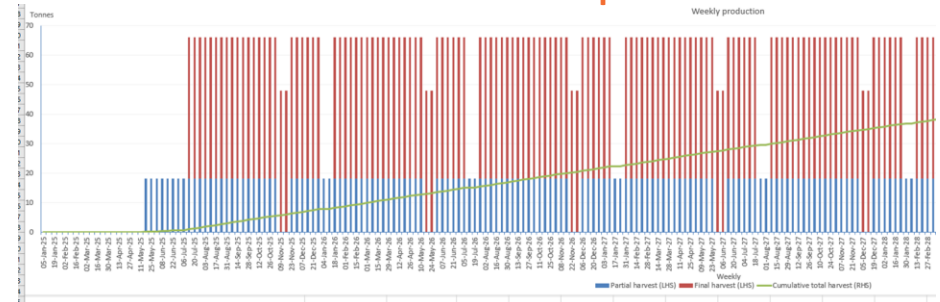
Business case

- In the June Shareholder Update ASX release:
 - The outputs of the financial model are pleasing
 - Re-engaging with funders
 - Business cases consider the appetite of the different funders for the scale of the initial development.
- Lenders kept engaged and provisional business cases options have been tested with potential funders.
- A current potential substantial funder requires an offtake of nominally 100 tonnes per month of large prawns.
 - A reduced number of ponds produces production gaps
 - Over recent months Stage 1a was further optimised to 25 x 8 hectare Ponds to produce similar annual volumes, a more continuous supply of larger 40-45g prawns with lower weekly intensity at the processing plant
 - Modified design, scope, estimate, and financial modelling were re-worked to suit.
- Funding agreements have been issued to the substantial funder for review with advanced legal and commercial terms currently being negotiated .
- Both Stage 1 and Stage 1a remain as options for the final business case.

20 x 10 ha Pond harvest profile



25 x 8 ha Pond harvest profile



- The final business case and Board FID will be structured as funding negotiations progress

Final Observations

Our strategy remains firm

- Directors consider that the business and its prospects are on a much firmer footing since our AGM report last year.
- Specifically, output from our Queensland operations are up on the back of onsite improvements.
- Considered steps are being taken on Project Sea Dragon.

Project Sea Dragon

- Federal Court matter.
 - We have confidence in our legal position
 - Does not prevent us from securing funding for Project Sea Dragon, finalising the business case and making the final investment decision.
- The immediate priorities for Project Sea Dragon are:
 - Dealing with the Canstruct matter
 - Improving the performance and breeding of Specific Pathogen Free broodstock.
 - Progress and expand current discussions to secure funding.

Thank you to our shareholders. We look forward to keeping you updated on the year ahead.





Thank You



Contact Us

Level 10, 490 Upper Edward Street
Spring Hill QLD 4000

PO Box 252
Spring Hill QLD 4004

T. 61 7 3248 0222
E. info@seafarms.com.au