

An underwater photograph of a diver in a black wetsuit and mask, holding a large, dark mesh net filled with small, light-colored objects. The diver is positioned in the lower half of the frame, looking towards the camera. The background is a deep blue ocean with many small bubbles rising. A yellow rope is visible on the right side, and a yellow net is visible at the top left.

# FUNDING OUR GROWTH

RARE FOODS AUSTRALIA LTD

4 MARCH 2024

## RARE FOODS

AUSTRALIA

# RARE FOODS AUSTRALIA LIMITED

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## RARE FOODS AUSTRALIA SEEKING TO RAISE \$3M TO UNDERPIN STRONG YEAR-ON-YEAR GROWTH TRAJECTORY

March 2024

Rare Foods Australia (**ASX: RFA, Rare Foods**) is seeking existing shareholder and new investor support to raise growth capital of approximately \$3million via the undertaking of a partially underwritten non-renounceable rights issue (**Entitlement Offer**).

Mr Ignazio Ricciardi, a director of Rare Foods, has agreed to partially underwrite the Entitlement Offer up to the value of \$1,000,000. The board recommends all shareholders take up their entitlements. The directors (with the exception of Mr Ricciardi, who will only take up his entitlement to the extent that his shareholding in Rare Foods would be less than 20% upon completion of the Entitlement Offer) reserve the right to take up their respective entitlement in whole or in part at their discretion.

The funds raised under the Entitlement Offer will be used to springboard our next strategic growth phase through increasing production capabilities for our tier-based abalone products as well as diversifying and innovating our business to tap into new product streams.

At Rare Foods, we have a clear pathway to fast track leveraging of our history of unique innovations through:

- Creating efficiencies in our supply chain to increase the production capabilities of our tiered based abalone product.
- Developing new and innovative methods to produce high quality wine and other alcoholic products utilising our unique ocean leases that create a strong point of difference in a saturated market.
- Establishing stronger connections with all our customers and stakeholders through tailored experiences that showcase these innovations.

We believe this strategy has the potential to lead to greater value accretive growth to build upon our previous track record of strong year-on-year growth and deliver value to our investors.



## ABOUT RARE FOODS AUSTRALIA

We own and operate the world's first and only abalone "sea ranching" business. Our abalone sea ranching process begins with hatchery reared Greenlip juvenile abalone. At an average size of 40mm, our juveniles are secured under a supply agreement with land-based abalone hatchery and grow-out facility, 888 Abalone Pty Ltd in Bremer Bay, Western Australia. The juveniles are transported from Bremer Bay and deployed on our purpose-built reefs within our lease in the pristine Flinders Bay, about 500km away in Augusta, Western Australia. We are global pioneers of the reefs, comprising 10,000 ABITATs, which are self-sustaining blocks where the abalone grow. There they feed on the natural food sources provided by the ocean currents until they are ready for harvest after three years, with harvest size typically 110-130mm.



Our specialised divers tend the ranch, seeding new juvenile abalone on the ABITATs as mature abalone are harvested, protecting the abalone from predators, as well as meticulously monitoring growth and density.

In 2022 our abalone ranching innovation obtained Marine Stewardship Council (MSC) certification, which is the international gold standard, third party sustainability accreditation for wild fisheries. Importantly, we remain the world's only fishery using these MSC recognised practices to commercially produce Greenlip abalone, setting us apart in a market that increasingly values sustainability and ethically sourced products.

In 2023 our founder, Brad Adams won the coveted and internationally recognised MSC "Sustainability Hero" award. This was not only a fitting honour for an innovator's hard work, but it also reflects the essence of our business.

Underpinned by our sustainability guarantee, we have a goal to grow a business that offers other premium foods sourced from the pristine South-West of Western Australia.

## OUR GROWTH STRATEGY

### Creating efficiencies to increase abalone production capabilities and drive growth revenue

#### Boosting productivity in our core business

Our first ABITAT was deployed in August 2014 and by 2019 there were 10,000 ABITATs on the lease, seeded with abalone. Over the 10 years since the first deployment, we have been collecting extensive information related to growth rates, harvests, and mortality. This has allowed us to develop a comprehensive data base and understand, daily, what is happening on the reef.



Last year we undertook a detailed evaluation of our reef's productivity over the past 10 years. The analysis concludes that our ABITATs' productivity gradually declines over time due to the accumulation of biofouling, which impacts available surface area available for abalone growth.

As a result, we have developed a 7-Year Strategy aimed at significantly improving productivity. Our goal is to reduce biofouling and maintain space for higher rates of abalone survival and growth.

After seven years of production, ABITATs will be lifted to the surface, thoroughly cleaned on our reef building vessel the Kon Dios, returned to the seabed, and restocked with juvenile abalone. Approximately 1,400 ABITATs will be refurbished each calendar year during the 7-year cycle, with 10,000 ABITATs in circulation.

Based on the 10 years' previous production history, the harvest strategy predicts that a sustainable harvest level of between 100 to 120 tonnes can be achieved. In addition, our purpose-built service vessel the 20m MV Kon Dios is now scheduled to operate full time to implement the 7-Year Strategy. This use of the MV Kon Dios is estimated to reduce the ranch's dive team requirements by approximately 25% by cutting the time divers need to spend underwater cleaning the ABITATs.

### Funding Our Growth

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## Increasing our abalone production capabilities

We are focused on the development of a sales strategy to take the rare foods from the premium South-West to high-end customers throughout the world. Using our MSC certified ranched Greenlip abalone, we have developed a tier-based abalone offering that includes our MSC certified ranched Greenlip abalone, as well as wild harvested MSC certified Greenlip, Brownlip and Roei abalone. We are also processing and marketing farmed abalone.

The tireless pursuit of our Master Distributor strategy now has our customers demanding forward orders, up to 18 months in advance. This strategy underpins a healthy forward order book (made up of sales and non-binding forward orders) that is currently 91% of FY23 sales.

We intend to pursue opportunities to increase our tiered based abalone production capacity upwards of 120T<sup>1</sup> per annum by focusing on improving its three key supply pillars of our core business:

### MSC Ranched Greenlip Abalone

As previously announced, we have experienced consistent year on year sales growth underpinned by our own production capacity, supported today by our 7-Year Strategy we intent to continue this upward trend.

To conserve working capital in FY21 during COVID we reduced our deployment numbers of juveniles onto to our reefs. Additionally, over the past two years we undertook the relocation of 20% of the reef (2,000 ABITATS) reconditioning and repositioning the ABITATS to known, high growth locations.

We anticipated a reduction in our production capacity in FY24. Over the past three years our juvenile deployment numbers have been returned to pre COVID levels and the restocking of newly refurbished ABITATS has also begun. Our ability to lift our production capacity beyond FY24 is evidenced by the numbers of juvenile abalone maturing towards commercial grade, which is now up 26% to 847k.

### Wild Origin Abalone

With the support of the wild caught divers, we have developed products to promote and create value for wild caught Roei abalone sales.

We recently hosted Vietnamese buyer MiGroup, conducting site tours, and showcasing these new wild caught Roei abalone products. MiGroup along with Japanese customers have expressed strong demand for live wild Roei abalone.

We are currently finalising the development of live processing facilities in Perth to provide the live service to fulfil this demand.

In creating a sales channel for this product, which is currently underutilised, we believe wild caught divers will be incentivised to increase their production levels of Roei abalone, which in turn will allow us to service the sizeable demand from South-East Asia and Japan.

<sup>1</sup> The production and revenue targets set forth in Section 2 are based on the following assumptions:

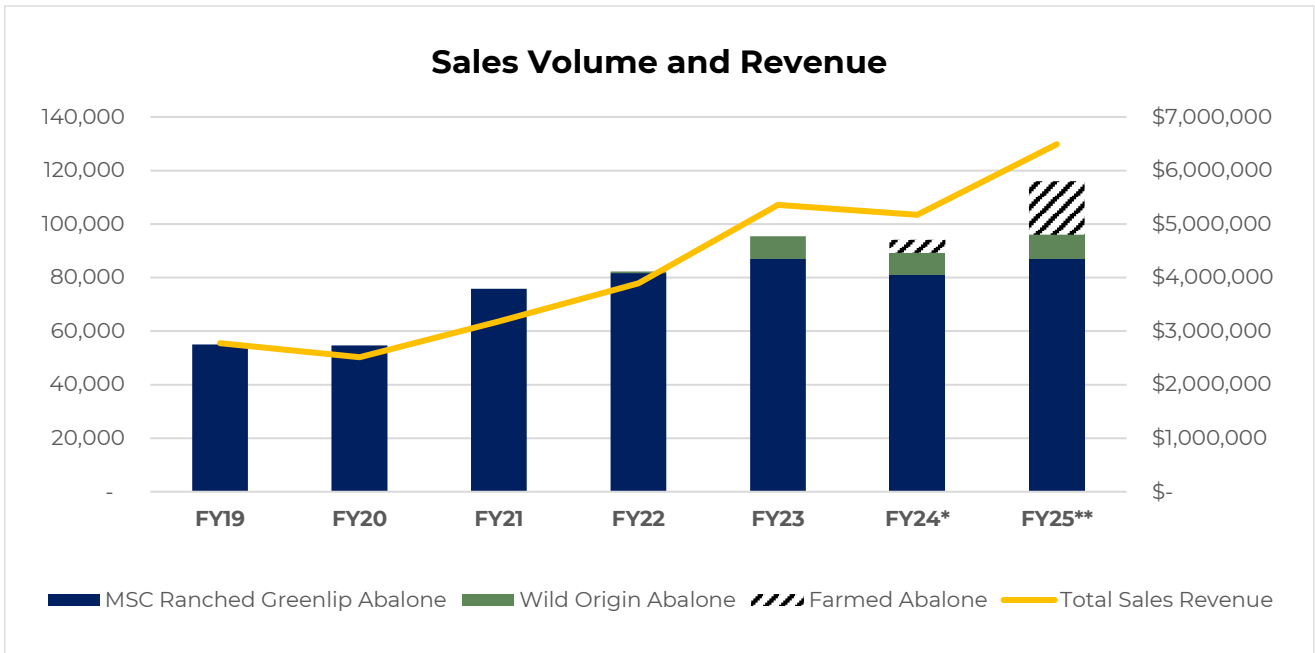
- An increase of 1.1% in production of MSC ranched Greenlip abalone from FY23 to FY25.
- Over the past five financial years Rare Foods has experienced YoY growth of an average of 12.9% in its production of MSC ranched Greenlip abalone.
- As disclosed, to conserve working capital in FY21 during COVID Rare Foods reduced its deployment numbers of juveniles onto the reefs, with the consequence of a lower biomass in FY24. Rare Foods has estimated a production target of 85T, a conservative 1.1% increase on FY23, for FY25 due to its current supply of juvenile abalone maturing towards commercial grade, which is now up 26%.
- Rare Foods aims to double its current processing and marketing of Roei Abalone from FY23 to FY25 to 17.1T, as reported in the half year results released to ASX on 29 February 2024, Rare Food's Roei processing is currently at 8.6T for FY24.
- Rare Foods reasonably assumes that given its excess processing capacity at its Augusta Facility it could process approximately 20T of farmed abalone by FY25.
- The revenue targets assume:
  - A price of \$57 per Kg of ranched MSC Greenlip abalone, being the current price being received in FY24.
  - A price of \$45 per Kg of Roei abalone, being the current market price in FY24.
  - A price of \$38 per Kg of farmed abalone, being the current market price in FY24.

## Funding Our Growth

**Farmed Abalone**

Our state-of-the-art processing facility in Augusta is used to process the MSC wild Greenlip, along with wild caught and farmed product. In the past year alone, the facilities throughput has increased by 50%. Even at these new rates we have further capacity to expand.

The demand we've created through our Master Distributor strategy has meant we can increase the processing and sales for both the wild caught and farmed produced product. Both sectors have expressed support for us to pursue the tiered based abalone offering, to yield greater value for all parties.



\* FY24 target production and revenues are based on Rare Foods estimates extrapolated from Rare Food’s half yearly results released to ASX on 29 February 2024.<sup>1,2</sup>

\*\*FY25 target production and revenues are based on the Rare Food’s estimates based on previous performance and reasonable future assumptions.<sup>1,2</sup>

<sup>2</sup> All forward-looking statements made are qualified by the foregoing cautionary statements on page 1 of this Funding Our Growth document. In particular, the future production and revenue estimates set forth in Section 2 represent aspirational short-term estimates based on Rare Foods’ current arrangement and are not to be taken as accurate predictions of what Rare Foods will actually be able to produce or the revenue Rare Foods will receive. Rare Foods notes that currently there are no forward supply arrangements in place for either the supply of Roei or Farmed abalone, and as such these estimates are purely aspirational. Investors are cautioned that these forward-looking statements are not guarantees of future performance and accordingly investors are cautioned not to put undue reliance on forward-looking statements due to the inherent uncertainty therein.

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## OUR GROWTH STRATEGY

### Diversification of our product offering

#### Ocean Cellared Wine

In keeping with our innovative spirit, we successfully trialled Ocean Cellaring of wine in 2020 which involved the placement of wine in securely sealed bottles within crates on the seabed.

Margaret River has an international reputation for producing premium wines, and with the support of local partner Glenarty Road we undertook a modest trial. The sparkling cuvee product from Glenarty Road was of exceptional quality, and the bottles encrusted with natural marine growth of barnacles and coral, which we branded the "Ocean Signature", provided a wonderful story about the wine's maturation process.

We continue to scale the Ocean Cellaring business, adding Edwards Winery as a partner to include a Cabernet and a Chardonnay in the Ocean Signature offerings. These collaborations have provided us with 2,300 Ocean Signature bottles for sale through 2024, with similar deployment quantities secured for FY25.



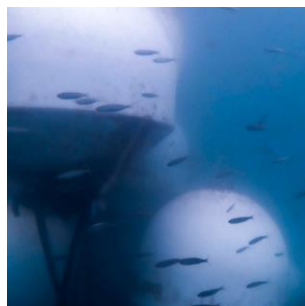
#### Winereef trial

As announced to the ASX on 10 October 2023, we signed a Heads of Agreement with French-based company Winereef International (**Winereef**) to undertake a further ocean cellaring trial of up to 13,000 bottles to complement our current Ocean Signature method and to provide significant production of a premium wine range.

Winereef has developed a proprietary technology for wine making in the ocean using a secondary fermentation process within purpose-built 265 litre vats attached to the seabed. In the ocean environment the wine is aged by the constant movement by ocean swell, pressure at depth, consistent temperature, as well as low levels of light in a subsea process that cannot be replicated on land.

Based on the Basque coast of France, Winereef has developed and honed over 15 years its proprietary technology to make wine in the ocean on a large scale, today producing up to 200,000 bottles per annum.

A commercial trial is planned to commence in FY24 on our Flinders Bay lease. The 6-month trial is proposed to yield up to 13,000 bottles. In the event the trial is successful, we believe, with further investment to scale up production, we will have the potential to replicate Winereef's success in France here in Western Australia. This will position us as a producer of a product with a unique point of difference in the Margaret River wine market.



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## Utilising the full potential of our ocean leases

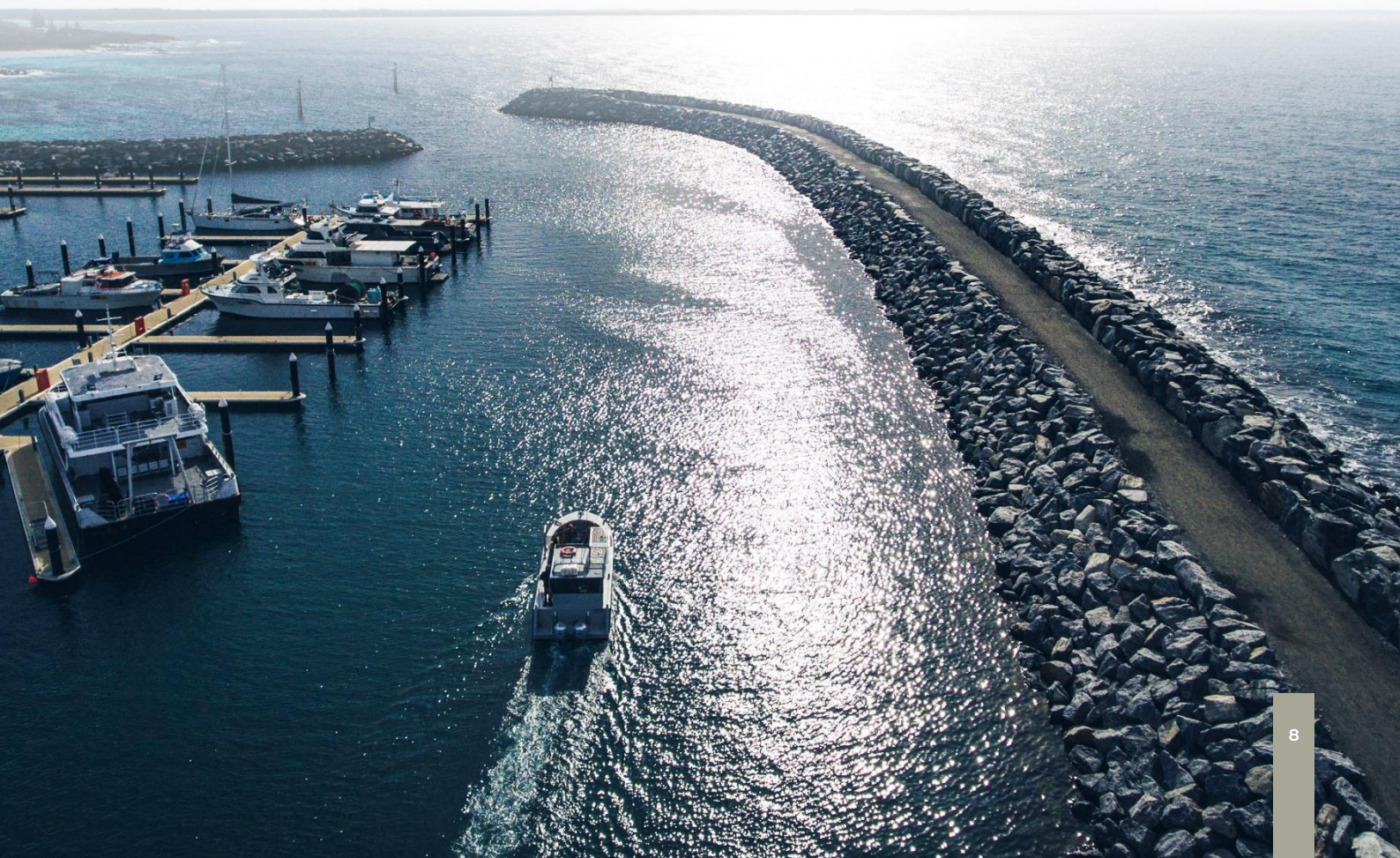
Ocean Cellaring leverages all the current strengths of the business. We have the only two ocean leases in Western Australia in which aquaculture products can be grown on the ocean floor. Currently only 2% of the leases are used to produce the MSC-Certified ranched Greenlip abalone. Furthermore, we are located on the doorstep of the world class Margaret River wine region.

Ocean Cellaring utilises our ocean leases and dive infrastructure, as well as leveraging our strategic partnerships and evolving sales and marketing capability.

We have commenced Ocean Cellaring with the Ocean Signature range, cellaring boutique wines on the ocean floor. We envisage the expansion of this premium product as we determine with our strategic partners the most effective sales channels.

Our Winereef trial allows us to determine an option to significantly scale the production of underwater wine. Once vats arrive and are in place, we will begin the marketing of this product.

Additionally, we are now in the process of developing a unique value proposition for other potential cellaring partners promoting the potential product innovations and sustainable practices. Through our strategic partners we will market this opportunity to relevant industry leaders in beverages.





## OUR GROWTH STRATEGY

### Establishing tailored point of sale experiences for our retail customers



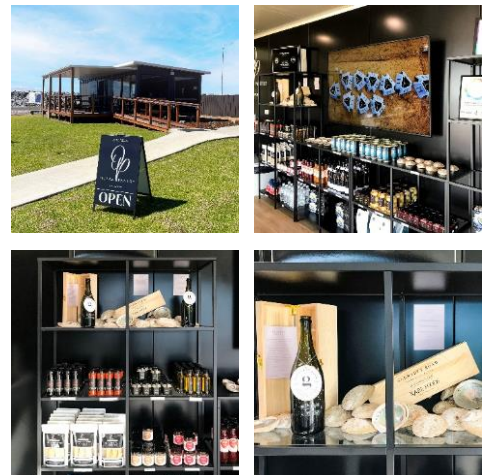
#### Ocean Pantry

Our Ocean Pantry, designed to promote our abalone and Ocean Cellaring innovations through tours and tastings has established a strong platform over the past 12 months.

Our Ocean Pantry retail centre has achieved a recent record quarter (reported in January 2024), generating \$50k in revenue, up 50% on the turnover achieved over the previous three quarters. In January 2024, the revenue received from the Ocean Pantry for the month was a record \$24k.

Over the past 12 months we have collected customer data to be used to:

- Enhance and tailor customer experiences we present.
- Develop products that can further maximise margin.
- Redesign a licenced café service.



Based off our previously reported results, we reasonably expect to achieve an average revenue from the Ocean Pantry retail outlet of approximately \$15k per month over the next 12 months.<sup>3</sup>

#### E-commerce

In support of the customer experience, we are tailoring and promoting through our Ocean Pantry, we will redesign and align product promotion across our eCommerce platform. With our recently acquired liquor licence we are expecting e-commerce to ramp up with the sales of ambient products; canned abalone and ocean cellared products.

<sup>3</sup> This statement is based on the assumption that the Ocean Pantry, which produced an average of \$15k in monthly revenue throughout FY23 continues to achieve this revenue target throughout 2024.

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## USE OF FUNDS RAISED UNDER THE ENTITLEMENT OFFER

The purpose of the Entitlement Offer is to raise approximately \$3,000,000 before costs.

The funds raised from the Entitlement Offer are intended to be applied in accordance with the table set out below:

Item	Proceeds of the Entitlement Offer	Maximum Subscription (\$)	%
1	Repayment of debt	\$ 1,455,000	47.33%
2	Develop live abalone product delivery	\$ 150,000	4.88%
3	Branding and marketing the Winereef trial	\$ 450,000	14.64%
4	Increasing Ocean Signature production	\$ 450,000	14.64%
5	Working capital	\$ 524,130	17.05%
6	Expenses of the Entitlement Offer	\$ 45,110	1.47%
<b>Total</b>		<b>\$ 3,074,240</b>	<b>100%</b>

If less than the Maximum Subscription is raised, Rare Foods will first reduce corporate costs and working capital before scaling back the funds allocated to items 1 to 4 on a pro rata basis.

On completion of the Entitlement Offer, the board believes we will have sufficient working capital to achieve its stated objectives. In the event the Entitlement Offer is not fully subscribed, operational objectives are likely to be modified, which may result in delay or substantial changes to our future plans.

In addition, it should be noted that our budgets and forecasts will be subject to modification on an ongoing basis depending on the results achieved from its business activities and operations.

The above table is a statement of current intentions as of the date of this Funding Our Growth document. As with any budget, intervening events and new circumstances have the potential to affect the manner in which the funds are ultimately applied. The board reserves the right to alter the way funds are applied on this basis.

