

ASX Announcement | 30 November 2022

Seafarms Group Limited (ASX: SFG)

SFG ASX Announcement No: 741

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 announced that the June 2022 assessment (ASX Announcement: 732) of the key challenges to Project Sea Dragon (PSD) has found that there is no technical reason why the project should not proceed.

Seafarms CEO Rod Dyer said the assessment validated the effectiveness of large-scale prawn farms, hatcheries and packing and importantly the viability of 10-hectare ponds.

“After visiting overseas operations, the Company believes that the previously identified technical risks can be managed” Mr Dyer said.

Seafarms is now progressing financial and business case modelling for the project as the next step in determining the future of the project.

Key risks

The Project Sea Dragon Review Investor Briefing 31 March 2022 highlighted the following risks:

Intensity and viability of 10 Ha ponds

-  We inspected a farm in Ecuador of more than 1,000 Ha operating with biomass assumptions and yields similar to Project Sea Dragon models.
-  Service providers to the farms reported multiple farms running biomass and yields similar to Project Sea Dragon. Service providers also report over 15,000 Ha of ponds in Ecuador running biomass of 5.5 tonnes per Ha and approximately a further 30,000 Ha with biomass of more than 4.0 tonnes per Ha.
-  Project Sea Dragon has projected biomass of 5.0 to 7.0 tonnes per Ha returning yields of 6 to 8 tonnes per hectare per crop.
-  In Ecuador farms successfully operate at similar intensities to Project Sea Dragon with pond sizes ranging from 5 to 19 hectares in size. Our assessment of these farms left us with no doubt that Seafarms could successfully operate 10-hectare ponds with our projected biomass and yield performance.

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Domestic distribution

- Logistics providers to major supermarkets and major customers confirmed that the proposed PSD transit times and logistics arrangements are sound. Customers confirmed that the remaining shelf life after transport was acceptable.

International product placement

- Our product has been trialed in Europe with good market feedback. In October during meetings in Europe, the off-take partner confirmed its commitment to PSD and has requested access to more product to build the market placement as a premium product.

Next steps: financials and funding

- We are well advanced in discussions with potential funders for any revised proposals for PSD.
- The financial model and business case incorporating updated construction cost and operating cost inputs is currently being prepared.
- The Board will assess the updated business case and funding arrangements before making a decision on the future direction of Project Sea Dragon.

“The Seafarms Board is expected to make a decision regarding the future of Project Sea Dragon in early CY23” Mr Dyer said.

Authorised for release by the Seafarms Board

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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.



Rod Dyer, CEO – Business Update

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Agenda

- Our Year
- Financial Results Overview
- Operating Performance
- Project Sea Dragon Update
 - Status of Construction
 - Current status of the Assessment
- Final Observations

Note: Photo on first slide is Seafarms Groups' Farm 2



Our year

It's been a turbulent year for Seafarms since the successful capital raise early in the previous financial year.

- 🍊 **July 2021:** the successful equity raise in July 2021 enabled the construction of Project Sea Dragon to commence.
- 🍊 **July 2021:** Seafarms management commits to a change in strategy that included the re-introduction of Banana prawns to reduce the biosecurity risk in Queensland operations and improve performance.
- 🍊 **September 2021:** the Board appointed a new CEO, with a renewal of the Board taking place over subsequent months.
- 🍊 **November 2021:** the new Board announced a review of Project Sea Dragon.
- 🍊 **March 2022:** announcement of the curtailment of all debt funding activity, and the termination of Project Sea Dragon contracts and most of construction team.
- 🍊 **April 2022:** this significant change in direction for the Company prompted a move by a major shareholder to remove the CEO.
- 🍊 **May 2022:** the Board appointed Mr Dyer as CEO, Mr Leijer as CFO and Mr Whitcombe as Company Secretary.
- 🍊 **June 2022:** in the context of the announcements made in March, Seafarms announced it was conducting a thorough assessment of the key challenges, development path and opportunities for Project Sea Dragon.

Financial Results

Our financial results reflect the accounting treatment of previous expenditure as a result of the change in timing for Project Sea Dragon

	2022	2021
Net Profit after Tax	(\$85.435m)	(\$25.776m)
Project Sea Dragon construction costs expensed	(\$34.340m)	\$Nil
Project Sea Dragon impairment of non-current assets	(\$18.443m)	\$Nil
Revenue from continuing operations	\$19.478m	\$20.826m
Total production	907 tonnes	1,068 tonnes

- As a result of the review of Project Sea Dragon \$34.3m construction costs were expensed.
- A further \$12.0m in construction costs that were capitalised in FY22 were subsequently impaired (total construction expenditure \$46.6m).
- As a result of the statements released by previous management in March '22 all non-current assets related to Project Sea Dragon were impaired (\$18.4m) including the \$12.0m in construction costs capitalised in FY22.
- The FY22 results were also impacted by significant animal health issues with its black tiger crop on its Cardwell farms that started in November 2021 and significantly deteriorated in January 2022 impacting the result of the Queensland operations. We believe subsequent actions taken by current management will reduce the likelihood of this occurring again.

Financial Position

	2022	2021
Net Assets	\$50.309m	\$5.033m
Cash on hand	\$36.196m	\$0.497m
Net current assets	\$34.469m	(\$7.224m)
Provision for contractual liabilities*	\$8.730m	\$0.0m

**included in net current assets*

- ❏ The provision for contractual liabilities is a provision to settle outstanding claims in relation to work performed under, and termination costs in relation to, construction contracts. These claims have been rejected by the Company based on the advice of the project superintendent and an Independent Certifier.
- ❏ The Company will use the cash resources available to continue to maintain the breeding program in Exmouth, develop export markets and to gain the funding required to develop Project Sea Dragon. It is expected that the Queensland aquaculture operations will return a positive cash flow in FY2023 excluding PSD related costs.



Existing Operations Update



Taking stock and building forward momentum

Operating Performance

- Total production at Seafarms Queensland operations was 907 tonnes (762 tonnes of Black Tiger prawns and 145 tonnes of Banana prawns).
- Lower production the result of reduced stocking to lessen market risk exposure to COVID-19 and a significant disease event in Farms 1 and 2 located at Cardwell in November 2021 to March 2022 (impacting Black Tiger crops at Cardwell).
- Black Tiger prawn production at Farm 3 (Ingham) performed well.
- Consistent with decisions taken & approved by the board in July 2021 as part of an emerging strategy
 - this year all Queensland ponds were stocked with high health prawn larvae from domesticated broodstock without needing to augment the program with wild caught broodstock. This improves yields and reduces the risk of introducing disease from the wild.
 - Crystal Bay Prawns® (Banana Prawn) production was increased to meet existing customer requirements during the year, with a majority of the crop successfully sold fresh and the number of fresh availability weeks increased compared with last financial year.
- Risk of significant disease event lowered by decisions taken by current management that improves water volumes and distribution systems.
- Continuation of current performance at our Queensland operations should see a significant turnaround over FY22.



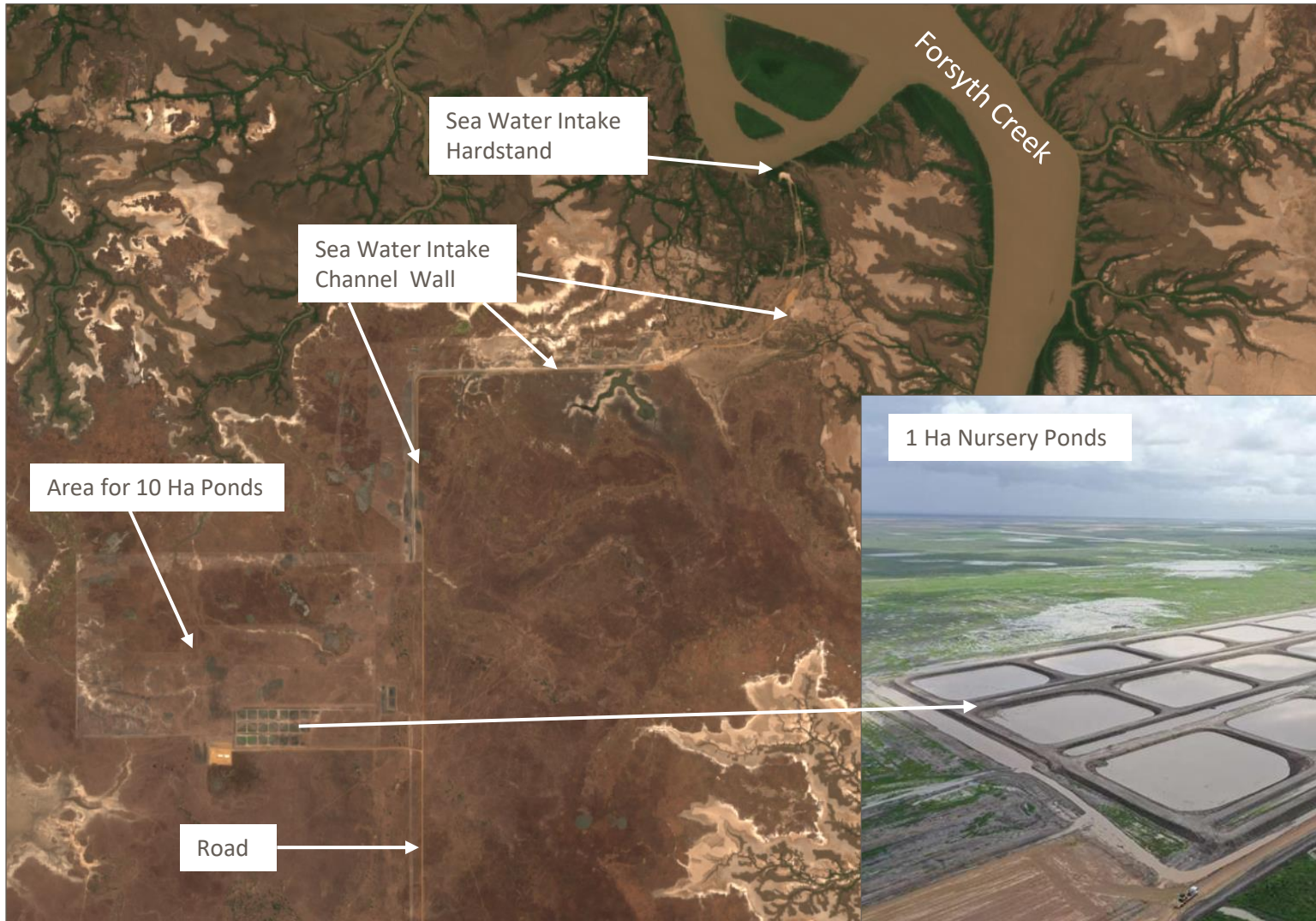


Project Sea Dragon Update



Taking stock and building forward momentum

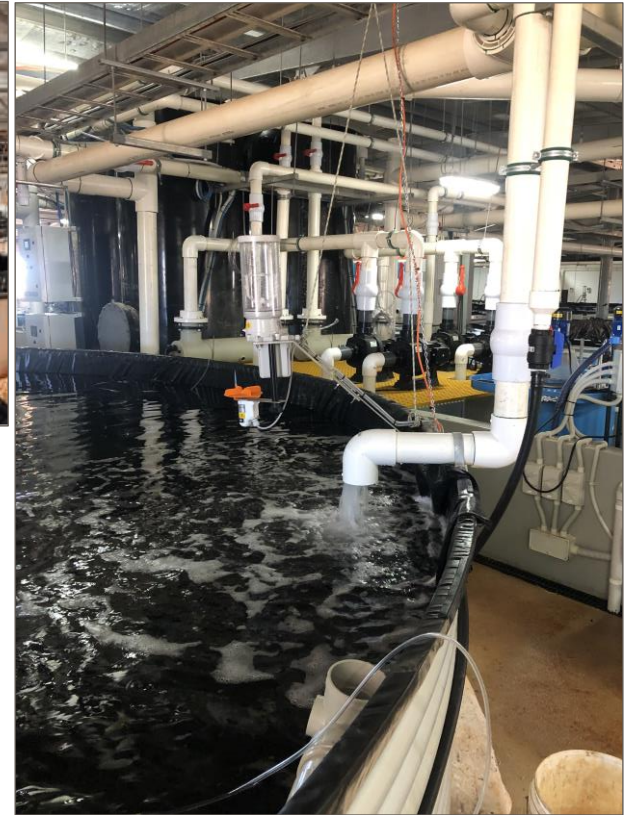
Construction status



Over 200,000 m³ of fill in embankments for nursery ponds and the seawater intake.



Breeding Program Update



- Construction and breeding program restarted
- Breeding program output slowed but now re-energised
- Spawning 3rd generation families from now to Jan. 23
- Breeding program will enable us to eliminate the need for wild catch broodstock within a few years.
- Program will improve growth rates and avoid a significant source of potential disease
- Generation 5 FSC animals translocated to Qld hatchery to improve genetics & performance



Risk assessment

Performance Indicator	Actual Farm 3 (Nov 2020 - May 2021)	Base Case PSD
Number of hectares stocked	33	360
Crop yield tonnes/hectare	12.0 per crop 12.0 annual	8.3 per crop 16.6 annual
Food Conversion Ratio	1.5	1.5
Cash Cost per kg ⁽¹⁾	\$13.79	\$10.0
Days of Culture	176	175
Average body weight – final harvest	43g	40g
Number of crops per annum	1	2 ⁽²⁾

(1) Cash costs of production excluding freight out and marketing

(2) Legune has warmer seawater temperatures all year round enabling two crops per year



Picture: Farm 3's 43 gram average body weight animals, with some animals exceeding 90 grams. Farm 3 animals exceed standard size product of 22-27 gram average body weight.

Extract from the investor presentation 23 June 2021

Intensity in 10 Ha ponds

- multiple farms in Ecuador of more than 1,000 Ha running biomass* assumptions and yields* similar to PSD models
- over 15,000 Ha of ponds in Ecuador running biomass of 5.5 Tonnes per Ha and approx. 30,000 Ha more than 4.0 Tonnes per Ha.

Domestic distribution

- Logistics providers to major supermarkets confirm transit times
- Major customers confirm transit times and logistics do not present an issue

International product placement

- In October meetings in Europe, the offtaker confirms their commitment to PSD and have requested more product to build the market placement as a premium product.

* Maximum biomass may or may not equal yield. Yield can exceed maximum biomass by initially stocking the pond with a higher number of PL's and then undertaking a partial harvest every time the pond reaches maximum biomass. The yield is then the sum of the final harvest at maximum biomass plus the partial harvests.

Risk assessment - 10 Ha Ponds



PSD biomass and yield design assumptions are supported by

- The number of aerators and feeders on these ponds
- Verbal confirmation from offtakers and feeder suppliers for these farms

Final Observations

Existing Operations

- ❖ The new operations management team has implemented changes to water systems and operating practices which has resulted in reduced risk; the business is performing ahead of budget and on an improved footing.

Project Sea Dragon

- ❖ After visiting overseas operations, the Company believes that the previously identified technical risks can be managed and can see no technical reason why Project Sea Dragon cannot proceed.
- ❖ Product has been trialed in Europe with good market feedback, now looking for more product to keep building the market.
- ❖ Financial model and business case incorporating updated construction cost and operating cost inputs is currently being prepared.
- ❖ We are well advanced on discussions with potential funders.
- ❖ The Board will assess the updated business case and funding arrangements before making a decision on the future direction of Project Sea Dragon.



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



Thank You



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