CLEANSEAS | sustainable seafood

ASX Release

24 November 2023

Clean Seas undertakes operational review and completes ~A$9.5 million placement

Highlights:

- Clean Seas has successfully completed a ~A$9.5 million non-underwritten two-tranche placement in conjunction with the undertaking of an operational review.
- The placement will settle in two tranches: ~A$6.7 million on 1 December 2023 and ~A2.8 million on 17 January 2024 following an EGM (if approved).
- The Company seeks to drive operational efficiencies by offsetting input cost pressures currently being faced in the global environment and to create a more stable and resilient business.
- Funding will be used for working capital to facilitate the right sizing of the business operations and to execute on other key focus areas of the operational review.
- Tranche 2 of the placement is subject to shareholder approval. As part of Tranche 2, Clean Seas' largest shareholder Bonafide Wealth Management, has subscribed for A$1.0 million and directors & management have committed to subscribe for a further ~A$0.1 million.

Clean Seas Seafood Limited (**ASX: CSS, OSE: CSS, Clean Seas, the Company**), the global leader in full cycle breeding, production and sale of Yellowtail Kingfish refers to its presentation released on 27 October 2023 for the Company's Annual General Meeting (**AGM Presentation**).

In response to comments in the AGM Presentation related to driving efficiencies and improvements across the business to offset input cost pressures, the Board of Directors of Clean Seas (**Board**) advises that it has commenced this work and is undertaking an in-depth review of the operational structure of the business (**Operational Review**).

The focus of the Operational Review, which will be implemented over the next 3 to 6 months, will be on workstreams associated with:

1. biomass levels and the optimal production volume at which the Company should operate,
2. the consolidation and maximisation of farming activities, and
3. right sizing the business to maximise profitability and cash flow.

The decision to undertake the Operational Review is, in part, a response to:

1. constrained supply of fish meal and fish oil resulting in significant increases in feed prices, our largest variable cost of production,
2. an increase in competitive pressures across our key domestic and international markets and from cheaper alternative proteins resulting in flattening demand, and
3. a shift in general market conditions.

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It has become evident to the Board that a strategy focussed on production volume growth, and the capital required to achieve this growth, is not conducive to the above challenges. In light of this, the Board has decided to commence implementing the necessary initiatives to better position the Company for the current market environment.

The initiatives adopted as part of the Operational Review will result in repositioning CSS as a stable and more resilient business for the current market environment that is expected to drive stronger free cash flows by dramatically reducing working capital and leveraging the existing infrastructure already in place.

Key outcomes to be implemented over the next 3 to 6 months

1. **A reduction in current biomass levels by circa 800 tonnes** to facilitate the following benefits and savings:
    a. support sales volumes of circa 3,000 tonnes of production per annum with a focus on premium markets to maintain strong pricing in the most efficient manner;
    b. the consolidation of farming activities; and
    c. estimated savings of approximately A$10.0 million in feed costs/working capital per annum.

    As a result of this reduction in biomass, CSS is expecting a non-cash SGARA impairment to inventory of between $13.5 and $14.5 million in FY24.

2. **The consolidation of farming activities and a reduction in the business' operational footprint** resulting in an estimated reduction in capital spend of approximately A$8.0 million per annum versus what would be required to support the growout of these fish over the next 2 years.

3. **The rightsizing of the business to maximise profitability and cash flow at approximately 3,000 tonnes per annum** with a targeted reduction in fixed and variable operating costs of up to A$5.0 million per annum across contractors, labour and other input costs.

In addition to the above, the Board notes:

1. **The soon to be commissioned feed barge** will be deployed on the consolidated footprint and will play an important part in increasing **automation** under the consolidated structure and reducing production costs. Along with the vessels acquired by the Company in the last two years, the Company has the infrastructure in place, **without any additional capital spend on growth assets**, to effectively farm approximately 3,000 tonnes.

2. The financial results for the first quarter ended 30 September 2023 (**Q1 FY24**) and those expected for the second quarter ending 31 December 2023, support the need for the implementation of the Operational Review outcomes:

    - Challenging market conditions have persisted and are expected to continue in light of broader consumer sentiment and cost of living pressures, albeit sales prices remain strong with minimal volatility in our core markets
    - Q1 FY24 sales revenue of A$16.2 million and sales volume of 714 tonnes represents a 1.0% increase on Q1 FY23 sales revenue and a 1.0% decrease on Q1 FY23 sales volume despite pricing being maintained at strong levels (A$22.62 per kg for Q1 FY24)
    - Q1 FY24 operating cashflow of negative A$(7.7) million reflects the high carrying cost of a growing biomass and lower than expected sales demand
    - FY24 harvest volume is expected to be in the range of 3,000 to 3,300 tonnes after the biomass SGARA impairment mentioned above

3. **The Company has completed a two-tranche placement to existing and new investors to raise ~A$9.5 million (Placement)**, with Tranche 2 subject to shareholder approval**.** Along with the existing bank facilities, this Placement will provide funding headroom to support working capital and costs related to the Operational Review.

CSS Chairman Travis Dillon said:

"The Board and Management team have given considerable thought and focus to the optimal future structure for the Clean Seas business. While achieving the right balance of growth and profitability is a sensitive one in an aquaculture business that has significant operational risk, it is clear that the Clean Seas business model requires change to navigate the current challenges.

The issues facing the Company have driven us to reassess our strategy to create a more secure platform that is resilient at its optimal production output, adequately manages operating costs and drives free cash flows. In pursuing our growth strategy, our cost base has become disproportionate to our earnings profile and the continued pursuit of this strategy would require significant levels of infrastructure and working capital investment.

Whilst we are aware of the impact of these changes on the Company and all stakeholders, it was important we act decisively to address these issues to ensure a nearer term path to sustainable earnings."

CEO Rob Gratton said:

"Whilst we successfully achieved many of the goals that we set ourselves over the last three years, including transitioning the business to profitability and positive cash flows last year, the emergence of more challenging market conditions and higher input costs has put further progress at risk.

Our focus in restructuring Clean Seas is to deliver a high performing, efficient and stable business, that manages operating and financial risk while continuing to leverage our high quality Kingfish and unique provenance that can only come from growing a native fish in its natural waters of the Spencer Gulf.

In playing to our strengths, we have the opportunity to continue towards our goal of creating a financially resilient business."

Placement

CSS has today completed a two-tranche Placement to institutional and sophisticated investors to raise ~A$9.5 million (before costs) to provide liquidity for working capital and to facilitate the right sizing of the business operations. The Placement was well supported by new and existing shareholders by way of a fixed price offering at A$0.27 per share, representing a 28.0% discount to the 5-day VWAP of A$0.375 per share and a 23.9% discount to the last close of A$0.355 per share on 21 November 2023, and will result in an issue of approximately 35.3 million new fully paid ordinary shares (**Shares**).

Bonafide Wealth Management AG, CSS' largest shareholder, subscribed for A$1.0 million and directors & management have committed to subscribe for a further ~A$0.1 million of Shares.

Approximately 24.8 million Shares (**Tranche 1 Shares**) will be issued shortly in line with the timetable set out below, under CSS's 15% placement capacity.

The issue of approximately 10.5 million Shares (**Tranche 2 Shares**) will be put to shareholders at an Extraordinary General Meeting to be held in January 2024. Shareholder approval is being sought to enable CSS to issue the Tranche 2 Shares to Bonafide Wealth Management and participating directors under LR 10.11 and is being sought for the balance of the Tranche 2 Shares for the purposes of LR 7.1.

Indicative Timetable

Item	Date
Trading halt, announcement of two-tranche Placement	Wednesday, 22 November 2023
Announcement of completion of Placement, trading halt lifted	Friday, 24 November 2023
Settlement of Shares issued under Tranche 1	Friday, 1 December 2023
Allotment of Shares issued under Tranche 1	Monday, 4 December 2023
Quotation and trading of Shares issued under Tranche 1	Tuesday, 5 December 2023
Dispatch Notice of EGM to shareholders	Tuesday, 12 December 2023
EGM to approve issue of Shares under Tranche 2	Monday, 15 January 2024
Settlement of Shares issued under Tranche 2	Wednesday, 17 January 2024
Allotment of Shares issued under Tranche 2	Thursday, 18 January 2024
Quotation and trading of Shares issued under Tranche 2	Friday, 19 January 2024

Bell Potter Securities Limited acted as Lead Manager and Bookrunner to the Placement with AE Advisors as Financial Advisor.

Response to Media

Clean Seas refers to recent media speculation regarding a new investor subscribing for 5 million shares in the Placement on behalf of a potential future trade buyer of CSS. The Company advises that none of the parties referred to in the article subscribed for any shares in the Placement.

Summary Information

The following disclaimer applies to this announcement and any information contained in it (Information). The Information in this announcement is of general background and does not purport to be complete. It should be read in conjunction with Clean Seas' other periodic and continuous disclosure announcements lodged with ASX Limited, which are available at www.asx.com.au. You are advised to read this disclaimer carefully before reading or making any other use of this announcement or any Information contained in this announcement. In accepting this announcement, you agree to be bound by the following terms and conditions including any modifications to them.

Forward Looking Statements

This announcement contains forward looking statements. Forward looking statements can generally be identified by use of words such as “may”, “should”, “could”, “foresee”, “plan”, “aim”, “will”, “expect”, “intend”, “project”, “estimate”, “anticipate”, “believe”, “forecast”, "target", "outlook", "guidance" or “continue” or similar expressions. Forward looking statements include statements about the completion of the Operational Review and strategic initiatives described in this announcement and the effects of those initiatives on the business, financial condition and results of operations of Clean Seas, statements about the plans, strategies and objectives of Clean Seas (including statements about anticipated harvest volumes, sales volumes and cost savings), statements about the industry and the markets in which Clean Seas operates, as well as statements about the use of proceeds of the Placement. Indications of, and guidance on, future earnings and financial position and performance are also forward looking statements.

These forward looking statements included in this announcement are not guarantees or predictions of future performance and involve subjective judgment and analysis and are subject to significant uncertainties, known and unknown risks, contingencies and changes without notice, many of which are outside the control of, and are unknown to, Clean Seas as are statements about market and industry trends, which are based on interpretations of current market conditions. In particular, they speak only as of the date of these materials, they assume the success of Clean Seas' business strategies, and they are subject to significant regulatory, business, competitive and economic uncertainties and risks. Actual future events may vary materially from forward looking statements and the assumptions on which those statements are based. Given these uncertainties, readers are cautioned not to place undue reliance on such forward looking statements. Forward looking statements are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Should one or more of the risks or uncertainties materialise, or should underlying assumptions prove incorrect, there can be no assurance that actual outcomes will not differ materially from these statements. To the fullest extent permitted by law, Clean Seas and its directors, officers, employees, advisers, agents and intermediaries disclaim any obligation or undertaking to release any updates or revisions to the information to reflect any change in expectations or assumptions.

Authorised for release by the Board of Clean Seas Seafood Limited.

About Clean Seas

Clean Seas is a fully integrated Australian Aquaculture business listed on the Australian Securities Exchange (ASX) and with a secondary listing on Euronext Growth Oslo (OSE).

Clean Seas is the global leader in full cycle breeding, farming, processing and marketing of its Hiramasa or Yellowtail Kingfish (*Seriola lalandi*) and is renowned amongst leading chefs and restaurants around the world for its exceptional quality.

Clean Seas is recognised for innovation in its sustainable Yellowtail Kingfish farming and has become the largest producer of aquaculture Yellowtail Kingfish outside of Japan.

For more information, visit www.cleanseas.com.au

For further information on Clean Seas Seafood, please contact:

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The Board has considered the structure of the Placement in light of applicable equal treatment obligations, including the rules on equal treatment under Euronext Growth Oslo Rule Book II, and deems that the Placement is in compliance with these obligations. The Board is of the view that it is in the common interest of the Company and its shareholders to raise equity through the Placement, particularly in light of current market conditions. By structuring the Placement as described above, the Company has been able to raise equity in a cost and time efficient manner and with significantly reduced execution risk. Other forms of funding has not been deemed relevant. In this respect, it is noted that a rights issue would likely have required the establishment of an underwriting consortium, which would entail an added cost for the Company, and that a rights issue would take significantly longer to complete and thereby imply a delayed access to capital. Additional debt financing has not been available at this time. The Board has discussed the need for a subsequent repair offering and decided that such offering will not be required as the Placement was widely available to the Company's existing shareholders.