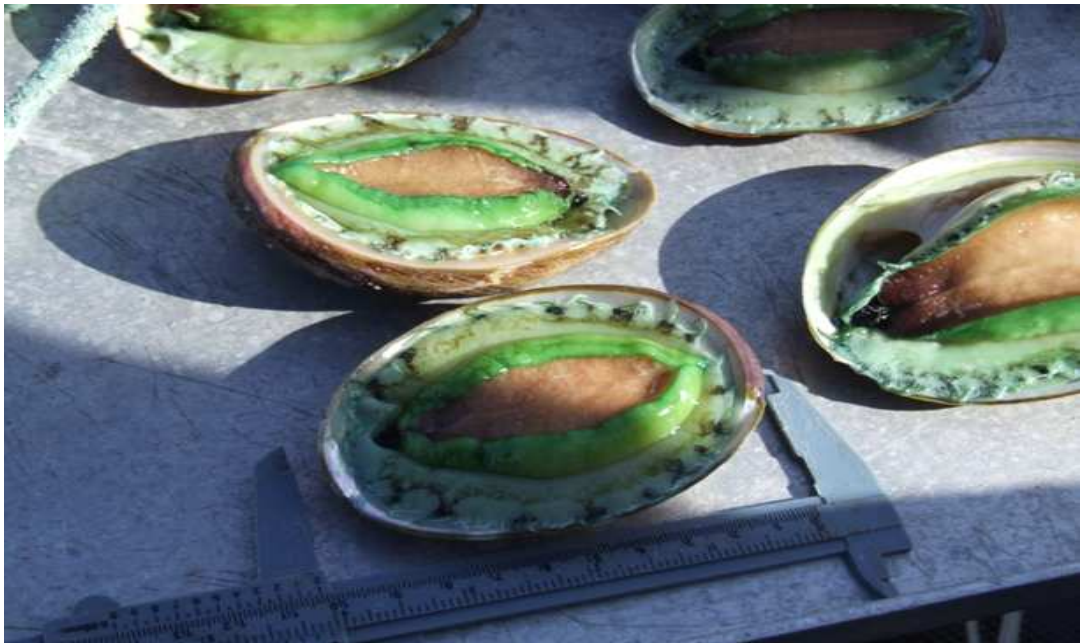


Abalone Investment Limited

ACN 140 313 926

ANNUAL REPORT

2010



CONTENTS

	PAGE
Corporate Directory	4
Chairman's Review	5
Directors' Report	11
Corporate Governance Statement	10
Statement of Financial Position	13
Statement of Financial Performance	15
Directors' Declaration	17
Auditor's Declaration (See note)	17

Corporate Directory

C o m p a n y D e t a i l s

Abalone Investment Ltd ACN 140 313 926

Registered office

Level 1, 205 Greenhill Rd, Eastwood, SA 5063

Solicitors

McMahon Clarke Legal, 62 Charlotte Street, Brisbane, QLD 4000

Administration and Operations:

29 Beach Terrace, Elliston, SA 5670 Ph. 08 86879004

Directors:

Richard Watson AM, B.Sc, PhC, FRMIT, FAICD Chairman

David Mazengarb B.Com, F.C.A, GAICD Executive

Paul Kelly B.Com, BEd.

Management:

Stephan Schilling B.Sc, Dip. App.Sc.(Fish Tech), Acting General Manager

Clay Dehle Manager Diving Operations

Technical Adviser

Professor Anthony Cheshire Ph.D, B.Sc.

REVIEW OF OPERATIONS AND ACTIVITIES

On behalf of my fellow directors I take pleasure in presenting the first annual report of Abalone Investment Limited to shareholders and in doing so welcome all new shareholders to the company.

Background

At the outset it is relevant to mention the circumstances leading to the formation of AIL. Following the failure of ABAL as a consequence of loss of public investor confidence in managed investment schemes as well as other factors referred to later in this report; a number of grower investors led by several financial advisors involved in this investment, formed a group to ascertain the possibility of recouping some investment value.

The growers group was also strongly supported and represented by Futuro Financial Services P/L and the group led by David Mazengarb finally concluded there was significant potential business value in the ABAL schemes and their assets. The group then endeavored to contact all grower investors to seek their participation in a recapitalization program through the payment of their deferred management and other fees.

This program was successful in raising sufficient funds to meet the negotiated settlement figure agreed with the administrator McGrath Nicol and following negotiation between the Growers' Group and the administrators of the ABAL Group, a Deed of Company Arrangement (DOCA) was approved at the meeting of creditors of the ABAL Group held on 21 October 2009.

The requirements of the DOCA were that Grower's Group must pay \$2.5 million to the ABAL Group administrators by November 18, 2009 and a further \$1 million by February 1, 2010. On Friday January 29, 2010 the final DOCA payment of \$1 million of a total of \$3.5 million was made to the Administrators, McGrath Nicol, which meant that the grower group through AIL assumed control of all of the ABA Group companies.

During this program the group agreed to form a new company, Abalone Investment Limited (AIL) to become the holding company for the ABAL group and its assets under the negotiated Deed of Company Arrangement (DOCA). This outcome was due in no small part to the significant and determined work carried out by David Mazengarb in contacting, informing and securing the support of most of the growers investors involved.

Abalone Investment Ltd (AIL), a public unlisted Australian owned company was formed by the ABAL Grower Group to be the holding company for the operating companies, Australian Bight Abalone (ABAL), Australian Bight Management Pty Ltd (ABM) and Australian Bight Infrastructure Pty Ltd (ABI)

AIL issued a prospectus for ABAL investors on November 6, 2009 and over the months immediately following AIL control of ABAL, further significant efforts were made to contact all those outstanding growers in the 2005/6/7/8 MIS schemes regarding the investment offer as well as the requirement to bring their cage and management fees up to date. This allowed the recapitalization of the group and this has resulted in the receipt of over \$5 million by January 30, a very good result.

The progression of investors in the four MIS schemes operated by ABAL to shareholders in AIL as the consequence of the ABAL administration and was not without considerable difficulties and concerns to all those involved. This report summarises some of the activity commencing with the period of administration and attempts to briefly address some of the reasons for the failure of the ABAL MIS schemes.

Australian Bight Abalone Ltd (ABAL) established four registered managed investment abalone schemes in the years 2005 – 2008. The total funds of \$45 million contributed by Growers in the schemes allowed the successful establishment of approximately 90 sea cages and substantial support infrastructure for the growing of abalone, based in Elliston, South Australia.

The operations of these companies are located in the remote, pristine waters of Anxious Bay, near Elliston on the Eyre Peninsula. This area is well known as a major source of wild abalone because of its clean sheltered ocean, relatively stable water temperatures and significant water movement. By using the patented Abalone Aquafarm™ system, ABAL aimed to grow farmed abalone in ideal conditions to maximise growth and quality,

In order to meet the requirements of the Managed Investment Schemes over the four years only smaller sized spat had been sourced and introduced to the sea cages by ABAL management at less than optimal times, both these policies severely compromising the results. Further, and importantly, ABAL had operated on a flawed biomass/food availability model. There were a number of other operating and strategic problems.

Operations under Abalone Investment Ltd



Since AIL assumed control and management responsibility for ABA operations effective from 21 October 2009, excellent progress has been made at the Elliston sea farm. Major milestones achieved over the three months to February 1, 2010 months include:

- Returning the sea infrastructure to full operational standard
- Securing new spat and introducing over 3 million into the sea-cages
- Securing larger juvenile abalone (around 50mm) that have been placed into the sea-cages
- Establishing a new organisational structure for operations
- Implementing a structured stock halving process to reduce overstocking in sea cages
- Reviewing and altering the feeding programs as required

Over these next months AIL through its board and management undertook a huge workload to meet the corporate and statutory requirements as well as the operating imperatives. This included implementation of a website, an interim operating budget, a full business viability assessment, investigation of taxation issues, assessment of appropriate insurance and its implementation, meetings with several hatcheries on spat and juvenile supply, formulation of a business plan, development of an information memorandum, ongoing collection and reconciliation of grower payments and the establishment of rigorous measurement and reporting protocols on abalone growth and mortalities.

As at June 30, 2010, approximately \$7 million of cage rental and management fees have been received with a further \$2 million remaining due and payable and AIL now anticipates most of this amount will be paid by December 30, 2010. All grower investors have been communicated with and are aware of their obligations to remit their fees to the company as required by the scheme rules and a number of arrangements for payment have been established.

AIL appointed David Mazengarb as the executive director over this period and I make a special mention of his excellent and dedicated work in ensuring very good results and progress including the many difficult areas, often under considerable pressure as a result of limited senior management resources.

This has also meant that the Board members have often, of necessity, had to be involved in many strategic, planning as well as some management areas to provide support to David

Recognition must also be given to the AIL operating team and divers who have undertaken a most demanding range of functions including predator removal, maintenance activities, feed monitoring, growth and mortality measurements, and general husbandry, often in quite difficult weather conditions. Their performance has been dedicated and of a consistently high standard.

The AIL Board and management also completed a major reassessment of the spat size, seeding programs, natural food availability, grow out time and survivals. The conclusions reached were as follows:

- 1 It was evident that the losses from the smaller spat sizes because of adaptation difficulties; predation and transfer survival are not sustainable.
- 2 The use of larger sized spat of over 40 mm is particularly suitable for the sea farm model in terms of grow out times and survival performance.
- 3 The biomass/food availability problem can be readily overcome by the scheduled dispersion of stock and some supplementary feeding.
- 4 The opportunity to vertically integrate ABAL business with a dedicated hatchery would potentially provide significant operational advantages and large productivity gains.

- 5 It is clear that the ABAL sea farms offer significant production grow out advantages over land based farms and the potential benefits from the use of the larger spat and shorter sea farm grow out times looks extremely promising.

The vision of Abalone Investment Limited (AIL), the holding company for the Australian Bight Abalone group, is to achieve effective vertical integration for the group from hatchery to market with the sea farm grow out capacity to progressively produce high quality Greenlip Abalone reaching 350 tonnes per annum within five years and with the necessary processing, marketing and distribution arrangements in place to ensure a profitable range of branded and generic abalone products.

Within this period AIL will assess the potential for geographic expansion and product diversification.

Current Objectives

- Acquire a selected hatchery that the company believes is ideal for achieving its production integration objectives and which will provide significant production flexibility with reduced costs. The selected hatchery is available to be acquired for cash and shares. The company is also in discussion with a second hatchery who may offer further advantages.
- Grow out in our sea farms of 50 mm plus hatchery produced juvenile abalone to achieve the production capacity of the present infrastructure within 3 years.
- Develop strategic marketing plans and alliances for the resulting high quality product and the production volume.
- Engage additional human resources to support the productions and marketing timeline.
- Provide the platform for vertical integration as well as geographic expansion and product diversification.
- Secure a suitable investment partner for the next growth phase
- Achieve a revenue stream exceeding \$10 million per year within 3 years.
- Establish an effective distribution system with appropriate alliances.
- Ensure appropriate product development for established and new markets
- Establish sufficient marketing expertise capable of achieving premium prices.

Financial Results 2009/10

For the period of its operations, November 2009 to June 30 2010 AIL incurred a trading loss of \$3.9 million. This operating expenditure result was 18 % better than that budgeted. Shareholders will be aware that all operating expenditure has been focused on firstly, ensuring the sea farm operations were brought to a high standard, secondly, on acquiring suitably sized abalone stock to grow out for future harvest and of course, on monitoring stock security and growth. The only income during this period has been for a planned small harvest of larger stock reaching harvest size.

The Board expects that another loss will be incurred in the 2010/11 financial year, before sufficient stock of harvestable size is available, with a positive cash flow anticipated later in the 2011/12 year.

Events post June 30, 2010

1. Australian Bight Abalone (ABA) Ltd reported on July 12 that as a result of the very harsh weather conditions over that weekend there had been damage to its sea cage and related

infrastructure on one of its lease sites in Elliston. As a result of this major storm the company lost most of its sea cages from one of its older lease sites.

The initial assessment was that a number of cages on the old lease were damaged and beyond repair. The lease site affected contained cages that were installed in a grid format in 2005.

The company immediately undertook a number of actions to ensure that all relevant authorities were notified and has instigated corrective and restorative plans for the infrastructure. In this context management established a rapid response and cleanup program

Although the damage is disappointing to the company, the cages lost fortunately did not hold a substantial amount of abalone stock as several cages of the mature stock were harvested in June of this year. The company's plans for stocking will continue unchanged as the other lease site has the capacity for the company's immediate needs.

Importantly the company had substantial insurance cover in place.

2. Taxation matters affecting AIL shareholders and ABA Growers

AIL, through its tax advisor has had extensive correspondence with the ATO over many months with regard to the events that have transpired since mid 2009 and the associated ramifications, as they relate to Growers in the Australian Bight Abalone Ltd Product Rulings for 2005, 2006, 2007 & 2008 Projects. We have endeavoured to clarify the following:

- An extension of the originally issued Product Rulings for a period beyond their respective original scope;
- An extension of the Commissioner's discretion to allow losses from the abalone farming business activities to continue to be offset against other income that the Growers may have;
- The deductibility of any and all payments made by Growers, for outstanding cage rental and management fees due to ABA, pursuant to the Prospectus issued in late 2009 by Abalone Investments Ltd; and
- The ramifications for Growers; if any, should any of the projects terminate earlier than what was originally contemplated.

AIL has been advised that while we are yet to receive confirmation from the ATO on their position on any of the above four points, the dialogue has been productive and positive.

We hope to receive more clarity on the ATO position over coming weeks. If matters progress as desired, we expect some form of Product Ruling amendments to be made or some other form of formal adjudication by the ATO.

3 The company has entered into discussions with a substantial land based abalone farm on a possible merger. These discussions are progressing satisfactorily.

4 The company has been seeking a suitably qualified general manager for all its operational areas and is in the process of finalising this appointment.

5 The company recently undertook a full strategic reassessment and as a result has formulated structural changes to improve operational areas, developed harvesting processes as well as a detailed assessment of organisational, business and risk

assessment areas. Considerable progress was made in other key decision areas including the merger opportunity, future processing arrangements, head office location as well as marketing and distribution decisions.

6. AI is continuing its discussions with a number of potential equity investors
- 7 The share register has been brought up to date after a considerable effort by management.

Dividend Announcement

The directors have decided that no dividend will be paid for the 2009/10 financial year.

Corporate Governance Statement

Abalone Investment Limited is committed to implementing a high standard of corporate governance. The objectives here include laying a strong foundation for the Boards role, integrity in financial reporting, managing risk, respecting the rights of shareholders, appropriate insurance and effective compliance to all regulatory requirements

R.J. Watson AM
Chairman

Directors Report

The directors of Abalone Investment Limited submit the annual financial report of the consolidated group for the year ended June 30, 2010.

Directors

The following have been directors for the eight months of the financial year up to the date of this report:

R.J. Watson AM Chairman – non-Executive
D M Mazengarb - Executive Director
P.L. Kelly – non-Executive Director

Principle Activities

During the year the principle continuing activities of the group have sea-farming operations in South Australia for the production of Green Lip Abalone.

Dividends

As advised in the report directors decided that no dividend is payable for the 2009/10 financial year.

Review of Operations

A review of operations precedes this Directors' Report.

Changes in the State of Affairs

There were no significant changes to the state of affairs of the reporting entity.

Subsequent Events

Apart from the matters referred to previously in the report, no other matter or circumstance has arisen since 30th June 2010 that has significantly affected or may significantly affect:

- the entity's operations in future financial years; or
- the entity's state of affairs in future financial years

Future Developments

The preceding review covers a number of areas of likely development

Information on Directors

R.J. Watson AM BSc, PhC, FRMIT, FAICD - Independent Chairman – Non-executive

Experience & Expertise

Appointed a director of Abalone Investments Limited on November 2, 2009.

Extensive senior executive and board experience in diverse industries including major aquaculture, agribusiness, insurance and pharmaceutical companies. Currently chairman of two other companies.

D.G Mazengarb B.Com, F.C.A, GAICD Executive Director

Appointed a director of Abalone Investment Limited on November 2, 2009.

Experience & Expertise

Extended experience with KPMG management consulting and with the provision of business services with Price Waterhouse. Extensive experience at a senior executive level in the wealth management and financial advisory industry.

P.L. Kelly B.Com, BEd Non-executive Director

Appointed a director of Abalone Investment Limited on November 2, 2009

Experience & Expertise

Wide senior executive experience in a number of companies. Currently a senior executive in the wealth management and financial products distribution industry.

Technical Advisor to the Board

Professor Anthony Cheshire Ph.D, B.Sc.

Insurance of Officers

During the financial year Abalone Investment limited put in place appropriate policies to ensure directors and officers of the parent and subsidiary entities.

Auditors

The Board appointed Pitcher Partners, Adelaide, as AIL auditors for the financial year 2009/10.

FINANCIAL REPORT 2009/10

Statement of Financial Position (Draft unaudited)

AUSTRALIAN BIGHT ABALONE GROUP

CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2010

<RAB/ABAIL>
<CONSOLIDATED
ACCOUNTS>
26-Nov-10

	2009 \$	2010 \$
BALANCE SHEET		
Net Business Assets		
Current Assets		
Cash at Bank / On Hand	333,054	200,993
Trade / Sundry Debtors	5,761,868	7,268,123
Stock - Abalone (company)	123,947	701,830
Stock - Ab Trays	258,390	-
Prepayments	554,414	451,225
Other Loans	-	501
Accrued Management Fees	4,246,951	25,765
	11,278,624	8,648,438
Current Liabilities		
Trade / Other Creditors	1,091,498	578,129
Loan - Related Parties	(417,998)	250,000
HP Liability / Insurance Funding	46,750	-
Net GST Liability / (Asset)	189,028	599,850
Provision for Annual Leave	32,726	-
Provision for Income Tax	386,022	(59,723)
	1,328,027	1,368,256
Net Working Capital	9,950,597	7,280,182
Non-Current Assets		
Investment - EPA	200	200
Investment - Other	200	200
Intangible Assets	11,827	21,610
Property, Plant & Equipment at WDV	5,804,989	3,280,774
	5,817,216	3,302,784
Total Non-Current Assets	5,817,216	3,302,784
Non Current Liabilities		
HP Liability / Insurance Funding	42,049	-
Bank Debt	1,236,022	-

	1,278,072	-
Total Non-Current Liabilities	<u>1,278,072</u>	<u>-</u>
Net Assets	<u>14,489,741</u>	<u>10,582,966</u>
Equity Invested		
Share Capital	400	400
Retained earnings	11,914,807	8,008,032
Equity Advance	2,574,534	2,574,534
Total Equity	<u>14,489,741</u>	<u>10,582,966</u>

Statement of Financial Performance (Draft unaudited)

**AUSTRALIAN BIGHT ABALONE
GROUP
CONSOLIDATED PROFIT AND
LOSS STATEMENT
FOR THE PERIOD ENDED 30 JUNE
2010**

<RAB/ABAIL>
<CONSOLIDATED
ACCOUNTS>

26-Nov-10

	2009	2010
	\$	\$
SALES		
Accrued Management Fees	4,950,125	-
Cage Rental Fees	3,160,504	-
	<u>8,110,629</u>	<u>-</u>
LESS: COST OF GOODS SOLD		
Commissions	82,959	1,061
Marketing	255,761	5,815
MIS Implementation	214,406	-
Processing - Abalone	11,881	75,140
Spat Mortality	2,355,000	-
	<u>2,920,006</u>	<u>82,016</u>
GROSS PROFIT FROM TRADING	<u>5,190,622</u>	<u>(82,016)</u>
OTHER INCOME		
Interest Received	174,955	13,855
Profit on Sale of Non-Current Assets	1,443	(1,386,542)
Sundry	42,553	3,748,683
	<u>218,951</u>	<u>2,375,996</u>
EXPENDITURE		
Accountancy Fees	108,453	16,048
Administrator Fees	-	1,331,232
Amortisation	-	4,513
Auditors Remuneration	13,000	-
Bank Charges	6,104	1,655
Bookkeeping Expenses	-	11,200
Borrowing Costs	2,469	8,267
Computer Expenses	28,160	1,560
Consulting and Directors Fees	388,850	494,884
Courses	1,714	-
Diving Equip. & Costs	1,018,889	351,729
Donations & Sponsorship	51,370	2,000
Equipment	252,991	-
Feed - Abalone	263,495	257,065
Freight	29,385	8,700

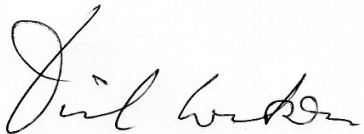
Fuel & Oil	85,068	66,478
Hire of Plant & Equipment	264,699	47,621
Impairment Expense	221,816	-
Insurance	195,711	83,010
Legal Fees	402,294	209,942
Licences & Registrations	58,188	28,374
Light & Power	10,743	3,847
Motor Vehicle Expenses	32,724	8,747
Office Expenses	96,092	23,302
Payroll Tax	76,940	13,445
Provision for Leave (A.L. & L.S.L.)	(136,098)	(32,726)
Provision for Management Fee		
Adjustment	3,370,033	-
Provision for Debtors/Creditors/Tax		
Adjustments	(3,113,217)	-
Rent	223,644	195,700
Repairs & Maintenance	122,260	95,495
Research & Development	130,395	40,155
Staff Training & Welfare	116,709	37,044
Superannuation Contributions	171,384	87,330
Surveillance	128,918	47,706
Telephone	54,745	27,686
Travelling Expenses	284,273	79,492
Uniforms & Protective Clothing	19,634	-
Wages	2,106,386	1,313,514
Write-Offs	(168,520)	141,578
Workcover	61,250	12,137
	<u>6,980,951</u>	<u>5,018,730</u>
EBITDA	<u>(1,571,378)</u>	<u>(2,724,750)</u>
Depreciation	1,622,036	1,182,024
EBIT	<u>(3,193,414)</u>	<u>(3,906,774)</u>
Interest Paid	456,966	-
PROFIT / (LOSS) BEFORE TAX	<u><u>(3,650,380)</u></u>	<u><u>(3,906,774)</u></u>

AUDITORS REPORT

As at the time of release of this report, due to the difficulties associated with the administration period in terms of the various ABA schemes and the documentation involved, it has not been possible to finalise the audited accounts for ABA / AIL for the financial year 2009/10.

These will be distributed with this report as soon as available and presented to a further meeting of Abalone Investment Ltd.

This report is made in accordance of a resolution of directors pursuant to the Corporations Act 2001.



R.J.Watson
Director



D.G Mazengarb
Director