

## **Company Update**

**12 September 2011**

It is with pleasure that we report the progress on the company after the completion of its first major harvest.

### **1. Harvest Results**

The company was very pleased with the results of its initial harvest. Overall we harvested in excess of 50 tonnes of premium greenlip abalone. This has been by far the greatest harvest achievement of the company since its inception. We were hoping, more than expecting, to be closer to 80 tonnes but in hindsight this was over optimistic based upon the quality of the stock that was inherited after we took over from the Administrator.

There were a number of extremely encouraging outcomes from the recent harvest:

- The quality of the product was clearly very superior to the land based product;
- The company developed and improved the harvesting techniques steadily over the harvest period;
- The results from the cages we seeded on a 12 month in sea process achieved our expectations and gave the company confidence in the newly defined vertically integrated business model;
- There has been a substantial increase in staff morale now that product has been harvested and there is uniform belief and confidence in our farming practices;
- We are experiencing improved demand for our product – a challenge for the future will be to satisfy demand expectations;

### **2. Personnel**

The Board has been delighted to see the continued development of the senior operations team and all staff working with them. The last 2 years have been exceptionally challenging. The operations team and senior management have accepted far greater responsibilities over this period. They have all willingly worked excessive hours without additional remuneration and at a cost to their families and partners. The achievements of the company to date are as a direct result of their commitment and passion to succeed.

It is clear that the skill and knowledge base of our management and operations team has greatly improved and will be a valuable and capable resource for the business into the future.

The contribution of Professor Anthony Cheshire and Stephan Schilling continues to add greater knowledge and depth of skills to the management team in areas of animal husbandry, infrastructure

development, harvesting and processing our premium product and their support and experience has been invaluable. They have also enabled us to open up more opportunity areas for the business to progress into the future.

### **3. Acquisition of the SAS Hatchery**

Your company is in the final stages of completing the execution of the agreement to purchase this hatchery which is a key strategic step. Initially this was contemplated to occur as part of the capital injection of a cornerstone investor, however due to the critical strategic nature of the nursery acquisition, AIL has had to put other arrangements in place to secure the hatchery facilities whilst discussions with the strategic investment parties have continued. Timing is critical to the operational demands and to ensure we achieve the advantages that flow from a hatchery we have had to progress this acquisition without the completion of a cornerstone investment into AIL.

### **3. The Financial Position of the Business**

Investor contributions from deferred fees initially enabled us to acquire the assets from the Administrators as was planned. This also provided a limited amount of working capital for wages, feed and operational expenses to enable us to work through to a harvest. Since the harvest we have generated revenues from the sale of the product. We have not been able to generate as much revenue from sales as expected due to the poor stock we inherited leading to reduced volumes. Also the currently unfavourable US exchange rates took almost 20% off our sales revenue expectations.

Working capital has been very tight but has been well managed by our office manager, Karen Quinn. All investors will be aware of Karen's contribution as she has diligently managed our day to day financials but also provided much needed additional support to all investors through the recapitalisation process.

The business now has an extremely sound knowledge base and a very competent operations team. The foundations of the business have now been very well established to enable the anticipated growth in production to occur.

However we remain reliant on the anticipated capital injection from a cornerstone investor to enable the business to achieve its growth objectives. This was highlighted from the outset when the recapitalisation of the company was contemplated and the efforts and focus of your Board over the last twelve months have been directed towards the securing of a cornerstone investor. This is now a critical component for the future in order to achieve our growth objectives and allow scale up to a level of production to meet operational costs and return consistent levels of profitability.

Shareholders will be aware of course that access to the equity investment market has been very difficult over the past couple of years due to the Global financial conditions.

#### **4. Progress with Cornerstone Investors**

The Board of AIL has been working through due diligence since April of this year with several parties that have expressed interest in the AIL operations. Generally, much of the interest has come from Asia and consequently the due diligence process has been extensive and lengthy. Notably however, investor interest in the company has not lessened throughout the process. All levels of senior management have been required to support the due diligence process which has required several lengthy visits and inspections at both the hatchery site in Port Lincoln and the sea farm operations at Elliston. All site inspections have progressed very well and generally provided greater levels of comfort to the proposed investors.

Throughout the due diligence processes operations have continued, including the harvesting of our superior greenlip product.

Despite the best efforts of all concerned, it appears that we are still around 2 – 3 months from securing the necessary cornerstone investment. This is because of the parties involved, the difficulties in translation, the geographic locations involved and the necessity to fully understand the operations of AIL and its fully integrated business model which is unique to this industry.

Because of the extended due diligence and likely investment time frame there has been additional pressure on the business in managing its cash resources through to completion as well as conforming with the company's proposed operational timeframe for spawning and translocation of stock. We have had to be reasonably flexible in these areas but have continued in line with our plans in order to ensure the production targets can be achieved.

Cash flow, as anticipated, remains tightly managed and every effort is being made to be prudent with the company's resources without endangering the opportunity for a cornerstone investor.

We are anticipating completing a cornerstone investment in the near future and are committed to ensure we are well placed to do so.

#### **5. The Future Challenges**

A great deal of progress has been made to date and the future holds a number of known challenges that we are well positioned to manage.

Subject to securing a cornerstone investor, AIL will be working on the following challenges:

- Bedding down the operations at the hatchery
- Improving the translocation procedures for stock transfers between the hatchery and the land farm (already progressing well)
- Ensuring husbandry practices provide the best genetic stock for the sea cages

- Improving the feed recipe and suitability for sea farm environment
- Establishing additional sea cages on our existing lease sites
- Looking for other areas of operational efficiency and productive capacity (already well progressed but more work required)

## **6. Opportunities**

There are a host of other opportunities that are available for the company to progress with in the near future.

For example, with the assistance of Professor Cheshire we have been invited to participate in the Australian Seafood CRC. We see AIL's participation in this and the Premier's Science and Research Council projects as providing substantial opportunity for AIL to be well positioned for the future in terms of its access to the latest research and technologies that will assist us meet many of the challenges above..

The Board believes AIL is well positioned and has been ideally placed for future growth and success. However, as we have always said, the ability to finalise a cornerstone investor is still needed to provide the opportunity for the company's plans to be realised.