

## **PROGRESS REPORT MAY 30, 2011**

We are pleased to provide an update since our last report in February 2011.

### **Operations**

1. We completed some trial harvests of stock in February/March 2011 whereby we harvested 3 cages and extracted around 10 tonnes of abalone. This was all sold by our processor – Western Abalone processors. The product was all converted to meat and shipped to Hong Kong. This exercise was undertaken as a trial because the company had never previously been in a position of conducted a significant harvest and we needed to establish the procedures and test the systems from both the farm and the processing end. The end result was quite successful but highlighted a number of areas where improvements could be made which were subsequently incorporated into our systems and processes.

2. As a result of the above trials we commenced harvesting all remaining cages from 11 April 2011 and have been harvesting everyday with the exception of a week over Easter and a week in late May due to unsuitable weather. All harvested stock has been sent to the processor and subsequently sold. We are harvesting almost one tonne per day, as the processor cannot handle any more from the processing end. Up to the date of this report our harvesting has produced in excess of a further 30 tonnes.

3. Based upon our current progress we will be continuing to harvest throughout June and anticipate that this will extend into July.

It should be noted that a fair proportion of the current stock being harvested is the 2008 growers stock. This is by no means the most favourable stock as it was put into the water under the old business model and is therefore largely sub-optimal in terms of grades, growth rates and development characteristics. Despite the growth & mortality problems the product does, however, present well to the consumer. As we have already made clear, the company's future plans will not be to use stock of this age, grade or size for our sea cages. Nonetheless we are pleased that the work we have done has resulted in some recovery of this stock. A full analysis of the stock performance will be done once the harvest is completed and made available to all investors.

### **Strategic and Governance Matters**

1. The company has over the recent months completed its investigation, due diligence and negotiations to acquire its own hatchery in Port Lincoln and an agreement is in the final stages of legal completion. This is a major step forward for the company that will alleviate many of the past problems with quality of stock. This has taken much of managements and the Board's attention as it is a major acquisition but is absolutely vital for the company's future strategic development.

2. In order to fund this acquisition and support our growth plans (as outlined in the PDS to investors) the Board has also been active in seeking a major cornerstone investor. This has required the issue of an Information Memorandum and associated documentation. We have one party that has now completed due diligence with another 2 expressing interest to commence due diligence shortly. The work involved in this process has been extensive and has also taken up much management and Board time. We are hopeful of securing the cornerstone investor for the business over the next few months.

3. As shareholders will have noted the 2009/10 Annual General Meeting has not yet occurred, the reason being the delay in obtaining the final audited accounts for 2009/10 as a result of the difficulties for the auditor in obtaining the necessary information for the period during administration and under the Deed of Company Arrangement. These difficulties have now been largely surmounted and we anticipate that the postponed meeting can be called shortly.

Overall, the business has progressed essentially in accordance with our plans despite extensive challenges in a number of areas and certainly we now have a greater appreciation of how the business model needs to operate to provide a successful outcome to shareholders. As investors would appreciate the business model, the infrastructure and legal problems we inherited from the Administrators has taken some time and has needed a huge effort to meet the challenges associated with this.

As a result of this effort we now have a far better foundation – certainly in terms of knowledge of what is required for both land and sea farming of abalone, as well as an improved level of infrastructure to support our operations. The Board recognises there are still challenges remaining, including securing a major investor, but are pleased with what has been achieved to date.

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