

7 October 2016

Dear Shareholder,

Letter to Shareholders

It is now eight months since I joined the Company as Managing Director and CEO. I am writing directly to you as a shareholder to share with you what I have learned over the past eight months and provide an overview of the key strategic plans for the business that have been developed with the Board and Management team over that period.

As announced to the ASX in late February 2016, shortly after I joined Clean Seas it became apparent that the Company was facing an issue with excess stocks due to fish inventories growing faster than sales.

Despite significant sales growth in FY15 and FY16 of over 240%, sales did not keep up with the very steep increase in production as the Company's breeding and farming activities recovered strongly from the impact of feed that was deficient in Taurine (a vital nutrient for Kingfish). During that period, the Company underestimated the cost and lead times to re-enter and expand export markets for the increased production.

In order to reduce holding costs (including feeding costs) the Company was forced to sell excess inventory at discounted prices in selected export markets both as fresh and frozen product. Unfortunately, this required a significant write-down in inventories leading to a loss of \$8.98m in the year to 30 June 2016. By selling surplus stock in non-core export markets we have been able to maintain farm gate prices for fresh product in our core Australian market.

In the course of dealing with these challenges, our internal review identified other issues including underinvestment in operational capital expenditure, gaps in the depth and experience of our management team and under-developed brand marketing and product positioning in domestic and international markets that does not do justice to the premium quality and consistency of the Clean Seas Kingfish product.

It was in this context that I made the decision, with the full support of the Board, to undertake a comprehensive strategic review of the business, involving the senior management, external management consultants and leading industry experts in post-harvest processing and marketing.

We have now completed stage 1 of the strategic review and attached to this letter is a summary of the initial findings and initiatives arising from the review. Much of the detailed analysis and proposed strategies must remain confidential to protect our competitive position – however I have tried to summarise the key issues facing the business and provide some insight into our strategic plans going forward.

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We are implementing plans to deal with the excess inventories without impacting fresh farm gate prices. We have a plan that will lead the Company to profitability over the next 18 months, and we have identified a number of exciting opportunities to build long term shareholder value.

The strategy work will be ongoing, and will continue to investigate opportunities to lower costs and improve productivity including through automation, new farm locations and the impact of warmer water farming.

Whilst we'll no doubt face a number of challenges over the coming months and years, I am confident there is a great opportunity to create a company with exciting long term prospects. This will not happen overnight, but the strategic changes we are making during FY17 and FY18 will create the platform for what I believe will be an exciting future for the Company.

When I took on this role of Managing Director and CEO I agreed to take a large proportion of my compensation as equity linked to the long term success of the company. I also invested in the Company directly, both before and shortly after I joined the Company, and I am now the 22nd largest shareholder. I share this so you understand my commitment and common interest in the long term success of the company.

I look forward to updating you as we progress these initiatives and improve our performance over the coming months.

Sincerely



David J Head
Managing Director & CEO

Clean Seas Strategic Review

Initial Findings

1. Competitive Position

Clean Seas has unique capabilities in farming Hiramasa Kingfish, a complex fish species, and is a global leader in the full cycle of breeding, growing and selling Kingfish.

Clean Seas Kingfish are highly regarded and valued for high quality and consistency by those who know it, particularly in the professional chef sector.

The Company's **Strengths** include our consistent high product quality and reliable supply capability, breeding and farming skills, extensive hatchery and farming facilities on the Eyre Peninsula in South Australia with a unique provenance proposition, long term loyal customers, supportive shareholders and government relationships and a regulatory environment with strong government control of sustainability which is science based.

Our **Challenges** include our Kingfish product being relatively unknown outside our core Australian premium restaurant market, insufficient brand development and marketing in recent years, slower fish growth in winter months, the need to further reduce our production costs and improve the feed conversion ratio, re-entering and expanding our export markets, limited management breadth and depth and having no in-house processing facilities.

Clean Seas has many significant **Opportunities** including improving our branding and marketing effectiveness, further expansion into export markets, developing vertically integrated post-harvest value adding production capabilities, increasing use of Kingfish as a 'centre of plate' fish, broadening our range of fresh and frozen Kingfish products and expansion using the potential funds from successful feed (Taurine) litigation.

2. Management of Excess Stocks

Correction of the excess inventory position is being managed through several mechanisms, balanced to minimise losses and maximise returns:

- Discounted sales of a proportion of fresh fish into non-core markets so as to not disrupt our core market pricing;
- Around 750 tonnes have been frozen and processed into a range of formats and sold at a range of discounted prices – but always outside our traditional markets. Part of this inventory is being used for a market entry into the China, Hong Kong and Korean markets;
- The balance has been retained in the live fish inventory as this provides the next highest (practical) return after the above options, and whilst it will mean higher operating and feed costs

over the next 18 months, it will deliver the highest returns and limit the risk of damage to our existing markets.

The Biomass is expected to return to balance during FY18 as the remaining excess stock is reduced, our brand and marketing strategies are ramped up, and domestic and export markets are progressively expanded.

The risk of future production and sales imbalances will be reduced through a combination of improved planning systems and the expansion of the market for smaller fish to provide a more cost effective channel to deal with any future excess inventory before the fish grow to full size.

3. Marketing & Brands

Our Hiramasa Kingfish brand has suffered from brand confusion in several markets, failed to establish a compelling brand proposition and has been positioned as a lower cost replacement product in US and Southern European markets.

After extensive assessment, we have concluded that the Brand Proposition should be “**Australian Hiramasa**”, positioned as a Premium Seafood with a proposition of Culinary Excellence backed by a strong South Australian Provenance claim.

In the coming year we will develop a brand campaign in Australia and selected export markets including laboratory and field based assessments with Chefs, wine/food writers and professional panellists and kitchen based performance testing to develop handling, preparation and cooking protocols.

To further support the new positioning of the Hiramasa Brand we will seek accreditation by the internationally renowned Aquaculture Stewardship Council (ASC) to strengthen Clean Seas environmental and social credentials in addition to our current Friend of the Sea accreditation, to comply with international sustainability and environmental standards and provide a competitive advantage in Australia and key export markets.

4. Sales & Market Development

Clean Seas’ sales have grown strongly over the past two years (+92% FY15 and +84% FY16), and in FY16 almost 50% of sales came from Export Markets.

We will leverage the new Brand Positioning and marketing campaign to re-position Australian Hiramasa as a Premium Seafood and to underpin a phased increase in farm gate prices in those export markets that have previously been price driven. Whilst we anticipate an initial decline in volumes in these markets it will provide a profitable base for future expansion.

We will also complement the new Brand Campaign with a targeted Customer Activation Program that will be trialled in Australia in the first half of 2017 and then rolled out across key US cities in 2017 followed by key European Markets in late 2017 and into 2018. The Customer Activation Program will be based on a new data base we are developing that identifies dining establishments by country, by city, by location, by cuisine, by price range and other relevant attributes.

We have increased the Australian and European sales and marketing teams in FY17 and will review resource requirements in the US after phase 1 of the new Marketing and Customer Activation programs.

5. Post-Harvest Processing /Product Development

Clean Seas currently outsources its post-harvest processing to a range of contractors in South Australia, New South Wales and Vietnam. Outsourced processing is relatively expensive, restricts our capacity to respond to market demand, limits our capacity for product development and makes it harder to control product quality across the supply chain.

Plans are well advanced to develop our own in-house post-harvest processing facilities utilising state of the art processing technology. The facility is expected to deliver annualised savings of more than \$1 million. It will provide additional flexibility and facilitate development of a range of product and process areas including rapid freezing technologies. In-house facilities are also expected to improve a number of aspects of product quality including reducing delivery times for fresh product from marine harvest to market.

6. Feed Optimisation

Feed remains the largest cost of farming Australian Hiramasa Kingfish and relatively small improvements in feed conversion and growth rates can translate into significant improvements in profitability.

The Arno Bay Hatchery is an ideal facility for Feed Trials with up to 20 tanks available year-round, allowing comparative testing of a range of different feed formulas in identical conditions. The Company's professionally designed and managed trials have delivered a number of valuable outcomes for Clean Seas to date, including the solution to the Taurine Deficient Feed issue.

We will continue to leverage the in-house infrastructure at Arno Bay for targeted research to optimise fish health and growth rates, and to underpin improved Feed Conversion Ratios and diet formulations for inclusion in contractual arrangements with feed suppliers.

7. Management team

Clean Seas has a talented and dedicated workforce and senior executive team, however our review has identified the need to strengthen leadership in Aquaculture, Processing, Logistics, Product Development and Human Resources management.

Our plans in FY17 and FY18 for a new brand marketing campaign, a new customer activation campaign across multiple international markets, managing significant farm gate price increases across our markets and a new product development program has resulted in the need to expand our Sales and Marketing resources.

As a result, we intend to strengthen the management team in the coming months through the recruitment of a General Manager Aquaculture, a General Manager Sales, a Marketing & Product Development Manager and a Processing Manager.

8. Litigation – Taurine Deficient Feed

We announced in July 2016 the receipt of the Independent Expert Forensic Accountant's Report in support of our litigation against Gibson's Limited, trading as Skretting Australia, in relation to Taurine deficient feed supplied from December 2008 to July 2012. This report assessed the quantum of the Group's claim to be in the range of \$34.5 million to \$39.1 million plus interest and costs.

Gibson's Limited is defending the proceedings and has denied all liability to the Group. A trial date is yet to be set. Costs of advancing this litigation claim have been expensed as incurred.

We intend to pursue the claim vigorously and we will update shareholders as the process progresses.