



shellfish culture

shellfish culture - Shareholder & Market Update | Autumn 2020



Newly constructed racks at Pipe Clay Lagoon

Summer POMS season

POMS: What POMS?

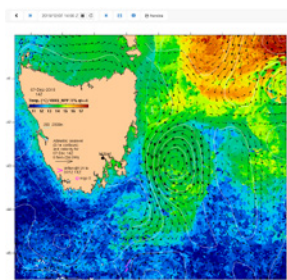
POMS activity has been very low in Tasmania over the summer period. However, the environmental conditions that brought a respite from the virus this season have brought challenges too.

POMS mortality in Pittwater has been less than five percent, and in Pipe Clay Lagoon less than one percent over the summer, as measured in mid-February. Mortalities in Blackman Bay and Little Swanport were nil. It's all due to the coldest Tasmanian East Coast water temperatures in 30 years.

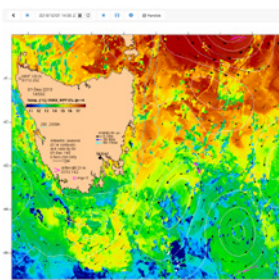
The same unusual conditions, together with a lack of rain, have also meant slow growth rates for oysters so far this season. The shell growth rate is down about 20%.

While of some concern, the Company has enough water capacity to accommodate the additional, un-forecasted, surviving stock volumes.

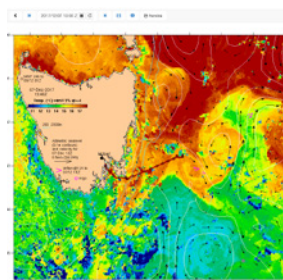
This means the Company will eventually experience a pick up in revenue. Staff are now looking to develop recently acquired water in every bay to hold the additional volumes of stock on hand.



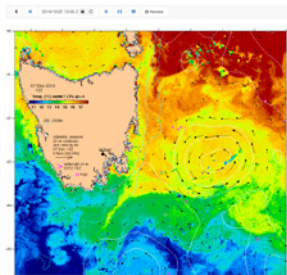
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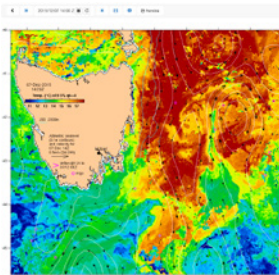
Dec 2018



Dec 2017



Dec 2016



Dec 2015 (POMS)

IMOS illustration showing the cold water environment off Tasmania's East coast

Also in this issue:

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Profile: Sandy Beard, SCL Chair

Meet the Chairman of Shellfish Culture

Sandy Beard has always been interested in investment opportunities that lie outside the mainstream. Since his first visit to Tasmania in 1983, he's also been a big fan of the state's natural attributes and resources.

An investor, manager, and director of numerous private and public companies over a successful 25 year career, Sandy was appointed a director of Shellfish Culture in May last year, and then Chairman in September.

He believes three pillars are key to a company's success: a trusted brand, good people within the organisation, and an asset base that provides opportunities to grow. He sees all three qualities at Shellfish Culture.

Born and bred on Sydney's northern beaches, he says Shellfish Culture struck him as a hidden gem that could take on the world.

"Spotting an opportunity and leveraging off it has always been a professional interest of mine," says Sandy. When he became involved in the publicly listed Probiotec Ltd pharmaceutical manufacturer its share price was 50 cents. Over

three years since his appointment the business has refocused, sold off surplus assets, distributed dividends, and the share price has risen to in excess of \$2.

Sandy is also a board member of Tas Foods Ltd where he's taking an instrumental role in transforming a smaller company through an expansion of its markets, leveraging off Tasmania's reputation for food production. He has also bought a property in southern Tasmania, and made some other investments in the state.

Sandy first visited Tasmania more than 35 years ago. "I got the bug and became interested in business and investment opportunities in the state." He met SCL's James Calvert in 2018. Since then he has invested in a number of other successful Tasmanian businesses, including Bellamy's, Websters, and Tassal.

"Spending time with James, I was impressed by his great knowledge of the oyster industry, the fact that he had backed his commitment to Shellfish Culture by investing in it, and the

exciting opportunities for growth expressed by James.

"The vision to supply oysters to Australia and overseas from a region renowned for its pristine waters and excellence in food production, and the ability to increase margins through branding, product innovation, supply chain investment, and new market opportunities, particularly interested me.

"SCL is a very interesting company with a unique character and unique attributes such as its leases, a hatchery, and R&D capabilities which are developing different types of oyster products. The people driving the company have a great vision".

Away from work, Sandy enjoys the outdoors, particularly activities such as kite surfing and kayaking. In 2017 with a group of 11 friends from his surf club he paddled across Bass Strait from Port Albert in Victoria to Musselroe Bay. "We were lucky that we enjoyed really good weather and stopping off on the Bass Strait islands as we made the crossing was a fascinating experience".

Genomic research

Partnership brings together SCL, CSIRO and ASI

Shellfish Culture has entered into a three year partnership with the CSIRO and ASI to research

oyster gene markers that could increase productivity by escalating their growth rates.

Even a five to six percent increase in growth rates translates into a significant benefit for Shellfish Culture, impacting positively on stock rotations and revenue.

Genome technology has proved to be a successful contributor to growth rates and crop improvements in other Agri businesses,

including aquaculture. This new project aims to increase the shell growth of oysters, the meat yield, shell shape and shell colour.

The genome of an organism represents the whole of its hereditary information encoded in its DNA.



Managing Director Report

Welcome to our new investors. COVID-19. POMS virus in retreat. Environmental challenges.

I want to welcome onboard our new investors. Shellfish Culture (SCL) attracted investments of \$2 million in December 2019 which is a great endorsement of our vision, our performance, and our procedures.

Of course, since then, we've had the unexpected and unprecedented impact of COVID-19, and I want to assure all investors, staff, and their families that we are taking whatever action is required to get to the other side of this global dislocation. Our Company and I are confident our prudent financial management will ensure SCL remains a strong company moving forward.

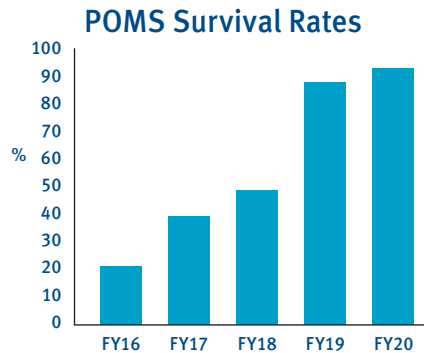
The Board has reluctantly moved to defer IPO plans for the foreseeable future. The new financial environment caused by COVID-19 has necessitated Board and Management to divert focus towards safeguarding the business.

The long term fundamentals of the business opportunity have not changed. Like most businesses at this time, we've been challenged by an outside crisis. Yet the successful fundamentals of our Company remain unchanged. This event will pass, recovery will come, and SCL will re-embark on creating value for Shareholders as we emerge from this situation.

This may mean different products in different markets. However we believe we have the knowledge, experience, and skill set to overcome these challenges.

The past late spring and summer months have seen the Company getting on top of the POMS virus, with significant results in terms of reduced mortalities.

POMS mortality is at an all-time low partly due to cooler water off the Tasmanian east coast this past summer, and partly due to our ongoing research and strict bio security protocols in regards to POMS.



In FY 16, POMS survival rates were 20%. In FY 17 this had risen to 40%, then to 50% (FY 18), 90% (FY 19) and 95% in FY 20.

We have certainly been on a tight learning curve since POMS first emerged in Australia, and each year we get better at managing the disease. Diligence remains the key word.

It was good to welcome Dr. Stan Allen back to our Pipe Clay Lagoon hatchery in January this year. He is providing a tremendous amount of experience and expertise to our program to build a population of disease free broodstock. He has been working with us for nearly two decades and we greatly appreciate his ongoing commitment to our project.

Coronavirus has emerged as a major market concern moving forward due to the devastating impact on the global seafood trade. SCL's export sales have ceased for the remainder of FY20, with our major markets in Hong Kong and Japan being significantly impacted over the past two months. Coronavirus is a very fluid issue which SCL is monitoring closely.

On a related environmental front, the past late spring and summer months have provided



James Calvert, Managing Director

some challenges with unusually cold oceanic temperatures and low rainfall impacting growth rates.

While this is likely to be a climatic aberration rather than a trend, we are taking it seriously. The Company's infrastructure is able to absorb the late developing stock volumes, and will eventually experience an appropriate revenue return on the sale of product.

I have spent some time with industry stalwart Jon Poke on issues in SA. The Eyre Shellfish (ES) hatchery is performing well but there are some lingering issues on the nursery side which are getting sorted out. Jon has worked tirelessly on this project over the past three months and I am very appreciative of his effort and support.

ES Manager Joe Jacobson has resigned from the General Manager role and from Shellfish Culture. We thank Joe for his commitment to both businesses. ES has appointed Allan Bryant as new GM who commenced work in early March. We congratulate Allan on his appointment and wish him well in his new role.

Introducing our new look

New branding for SCL mature products. Laser etching for oysters.

Shellfish Culture is introducing a new brand for its oyster products – the Tasmanian Oyster Co.

SCL still remains the main, or master brand for seed and technical operations, but Tasmanian Oyster Co will be the commercial branding for our mature oyster consumer products, designed to provide instant brand recognition for consumers and drive sales.

You can now find us at www.tasmanianoysterco.com.au and follow us on Instagram and

Facebook. New premium brands will be announced later in the year.

As part of the new branding, some innovative new ideas are coming to fruition.

A patent has been lodged which represents a world first. It will be able to laser etch the Tasmanian Oyster Co emblem onto product. SCL has also made a successful grant application -



a \$220,000 Advanced Manufacturing Grant - to complete the manufacture of a robotic laser etching machine.

Eyre Shellfish (SA) update

The hatchery at Eyre Shellfish continues to perform very well with more than a dozen back-to-back spawn runs in a row. The hatchery's performance can be largely attributed to the efforts and ongoing commitment of both Management and the ES team.

It has been a more challenging period on the nursery side, but a concentrated focus on solutions is now returning signs of optimism.

In October last year SCL representatives Jon Poke and James Calvert travelled to Cowell in South Australia to work with ES Management

on developing a set of growing trials in the hatchery, nursery, and sea farm systems, to identify the cause of continuing mortality issues. In conjunction with these trials, the SCL Board appointed an independent consultant to review and report on the operations of ES.

Three of four trials conducted failed, which positively identified that the issues lay in the on-shore algae dams. Management promptly made plans to move all stock to the sea farms where growth has been very productive and mortalities have been minimal.

As a result, stock sizes and numbers are now growing at a sustainable rate with the January

sales budget achieved and future FY20 forecasts looking positive.

While these developments are grounds for some optimism, there will most likely be a need for ES to raise some additional capital towards the end of the year to accommodate the new nursery grow-out methods and some on-shore design problems.

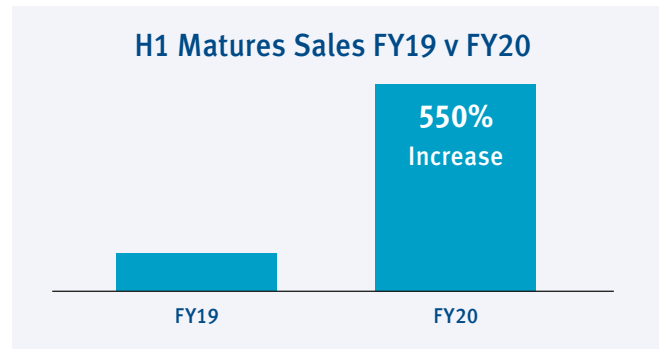
The ES Board, Management and staff have been through some difficult times over the past 12 months and the SCL Board is very thankful and appreciative of the dedication and commitment shown in South Australia.

Sales

Sales performance at optimal level before COVID-19.

While projected SCL sales will be impacted by the COVID-19 virus, the immediate past sales performance by SCL has shown the business model at optimal performance. This graph shows sales of 2.2 million matures in the six month period to last December, compared to the year before. The increase is 550%.

All SCL's efforts are now directed at resuming this trajectory when the COVID-19 crisis is over.



Focus on disease resistance

International collaboration builds disease resistance.

A world leader in the genetics of oysters recently returned to the US after assisting Shellfish Culture with its program to build POMS resistance into its tetraploid breeding oysters.

It's a collaboration going back nearly two decades between Shellfish Culture and Dr. Stan Allen, Professor of the Aquaculture Genetics and Breeding Technology Centre at the Virginia Institute of Marine Science.

Scott Mactier, who leads SCL's hatchery operations, and Dr Allen, together with SCL's Senior Technician, Vanessa Delpero, worked together in January this year to continue introducing POMS resistance into SCL's tetraploid breeding stock. "It's an ongoing process which will result in disease resistant triploid oysters," says Scott.

"Over the summer we spawned new family groups of tetraploids, and after 12 months they will be exposed to POMS in the waters of Pipe Clay Lagoon. The survivors will be our

future broodstock with improved genetics and resistance to POMS."

Standard diploid oysters spawn out at the time most consumers want to enjoy them. But triploids hold their prime condition throughout the summer and autumn.

Crossing tetraploid breeding stock with diploid oysters results in the premium spawnless triploid, explains Scott. "So it's important that SCL develop a population of tetraploid broodstock that is resistant to POMS and can build that resistance into our triploid oysters."

When the POMS virus first hit Tasmania in 2016 SCL's tetraploid oysters had minimal natural genetic resistance to the disease. Those that did survive were isolated, and then selected for breeding; and year by year, these populations of tetraploid broodstock, through further selection pressure and by also introducing new genetics, are becoming more disease resistant.

Eight staff work at SCL's Pipe Clay Lagoon hatchery and are involved in either commercial or R&D programs. It is believed to be the only facility



Renowned oyster genetics scientist Dr Stan Allen (foreground) working with SCL staff at Pipe Clay Lagoon

in Australia carrying out such R&D breeding work.

"It takes generations of selective breeding and years of field trialling to breed a disease resistant population of broodstock, but in doing so we are creating a more robust and reliable premium, spawnless oyster" says Scott.