

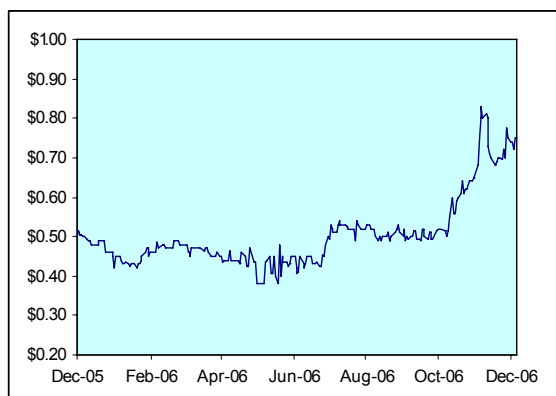
Recommendation – Spec. BUY

ASX Code:	CSS
Share Price:	\$0.75
Shares on Issue:	104.1
ASX Code:	CSSG
CN Price:	\$0.73
CNs on Issue:	27.1
Unlisted Options	0.7
Market Cap. (fd)	\$97.9 m
GICS Sector	Consumer Staples

Investment Fundamentals

Year End 30 June		FY07(f)	FY08(f)	FY09(f)	FY10(f)
Revenue	m	11.8	16.8	22.7	53.7
EBITDA - reported	m	2.6	7.7	23.9	50.0
NPAT - reported	m	1.1	4.8	16.9	31.8
EPS	cps	0.9	3.2	6.7	12.6
PER	x	87.2	23.8	11.2	5.9
SGARA	m	5.1	11.8	32.4	57.1
EBITDA (adj.)	m	-2.6	-4.1	-8.5	-7.1
NPAT (adj.)	m	-4.0	-7.1	-15.5	-25.3
EPS	cps	-3.1	-4.7	-6.2	-10.1
Free Cash Flow	m	-11.8	-2.4	-58.6	-8.7
Net Debt/(Cash)	m	-1.7	-9.8	-3.5	5.2
S/H Funds	m	27.2	42.4	111.5	143.3
Gearing	%	-6.4	-23.1	-3.1	3.6
DCF Valuation		\$1.26			

Share Price Graph



Major Shareholders

	Fully Diluted
ATF Pty Ltd (Stehr Group)	57.9%
Elders Limited (Futuris)	5.3%

Analyst: Claude Silverii
Head of Research
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Clean Seas Tuna Limited

Business Progress and Valuation Update

Recommendation

Lonsec has lifted its valuation of CSS from \$0.70cps to \$1.26cps reflecting, amongst other things, an increase in the price of Southern Bluefin Tuna (SBT) from 1400Y/kg to 1700Y/kg, slightly lower project risk post the successful transfer of SBT Broodstock and the on-going growth and development of its Kingfish operations. Even so, there is significant upside (\$2.00 plus) as CSS navigates through pre-commercialisation into the commercialisation stage of development and the SBT project becomes progressively de-risked. A Speculative Buy recommendation is retained.

Key Points

- In late October and early December 2006, CSS successfully transferred 20 mature SBT broodstock from offshore holding nets to the onshore breeding facilities at Arno bay. This transfer completes the first significant milestone in the controlled propagation of SBT. SBT milestone No.2 is set for February/March 2007 when spawning is expected to occur.
- In October 2006 CSS completed the acquisition of fellow Kingfish grower, South Australian Aquaculture Management Pty Ltd (SAAM), for \$4.3m including \$2.7m of stock. This significantly adds to CSS's Kingfish capacity with fingerling transfers set to reach approximately 600,000 in FY07, up from 150,000 in CSS's start-up year, FY06.
- The SAAM infrastructure provides future production flexibility when the SBT operations gear up from FY09 with Kingfish likely to be located at SAAM's Fitzgerald Bay site and SBT based at Arno Bay.
- In November 2006, CSS finalised an \$8.25m capital raising via a Placement of 7.5m ordinary shares and 7.5m Converting Notes at \$0.55 each. An additional \$1.1m was raised in early December 2006 through a Share Purchase Plan for ordinary shares only, also at \$0.55 per share.
- Notwithstanding the value accretive acquisition of SAAM and the growth potential of the Kingfish business, the value of the non-SBT operations at \$0.22 per share remains a relatively minor component of CSS's assessed value.
- SBT project development to date is very pleasing and the macro environment for SBT – pricing, supply and demand - continues to move strongly in CSS's favour. Given the progress of the business since listing in December 2005 it is an opportune time to re-visit forecasts and operating assumptions. Updated valuation parameters are detailed in the final section of the report. This review has led to an increase in the assessed value of CSS from \$0.70cps to \$1.26cps on the back of a number of positive operating developments and a stronger outlook for SBT prices due to various quota and over fishing initiatives adopted by authorities around the world.
- If all goes relatively smoothly, investors still need to take a longer term view as it takes at least 2 years from the first fingerling transfer before harvesting of SBT can commence. Given also that stocks need to be built up to provide a stable long term source of fish supply, Lonsec forecasts that CSS will not become cashflow positive, at the operating level, until FY10. As CSS moves closer to this date, and the project becomes progressively de-risked, the underlying value of CSS is expected to be reflected in an increasing share price.

Kingfish & Mulloway

In FY06, CSS harvested approximately 42t of Kingfish and 35t of Mulloway. CSS effectively commenced operations in December 2006 with the acquisition of immature stocks of Kingfish and Mulloway from the Stehr Group.

The wider Stehr Group (majority CSS shareholder with 57%) produced more than 650t of Kingfish and 200t of Mulloway in FY06. CSS has contracted its fish husbandry requirements to CSAG (Clean Seas Aquaculture Growout, a subsidiary of the Stehr Group) on an indexed fee basis - \$5.50/kg for Mulloway & \$6.25/kg for Kingfish.

In FY07 Lonsec is forecasting 986t of Kingfish and 209t of Mulloway will be harvested by CSS. The majority of the increase (600t) in the size of the Kingfish harvest arises from the relatively mature stocks carried by SAAM which CSS acquired in October 2006.

The acquisition of SAAM was an important strategic investment for CSS as it provides future operational flexibility. The SAAM hatchery and grow out pens are capable of accommodating 1200t of fish at Fitzgerald Bay.

Presuming that the SBT project is successful, CSS will be able to transfer existing Kingfish production from Arno Bay to Fitzgerald Bay leaving Arno Bay as the dedicated SBT production site.

Further, if the SBT project is not successful, or not as successful as planned, an expanded Kingfish operation can be readily accommodated with relatively minor additional cost.

Table 1 Weight of Fish Sold (t)

	FY07	FY08	FY09	FY10	FY11	FY12
Kingfish	986	1,580	2,269	2,363	2,538	2,715
Mulloway	209	157	0	0	0	0

Source: Lonsec estimates

Given the decision by CSS to concentrate its efforts on Kingfish following the SAAM acquisition, no Mulloway fingerlings were put in the water in FY07. Lonsec has assumed that CSS will effectively cease production of Mulloway and that its current stock will be virtually depleted by the end of H108. Although CSS plan to re-introduce Mulloway fingerlings in FY08, Lonsec has elected not to include this in its forecasts.

Table 2 Fish Stocks (t)

	FY07	FY08	FY09	FY10	FY11	FY12
Kingfish	1,476	2,074	2,108	2,259	2,413	2,566
Mulloway	94	0	0	0	0	0

Source: Lonsec estimates

Prices & Margins

Kingfish is becoming more widely and readily available and can now be bought, at premium prices, in Supermarkets. CSAG has also undertaken some successful export shipments and as greater volumes become available export markets will become increasingly important.

During FY06 the net price received by CSS – wholesale price less selling costs (primarily commissions) – averaged approximately \$9.00 per kg. CSS is confident of continued price growth for Kingfish in FY07 and beyond.

Table 3 Kingfish Margins (\$kg)

	FY07	FY08	FY09	FY10	FY11	FY12
Price ¹	9.36	9.60	9.84	10.08	10.33	10.59
M'gmt Fee ²	6.56	6.89	6.15	6.46	6.78	7.12
Margin	2.80	2.71	3.69	3.63	3.55	3.47
Margin	29.9%	28.2%	37.5%	36.0%	34.4%	32.8%

1. Assumed price increase of 2.5% pa

2. Increases by the greater of CPI or 5% on 1 Sept. each year.

Source: Lonsec estimates & IPO Prospectus

While the gross margin on Kingfish appears attractive (Table 3), the timing of receipts (harvesting commences 18 months after fingerling transfer to grow out cages) and payments (fish husbandry fees payable as fish grow) results in each batch of fingerlings put in the water generating a negative gross return for 18 months. After allowing for working capital funding and administrative costs, a batch of fingerlings does not produce any meaningful operating return until 24 months after transfer into grow-out nets. Consequently, Kingfish is not expected to generate a positive gross margin (pre-SGARA) until FY09.

Table 4 Kingfish Margins (\$m)

	FY07	FY08	FY09	FY10	FY11	FY12
Price \$/kg	9.36	9.60	9.84	10.08	10.33	10.59
Sales	9.8	15.2	22.3	23.8	26.2	28.8
M'gmt Fee	(10.9)	(15.2)	(14.4)	(16.5)	(18.5)	(20.7)
Margin	(1.1)	(0.1)	7.9	7.3	7.7	8.0

Source: Lonsec estimates

Lonsec's price growth outlook is modest at 2.5%pa and could be easily exceeded given the world wide growth in demand for fresh fish and declining natural fish stocks. Given its relative sensitivity to price changes, increasing the assumed price growth from 2.5%pa to 7.5%pa significantly improves financial returns.

Table 5 Kingfish price growth 7.5% pa

	FY07	FY08	FY09	FY10	FY11	FY12
Sales ¹	9.8	15.9	24.5	27.5	31.7	36.5
M'gmt Fee	(10.9)	(15.2)	(14.4)	(16.5)	(18.5)	(20.7)
Margin	(1.1)	0.7	10.2	11.0	13.2	15.8

1. FY07 price increase already assumes a 7% increase on FY06.

Source: Lonsec estimates

Summary

It was previously assumed that CSS would cease Kingfish production once the SBT project was proved successful. The acquisition of SAAM means that this can now be transferred, expanded and operated as a commercially viable stand alone business irrespective of the success of the SBT project.

In addition, the successful development of the Kingfish operations provides valuable training and experience for its SBT project.

Southern Bluefin Tuna

Australia has an annual wild catch quota of 5,260t SBT (equivalent to around 9,500t of saleable weight after a period of controlled farming). CSS is aiming to propagate and grow-out SBT which will not be quota restricted. Closure of the SBT life cycle has never been achieved.

The current farming practice is to capture juvenile fish weighing approximately 15kg – Australia's quota being 5,260t pa – and then hold them in sea pontoon cages being fed on locally caught and imported pilchards and herring. Typically, it takes between 3 and 8 months, for the juveniles to reach an average weight of approximately 30kg.

Getting the SBT to spawn, successfully raising the fingerlings and growing them to market size offshore is "the Holy Grail" CSS is pursuing. Independent experts and fish farming operatives generally agree that it can and will be done. The key for investors is whether it will be done in a timely and efficient manner.

The SBT project involves two stages; Pre-Commercialisation and Commercialisation. Most of the assessed risk is in the pre-commercialisation stage as the Stehr Group, and others in Australia, have long successfully 'fattened' wild caught SBT in sea cages. The Stehr Group has also successfully trialled semi-moist pellet food for three seasons.

Success with Other Species

Kinki University (Japan) successfully closed the lifecycle of Pacific Bluefin Tuna (PBT) in 2002 after over 40 years of research. In addition, it appears lifecycle closure of Northern Bluefin Tuna (NBT) and Yellowfin Tuna will follow shortly with spawning of captive broodstock already induced. Under a cooperative technology exchange, this will provide CSS with important benchmarking.

Over the past six years, Stehr Group has been actively working towards closing the lifecycle of SBT. Stehr Group initially identified Kingfish and Mulloway as surrogate species for SBT and successfully produced Kingfish fingerlings in 2001 and Mulloway fingerlings in 2002. The Company has made significant advances in several areas including broodstock management, onshore fish transfer, fish husbandry practices and pelletised feeding.

International success with other tuna species, Stehr Group's completion of the lifecycle for surrogate fin fish species and the Independent Technical Expert's (ITE) positive commentary gives Lonsec a high level of confidence that the SBT lifecycle will be closed. Access to broodstock is a particular strength of CSS with over 100 SBT still available in sea cages close to the hatchery.

Pre-Commercialisation Hurdles

1. SBT Broodstock.

The Stehr Group has been on-growing captive juveniles as prospective broodstock since 1998-99 holding around 150 SBT, aged between 9-12 years and weighing over 90kg, prior to the recent transfer onshore of some 20.

2. SBT Broodstock Transfer

In late October and early December 2006, CSS successfully transferred 20 mature SBT broodstock from offshore holding nets to the onshore breeding facilities at Arno bay. This marks completion of the first significant milestone in the controlled propagation of SBT. CSS has a 3,300m³ on-shore tank and a 1,000m³ handling tank supported by a state-of-the-art, Danish designed (UNI-acqua), recirculation system to house the broodstock.

3. Spawning of Broodstock – February 2007

Wild SBT appear to reach sexual maturity around 10-12 years of age. Analysis of the one SBT which died during the first transfer of Broodstock in October revealed sexual maturity had been occurring. There is some evidence that broodstock raised from juveniles in captivity mature at an earlier age than their wild counterparts. Additionally, the temperature and light controlled recirculation facility is planned to promote controlled natural spawning; although hormone induced spawning will also be undertaken if necessary, as was the case with NBT in European trials.

Once fertilised eggs have been produced they will be transferred to the existing Arno Bay hatchery with hatching expected (based on Northern Bluefin Tuna and Yellowfin Tuna lifecycle projects) to occur within 2-3 days.

Artificial feeds will be introduced for weaning after 2-3 weeks and after a further 4 weeks or so, SBT fingerlings of approximately 7-10 grams are expected to be ready for transfer to sea cages for growing out. That is the theory.

Expectations are relatively low due to February being 'out of season'. Also, there is likely to be a degree of reality supplanting theory with respect to the behaviour and development of SBT larvae and fingerlings, mortality rates etc. As a consequence, CSS is aiming to produce a minimum of 25,000 fingerlings. This batch of fingerlings is to be primarily used for R & D purposes with expenses not covered by the government grant capitalised.

Provided the 25,000 SBT fingerlings are successfully transferred to growout cages in May 2007, CSS will move into the commercialisation stage of the project. At this time a reasonable part of the project would have been "de-risked" and the value of CSS is expected to increase markedly.

Commercialisation Hurdles

Assuming the pre-commercialisation hurdles have been successfully overcome, CSS plan an in-season spawning in August/September and the transfer of 125,000 fingerlings in November/December 2007 to growout cages. This will be followed by a 250,000 fingerling transfer in November/December 2008 and 500,000 in 2009. 500,000 fingerlings is regarded as being the annual quantity CSS needs to produce to achieve sustainable commercial success.

Table 6 SBT Fingerling Transfers

Nov-07	125,000
Nov-08	250,000
Nov-09	500,000
Nov-10	550,000
Nov-11	600,000
Nov-12	650,000
Nov-13	700,000
Nov-14	750,000
Nov-15	800,000

Source: 2005 IPO prospectus & Lonsec est.

The growth and development of fingerlings in 2007 and 2008 will provide the proof or otherwise of commercial success. However, investors should expect a period of fine tuning and controlled experimentation to planned fish husbandry techniques and feed formulae before the controlled propagation of SBT can be optimised.

1. Food Conversion ration (FCR)

Research projects during the past 10 years have helped develop moist (40% water) and semi-moist (20% water) formulated feeds. However, these feeds are expensive in terms of their ingredients, handling and storage. Clean Seas has conducted extensive feed trials on using semi-moist pellets, which it intends to ultimately use instead of the current industry practice of fresh and frozen pilchards. The Independent Technical Expert (ITE) anticipates that, in the short term, Clean Seas will either feed SBT the existing dry formulated feed that is fed to Kingfish or switch to a semi-moist formulated feed.

Clean Seas received advice on the expected FCR from Skretting, a wholly owned subsidiary of Nutreco (world's largest supplier of aquaculture pellet feeds). Skretting's recommendation is that the FCR for dry pellet feeding of SBT should be in the range of 2 – 3:1, a view shared by Clean Seas. However, the ITE believes there is currently insufficient evidence to support a ratio of 3:1 using dry feed and adopting a range of 3 – 5:1 would be more prudent.

This variable has a significant impact on the valuation of the SBT business with Lonsec adopting an FCR assumption of 3:1 for forecasting and valuation purposes.

Food is a significant cost as it will take approximately 2 years before the first SBT reach a minimum harvestable weight (20kgs) and the SBT will grow to over 30kgs by the time the last of a batch is harvested. With the cost of feed at around \$1.50/kg, total feed costs will be greatly influenced by the FCR and rate of weight gain.

2. Volumes & Growth Rates

CSS is reported as saying that it could eventually match the present SBT quota wild catch of 5260tpa under its breeding program. This equates to approximately 9,500t of saleable weight after a period of controlled feeding in off-shore cages. Lonsec is currently forecasting CSS achieving this target by the end of FY13.

Lonsec has adopted an enhanced SBT growth profile compared to that noted in the 2005 IPO prospectus which was regarded as 'low risk' by the ITE. On average, Lonsec has assumed a 10% improvement on initial

growth rates due to CSS wild catch and Kingfish experience.

Table 7 SBT Weight Growth Profile

	1H	2H
Year 1	0.1	3.0
Year 2	5.2	14.5
Year 3	20.0	29.9
Year 4	35.4	45.3

Source: IPO prospectus & Lonsec est.

3. Pricing

The long term outlook for SBT prices remains positive as the industry dynamics improve. Recently, the worldwide body Commission for the Conservation of Southern Bluefin Tuna (CCSBT), in cooperation with the Australian and Japanese Governments, announced the reduction in the Japanese annual SBT quota from 6,065tpa to 3,000tpa until at least 2011. In addition, Japan has agreed to independent inspectors on Japanese vessels. The cessation of over fishing may lead to a significant increase in the demand for within quota farmed SBT. More recently, it has been reported that the Mediterranean Bluefin tuna quota was cut from 32,000tpa to 29,500tpa at the International Commission for the Conservation of Atlantic Tuna (ICCAT) meeting in November 2006. While the move to reduce quotas around the world is a positive for the long term tuna price, it will be the extent of over fishing that will be the primary influence on prices. It has been previously reported and accepted, here and in Europe, that the extent of over fishing (catches outside the quota) has been greatly underestimated for many years and been the biggest influence on Tuna prices.

Recent estimates put the extent of the SBT overcatch at up to 10,000tpa. This compares to the total global SBT catch quota of 11,810tpa, down from 14,810tpa in 2006.

In the IPO Prospectus, the farmgate price achieved by Stehr Group in 2005 was approximately 1400Yen/kg gilled and gutted (gg). At the then exchange rate of 86Y:\$1, this equated to around \$16.25/kg gg. This compares to around \$29/kg in 2003 due to a weakening Yen, increased competition from Northern Bluefin Tuna. A low of 1250Yen/kg gg was reached in August 2004.

Current farmgate prices are around 1800Y/kg gg, which, at the exchange rate of 80Y:\$1, (90Y less the cost of forward cover) equates to around \$19.13/kg gg.

Lonsec has assumed a long range price of 1700Y and an exchange rate of 80Y:\$1 yielding \$19.06/kg gg.

While reduced quotas and over fishing are both extremely positive for SBT prices, the growth in farmed supply flowing from CSS's success (10,000tpa by FY2013 on Lonsec's forecast) can be expected to lead to price weakness. This will be particularly so, if natural fish stocks replenish due to the success of the quota system and the over fishing initiatives. An assumed constant long term price of 1700Y/kg in Lonsec's model reflects this expected weakness in real prices.

Valuation Preamble

Initially Asset Rich and Cashflow Poor

- It takes 15 – 18 months to get Kingfish to market and it will take about 24 months before the SBT are harvested from when fingerlings are first transferred to growout cages. Low stock turn means high initial working capital demands. FY08 and FY09 will mark the commencement of meaningful sale volumes.

Table 8 Weight of Fish Sold (t)

	FY07	FY08	FY09	FY10	FY11	FY12
Kingfish	986	1,580	2,269	2,363	2,538	2,715
Mulloway	209	157	0	0	0	0
SBT	0	0	0	1,334	3,711	7,588
Total	1,195	1,737	2,269	3,697	6,249	10,303

Source: Lonsec estimates

- As CSS is an effective start-up, stock levels also need to be built, firstly with Kingfish then, provided all goes according to plan, with the more expensive SBT. There is a lot of money tied up in the water.

Table 9 Value of Stocks (\$m)

	FY07	FY08	FY09	FY10	FY11	FY12
Kingfish	13.5	18.9	19.7	21.6	23.7	25.8
Mulloway	0.7	0.0	0.0	0.0	0.0	0.0
SBT	0.0	7.1	39.2	94.8	154.3	195.6
Total	14.2	26.0	58.9	116.5	178.0	221.4

Source: Lonsec estimates

- Significant investment will be required to put in place the growout, harvesting and processing infrastructure. Funding needs to come from debt and/or equity as free cashflow is not available in the near term.

Table 10 Funding (\$m)

	FY07	FY08	FY09	FY10	FY11	FY12
EBITDA - pre SGARA	-2.6	-4.1	-8.5	-7.1	9.7	64.9
Op. Cashflow	-4.9	-0.4	-0.4	1.2	13.7	48.0
New Equity	10.4	10.5	52.3	0.0	0.0	0.0
Net Debt	-1.7	-9.8	-3.5	5.2	22.7	9.6

Source: Lonsec estimates

The end result of this is that CSS is not expected to effectively become operating cashflow positive until FY10 – some 4.5 years away. However, payback is extremely quick once the circle has turned. Refer Operating Cashflow for FY12 in Table 10 above.

Clean Seas Valuation - \$1.26 per share

Summary

Lonsec has derived an indicative valuation for CSS of \$1.26 per share with Kingfish/Mulloway business comprising approximately \$0.22 per share. The \$1.26 per share value is an increase on the \$0.70 per share in May 2006 and, in essence, reflects the combined effects of:

- An Increase in the SBT price from 1400Y/kg to 1700Y/kg, but partially offset by an increase in the long term exchange rate from 75Y to 80Y. Although the spot rate is above 90Yen, approximately 80Yen would be the effective rate after buying currency forward, which CSS intends to do;
- The acquisition of SAAMs and the inclusion of Kingfish now as a standalone business. Previously it was assumed that CSS would cease the Kingfish business once the SBT was commercialised and use its hatchery and the growout facilities exclusively for SBT;
- The assumed acquisition of Clean Seas Aquaculture Growout (CSAG) in FY09 and the subsequent effective reduction in fish husbandry expenses by approximately 25% for SBT and 15% for Kingfish, and
- A reduction in the pre- tax discount rate from 17.5% to 17.0% on the back of a reduction in the Beta from 2.0 to 1.5 to reflect the development of the non-SBT business and the successful transfer of the SBT broodstock to the on-shore tanks. Also, an equity market risk premium of 4% rather than 6% has been adopted. These reflect a slightly reduced risk profile from earlier this year.

Conservatively, Lonsec has assumed that CSS's business plan is predominately funded from equity. This has a significant detrimental effect on the per share valuation. Based on Lonsec's forecasts, net debt peaks at around \$22.7m in FY11 representing a gearing level of 12%. Given the negative cashflow projections, this is regarded as prudent.

Along with the recent capital raisings to fund working capital and the acquisition of SAAM, Lonsec also assumes that additional working funding in FY08 is equity funded. It is further assumed that the acquisition of CSAG (over which it has an option to acquire) and a portion of its expansion capex in FY09 will also be largely equity funded.

In all, approximately \$63m of additional equity is assumed to be raised by CSS between FY07 and FY09.

Furthermore, the price at which equity is raised is assumed to be \$0.55c. At \$0.04c per share for every \$0.05 addition to the issue price, this also has a material dilutionary effect on the per share valuation of CSS.

Valuation Details

A discounted cashflow valuation approach was adopted due to the virtual start-up nature of the operations, the investment capital required in the development period, the absence of material cash flow until FY09 and the likelihood that a positive cashflow position would not be achieved until FY12.

Lonsec has undertaken two valuations:

- Value of CSS Group @ \$1.26 per share (combined SBT & Kingfish operations)
- Value of Kingfish operations as a standalone business @ \$0.22c per share.

Other than the free cashflow input, the same DCF assumptions (beta, cost of debt & equity etc) were used for valuing both the Kingfish and the combined SBT/Kingfish (Group) business. Kingfish is more developed, close to achieving free cashflow status, requires lower levels of capital and will be a relatively small business. On the other hand, SBT is virtually the opposite to Kingfish in all of these areas. Combining the two meant only minor variances to inputs

SBT Assumptions

1. Fingerlings transferred to growout cages along the following rates.

Table 11 Fingerling Transfers

Nov-07	125,000
Nov-08	250,000
Nov-09	500,000
Nov-10	550,000
Nov-11	600,000
Nov-12	650,000
Nov-13	700,000
Nov-14	750,000
Nov-15	800,000

Source: CSS IPO Prospectus & Lonsec est.

2. FCR of 3.0 and Feed Cost of \$1.50/kg
3. Long Term SBT Price 1700Y/kg
4. Long Term Exchange rate 80Y/kg (forward bought)
5. SBT Fish Husbandry costs effectively reduced by 25% from the current contract price with CSAG of \$6.00/kg upon acquisition of CSAG in FY09.
6. Rate of weight gain as follows – 10% above that contained in the IPO prospectus.

Table 12 SBT Weight Growth (kg)

	1H	2H
Year 1	0.1	3.0
Year 2	5.2	14.5
Year 3	20.0	29.9
Year 4	35.4	45.3

Source: IPO prospectus & Lonsec est.

Kingfish Assumptions

Kingfish standalone valuation approximately \$0.22c per share

1. CSS continues to develop and grow the Kingfish operations as a standalone business.
2. CSS transfers all Kingfish Hatchery and Growout operations to the facilities acquired in the SAAM acquisition with associated capex upgrades.
3. The current farmgate price for Kingfish is approximately \$9.25/kg – net of selling fees. Prices are assumed to increase at 2.5% pa over the forecast period.
4. Fish Husbandry fees, currently around \$6.50/kg and assumed to increase by 5% pa for the next 2 years as outlined in the contract with CSAG. Thereafter, this is assumed to effectively fall by approximately 15% following the acquisition of CSAG by CSS in FY09.

Assumptions regarding Kingfish volumes and prices are detailed in Tables 13, 14 & 15 below.

Table 13 Weight of Fish Sold (t)

	FY07	FY08	FY09	FY10	FY11	FY12
Kingfish	986	1,580	2,269	2,363	2,538	2,715
Mulloway	209	157	0	0	0	0

Source: Lonsec estimates and CSS

Table 14 Fish Stocks (t)

	FY07	FY08	FY09	FY10	FY11	FY12
Kingfish	1,476	2,074	2,108	2,259	2,413	2,566
Mulloway	94	0	0	0	0	0

Source: Lonsec estimates and CSS

Table 15 Fingerling Transfers ('000)

	FY07	FY08	FY09	FY10	FY11	FY12
Kingfish	600	650	700	750	800	850
Mulloway	0	0	0	0	0	0

Source: Lonsec estimates and CSS

Group Assumptions

1. Working Capital equity issue in H108 of \$10.5m – 20m shares at \$0.55 per share.
2. CSS exercises its acquisition option over CSAG (the growout business owned currently by the Stehr Group) in H109 for \$25m with subsequent equity issue of 45.5m shares at \$0.55 per share.
3. Equity issue of \$30m in H110 to fund part of CSS's capital expenditure requirements for harvesting and processing infrastructure - 54.5m shares at \$0.55.

Table 16 Group Cashflow, Capex & Funding (\$m)

	FY07	FY08	FY09	FY10	FY11	FY12
Op. Cashflow	-4.9	-0.4	-0.4	1.2	13.7	48.0
Capex	-6.0	-1.5	-40.0	-9.5	-30.0	-10.5
Acquisitions	-4.7	0.0	-25.0	0.0	0.0	0.0
Equity Funding	10.4	10.5	52.3	0.0	0.0	0.0

Source: Lonsec est. and public information

The above table highlights that Lonsec is forecasting CSS not becoming operational cashflow positive until FY10 and does not become free cashflow positive until FY12.

Table 17 Group DCF Assumptions

WACC - after tax	12.0%
Equity Risk Premium	4.0%
Risk Free Rate (10yr Bond)	5.6%
Debt Borrowing Rate	9.0%
Perpetual Growth rate	5.0%
Beta Coefficient	1.5
AT Cost of Equity	15.1%
AT Cost of Debt	6.3%

Source: Lonsec Estimates

Valuation Sensitivity

Given the long time frames involved (cashflow positive in FY10) relatively small changes to key inputs have a significant impact on the valuation of CSS. The most sensitive variables are the SBT price, the FCR, Yen/A\$ exchange rate and the discount rate. As the project passes through the pre-commercialisation stage and the SBT fingerlings begin growing at acceptable rates the project becomes progressively de-risked. Accordingly, by the time commercial harvesting of SBT commences in FY10 CSS should be largely de-risked and the share price appreciably higher than the current \$0.75c.

Table 18 Valuation Sensitivities

	Current Assumption	Change	Impact cps
WACC - after tax	12.0%	-1%	0.23
New Equity (\$m)	63	-10%	0.06
Share Issue Price (\$)	0.55	5cps	0.04
SBT Growth Rate ¹		+10%	0.13
FCR Ratio	3	-0.5	0.17
SBT Price (Yen)	1700	+10%	0.26
Exchange Rate (Y:A\$)	80	+10%	0.30
Kingfish Price Growth	2.5%	1% pt	0.04

Note: 1. Refer to Table 12 for current assumption rates

Source: Lonsec estimates

Clean Seas Tuna Limited (CSS)

Clean Seas Tuna Limited CONSOLIDATED PROFIT & LOSS All figures in \$ '000	FY (a) 2006	FY (e) 2007	FY (e) 2008	FY (e) 2009	FY (e) 2010	FY (e) 2011	FY (e) 2012
SALES REVENUE	867	11,751	16,795	22,726	53,687	108,553	196,648
EBITDA - pre SGARA	3,278	-2,553	-4,103	-8,462	-7,071	9,673	64,867
SGARA	3,076	5,136	11,827	32,410	57,055	60,950	42,846
EBITDA - reported	337	2,582	7,724	23,948	49,984	70,623	107,713
Dep. & Amort.	-270	-1,457	-1,969	-2,457	-4,190	-4,776	-4,993
EBIT	67	1,126	5,755	21,491	45,794	65,847	102,720
Net Interest Expense	57	380	1,053	2,645	-394	-1,874	-2,307
Net Profit Before Tax	124	1,506	6,808	24,136	45,400	63,973	100,414
Tax Expense	-49	-377	-2,043	-7,241	-13,620	-19,192	-30,124
Minority Interests	0	0	0	0	0	0	0
NET EARNINGS - as reported	75	1,130	4,766	16,895	31,780	44,781	70,290
EPS (as reported) (cps)	0.1	0.9	3.2	6.7	12.6	17.8	28.0
PER @ \$0.75 (x)	954	87	23.8	11.2	5.9	4.2	2.7
NET EARNINGS - adj. for SGARA	-3,002	-4,007	-7,061	-15,516	-25,276	-16,170	27,443
EPS (excl. SGARA) (cps)	-3.1	-3.1	-4.7	-6.2	-10.1	-6.4	10.9

Source: Lonsec Ltd

Clean Seas Tuna Limited CONSOLIDATED BALANCE SHEET All figures in \$ '000	FY (a) 2006	FY (e) 2007	FY (e) 2008	FY (e) 2009	FY (e) 2010	FY (e) 2011	FY (e) 2012
ASSETS							
Cash	4,993	588	840	1,136	1,074	2,171	3,933
Trade Receivables	945	1,384	1,979	2,677	2,942	4,461	8,081
Inventory	0	1,610	2,301	3,113	3,677	5,948	10,775
Biological Stocks	4,665	14,162	26,044	58,926	116,474	177,965	221,403
TOTAL CURRENT ASSETS	10,603	17,743	31,162	65,853	124,167	190,545	244,193
Net Property Plant & Equipment	6,406	10,950	10,481	48,024	53,334	78,558	84,065
Net Intangibles	450	1,477	1,477	17,977	17,977	17,977	17,977
Biological Assets	2,579	2,591	3,417	5,228	7,221	9,524	9,524
Other Assets	347	888	1,140	1,436	2,984	5,728	10,132
NON CURRENT ASSETS	9,782	15,905	16,514	72,665	81,517	111,786	121,698
TOTAL ASSETS	20,385	33,648	47,677	138,519	205,684	302,332	365,891
FUNDS							
Trade Creditors	1,275	1,674	2,393	3,113	7,354	14,870	24,244
ST Borrowings	1,909	-1,141	-5,377	-1,400	3,773	14,920	8,120
Provisions	0	377	2,043	7,241	13,620	19,192	68,383
Other Current Liabilities	1,556	2,056	2,519	2,841	5,369	8,141	9,832
TOTAL CURRENT LIABILITIES	4,740	2,966	1,577	11,794	30,116	57,124	110,579
LT Borrowings	0	0	-3,585	-934	2,515	9,947	5,413
Provisions	0	3,285	6,971	15,680	28,675	45,006	49,302
Other Non Current Liabilities	13	235	336	455	1,074	2,171	3,933
NON CURRENT LIABILITIES	13	3,520	3,722	15,201	32,264	57,124	58,648
TOTAL LIABILITIES	4,753	6,486	5,299	26,996	62,380	114,247	169,227
Contributed Equity	16,610	27,010	37,460	89,710	89,710	89,710	89,710
Retained Earnings	-978	152	4,917	21,813	53,593	98,374	106,954
Outside Entity Interests in controlled entities	0	0	0	0	0	0	0
SHAREHOLDERS' FUNDS	15,632	27,162	42,378	111,523	143,303	188,084	196,664

Source: Lonsec Ltd

Clean Seas Tuna Limited (CSS)

Clean Seas Tuna Limited							
STATEMENT OF CASH FLOWS							
All figures in \$ '000	FY (a) 2006	FY (e) 2007	FY (e) 2008	FY (e) 2009	FY (e) 2010	FY (e) 2011	FY (e) 2012
EBIT	67	1,126	5,755	21,491	45,794	65,847	102,720
Working Capital	-3,723	-11,147	-12,448	-33,674	-54,135	-57,765	-42,512
Depreciation	270	1,457	1,969	2,457	4,190	4,776	4,993
Change in Tax Accounts	-293	3,659	5,351	13,908	19,374	21,903	15,228
Net Interest Paid	57	380	1,053	2,645	-394	-1,874	-2,307
Tax Paid	-49	-377	-2,043	-7,241	-13,620	-19,192	-30,124
Net Cash Provided by Operating Activities	-3,671	-4,902	-363	-413	1,209	13,695	47,998
Payments for PP & E	-4,086	-6,000	-1,500	-40,000	-9,500	-30,000	-10,500
Investments	-2,558	-12	-826	-1,812	-1,993	-2,302	0
Intangibles	-450	-1,027	0	-16,500	0	0	0
Other	1,497	185	311	144	1,599	1,127	-952
Net Cash Provided by Investing Activities	-5,597	-6,854	-2,014	-58,168	-9,894	-31,176	-11,452
Net Proceeds of Share/Note Issues	14,860	10,400	10,450	52,250	0	0	0
Proceeds(Repayment) of Borrowings	-643	-3,050	-7,821	6,628	8,622	18,578	-11,334
Dividends		0	0	0	0	0	-23,451
Net Cash Provided by Financing Activities	14,217	7,350	2,629	58,878	8,622	18,578	-34,785
Change in Cash Balances	4,949	-4,405	252	297	-63	1,097	1,762

Source: Lonsec Ltd

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