

## Investor update

10 May 2018

### **Reshaping MBD for commercial success**

I am pleased to provide you with this update following my first 100 days as CEO of MBD Industries Limited (“MBD”).

### ***Review of MBD’s business operations***

My key task has been to review MBD’s financial performance, business strategy and its future outlook. My conclusion is that MBD must adopt a greater focus on commercialisation and execution of key initiatives and set as its core purpose:

***To build a leading and sustainable commercial enterprise utilising the power of nature***

There is an opportunity for MBD to become a leading, commercially viable operation that addresses two of the world’s most challenging issues: **water purity** and **food security**.

This review has also identified the need to restructure MBD and to focus the business on commercially viable initiatives and to temper previous optimism regarding its future outlook. The review also found that the business needs short-term funding to enable it to sustain current operations, complete its redundancy program and pursue growth opportunities.

### ***Strengthening our financial position***

Management is in the process of developing a short and medium-term financing strategy to enable MBD to meet its working capital requirements and to strengthen the business’s long-term capital structure.

To address the shortfall in its working capital, MBD issued \$2 million of convertible notes in April to an existing convertible noteholder. MBD is also in the process of obtaining additional debt financing from existing and new strategic investors. The additional funding will enable MBD to meet its ongoing funding requirements and to prepare for a broader equity recapitalisation, details of which are expected to be announced later this calendar year. The equity recapitalisation will enable the repayment of debt obligations and position the business for future growth, including the construction of the Guthalungra aquaculture facility. The structure of this capital raising remains to be settled but is likely to be implemented through a rights issue or share placement.

The above does not relate to the Pacific Reef Fisheries business which is separately financed by Commonwealth Bank of Australia.

Further details on MBD’s financial position and annual accounts will be provided at MBD’s annual general meeting, currently anticipated to be held prior to October 2018. MBD’s management currently expects that these annual accounts will show negative earnings for FY18 and a net tangible asset per share that is at or below the historical performance of this business as per MBD’s FY2017 annual accounts.

### ***Business structure and leadership***

We have already taken some immediate steps towards addressing the operational issues identified in the review described above. We have put in place a fresh leadership team with the skills and experience to deliver against our growth-focused agenda. In May 2018 we commenced a restructure of the business that has led to a significant reduction of the workforce as we focus the business into four profit-accountable business units, each with distinct markets and charged with building a diverse customer base. Going forward, our business will be structured into the following clearly defined units:

- ***Aquaculture (Pacific Reef Fisheries)*** – sustainably farming prawns and cobia at our onshore fisheries in Northern Queensland and becoming the leading supplier in our chosen categories.
- ***Bioremediation Services*** – using algae and our proprietary know-how to clean waste water streams of nitrogen and phosphorous from municipal waste water plants and onshore aquaculture facilities
- ***Plant Nutrition*** - extracting plant nutrients from algae that have aided bioremediation to improve soil health and promote plant growth and be an input into animal nutrition
- ***Human & Animal Nutrition.*** - growing nutrient-rich algae that support the health and wellbeing of life. Our focus will be the human nutraceutical market and the cultivation of macro algae for human and animal consumption

Given our renewed focus on North Queensland and our desire to make a positive impact on the health of the Great Barrier Reef, we will be proposing to change the trading name of the business to **Pacific Reef Group**. This will enable us to bring all of the business units together under one banner and one purpose.

### ***A revised business plan***

My goal over coming months is to develop rigorous business plans for each of the business units designed to deliver returns to investors over the next 5 years. This will mean a number of changes to the previous strategy presented to MBD shareholders at the AGM held in November 2017. Whilst much work remains to be completed to develop the revised strategic plan and assess the potential financial contribution from each of the businesses, I can offer the following updates in relation to key projects:

#### **Astaxanthin Investment:**

Although the site at Alva Beach is operational, production capacity remains severely constrained due to operational issues. Given the challenges identified with large scale production, the clear focus for commercial success needs to be on lower volume, higher value products and an entry into the human nutraceuticals markets. Realistically MBD is behind in this endeavor. It is also envisaged that aspects of the Astaxanthin plant at Alva Beach plant may be repurposed to allow for the growth of other algae strains and to make better use of the asset.

#### **Vietnam and Bioremediation:**

This project is unlikely to deliver the scale of the future returns previously outlined to shareholders despite the ongoing cooperation of the customer. Environmental conditions and water quality issues in Vietnam have proven challenging and a pure bio-remediation solution difficult to achieve. We continue to work with the customer to find a multistage solution that will meet their needs. Management see greater near-term opportunities in municipal waste treatment and aquaculture in North Queensland. Many of these opportunities have been insufficiently explored - and that will be



our primary focus in the ensuing period. The new structure and commercial focus are designed to appropriately resource this effort and to successfully deliver on the opportunities in North Queensland.

**Aquaculture Business (Pacific Reef Fisheries)**

The returns from our aquaculture business are promising and, as a result, accelerating the construction of the Guthalungra expansion and building a new hatchery to support the business is critical to crystallising the group's potential future returns. We anticipate this business will significantly influence our earnings outlook over the next 5 years.

**Plant Nutrition:**

The JCU R&D program has also identified that the extract from the algae used in the remediation of water acts as an effective plant bio stimulant. An immediate opportunity exists to extract this product and allow the return of nutrients to soils. The business is exploring repurposing part of the Alva Beach facility to enable production of these products and an entry into this market.

***Improving investor communications***

Going forward, the company will adopt a more comprehensive stakeholder disclosure regime and we are putting processes in place to support this.

Investor briefings are expected to be held once our plans have been further developed, and more detailed financial information will be available after the conclusion of the financial year and preparation of the FY18 financial results.

I see much untapped potential in this business and I'm confident that the hard decisions we have already made will support a sustainable, commercial business with significant growth potential. I look forward to providing further updates in due course.

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