

Seafarms Group Limited

ABN 50 009 317 846

Annual Report for the year ended 30 June 2020

Seafarms Group Limited ABN 50 009 317 846
Financial Report - 30 June 2020

Lodged with the ASX under Listing Rule 4.3A.
This information should be read in conjunction with the
Financial Report

Contents

Results for Announcement to the Market
Financial statements

Page
2
25

Seafarms Group Limited

Appendix 4E

Financial Report

Year ended 30 June 2020

Name of entity
Seafarms Group Limited

ABN or equivalent company
reference

ABN 50 009 317 846

12 months ended

30 June 2020
(Previous corresponding period: 12
months ended 30 June 2019)

Results for announcement to the market

| | | | | \$ |
|--|----|-------|----|--------------|
| Revenue from ordinary activities | Up | 14.0% | to | 27,815,691 |
| Earnings before interest and taxation (EBIT) | Up | 28.7% | to | (20,554,192) |
| Net loss after tax (from ordinary activities) for the period attributable to members | Up | 17.5% | to | (25,542,668) |

Distributions


| | Amount per security | Franked amount per security |
|--|------------------------|-----------------------------------|
| Interim dividend (per share) | - | - |
| Final dividend (per share) | - | - |
| Franking | - | - |
| | 30 June 2020 | 30 June 2019 |
| | \$ | \$ |
| Net tangible asset backing (per share) | 0.01 | 0.02 |

Explanation of results

For commentary on the results please refer to the announcement relating to the release of Seafarms Group Limited results in conjunction with the accompanying financial statements, which forms part of the Appendix 4E.

Audit

The report is based on accounts that have been audited.



Harley Ronald Whitcombe
Director & Company Secretary
Perth
29 September 2020

Seafarms Group Limited
ABN 50 009 317 846
Annual Report - 30 June 2020

| | |
|---|----|
| Corporate directory | 5 |
| Directors' report | 6 |
| Auditor's Independence Declaration | 23 |
| Corporate governance statement | 24 |
| Financial statements | 25 |
| Directors' declaration | 84 |
| Independent auditor's report to the members | 85 |
| Shareholder information | 91 |

**Seafarms Group Limited
Corporate directory**

| | |
|---|--|
| Directors | <p>Ian Norman Trahar B.Ec, MBA <i>Executive Chairman</i></p> <p>Harley Ronald Whitcombe B.Bus, CPA <i>Executive Director</i></p> <p>Dr Christopher David Mitchell PhD, BSc (Hons), GAICD <i>Executive Director</i></p> <p>Paul John Favretto LL.B. <i>Independent Non-executive Director</i></p> <p>Hisami Sakai <i>Non-executive Director</i></p> <p>Naoto Sato <i>Alternate Director - Mr Hisami Sakai</i></p> |
| Secretary | <p>Harley Ronald Whitcombe B.Bus, CPA</p> |
| Principal registered office in Australia | <p>Level 11, 225 St Georges Terrace Perth, Western Australia 6000 Telephone No: (08) 9216 5200 Facsimile No: (08) 9216 5199</p> |
| Share registry | <p>Computershare Investor Services Pty Limited GPO Box D182 Perth, Western Australia 6000 Telephone No: (08) 9323 2000 Facsimile No: (08) 9323 2033</p> |
| Auditor | <p>Deloitte Touche Tohmatsu Chartered Accountants 123 St Georges Terrace Perth WA 6000</p> |
| Bankers | <p>HSBC Bank Australia Limited 190 St Georges Terrace Perth, Western Australia 6000</p> <p>Australia and New Zealand Banking Group Limited 77 St Georges Terrace Perth WA 6000</p> |
| Stock exchange listing | <p>Seafarms Group Limited shares are listed on the Australian Securities Exchange. Home Exchange - Perth.</p> |
| Website | <p>ASX Code - SFG</p> <p>www.seafarms.com.au</p> |

Directors' report

The Directors present their report together with the financial statements of Seafarms Group Limited consisting of Seafarms Group Limited and the entities it controlled at the end of or during the year ended 30 June 2020 (referred to hereafter as Seafarms or the Group).

Directors

The following persons were Directors of Seafarms Group Limited during the whole of the financial period and up to the date of this report:

Ian Norman Trahar
Harley Ronald Whitcombe
Dr Christopher David Mitchell
Paul John Favretto
Hisami Sakai
Naoto Sato

Principal activities

The Group is focused on developing its world-class Project Sea Dragon project.

Company financial performance

The overall financial performance over the 2020 financial year reflects the investment being made by the Group in pursuing its expansion in aquaculture operations.

Review of operations

The Group has reported a loss for the year after taxation of \$25,542,668 (2019: loss \$30,944,301).

A summary of consolidated revenues and results for the year by significant industry segments is set out below:

| | Segment revenues | | Segment results | |
|------------------------------|-------------------------|-------------|------------------------|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| Consolidated | \$ | \$ | \$ | \$ |
| Aquaculture | 27,715,767 | 24,268,583 | (22,772,670) | (18,216,237) |
| Carbon services | - | - | - | 595,824 |
| Other | 99,924 | 126,220 | (2,443,485) | (4,749,791) |
| Total segment revenue/result | 27,815,691 | 24,394,803 | (25,216,155) | (22,370,204) |

Review of operations (continued)

Comments on the operations and the results of those operations are set out below:

Queensland Operations

The Queensland operations are primarily intended to demonstrate the fundamental operating concepts for Project Sea Dragon and provide the platform for the core of the workforce required for the much larger greenfield project.

The Queensland operations are undertaken at three sites: Flying Fish Point (commercial hatchery), Cardwell (Farms 1 & 2 and Processing Plant) and Ingham (Farm 3).

Total production for the year was 1,366 tonnes (2019: 1,770 tonnes). Black Tiger Prawns constituted 88% of production with Banana prawns produced to provide fresh product throughout the year during seasonal periods when cooler temperatures do not favour Black Tiger Prawn production at these farms. As reported at the half year, the first half was impacted by lower growing temperatures and adjustments to the stocking schedule. The second half production was broadly in line with expectations taking into account two adjustments made late in the third quarter. First, with the onset of the Covid-19 pandemic a decision was taken to not stock some ponds for banana prawn production across winter. Second, part of the second-half year crop was held over into the current financial year in order to accelerate product acceptance in Europe (see below).

Production at Farm 3 was in line with expectations. The biological metrics on Farm 3 continue to demonstrate the feasibility of achieving key assumptions for Project Sea Dragon.

Biosecurity remains a core company focus. Farms 1 & 2 at Cardwell are some of Australia's oldest continuously operating prawn farms, accordingly the company decided to invest in the construction of incoming water settlement ponds at these farms. Nine production ponds totalling 11 hectares across both farms were converted to settlement ponds. This infrastructure upgrade is intended to improve on-farm water quality and reduce biosecurity risk. While grow out pond area has been decreased it is expected that the long term sustainable profit of the farms will improve through improved animal health.

Seafarms Queensland achieved Best Aquaculture Practices (BAP®) Four Star accreditation. This highly regarded international certification applies across Seafarms' production namely hatchery, farms, processing and feed supply. BAP standards are built on the four pillars of sustainability: food safety, environmental, social welfare and animal health and welfare. It is the only third-party aquaculture certification program that encompasses compliance with the Global Food Safety Initiative (GFSI), Global Social Compliance Programme (GSCP) and Global Sustainable Seafood Initiative (GSSI).

Seafarms program of Occupational Health and Safety management at its operations resulted in 80% of operating areas recording nil injuries or incidents for the year. Overall performance was adversely affected for the year (TRFIR was up 12%) due to a vehicle incident with third party liability

Market development

The declared strategy of using Seafarms Queensland operations to develop, trial and demonstrate concepts that, if successful, will be transferred to Project Sea Dragon also extends to market development.

In the domestic market the company successfully launched a 1kg frozen pack of black tiger prawns for consumers available through Woolworths. This is a further brand extension for the Crystal Bay® brand and complements the MAP fresh and cooked offerings as well as other formats sold 'under the glass' and through food service. To meet the growing consumer demand for fresh high quality prawns, Seafarms continues to align its production systems to provide a continuous supply of fresh product. It currently supplies fresh product 10 months of the year - significantly longer than other domestic producers.

The company delivered its first shipment of Queensland product to Nissui in Japan, a 1kg co-branded premium pack designed for the Japanese market. Seafarms continues to work closely with Nissui to refine export procedures, testing and quality.

Review of operations (continued)

Queensland Operations (continued)

Early in calendar year 2020, Seafarms announced that it has secured an off-take agreement for Project Sea Dragon into the European Union (EU) with Primstar BV a highly regarded Netherlands based seafood producer and distributor and part of the large multinational Cornelis Vrolijk group. The off-take agreement is for Project Sea Dragon and, subject to the terms of the agreement, is for approximately 15% of the product from the Project on an ongoing basis. The Agreement is for distribution across the EU and includes the objective of building a high value high quality jointly-branded product into these markets.

Project Sea Dragon

Project Sea Dragon, Seafarms' world-class integrated aquaculture project remains shovel-ready. Where required, key agreements such as the Project Development Agreement with the Northern Territory Government have been amended to accord with the current project timeline. Where necessary permits and approvals were extended.

Construction of the first step of the expansion of the Exmouth Founder Stock Facility proceeded as outlined in the company's previous Annual Report. The seawater intake was improved, and a series of site adjustments made to improve biosecurity and work-flow around the site. The discharge water treatment system has been upgraded as required by the operating licence. Three large additional sheds were constructed on site. The first of these was fully-fitted out with tanks, water recirculation systems and commissioned. Subsequent to the end of the Financial Year the company reported that it had produced the third generation (G3) of prawns within its Specific Pathogen Free (SPF) program. The experience being gained on the east coast reinforces the benefits of the SPF strategy for Project Sea Dragon.

At Bynoe Harbour all planned early works were completed prior to the commencement of the Wet Season. The site has been fenced, land cleared and access roads upgraded. The raw seawater settlement ponds and the outlet ponds were constructed, lined and fenced. The site is ready for construction which will commence upon financing.

Environmental and regulatory requirements were maintained however, minimal activity took place at Legune with the company pausing some minor activities as a result of border controls being implemented (see below).

The Indigenous Land Use Agreement with the Native Title Holders continues to be implemented.

The company continued to pursue all avenues to achieve financing of the project with the Project team working with Seafarms finance facilitators to put in place a further round of Due Diligence to confirm the first Step of the Project.

COVID-19

The first wave of the COVID-19 pandemic in Australia had a substantial impact on Easter sales such that eligible staff in Queensland were able to access the Job Keeper package.

As an early measure the board determined that the company should hedge against reduced domestic demand by not stocking some ponds for banana prawns in the second half of the year. This decision reduced total production by 42 tonnes.

Management undertook a comprehensive risk assessment with Marsh Insurance brokers and has utilised IR advice from external experts to develop a comprehensive COVID-19 response. This includes COVID-19 leave and health policies including monitoring, contingency plans, travel policies and a series of measures on-farm and in the processing plant to ensure social distancing.

The Board moved early to reduce risk in relation to COVID-19 and directed management to consider a range of cropping options. Given the highly unpredictable nature of the course of this pandemic it remains necessary to be able to retain as much flexibility in relation to production as practicable. The successful second half year crop means that the company is confident it can supply into the Christmas period.

Review of operations (continued)

Project Sea Dragon (continued)

Project Sea Dragon continued to progress despite the pandemic. Nonetheless on-ground adjustments were required. Border restrictions and control meant that unless full financing was achieved the logistics at Legune meant that mobilising to site to undertake relatively minor or early works would be inefficient. COVID-19 management plans enabling effective construction at the various sites have been drafted. The plans can be amended to incorporate the government requirements. They are intended to be lodged proximate to project finance being in place.

The timing for financing remains the material factor in the construction schedule.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial period were as follows.

Contributed equity increased by \$17,297,491 (2019: \$51,083,022) mainly as the result of the following:

- A debt equity conversion on 30 August 2019 after shareholder approval was received to issue 33,333,333 fully paid ordinary shares at \$0.09 per share to reduce the debt owed by the Company to Avatar Finance Pty Limited by \$3 million.
- Seafarms Group Ltd successfully completed a private share placement to professional and sophisticated investors, of 228,686,667 shares at \$0.03 per share, on 2 April 2020, raising \$6.86 million.
- After receiving shareholder approval, a private placement on 29 June 2020 of 187,979,999 shares at \$0.03 per share, to Avatar Industries Pty Ltd raising \$5.64 million.
- 208,333 options being exercised during the period amounting to \$20,208.
- The equity raising fees associated with the above amounted to \$0.5 million.
- The issue of a convertible security to Avatar Finance Pty Ltd, which gives Avatar Finance Pty Ltd the right to, at its election, convert amounts outstanding under the facility to shares at a price of \$0.09 per share up to the maximum conversion amount of \$12.2 million (135,555,555 shares).

Unlisted share options issued

No unlisted share options were issued during the year.

Matters subsequent to the end of the financial year

The Company has negotiated a \$7 million unsecured loan facility from an unrelated party on normal and usual terms. The loan is repayable on the earlier of any equity raising or 30 September 2021.

At the date of this report no other matter or circumstance has occurred subsequent to 30 June 2020 that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

Likely developments and expected results of operations

There has been no change in the strategic direction of the company which is to develop Project Sea Dragon as a scalable integrated prawn aquaculture project. Focus on the coming period is entirely directed towards financing.

Queensland operations will continue to be de-risked through initiatives such as the construction of settlement ponds and enhanced testing of broodstock.

Information on directors

Ian Norman Trahar B.Ec, MBA. *Executive Chairman (since 13 November 2001)*

Experience and expertise

Mr Trahar has a resource and finance background. He is a director and significant shareholder of Avatar Industries Pty Ltd, an unlisted private company. Ian is a member of the Australian Institute of Company Directors.

Other current directorships

None.

Former directorships in last 3 years

None.

Special responsibilities

Chair of the board.

Member of the audit committee.

Member of remuneration committee.

Interests in shares and options

675,871,221 shares in Seafarms Group Limited.

21,708,333 options in Seafarms Group Limited.

Harley Ronald Whitcombe B.Bus, CPA. *Executive Director. (since 13 November 2001)*

Experience and expertise

Mr Whitcombe has had many years' commercial and finance experience, providing company secretarial services to publicly listed companies.

Other current directorships

None.

Former directorships in last 3 years

None.

Special responsibilities

Chief Financial Officer & Company Secretary of Seafarms Group Limited.

Interests in shares and options

18,298,258 ordinary shares in Seafarms Group Limited.

250,000 options in Seafarms Group Limited.

Information on directors (continued)

Dr Christopher David Mitchell PhD, BSc (Hons), GAICD. *Executive Director. (since 27 July 2005)*

Experience and expertise

Dr Mitchell has a PhD in biology from the University of Melbourne, is a graduate of the Australian Institute of Company Directors and has a 20 year involvement in Australian and international climate change research. He is an Adjunct Professor at the School of Environmental Science Murdoch University and a member of the Community and Industry Advisory Board of the University of Melbourne's Office of Environmental Programs. Prior to joining the Group full time Dr Mitchell was Foundation Director of the Centre for Australian Weather and Climate Research, a partnership between CSIRO and the Bureau of Meteorology, and was CEO of the Cooperative Research Centre for Greenhouse Accounting. He chaired the Victorian Climate Change Minister's Reference Council on Climate Change Adaptation and was on the CSIRO's Environment and Natural Resources Sector Advisory Committee.

Other current directorships

None.

Former directorships in last 3 years

None.

Special responsibilities

Member of the audit committee.

Member of remuneration committee.

Interests in shares and options

11,327,268 ordinary shares in Seafarms Group Limited.

250,000 options in Seafarms Group Limited.

Paul John Favretto LL.B. *Independent Non-executive Director (since 18 December 2007)*

Experience and expertise

Mr Favretto was previously Managing Director of Avatar Industries Limited. Before that Mr Favretto worked for 20 years in the financial services industry holding senior management positions with Citibank Limited (1976 to 1985) and Bankers Trust Australia Limited (1986 to 1994).

Other current directorships

None.

Former directorships in last 3 years

None.

Special responsibilities

Chairman of remuneration committee.

Chairman of audit committee.

Interests in shares and options

37,916,666 ordinary shares in Seafarms Group Limited.

125,000 options in Seafarms Group Limited.

Information on directors (continued)

Hisami Sakai *Non-executive Director (since 7 August 2018)*

Experience and expertise

Mr Sakai has had nearly 40 years commercial experience with Nippon Suisan Kaisha Limited (Nissui), one of the biggest global seafood companies in Japan. He is currently Managing Executive Officer of Nissui. His responsibilities include being in charge of European business, Business Supervisor in Oceania and Asia and in charge of International Sales and Business Development Department.

Other current directorships

None.

Former directorships in last 3 years

None.

Special responsibilities

None

Interests in shares and options

None

Naoto Sato *Alternate Director for Hisami Sakai (since 7 August 2018)*

Experience and expertise

Mr Sato has nearly 14 years accounting and finance experience with Nissui and is currently a Manager at Nissui.

Other current directorships

None.

Former directorships in last 3 years

None.

Interests in shares and options

None

Company secretary

The Company secretary is Mr Harley Ronald Whitcombe B.Bus, CPA. Mr Whitcombe was appointed to the position of Company secretary on 13 November 2001.

Meetings of directors

The numbers of meetings of the Company's board of Directors and of each board committee held during the 12 months ended 30 June 2020, and the numbers of meetings attended by each Director were:

| | Full meetings of directors | | Meetings of committees | | | |
|-------------------------------|----------------------------|----|------------------------|---|---------------------------|---|
| | | | Audit | | Nomination & Remuneration | |
| | A | B | A | B | A | B |
| Ian Norman Trahar | 13 | 13 | 3 | 3 | 2 | 2 |
| Harley Ronald Whitcombe | 13 | 13 | - | - | - | - |
| Dr Christopher David Mitchell | 13 | 13 | 3 | 3 | 2 | 2 |
| Paul John Favretto | 13 | 13 | 3 | 3 | 2 | 2 |
| Hisami Sakai | 13 | 13 | - | - | - | - |

A = Number of meetings attended.

B = Number of meetings held during the time the Director held office, was invited to attend or was a member of the committee during the 12 months

Remuneration report

The Directors are pleased to present your Company's 2020 remuneration report which sets out remuneration information for Seafarms Group Limited's non-executive Directors, executive Directors and other key management personnel.

Non-executive director remuneration policy

The shareholders of Seafarms Group Limited on 24 February 2012 approved, for the purposes of the ASX Listing Rules and the Group's Constitution, an increase in the maximum aggregate directors' fees to \$400,000, with such fees to be allocated to the directors as the board of directors may determine.

The Remuneration Committee determines the remuneration of all non-executive directors, none of whom have service contracts with the company.

Executive remuneration policy and framework

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market practice for delivery of reward. The board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitive and reasonable, enabling the company to attract and retain key talent;
- aligned to the company's strategic and business objectives and the creation of shareholder value;
- performance linkage / alignment of executive compensation;
- transparent; and
- acceptable to shareholders.

Alignment to shareholders' interests:

- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience; and
- provides recognition for contribution.

Remuneration report (continued)

Executive remuneration policy and framework (continued)

The board has established a remuneration committee which makes recommendations to the board on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non executive directors. The Corporate Governance Statement provides further information on the role of this committee.

The executive remuneration and reward framework has several components:

- base pay and benefits, including superannuation;
- short-term performance incentives; and
- long-term incentives through participation in the "Seafarms Group's Employee Incentive Plan" as approved by the shareholders at the AGMs held on 1 February 2016 and 25 November 2016.

The combination of these comprises an executive's total remuneration. The Group intends to conduct a review of the incentive plans during the year ending 30 June 2021 to ensure continued alignment with financial and strategic objectives.

(a) Elements of remuneration

Base pay and benefits

Executives receive their base pay and benefits structured as a total employment cost (TEC) package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are guaranteed base pay increases included in all of the executives' contracts.

Short-term incentives

If the Group achieves a pre-determined profit target set by the remuneration committee, a short-term incentive (STI) pool is available to executives and other eligible participants. Cash incentives (bonuses) are payable on 15 August each year. Using a profit target ensures variable reward is only available when value has been created for shareholders and when profit is consistent with the business plan. The distribution of the STI pool is at the discretion of the Executive Chairman.

Long-term incentives

Long-term incentives may be provided to directors and staff via the Seafarms Group Employee Incentive Plan as approved by shareholders at the AGMs held on 1 February 2016 and 25 November 2016.

The Seafarms Group Employee Incentive Plan is designed to provide long-term incentives ("LTI") for directors and staff to deliver long-term shareholder returns. Under the plan, participants may be granted unlisted Share Options and/or Performance Rights which only vest if certain performance conditions are met and the directors and staff are still employed by the Group at the end of the vesting period. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

(b) Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124 *Related Party Disclosures*) of Seafarms Group Limited and the Group are set out in the following tables.

The key management personnel of Seafarms Group Limited includes the directors as listed below:

- Ian Norman Trahar (Chairman and Executive Director)
- Harley Ronald Whitcombe (Executive Director and Company Secretary)
- Dr Christopher David Mitchell (Executive Director)

Remuneration report (continued)

(b) Details of remuneration (continued)

Amounts of remuneration (continued)

- Paul John Favretto (Non-executive Director)
- Hisami Sakai (Non-executive Director)

In addition to the directors the following executives that report directly to the Board are key management personnel:

- Dallas Donovan (Chief Operating Officer, Seafarms Operations Limited)
- Rodney Dyer (Project Director, Seafarms Group Limited)

The following table shows details of the remuneration expense recognised for the Group's directors and executive key management personnel for the current and previous financial year measured in accordance with the requirements of the accounting standards.

Remuneration report (continued)

(b) *Details of remuneration (continued)*

| Name | Short-term employee benefits | | Post-em | Long- | Share-based | | Total |
|--|------------------------------|-----------------------|-----------------|--------------------|----------------------|--------------------------|------------------|
| | Cash salary and fees | Cash bonus | employment | term | payments | | |
| | | | benefits | benefits | Performance | | |
| | | Non-monetary benefits | Super-annuation | Long service leave | Termination benefits | rights / Share options** | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Year ended 30 June 2020 | | | | | | | |
| Non-executive Directors | | | | | | | |
| P Favretto | 35,200 | - | - | 24,085 | - | - | 59,285 |
| H Sakai | - | - | - | - | - | - | - |
| Sub-total non-executive directors | 35,200 | - | - | 24,085 | - | - | 59,285 |
| Executive Directors | | | | | | | |
| I Trahar | 240,450 | - | - | 37,845 | 4,388 | - | 282,683 |
| H Whitcombe | 270,811 | - | - | 35,727 | 4,942 | - | 311,480 |
| C Mitchell | 294,398 | - | 17,817 | 37,968 | 5,373 | - | 355,556 |
| Other key management personnel (Group) | | | | | | | |
| D Donovan | 278,539 | - | - | 26,461 | 5,083 | - | 310,083 |
| R Dyer | 310,502 | - | - | 29,498 | 1,700 | - | 341,700 |
| Total key management personnel compensation (Group) | 1,429,900 | - | 17,817 | 191,584 | 21,486 | - | 1,660,787 |
| Year ended 30 June 2019 | | | | | | | |
| | | | | | | | |
| Non-executive Directors | | | | | | | |
| P Favretto | 35,200 | - | - | 23,144 | - | - | 58,344 |
| Sub-total non-executive directors | 35,200 | - | - | 23,144 | - | - | 58,344 |
| Executive Directors | | | | | | | |
| I Trahar | 240,450 | - | - | 37,843 | 4,378 | - | 282,671 |
| H Whitcombe | 270,811 | - | - | 35,727 | 4,931 | - | 311,469 |
| C Mitchell | 294,398 | - | 19,643 | 37,968 | 5,360 | - | 357,369 |
| Other key management personnel (Group) | | | | | | | |
| D Donovan | 278,538 | - | - | 26,461 | 5,072 | 171,542 | 481,613 |
| R Dyer | 301,407 | - | - | 28,634 | 1,131 | 108,890 | 440,062 |
| A Soanes* | 11,741 | - | 17,424 | 1,115 | 218 | - | 30,498 |
| J Bulinski* | 13,602 | - | - | 1,292 | 252 | - | 15,146 |
| Total key management personnel compensation (Group) | 1,446,147 | - | 37,067 | 192,184 | 21,342 | - | 1,977,172 |

* The carbon entities were demerged on 23 July 2018, the amounts included are for payments made during the period prior to the demerger date (i.e. 1 to 23 July 2018).

** The estimation of the fair value of share-based payment awards requires judgement concerning the appropriate valuation methodology. The choice of valuation methodology is determined by the structure of the awards, particularly the vesting conditions. A Black scholes valuation methodology was used to determine the value. Further details on the valuation assumptions and individual scheme awards are provided in note 41 of the financial statements.

Remuneration report (continued)

No share based payments expenses were incurred in the current financial year.

Details of the awards for each scheme, the status of those awards and share based payment expense for the KMP's in the prior year is provided in the table below.

| Name / Scheme | Allocation date | Vesting date | Exercise price per security | Balance of unvested equity awards as at 1 July 2018 | Granted | Vested / Exercised in FY19 | Balance of unvested equity awards as at 30 June 2019 | Fair value per security at grant date | Fair value at grant date | Share based payments expenses FY19 |
|---------------------|--------------------------------------|--------------------------------------|-----------------------------------|---|---------------------|----------------------------------|--|---|-----------------------------|---|
| | | | Cents | Number of rights | Number of rights | Number of rights | Cents | \$ | \$ | |
| Unlisted options | 22 August 2017 to 19 January 2018 | 22 August 2017 to 31 October 2018 | 10 | 15,000,000 | - | 15,000,000 | - | 2.2 | 341,010 | 280,432 |
| TOTAL | | | | 15,000,000 | - | 15,000,000 | - | | 341,010 | 280,432 |

Details in relation to the KMP long term incentives are set out in note 29 to the financial statements.

Remuneration report (continued)

(c) Service agreements

Remuneration has been determined after the Remuneration Committee, for executive directors, and the Board, for group executives, has investigated current market terms and conditions.

The Remuneration Committee will continue to revise the remuneration practices and develop policy for future appointments and determine performance-based salary increases and bonuses, bearing in mind the size of the Group and the need to ensure quality staff are employed and retained.

I Trahar, H Whitcombe, Executive Directors:

- Term of agreement - no fixed term;
- Base salary which includes superannuation is reviewed annually (minimum increase of CPI);
- Employer may terminate employment on giving twelve months notice and in the event of early termination at the option of the employer, by payment of a termination benefit equal to 100% of base salary for the unexpired period of notice. The employee may terminate on giving three months notice.
- Eligible to participate in the "Seafarms Group Employee Incentive Plan" as approved by the shareholders at the AGMs held on 1 February 2016 and 25 November 2016.

C Mitchell, Managing Director, Project Sea Dragon:

- Term of agreement - no fixed term;
- Base salary which includes superannuation is reviewed annually (minimum increase of CPI);
- Employer may terminate employment on giving six months notice and in the event of early termination at the option of the employer, by payment of a termination benefit equal to six months of base salary for the unexpired period of notice;
- In the event of redundancy, six months base salary is to be paid plus payment equivalent to three weeks of base salary for each completed year of service;
- Salary-packaged motor vehicle is included.
- Eligible to participate in the "Seafarms Group Employee Incentive Plan" as approved by the shareholders at the AGMs held on 1 February 2016 and 25 November 2016.

D Donovan Chief Operating Officer, Seafarms Operations Limited

- Term of agreement - no fixed term;
- Base salary which includes superannuation is reviewed annually (minimum increase of CPI);
- Employer or employee may terminate employment on giving one months notice;
- Eligible to participate in the "Seafarms Group Employee Incentive Plan" as approved by the shareholders at the AGMs held on 1 February 2016 and 25 November 2016.

R Dyer Project Director, Seafarms Group Limited

- Term of agreement - no fixed term;
- Base salary which includes superannuation is reviewed annually (any adjustment will be at the Company's discretion);
- Employer or employee may terminate employment on giving one months notice;
- Eligible to participate in the "Seafarms Group Employee Incentive Plan" as approved by the shareholders at the AGMs held on 1 February 2016 and 25 November 2016.

Remuneration report (continued)

(d) *Additional statutory information*

(i) *Remuneration breakdown*

The following table shows the relative proportions of remuneration that are linked to performance and those that are fixed, based on the amounts disclosed as statutory remuneration expense on page 14 above:

Consolidated

| Name | Fixed remuneration | | At risk - STI | | At risk - LTI | |
|--|--------------------|-----------|---------------|-----------|---------------|-----------|
| | 2020 % | 2019 % | 2020 % | 2019 % | 2020 % | 2019 % |
| Executive Directors of Seafarms Group Limited | | | | | | |
| I Trahar | 100% | 100% | -% | -% | -% | -% |
| H Whitcombe | 100% | 100% | -% | -% | -% | -% |
| C Mitchell | 100% | 100% | -% | -% | -% | -% |
| Other key management personnel of the group | | | | | | |
| A Soanes* | -% | 100% | -% | -% | -% | -% |
| R Dyer | 100% | 100% | -% | -% | -% | -% |
| J Bulinski* | -% | 100% | -% | -% | -% | -% |
| D Donovan | 100% | 100% | -% | -% | -% | -% |

* The carbon entities were demerged on 23 July 2018, the details included are for payments made during the period prior to the demerger date (i.e. 1 to 23 July 2018).

Cash bonuses are at the discretion of the remuneration committee and do not form part of the remuneration breakdown shown above.

(ii) *Share-based compensation*

Shares provided on exercise of options

No performance rights were issued to directors or staff during the current financial year (2019: NIL).

The unlisted options issued during the 2018 financial year (15,000,000), which had no performance conditions attached, vested last financial year and remained unexercised as at 30 June 2020.

The table below sets out summary information about the Group's earnings and movements in shareholder wealth for the last five financial periods:

Remuneration report (continued)

(d) *Additional statutory information (continued)*

(ii) *Share-based compensation (continued)*

Shares provided on exercise of options (continued)

| | Year ended 30 June 2020 | Year ended 30 June 2019 | Year ended 30 June 2018 | Year ended 30 June 2017 | 9 months ended 30 June 2016 |
|------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|--|
| | \$ | \$ | \$ | \$ | \$ |
| Revenue | 27,815,691 | 24,394,803 | 25,901,587 | 28,544,808 | 23,529,287 |
| Net (loss) before tax | (25,542,668) | (30,944,301) | (20,140,749) | (11,312,176) | (18,735,523) |
| Net (loss) after tax | (25,542,668) | (30,944,301) | (19,947,283) | (19,775,462) | (18,360,319) |
| Share price at start of year | 9c | 8c | 6c | 7c | 6c |
| Share price at end of year | 5c | 9c | 8c | 6c | 7c |
| Dividend | - | - | - | - | - |
| Basic (loss) per share | (1.24)c | (1.82)c | (1.42)c | (1.75)c | (2.03)c |
| Diluted (loss) per share | (1.24)c | (1.82)c | (1.42)c | (1.75)c | (2.03)c |

At the 2015 Annual General Meeting of Seafarms Group Limited, held on 1 February 2016, and again at the 2016 Annual General meeting of shareholders of Seafarms Group Limited, held on 25 November 2016, shareholders approved the "Seafarms Group Employee Incentive Plan" under which the Board may grant equity securities (including performance rights and options) to eligible participants under the plan, which may, subject to the discretion of the Board, include executive directors or key management personnel.

(iii) *Voting and comments made at the company's Annual General Meeting*

Seafarms Group Limited received more than 98% of "yes" votes on its remuneration report for the 2019 financial period. The company did not receive any specific feedback at the AGM or throughout the period on its remuneration practices.

Remuneration report (continued)

(e) *Equity instrument disclosures relating to key management personnel*

(i) *Share holdings*

The numbers of shares in the Company held during the financial period by each Director of Seafarms Group Limited and other key management personnel of the Group, including their personally related parties, are set out below.

| Consolidated 2020 | Balance at the start of the period | Received during the year on the exercise of options | Received on vesting of rights to deferred shares | Other changes during the period* | Balance at end of the period |
|--|---|--|---|---|---|
| Name | | | | | |
| Directors of Seafarms Group Limited | | | | | |
| Ordinary shares | | | | | |
| I N Trahar | 454,557,889 | - | - | 221,313,332 | 675,871,221 |
| H R Whitcombe | 18,298,258 | - | - | - | 18,298,258 |
| C D Mitchell | 11,327,268 | - | - | - | 11,327,268 |
| P J Favretto | 37,916,666 | - | - | - | 37,916,666 |
| Other key management personnel of the Group | | | | | |
| Ordinary shares | | | | | |
| R Dyer | - | - | - | - | - |
| D Donovan | - | - | - | - | - |

* A debt equity conversion on 30 August 2019, after shareholder approval was received to issue 33,333,333 fully paid ordinary shares at \$0.09 per share to reduce the debt owed by the Company to Avatar Finance Pty Ltd by \$3 million. After receiving shareholder approval, a private placement on 29 June 2020 of 187,979,999 shares at \$0.03 per share, to Avatar Industries Pty Ltd raising \$5.64 million.

| Consolidated 2019 | Balance at the start of the year | Received during the year on the exercise of options | Received on vesting of rights to deferred shares | Other changes during the year | Balance at end of the year |
|--|---|--|---|--|---|
| Name | | | | | |
| Directors of Seafarms Group Limited | | | | | |
| Ordinary shares | | | | | |
| I N Trahar | 453,391,227 | - | - | 1,166,662 | 454,557,889 |
| H R Whitcombe | 18,048,259 | - | - | 249,999 | 18,298,258 |
| C D Mitchell | 10,993,936 | - | - | 333,332 | 11,327,268 |
| P J Favretto | 37,750,000 | - | - | 166,666 | 37,916,666 |
| Other key management personnel of the Group | | | | | |
| Ordinary shares | | | | | |
| A Soanes* | 1,672,841 | - | - | (1,672,841) | - |
| J Bulinski* | 931,525 | - | - | (931,525) | - |
| R Dyer | - | - | - | - | - |
| D Donovan | - | - | - | - | - |

* The carbon entities were demerged on 23 July 2018, the amounts included are for shareholdings during the period prior to the demerger date (i.e. 1 to 23 July 2018).

Loans to key management personnel

There are no loans made to directors of Seafarms Group Limited and other key management personnel.

Shares under option

There are 15,000,000 unissued ordinary shares of Seafarms Group Limited under unlisted options issued to key management personnel at the date of this report.

The company has in issue 30,150,190 convertible preference shares that have not been exercised. For further information relating to the convertible preference shares, please refer to note 29(d).

End of Remuneration Report

Insurance of officers

(a) Insurance of officers

During the financial year, the Group paid a premium in respect of a contract insuring the directors of the company (as named above), the company secretary, Mr H R Whitcombe, and all executive officers of the company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Group has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of amounts paid or payable to the auditor for non-audit services provided during the year are outlined at note 30 to the financial statements.

Dividends - Seafarms Group Limited

The Directors of Seafarms Group Limited do not recommend the payment of a dividend for the year ending 30 June 2020 (2019: Nil).

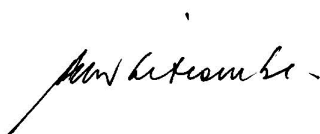
Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23.

Auditor

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2) of the *Corporations Act 2001*.



Harley Ronald Whitcombe
Perth
29 September 2020

The Board of Directors
Seafarms Group Limited
Level 11, 225 St Georges Terrace
Perth, WA 6000

29 September 2020

Dear Board Members

Auditor's Independence Declaration to Seafarms Group Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Seafarms Group Limited.

As lead audit partner for the audit of the financial report of Seafarms Group Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Peter Rupp
Partner
Chartered Accountants

Corporate governance statement

Seafarms Group Limited (Company) and its controlled entities (together, the Group) are committed to achieving and demonstrating the highest standards of corporate governance. The Group has reviewed its corporate governance practices against the ASX Corporate Governance Principles and Recommendations (3rd Edition) as published by ASX Corporate Governance Council.

The Group's Corporate Governance Statement for the year ended 30 June 2020 was approved by the Board on 28 June 2020.

A description of the Group's current corporate governance practices is set out in the Group's current Corporate Governance Statement and the corporate governance policies adopted by the Board which can be viewed on the Company's website: (<http://seafarmsgroup.com.au/corporate-governance/>).

Seafarms Group Limited ABN 50 009 317 846

Financial statements - 30 June 2020

| | |
|--|----|
| Financial statements | |
| Consolidated statement of profit or loss | 26 |
| Consolidated statement of comprehensive income | 27 |
| Consolidated statement of financial position | 28 |
| Consolidated statement of changes in equity | 29 |
| Consolidated statement of cash flows | 31 |
| Notes to the financial statements | 32 |
| Directors' declaration | 84 |
| Independent auditor's report to the members | 85 |

These financial statements are the consolidated financial statements of the consolidated entity consisting of Seafarms Group Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Registered postal address is:

PO Box 7312
Cloisters Square WA 6850

Seafarms Group Limited is a Company limited by shares, incorporated and domiciled in Australia.

Its registered office is:

Level 11, 225 St Georges Terrace
Perth, Western Australia 6000

Its principal place of business is:

Seafarms Group Limited
Level 11, 225 St Georges Terrace
Perth Western Australia 6000

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on page 6, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 29 September 2020.

For queries in relation to our reporting please call 08 9216 5200 or e-mail questions@seafarms.com.au.

All press releases, financial reports and other information are available at our Shareholders' Centre on our website: www.seafarms.com.au.

Seafarms Group Limited
Consolidated statement of profit or loss
For the year ended 30 June 2020

| | | Consolidated | |
|---|-------|---------------------|----------------|
| | | 30 June | 30 June |
| | | 2020 | 2019 |
| | Notes | \$ | \$ |
| Revenue from continuing operations | 7 | 27,815,691 | 24,394,803 |
| Other gains/(losses) | 8 | 781,354 | (12,349) |
| Finance costs | | (4,988,476) | (2,720,196) |
| Fair value adjustment of biological assets | | (127,187) | (1,485,164) |
| Net realisable value adjustment of finished goods | | 872,015 | 531,275 |
| Cost of Goods Sold | 9 | (29,557,312) | (24,464,571) |
| Employee benefits expense | 9 | (5,128,772) | (6,417,104) |
| Consulting expense | | (2,913,406) | (4,634,729) |
| Travel | | (1,146,947) | (1,835,123) |
| Rent | | (56,075) | (278,001) |
| Legal fees | | (1,180,269) | (1,553,965) |
| Depreciation and amortisation expense | 9 | (4,095,758) | (2,334,282) |
| Marketing | | (135,465) | (173,358) |
| Insurance | | (891,239) | (339,268) |
| Founder Stock Centre | | (1,592,042) | (3,355,144) |
| Impairment of intangible assets | 19 | - | (1,207,187) |
| Research and development | 9 | (1,526,911) | (3,900,021) |
| Other expenses | | (1,671,869) | (1,755,741) |
| (Loss) before income tax | | (25,542,668) | (31,540,125) |
| Income tax benefit | 10 | - | - |
| (Loss) from continuing operations | | (25,542,668) | (31,540,125) |
| Profit from discontinued operation | 5(b) | - | 595,824 |
| (Loss) for the year | | (25,542,668) | (30,944,301) |

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Seafarms Group Limited
Consolidated statement of comprehensive income
For the year ended 30 June 2020

| | Consolidated | |
|---|---------------------|---------------------|
| | 30 June | 30 June |
| | 2020 | 2019 |
| | \$ | \$ |
| (Loss) for the year | (25,542,668) | (30,944,301) |
| Other comprehensive (loss) for the year net of tax | - | - |
| Total comprehensive (loss) for the year is attributable to: Owners of Seafarms Group Limited | (25,542,668) | (30,944,301) |
| | Cents | Cents |
| (Loss) per share from continuing operations attributable to the ordinary equity holders of the Company: | | |
| Basic (loss) per share | 37 | (1.2) |
| Diluted (loss) per share | 37 | (1.9) |
| (Loss) per share from continuing and discontinued operations attributable to the ordinary equity holders of the Company: | | |
| Basic (loss) per share | 37 | (1.2) |
| Diluted (loss) per share | 37 | (1.8) |

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Seafarms Group Limited
Consolidated statement of financial position
As at 30 June 2020

| | | Consolidated | |
|--------------------------------------|--------------|--------------------------------|--------------------------------|
| | Notes | 30 June 2020 \$ | 30 June 2019 \$ |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 11 | 6,466,055 | 16,302,589 |
| Trade and other receivables | 12 | 2,634,029 | 2,516,486 |
| Inventories | 13 | 10,684,684 | 12,598,297 |
| Other current assets | 14 | 1,294,230 | 912,605 |
| Biological assets | 15 | 2,683,903 | 3,590,388 |
| Total current assets | | <u>23,762,901</u> | <u>35,920,365</u> |
| Non-current assets | | | |
| Property, plant and equipment | 16 | 24,112,699 | 44,153,896 |
| Right-of-use assets | 17 | 21,811,204 | - |
| Other non-current assets | 20 | 5,000,000 | 5,000,000 |
| Total non-current assets | | <u>50,923,903</u> | <u>49,153,896</u> |
| Total assets | | <u>74,686,804</u> | <u>85,074,261</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 21 | 6,897,607 | 7,929,886 |
| Borrowings | 22 | 632,599 | 380,453 |
| Lease liabilities | 22 | 2,125,372 | - |
| Provisions | 23 | 1,459,130 | 1,219,639 |
| Total current liabilities | | <u>11,114,708</u> | <u>9,529,978</u> |
| Non-current liabilities | | | |
| Borrowings | 24, 22 | 14,337,490 | 36,222,388 |
| Lease liabilities | 22 | 18,646,747 | - |
| Provisions | 25 | 165,582 | 109,440 |
| Total non-current liabilities | | <u>33,149,819</u> | <u>36,331,828</u> |
| Total liabilities | | <u>44,264,527</u> | <u>45,861,806</u> |
| Net assets | | <u>30,422,277</u> | <u>39,212,455</u> |
| EQUITY | | | |
| Contributed equity | 26 | 172,054,845 | 154,757,354 |
| Other reserves | 28(a) | 12,017,437 | 12,017,437 |
| Retained earnings | | (153,650,005) | (127,562,336) |
| Total equity | | <u>30,422,277</u> | <u>39,212,455</u> |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Seafarms Group Limited
Consolidated statement of changes in equity
For the year ended 30 June 2020

| Consolidated | Notes | Issued capital \$ | Other equity \$ | Options premium reserve \$ | Financial assets revaluation reserve \$ | Share- based payments reserve \$ | Accumulated losses \$ | Total equity \$ |
|--|-------|-------------------------|-----------------------|-------------------------------------|---|--|-----------------------------|-----------------------|
| Balance at 1 July 2018 | | 103,674,332 | - | 1,670,705 | (24,740) | 4,516,569 | (93,994,063) | 15,842,803 |
| Loss for the year | | - | - | - | - | - | (30,944,301) | (30,944,301) |
| Total comprehensive loss for the period | | - | - | - | - | - | (30,944,301) | (30,944,301) |
| Transactions with owners in their capacity as owners: | | | | | | | | |
| Contributions of equity, net of transaction costs and tax | 26 | 51,083,022 | - | - | - | - | - | 51,083,022 |
| Recognition of share based payments | 38 | - | - | - | - | 5,854,903 | - | 5,854,903 |
| De-merger of Carbon Entities | 5 | - | - | - | - | - | (2,623,972) | (2,623,972) |
| | | 51,083,022 | - | - | - | 5,854,903 | (2,623,972) | 54,313,953 |
| Balance at 30 June 2019 | | 154,757,354 | - | 1,670,705 | (24,740) | 10,371,472 | (127,562,336) | 39,212,455 |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Seafarms Group Limited
Consolidated statement of changes in equity
For the year ended 30 June 2020
(continued)

| Consolidated Notes | Issued capital \$ | Other Equity \$ | Options premium reserve \$ | Financial assets revaluation reserve \$ | Share-based payments reserve \$ | Accumulated losses \$ | Total equity \$ | |
|---|----------------------|--------------------|-------------------------------|--|------------------------------------|--------------------------|----------------------|-------------------|
| Balance at 1 July 2019 | 154,757,354 | - | 1,670,705 | (24,740) | 10,371,472 | (127,562,336) | 39,212,455 | |
| Loss for the year | - | - | - | - | - | (25,542,668) | (25,542,668) | |
| Total comprehensive loss for the period | - | - | - | - | - | (25,542,668) | (25,542,668) | |
| Transactions with owners in their capacity as owners: | | | | | | | | |
| Contributions of equity & debt equity conversion net of transaction costs & tax | 26 | 15,036,491 | - | - | - | - | 15,036,491 | |
| Capital distribution* | | - | - | - | - | (545,001) | (545,001) | |
| Value of conversion rights on convertible loan | 32 | - | 2,261,000 | - | - | - | 2,261,000 | |
| | | 15,036,491 | 2,261,000 | - | - | (545,001) | 16,752,490 | |
| Balance at 30 June 2020 | | 169,793,845 | 2,261,000 | 1,670,705 | (24,740) | 10,371,472 | (153,650,005) | 30,422,277 |

* The amount shown for other equity is the value of the conversion rights relating to the Avatar Finance Pty Ltd convertible loan. The fair value of equity was determined using an option price model. This is recognised and included in shareholder's equity. The amount recorded as capital distribution represents the difference between the face value of the loan and the fair value of the convertible loan instrument (including the loan and the conversion right). Refer note 22 and note 32 for further detail.

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Seafarms Group Limited
Consolidated statement of cash flows
For the year ended 30 June 2020

| | | Consolidated | |
|---|---|---------------------|----------------|
| | | 30 June | 30 June |
| | | 2020 | 2019 |
| Notes | | \$ | \$ |
| Cash flows from operating activities | | | |
| | Receipts from customers (inclusive of goods and services tax) | 27,316,523 | 25,972,005 |
| | Payments to suppliers and employees (inclusive of goods and services tax) | (42,190,671) | (53,314,148) |
| | | (14,874,148) | (27,342,143) |
| | Interest paid | (2,134,254) | (2,720,563) |
| | Net cash outflow from operating activities | (17,008,402) | (30,062,706) |
| 36 | | | |
| Cash flows from investing activities | | | |
| | Purchase of property, plant and equipment | (4,294,684) | (5,006,647) |
| | Interest received | - | 111,220 |
| | Net cash outflow from investing activities | (4,294,684) | (4,895,427) |
| Cash flows from financing activities | | | |
| | Proceeds from issues of shares and other equity securities | 12,036,853 | 51,083,022 |
| | Proceeds from borrowings | 252,147 | - |
| | Lease payments | (822,448) | (7,455) |
| | Bank loan payments | - | (2,825,680) |
| | Vendor finance payments | - | (28,768) |
| | Proceeds from related parties | 500,000 | 5,600,000 |
| | Payments to related parties | (500,000) | (6,700,000) |
| | Net cash inflow from financing activities | 11,466,552 | 47,121,119 |
| Net (decrease)/increase in cash and cash equivalents | | | |
| | | (9,836,534) | 12,162,986 |
| | Cash and cash equivalents at the beginning of the period | 16,302,589 | 4,139,603 |
| | Cash and cash equivalents at end of period | 6,466,055 | 16,302,589 |
| 11 | | | |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Contents of the notes to the financial statements

| | | Page |
|----|---|------|
| 1 | Summary of significant accounting policies | 33 |
| 2 | Changes in accounting policies | 43 |
| 3 | Financial risk management | 45 |
| 4 | Critical accounting estimates and judgements | 49 |
| 5 | Discontinued operation | 51 |
| 6 | Segment information | 52 |
| 7 | Revenue | 55 |
| 8 | Other gains/(losses) | 55 |
| 9 | Expenses | 56 |
| 10 | Income tax expense | 57 |
| 11 | Current assets - Cash and cash equivalents | 58 |
| 12 | Current assets - Trade and other receivables | 59 |
| 13 | Current assets - Inventories | 60 |
| 14 | Current assets - Other current assets | 60 |
| 15 | Current assets - Biological assets | 61 |
| 16 | Non-current assets - Property, plant and equipment | 62 |
| 17 | Non-current assets - Right-of-use assets | 65 |
| 18 | Non-current assets - Deferred tax assets | 66 |
| 19 | Non-current assets - Intangible assets | 67 |
| 20 | Other non-current assets | 68 |
| 21 | Current liabilities - Trade and other payables | 68 |
| 22 | Current liabilities - Borrowings | 69 |
| 23 | Current liabilities - Provisions | 70 |
| 24 | Non-current liabilities - Borrowings | 70 |
| 25 | Non-current liabilities - Provisions | 71 |
| 26 | Issued capital | 72 |
| 27 | Issuances, repurchases and repayments of equity securities | 73 |
| 28 | Reserves | 73 |
| 29 | Key management personnel disclosures | 74 |
| 30 | Remuneration of auditors | 75 |
| 31 | Commitments | 75 |
| 32 | Related party transactions | 75 |
| 33 | Subsidiaries and transactions with non-controlling interests | 76 |
| 34 | Deed of cross guarantee | 76 |
| 35 | Events occurring after the reporting period | 78 |
| 36 | Reconciliation of loss for the year to net cash flows from operating activities | 79 |
| 37 | Earnings per share | 79 |
| 38 | Share-based payments | 80 |
| 39 | Contingent liabilities | 82 |
| 40 | Parent entity financial information | 82 |

1 Summary of significant accounting policies

(a) Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board (AASB), and comply with the other requirements of the law.

Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board (IASB). Consequently, this financial report has been prepared in accordance with and complies with IFRS as issued by IASB.

(b) Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments as well as biological assets. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 or value in use in AASB 136.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Application of new and revised accounting standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current financial year.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

(i) AASB 16 Leases

The Group has adopted AASB 16 retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The comparative information continues to be presented under AASB 117 *Leases*. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statements of financial position on 1 July 2019. Details of the impact of adopting this standard can be seen in Note 2.

1 Summary of significant accounting policies (continued)

Impact of changes to Australian Accounting Standards and Interpretations

(i) Other new accounting standards

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

- AASB 2014-10 *Amendments to Australian Accounting Standards: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture*;
- AASB 2017-1 *Amendments to Australian Accounting Standards - Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments*;
- AASB Interpretation 22 *Foreign Currency Transactions and Advance Consideration*; and
- AASB Interpretation 23 *Uncertainty Over Income Tax Treatments*, AASB 2017-4 *Amendments to Australian Accounting Standards - Uncertainty over Income Tax Treatments*.

(c) Going concern

These financial statements have been prepared on the going concern basis of accounting, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business.

For the year ended 30 June 2020, the Group incurred an operating cash outflow of \$17,008,402 (2019: \$30,062,706) and a net loss for the year of \$25,542,668 (2019: \$30,944,301). At 30 June 2020, the Group had net current assets of \$12,648,193 (2019: \$26,390,387), including \$6,466,055 cash and cash equivalents (2019: \$16,302,589).

The Group continually monitors cash flow requirements to ensure that it has sufficient funds to meet its contractual commitments and non discretionary corporate overheads and adjusts its spending accordingly. Of particular note the Group has discretion to defer non-committed expenditure on the development of Project Sea Dragon until such time as it achieves financial close on planned fund-raising activities. As such the Group is able to ensure that capital commitments are not entered into until there is certainty over the related funding. The Group is currently in an advanced stage of the project funding process.

The Directors believe that the Group's existing cash balances and available facilities, combined with expected cash inflows from the Group's operations, will be sufficient to enable the Group to realise its assets and settle its liabilities and commitments in the normal course of business at the amounts stated in the financial report.

(d) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Seafarms Group Limited ('Company' or 'Parent entity') as at 30 June 2020 and the results of all subsidiaries for the year then ended. Seafarms Group Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1(h)).

1 Summary of significant accounting policies (continued)

(i) Subsidiaries (continued)

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the separate financial statements of Seafarms Group Limited.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Seafarms Group Limited.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

(e) Revenue recognition

The Group sells fresh and frozen prawns to customers. A sale is recognised when control of the product has transferred, being when the product is delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the product has been shipped to the location specified by the customer and the customer accepts the product. Following delivery the customer has full discretion over the manner of distribution and price to sell the goods and bear the risk in relation to the goods.

No element of financing is present in the pricing arrangement. Settlement terms range from cash-on-delivery to credit terms from 7 to 30 days. Terms reflect negotiations with customers, policies, procedures and controls as it relates to the customer credit risk.

A receivable is recognised by the Company when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

1 Summary of significant accounting policies (continued)

Under the Group's standard contract terms, customers have a right of return where the goods do not meet required specification. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. At the same time, the Group has a right to recover the product when customers exercise their right of return so consequently recognises a right to returned goods asset and a corresponding adjustment to cost of sales. The Group uses its accumulated historical experience to estimate the number of returns using the expected value method. It is considered highly probable that a significant reversal in the cumulative revenue recognised will not occur given the consistent level of returns over previous years.

The Group provides rebate and early payment discounts to customers that they would not receive without purchasing the specified volume of product or making early payment. The provision of discounts to the customers varies the consideration receivable from the customers and consequently the revenue recognised. The Group determines the most likely amount receivable from the customer by using accumulated historical experience of volume purchased and payment history.

(f) Government grants

Grants from the government are recognised at their fair value where there is a reasonable likelihood that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

Deferral and presentation of government grants

Government grants are deducted in calculating the carrying amount of the related grant asset. The grant is recognised in profit or loss over the life of a depreciable asset by way of a reduced depreciation expense.

(g) Income tax

The income tax expense or benefit for the period is the tax payable or recoverable on the current period's taxable income based on the income tax rate that has been enacted or substantially enacted by the balance sheet date adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1 Summary of significant accounting policies (continued)

(i) Tax consolidation legislation

Seafarms Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Seafarms Group Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Seafarms Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in note 10.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Company recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Transaction costs associated with business combinations (excluding the costs of issuing equity instruments or raising new borrowings) are expensed as incurred.

(i) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated balance sheet.

(j) Inventories

Agricultural produce harvested from the Group's biological assets is measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying AASB 102 *Inventories*.

1 Summary of significant accounting policies (continued)

(j) Inventories (continued)

Inventory is stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(k) Biological assets

Prawn livestock is carried at fair value. Fair value is the amount which could be expected to be received from the disposal of the livestock in an active and liquid market less the costs expected to be incurred in realising the proceeds of that disposal.

In the absence of an active and liquid market fair value is determined in accordance with a Directors' valuation using the present value of expected net cash flows from the prawn livestock discounted at a current market-determined rate. The expected net cash flows take into account a number of assumptions including the survival rate, harvest average body weight, average market price, discount rate and average production cost per kilogram. The net cash flows include harvesting costs and freight costs to market.

The change in estimated fair value of prawn livestock is recognised in the income statement in the reporting period and is classified separately.

The prawn livestock with a weight of less than 1 gram (including all hatchery stock), is carried at historic cost as an estimate of fair value given that little or no biological transformation has taken place. Cost includes all of the costs associated with the production of the livestock.

(l) Investments and other financial assets

Investments

Investments are initially recorded at cost or fair value. Individual investments are assessed for any impairment in value.

Fair value measurements

The Group measures and recognises the following assets at fair value on a recurring basis after initial recognition:

- Biological assets (refer to note 1(k))

The Group does not subsequently measure any liabilities at fair value on a recurring basis, or any assets or liabilities at fair value on a non-recurring basis.

Fair value hierarchy

AASB 13 requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

- Level 1: Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Measurements based on unobservable inputs for the asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

Valuation techniques

1 Summary of significant accounting policies (continued)

The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. There has been no change in the valuation technique(s) used to calculate the fair values disclosed in the financial statements.

Financial instruments

The Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

1 Summary of significant accounting policies (continued)

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(m) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

| | |
|-------------------------------------|------------------------------|
| - Leasehold Land | 30 years (term of the lease) |
| - Freehold buildings | 10 - 50 years |
| - Ponds | 10 - 50 years |
| - Plant and equipment | 2 - 15 years |
| - Leasehold improvements | Length of lease |
| - Vehicles | 3 - 5 years |
| - Furniture, fittings and equipment | 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

1 Summary of significant accounting policies (continued)

(n) Intangible assets

(i) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight line basis over its useful life.

(ii) Other intangible assets

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

(iii) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

(o) Trade and other payables

Trade and other payables represent the liabilities for goods and services received by the Group that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 45 days of recognition of the liability.

Due to the short-term nature of trade and other payables, their carrying amount approximates to fair value.

(p) Borrowings

Borrowings are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw down of the facility, are recognised as prepayments and amortised on a straight line basis over the term of the facility.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in Shareholders' equity, net of income tax effects.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

1 Summary of significant accounting policies (continued)

(q) Provisions

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(r) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments

The fair value of options granted to employees is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised on a straight line basis over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date of unlisted options is independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Performance rights issued to directors and staff for no cash consideration vest once all performance obligations are met. On the grant date, the market value of the shares issued is recognised as an employee benefits expense with a corresponding increase in equity.

(s) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(t) Parent entity financial information

The financial information for the Parent entity, Seafarms Group Limited has been prepared on the same basis as the consolidated financial statements, except as set out below.

1 Summary of significant accounting policies (continued)

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Seafarms Group Limited. Dividends received from associates are recognised in the Parent entity's profit or loss when its right to receive the dividend is established.

(ii) Tax consolidation legislation

Seafarms Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Seafarms Group Limited, and the controlled entities in the tax consolidated Group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated Group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Seafarms Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated Group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Seafarms Group Limited for any current tax payable assumed and are compensated by Seafarms Group Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Seafarms Group Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial period. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(iii) Financial guarantees

Where the Parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

2 Changes in accounting policies

This note explains the impact of the adoption of AASB 16 *Leases* on the Group's financial statements and discloses the new accounting policies that have been applied from 1 July 2019 in note 2(b) below.

The Group has adopted AASB 16 retrospectively from 1 July 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The comparative information continues to be presented under AASB 117. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 July 2019.

(a) Adjustments recognised on adoption of AASB 16

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB117 *Leases*. These liabilities were measured at the present value of remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 3.645%.

2 Changes in accounting policies (continued)

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of AASB 16 are only applied after that date. This resulted in measurement adjustments of \$23,150,224* for variable lease payments based on the incremental borrowing rate of 3.645%. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of application.

| | | 2019 |
|--|-------------------|--------------------------|
| | | \$ |
| Operating lease commitments disclosed as at 30 June 2019 | 486,567 | <u>486,567</u> |
| Leases recognised out of commitments | 473,866 | 473,866 |
| New / additional leases recorded on 1 July 2019 | 879,718 | 879,718 |
| Add: finance lease liabilities recognised as at 30 June 2019 | 18,019,347 | <u>18,019,347</u> |
| Lease liability recognised as at 1 July 2019 | 19,372,931 | <u>19,372,931</u> |
| Of which are: | | |
| Current lease liabilities | 798,954 | 798,954 |
| Non-current lease liabilities | 18,573,977 | <u>18,573,977</u> |
| | 19,372,931 | <u>19,372,931</u> |

The associated right-of-use assets for property leases were measured on a retrospective basis from 1 July 2019. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following type of assets:

| | 30 June 2020 | 1 July 2019 |
|---|-------------------|--------------------|
| | \$ | \$ |
| Properties (excluding make good provisions) | 21,031,700 | 22,209,249 |
| Equipment | 195,776 | 286,374 |
| Motor vehicles | 562,916 | 654,601 |
| Total right-of-use assets (excluding make good provisions) | 21,790,392 | 23,150,224* |
| Properties (make good provisions) | 20,812 | 129,372 |
| Total right-of-use assets (including make good provisions) | 21,811,204 | 23,279,596 |

* The difference between total lease liabilities recognised as at 1 July 2019 of \$19,372,931 and the total right-of-use assets (excluding make good provisions) of \$23,150,224 is attributable to share options capitalised to the right-of-use asset in relation to the Legune lease.

(i) Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics. The sensitivity of change in the discount rate is not material to leases recognised under AASB 16.
- the accounting of operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

2 Changes in accounting policies (continued)

(i) *Practical expedients applied (continued)*

(b) The group's leasing activities and how these are accounted for

The Group lease various property, equipment and motor vehicles. Rental contracts are typically made for fixed term periods of 2 to 30 years but may have extension options which remain unexercised. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable, and
- the exercise price of a purchase option if the lessee is reasonably certain to exercise the option.

The lease payments are discounted using the interest rate implicit in the lease. If the rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

3 Financial risk management

The Group's activities may expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group does not use derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures, as management considers this unnecessary given the nature and size of the Group's operations.

3 Financial risk management (continued)

| | Consolidated | |
|------------------------------|-------------------------|-------------------------|
| | 30 June 2020 | 30 June 2019 |
| | \$ | \$ |
| Financial assets | | |
| Cash and cash equivalents | 6,466,055 | 16,302,589 |
| Loans and receivables | 2,659,869 | 2,542,826 |
| | 9,125,924 | 18,845,415 |
| Financial liabilities | | |
| Amortised cost | 21,867,696 | 44,532,727 |
| | 21,867,696 | 44,532,727 |

(a) Market risk

(i) Price risk

Exposure

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified in Other financial assets - investments as available-for-sale investments. The Group is not exposed to commodity price risk.

(ii) Cash flow and fair value interest rate risk

As at the end of the reporting period, the Group had the following variable rate deposits:

| Consolidated | 30 June 2020 | | 30 June 2019 | |
|--|---|------------------|---|-------------------|
| | Weighted average interest rate | Balance | Weighted average interest rate | Balance |
| | % | \$ | % | \$ |
| Deposits at call | 1.0% | 426,121 | 1.7% | 487,125 |
| Bank accounts | .0% | 5,746,976 | .1% | 12,406,756 |
| Net exposure to cash flow interest rate risk | | 6,173,097 | | 12,893,881 |

Sensitivity

Management has assessed that the sensitivity of the profit or loss to higher/lower interest rates applied to cash and cash equivalents as being immaterial.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the audit committee annually. The Group measures credit risk on a fair value basis.

(i) Risk management

Wholesale customers of prawns and related products are subject to trade credit insurance. Credit limits are set by the insurer and are not exceeded. There have been no bad debts or claims on the insurance policy during the year.

3 Financial risk management (continued)

Apart from the above, the Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

| | Consolidated | |
|--|---------------------|------------------|
| | 30 June | 30 June |
| | 2020 | 2019 |
| | \$ | \$ |
| Trade receivables | | |
| <i>Counterparties without external credit rating *</i> | | |
| Group 1 | - | - |
| Group 2 | 1,670,954 | 2,005,193 |
| Group 3 | - | - |
| | 1,670,954 | 2,005,193 |

* Group 1 - new customers (less than 6 months)
Group 2 - existing customers (more than 6 months) with no defaults in the past
Group 3 - existing customers (more than 6 months) with some defaults in the past. All defaults were fully recovered.

(c) Liquidity risk

The Group manages liquidity risk by maintaining reserves, banking facilities and reserve borrowing facilities by monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities.

(i) Financing arrangements

The Group has access to undrawn borrowing facilities of \$4,800,000 at the end of the reporting period (2019: \$1,800,000).

(ii) Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

3 Financial risk management (continued)

(ii) *Maturities of financial liabilities (continued)*

| Contractual maturities of financial liabilities | Less than 6 months | 6 - 12 months | Between 1 and 2 years | | Over 5 years | Total contractual cash flows | Carrying amount (assets)/ liabilities |
|---|--------------------|---------------|-----------------------|-------------------|-------------------|------------------------------|---------------------------------------|
| | | | Between 2 and 5 years | Over 5 years | | | |
| At 30 June 2020 | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Non-derivatives | | | | | | | |
| Trade payables | 6,590,698 | - | - | - | - | 6,590,698 | 6,590,698 |
| Lease liabilities | - | 24,591 | 397,507 | 5,285,597 | 15,064,423 | 20,772,119 | 20,772,119 |
| Borrowings - variable rate (weighted average 2020: 5.63%, 2019: 6.23%, 2018: 5.95%) | - | - | - | 9,337,490 | - | 9,337,490 | 9,337,490 |
| Borrowings - Fixed rate 7% | - | - | - | 5,000,000 | - | 5,000,000 | 5,000,000 |
| Total non-derivatives | 6,590,698 | 24,591 | 397,507 | 19,623,087 | 15,064,423 | 41,700,307 | 41,700,307 |

At 30 June 2019

| | | | | | | | |
|---|------------------|----------------|------------------|-------------------|-------------------|-------------------|-------------------|
| Non-derivatives | | | | | | | |
| Trade payables | 7,929,886 | - | - | - | - | 7,929,886 | 7,929,886 |
| Lease liabilities | 66,766 | 319,038 | 1,646,263 | 3,576,452 | 12,410,828 | 18,019,347 | 18,019,347 |
| Borrowings - Fixed rate 7.5% | (5,351) | - | - | - | - | (5,351) | (5,351) |
| Borrowings - variable rate (weighted average 2020: 5.63%, 2019: 6.23%, 2018: 5.95%) | - | - | - | 13,400,000 | - | 13,400,000 | 13,400,000 |
| Borrowings - Fixed rate 7% | 188,845 | - | - | 5,000,000 | - | 5,188,845 | 5,188,845 |
| Total non-derivatives | 8,180,146 | 319,038 | 1,646,263 | 21,976,452 | 12,410,828 | 44,532,727 | 44,532,727 |

(d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Disclosure of fair value measurements is performed by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2020:

3 Financial risk management (continued)

| Consolidated - at 30 June 2020 | Level 1 \$ | Level 2 \$ | Level 3 \$ | Total \$ |
|-------------------------------------|---------------|---------------|------------------|------------------|
| Assets | | | | |
| Available-for-sale financial assets | - | - | - | - |
| Biological assets | - | - | 2,683,903 | 2,683,903 |
| Total assets | - | - | 2,683,903 | 2,683,903 |
| <hr/> | | | | |
| Consolidated - at 30 June 2019 | Level 1 \$ | Level 2 \$ | Level 3 \$ | Total \$ |
| Assets | | | | |
| Biological assets | - | - | 3,590,388 | 3,590,388 |
| Total assets | - | - | 3,590,388 | 3,590,388 |

There have been no transfers between Level 1 and Level 2 in the period. The carrying value of other financial assets and financial liabilities approximates their fair value. For a reconciliation of the movement of level 3 disclosures, refer to note 15.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

(i) Biological assets

As referred to in the accounting policy above the fair value of biological assets is estimated using a discounted cash flow model which incorporates a number of assumptions. Management is required to exercise significant judgement in estimating the underlying cash flows where those assumptions are not based on observable market data ('Level 3' inputs). The most significant assumptions requiring management judgement are in respect of the survival rate, harvest average body weight, average market price, discount rate and average production cost per kilogram until harvest-ready.

(ii) Estimated impairment of other non-current assets

Determining whether other non-current assets are impaired requires either an estimation of the value in use of the cash generating units to which the assets have been allocated, or an estimation of the fair value less costs of disposal of each of the assets. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The fair value less cost of disposal calculation requires the directors to estimate the fair value less costs of disposal of the assets in an arms length transaction between willing and knowledgeable parties. If the estimated fair value less cost of disposal is lower than the carrying value of the asset an impairment loss may arise.

4 Critical accounting estimates and judgements (continued)

(iii) Impairment of a financial assets

The loss allowances for financial assets are based on assumptions about the risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(iv) Recognition of a financial assets

The Group assesses the loan provided to AAM Licensee Pty Ltd for which repayment is dependant on financial close occurring as payments solely of principal and interest. As such the Group has recognised a financial asset. The assessment of whether the contractual terms gives rise to a financial asset requires the application of judgement.

(v) Lease term and valuation

The Group makes estimates and assumptions concerning the exercising of extension options included in lease agreements based on the enforceability and economic incentives attached to the leases. The estimate of the incremental borrowing rate applied to the lease liabilities represents the market interest rate adjusted for asset and term specific variables.

(vi) Convertible note

Determining the fair value of the convertible loan at the transaction date, required management judgement in the determination of an appropriate market interest rate and volatility. Management uses historical volatility of the Group to determine an appropriate level of volatility expected, commensurate with the expected option life.

(b) Critical judgements in applying the entity's accounting policies

Measurement of right-of-use asset and lease liability - Legune Station

The Group and the Legune station investor entered into a series of agreements in relation to the Legune land lease arrangement. The Group considered these agreements as linked to ensure the substance of the arrangement is considered and accounted for as one transaction.

The estimation, at the inception of the lease, of the items outlined below require significant management judgement:

- The likelihood that the purchase option will be exercised;
- The likelihood of extending the lease contract beyond the period of the first and second break clauses at 30 years and 60 years, respectively;
- Assessment of 'other direct costs' such as unlisted share options associated with the lease contract and the treatment of those costs as either an addition to the lease asset, or an expense in the period of entering into the lease;
- Valuation of these other direct costs such as the unlisted share options (refer unlisted option judgements below);
- The depreciation period / method; and
- The interest rate implicit in the lease contract and the impact of this rate on the discounted amount of the lease liability as while as the right to use asset.

Where any of the assumptions made in relation to the items outlined above are different to what is expected, a material adjustment to the assets and liabilities of the Group and the amounts reported through the profit or loss may arise.

Unlisted options

In determining the fair value of share based payments granted during the year, key estimates requiring management judgement are the volatility and expected life input assumed within the option pricing model. The Group uses historical volatility of the Company to determine an appropriate level of volatility expected, commensurate with the expected option life.

5 Discontinued operation

(a) Description

On 23 May 2018 the Group announced an agreement with Nippon Suisan Kaisha (Nissui) that included a \$24.99 million equity investment in Seafarms. This investment will assist with the development of the Company's world class Project Sea Dragon. One of the conditions of this agreement was that the Group divest its existing carbon sequestration, trading and environmental services business.

On 15 June 2018, the Group sent out a Notice of Extraordinary General Meeting of shareholders to be held on 16 July 2018. This meeting was primarily to being held to seek approval for the demerger of CO2 Australia Group from the Seafarms Group.

On 16 July 2018, at the extraordinary general meeting, the Group received shareholder approval for the demerger, which was completed on 23 July 2018.

Consequently, the carbon sequestration, trading and environmental services business is being reported as a discontinued operation.

(b) Financial performance and cash flow information

| | Consolidated 30 June 2019 \$ |
|---|--|
| Revenue | 758,446 |
| Other gains | 843 |
| Cost of goods sold | 310,558 |
| Employee benefit expense | (109,870) |
| Depreciation and amortisation expense | (14,131) |
| Travel | (127) |
| Insurance | (5,676) |
| Rent | (18,437) |
| Research and development | (82,004) |
| Other expenses | (28,013) |
| Plantation costs | (204,028) |
| Finance costs | (367) |
| Share of loss from associates | (11,370) |
| Profit before income tax | <u>595,824</u> |
| Profit from discontinued operation | <u>595,824</u> |
| Net cash (outflow)/inflow from operating activities | (952,473) |
| Net cash (outflow) from investing activities | (20,223) |
| Net cash (outflow)/inflow from financing activities | (99,633) |
| Net (reduction)/increase in cash generated by the subsidiary | <u>(1,072,329)</u> |

5 Discontinued operation (continued)

(c) Assets and liabilities classified as a discontinued operation

The carrying amount of assets and liabilities as at the date of demerger, 23 July 2018, were:

| | 23 July 2018 \$ |
|--------------------------------|-----------------------|
| Assets | |
| Trade receivables | 2,148,488 |
| Other current assets | 371,690 |
| Accrued income | 301,208 |
| | 2,821,386 |
| | |
| Non-current assets | |
| Property, plant and equipment | 1,063,214 |
| Intangible assets | 1,211,840 |
| Investments | 193,005 |
| Inventories | 184,923 |
| | 2,652,982 |
| | |
| Total assets | 5,474,368 |
| | |
| Current liabilities | |
| Cash and cash equivalents | 28,240 |
| Trade and other payables | 594,519 |
| Borrowings | 3,856 |
| Provisions | 318,515 |
| Deferred revenue | 1,889,762 |
| | 2,834,892 |
| | |
| Non-current liabilities | |
| Borrowings | - |
| Provisions | 15,504 |
| | 15,504 |
| | |
| Total liabilities | 2,850,396 |
| | |
| Net assets | 2,623,972 |

6 Segment information

(a) Description of segments

Business Segments

Carbon Sink Establishment

The establishment of accredited forest carbon sinks throughout Southern Australia on behalf of third parties, primarily for large domestic and international companies and state governments.

Aquaculture

Development of a large scale land-based aquaculture project in Northern Australia by Project Sea Dragon Pty Ltd, and prawn aquaculture operations in North Queensland, acquired 6 January 2014 and 31 October 2014.

6 Segment information (continued)

Other

'Other' is the aggregation of the Group's other operating segments that are not separately reportable.

(b) Segments

The segment information provided to the strategic steering committee for the reportable segments for the year ended 30 June 2020 is as follows:

| Year ended 30 June 2020 | Aquaculture | Carbon services | Other | Consolidated |
|--|--------------|-----------------|-------------|--------------|
| | \$ | \$ | \$ | \$ |
| Segment revenue | | | | |
| Sales and external customers | 27,713,765 | - | - | 27,713,765 |
| Total sales revenue | 27,713,765 | - | - | 27,713,765 |
| Other revenue | 2,002 | - | 99,924 | 101,926 |
| Total segment revenue | 27,715,767 | - | 99,924 | 27,815,691 |
| Consolidated revenue | | | | 27,815,691 |
| Segment loss | | | | |
| Segment (loss) / profit | (22,772,670) | - | (2,443,485) | (25,216,155) |
| Central administration and directors' salaries | | | | (326,513) |
| Loss before income tax | | | | (25,542,668) |
| Income tax benefit | | | | - |
| Loss for the year | | | | (25,542,668) |
| Segment assets | | | | |
| Segment assets / (liabilities) | 62,435,106 | - | 6,389,709 | 68,824,815 |
| Unallocated assets | | | | 5,861,989 |
| Total assets | | | | 74,686,804 |

The segment information provided to the strategic steering committee for the reportable segments for the year ended 30 June 2019 is as follows:

| Year ended 30 June 2019 | Aquaculture | Carbon services | Other | Consolidated |
|--|--------------|-----------------|-------------|--------------|
| | \$ | \$ | \$ | \$ |
| Segment revenue | | | | |
| Sales and external customers | 24,247,237 | - | - | 24,247,237 |
| Total sales revenue | 24,247,237 | - | - | 24,247,237 |
| Other revenue | 21,346 | - | 126,220 | 147,566 |
| Total segment revenue | 24,268,583 | - | 126,220 | 24,394,803 |
| Consolidated revenue | | | | 24,394,803 |
| Segment loss | | | | |
| Segment (loss) / profit | (18,216,237) | 595,824 | (4,749,791) | (22,370,204) |
| Central administration and directors' salaries | | | | (8,574,097) |
| Loss before income tax | | | | (30,944,301) |
| Income tax benefit | | | | - |
| Loss for the year | | | | (30,944,301) |
| Segment assets | | | | |
| Segment assets / (liabilities) | 70,376,014 | - | - | 70,376,014 |
| Unallocated assets | | | | 14,698,247 |
| Total assets | | | | 85,074,261 |

6 Segment information (continued)

(b) Segments (continued)

Segment revenues, expenses, and assets are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of forest carbon sinks, receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions. While most of these assets can be directly attributed to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment assets do not include income taxes.

Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, share of profit of associates, investment revenue, income tax expense, and gains or losses on disposal of associates and discontinued operations. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

(c) Other profit and loss disclosures

| 2020 | Depreciation and amortisation |
|--------------|-------------------------------------|
| | \$ |
| Aquaculture | (2,813,102) |
| Other | (1,282,656) |
| Total | <u>(4,095,758)</u> |
| | |
| 2019 | Depreciation and amortisation |
| | \$ |
| Aquaculture | (1,911,360) |
| Other | (422,922) |
| Total | <u>(2,334,282)</u> |

7 Revenue

| | Consolidated | |
|-----------------------------------|---------------------|----------------|
| | 30 June | 30 June |
| | 2020 | 2019 |
| | \$ | \$ |
| From continuing operations | | |
| <i>Sales revenue</i> | | |
| Sale of Goods Revenue | 27,713,765 | 24,247,237 |
| <i>Other revenue</i> | | |
| Office services | 80,393 | 15,000 |
| Rental and other income | 21,533 | 132,566 |
| | 101,926 | 147,566 |
| | 27,815,691 | 24,394,803 |

8 Other gains/(losses)

| | Consolidated | |
|--|---------------------|----------------|
| | 30 June | 30 June |
| | 2020 | 2019 |
| | \$ | \$ |
| Net (loss)/gain on disposal of property, plant and equipment | 2,652 | (12,349) |
| Other income | 778,702 | - |
| | 781,354 | (12,349) |

9 Expenses

Profit before income tax includes the following specific expenses:

| | Consolidated | |
|--|-------------------------|-------------------------|
| | 30 June 2020 | 30 June 2019 |
| | \$ | \$ |
| <i>Depreciation</i> | | |
| Buildings | 183,540 | 84,171 |
| Ponds | 368,355 | 339,090 |
| Plant and equipment | 1,983,821 | 1,342,584 |
| Leasehold improvements | 2,420 | 2,419 |
| Leasehold land | 726,484 | 397,995 |
| Leased buildings | 534,637 | - |
| Leased plant and equipment | 296,502 | 168,023 |
| Total depreciation | 4,095,759 | 2,334,282 |
| <i>Research and development</i> | | |
| Project Sea Dragon | 1,526,911 | 3,900,021 |
| Research and development costs paid and expensed | 1,526,911 | 3,900,021 |
| <i>Employee benefits expense</i> | | |
| Equity settled share based payments | - | 1,019,903 |
| Superannuation | 131,269 | 122,662 |
| Other employee benefits | 4,997,503 | 5,274,539 |
| Total employee benefits expense | 5,128,772 | 6,417,104 |
| <i>Cost of goods sold</i> | | |
| Freight charges | 3,184,425 | 2,260,073 |
| Cost of goods sold - fresh | 13,955,382 | 13,026,870 |
| Cost of goods sold - frozen | 12,417,505 | 9,177,628 |
| Total cost of goods sold | 29,557,312 | 24,464,571 |

10 Income tax expense

(a) Income tax expense/(benefit)

| | Consolidated | |
|--|-------------------------|-------------------------|
| | 30 June 2020 | 30 June 2019 |
| | \$ | \$ |
| Deferred tax (benefit) | (206,786) | (348,830) |
| Adjustments for current tax of prior periods | (700,212) | - |
| Adjustments for current tax for current period | (13,796) | - |
| Adjustments for deferred tax of prior periods | - | (87,784) |
| Write off current and prior year deferred tax assets | 920,794 | 436,614 |
| | - | - |

(b) Numerical reconciliation of income tax expense to prima facie tax payable

| | Consolidated | |
|--|-------------------------|-------------------------|
| | 30 June 2020 | 30 June 2019 |
| | \$ | \$ |
| Loss from continuing operations before income tax expense | (25,542,668) | (31,540,125) |
| Tax at the Australian tax rate of 30.0% (2019 - 30.0%) | (7,662,800) | (9,462,038) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Non-deductible expenses | 29,122 | 3,105,959 |
| Sundry items | - | (1,515,209) |
| | (7,633,678) | (7,871,288) |
| Difference in overseas tax rates | - | 16 |
| (Over)/under provision of income tax in previous year | (700,212) | (87,784) |
| Write off current and prior year deferred tax assets | 920,794 | 436,614 |
| Current year tax losses not recognised | 7,413,096 | 7,522,442 |
| Income tax expense/(benefit) | - | - |

(c) Tax consolidation legislation

Seafarms Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in note 1(g).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Seafarms Group Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Seafarms Group Limited for any current tax payable assumed and are compensated by Seafarms Group Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Seafarms Group Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current inter-company receivables or payables.

10 Income tax expense (continued)

(d) Franking account

| | Consolidated | |
|--|---------------------|----------------|
| | 30 June | 30 June |
| | 2020 | 2019 |
| | \$ | \$ |
| Franking account balance (tax paid basis) | - | - |
| Impact on franking account balance of dividends not recognised | - | - |
| | - | - |

11 Current assets - Cash and cash equivalents

| | Consolidated | |
|--------------------------|---------------------|----------------|
| | 30 June | 30 June |
| | 2020 | 2019 |
| | \$ | \$ |
| Cash at bank and in hand | 6,039,934 | 15,815,464 |
| Deposits at call | 426,121 | 487,125 |
| | 6,466,055 | 16,302,589 |

(a) Risk exposure

The Group's exposure to interest rate risk is discussed in note 3.

(b) Cash at bank and on hand

Of the cash at bank and on hand, \$350,773 (2019: \$3,408,708) is non-interest bearing, and \$6,115,282 (2019: \$12,893,881) is in accounts that earn interest.

(c) Cash not available for use

\$426,121 (2019: \$487,125) is held as security for bank facilities and lease guarantees (note 24).

(d) Deposits at call

Deposits at call are interest bearing.

12 Current assets - Trade and other receivables

| | Consolidated | |
|---|-------------------------|-------------------------|
| | 30 June 2020 | 30 June 2019 |
| | \$ | \$ |
| Trade receivables | 1,670,954 | 2,005,193 |
| Loans to employees | 68,467 | 53,560 |
| Goods and services tax (GST) receivable | 553,196 | 457,733 |
| | 2,292,617 | 2,516,486 |
| | | |
| Other receivables | 341,412 | - |
| | 2,634,029 | 2,516,486 |

(a) Trade receivables

As of 30 June 2020, trade receivables of \$164,419 (2019: \$947,249) were past due but not impaired.

| | Consolidated | |
|----------------|-------------------------|-------------------------|
| | 30 June 2020 | 30 June 2019 |
| | \$ | \$ |
| Up to 3 months | 614 | 634,462 |
| 3 to 6 months | 163,805 | 312,787 |
| | 164,419 | 947,249 |

Trade receivables represent receivables in respect of which the Group's right to consideration is unconditional subject only to the passage of time. Trade receivables are non-derivative financial assets accounted for in accordance with the Group's accounting policy for non-derivative financial assets as set out in Note 1(b)(ii) AASB 9 *Financial Instruments*.

Trade and other receivables are measured at amortised cost. A gain or loss on trade and other financial assets that is subsequently measured at amortised cost is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

The average credit period on trade receivables ranges from current to 90 days in most cases. In determining the recoverability of a trade receivable, the Group used the expected credit loss model as per AASB 9. The expected credit loss model requires the Group to account for expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit default to have occurred before credit losses are recognised.

The Group has Trade Credit Insurance in place until 30 April 2021, which has insured indemnity of 90% with a maximum insured amount of \$5 million.

12 Current assets - Trade and other receivables (continued)

(b) Interest rate risk

Information about the Group's exposure to interest rate risk in relation to trade and other receivables is provided in note 3.

(iii) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The average credit period on rendering of invoices is 30 days.

Refer to note 3 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

13 Current assets - Inventories

| | Consolidated | |
|----------------------|-------------------------|-------------------------|
| | 30 June 2020 | 30 June 2019 |
| | \$ | \$ |
| Finished goods | 9,292,066 | 11,335,413 |
| Feed and consumables | 1,392,618 | 1,262,884 |
| | 10,684,684 | 12,598,297 |

Finished goods are harvested prawns from the Group's aquaculture operations in North Queensland.

Feed and consumables relate wholly to the Group's aquaculture operations.

14 Current assets - Other current assets

| | Consolidated | |
|--------------------------|-------------------------|-------------------------|
| | 30 June 2020 | 30 June 2019 |
| | \$ | \$ |
| Prepayments | 1,081,763 | 829,121 |
| Deposits paid | 25,840 | 26,340 |
| Other aquaculture assets | 186,627 | 57,144 |
| | 1,294,230 | 912,605 |

15 Current assets - Biological assets

| | 30 June 2020 | 30 June 2019 |
|--|-------------------------|-----------------|
| | \$ | \$ |
| <i>Livestock at fair Value</i> | | |
| Opening Balance | 3,590,388 | 5,781,325 |
| Loss arising from changes in fair value less estimated point of sale costs | (127,187) | (1,485,164) |
| Increases due to purchases | 2,811,091 | 5,075,553 |
| Transferred to inventories | (3,590,389) | (5,781,325) |
| Closing Balance | 2,683,903 | 3,590,388 |

The group has classified live prawn as level 3 in the fair value hierarchy (refer note 1 for explanation of levels), since one or more of the significant inputs is not based on observable market data.

Valuation processes

The group's finance team performs the valuations of the group's biological assets for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO) and the audit and risk committee (ARC). Discussions of valuation processes and results are held between the CFO and the ARC at least once every six months, in line with the group's half-yearly reporting requirements.

The main level 3 inputs used by the group are derived and evaluated as follows:

- Survival rate, harvest average body weight and average production cost per kilogram is determined based on actual rates achieved over the last 6-12 months.
- Prawn market prices are based on active liquid market prices achieved over the last 3 months.
- Discount rate is determined using a capital asset pricing model to calculate a post-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.

Changes in level 3 inputs and fair values are analysed at the end of each reporting period during the half-yearly valuation discussion between the CFO, and ARC. As part of this discussion the team presents a report that explains the reason for the fair value movements.

Financial risk management strategies for biological assets

The Group is exposed to risks arising from environmental and climatic changes and market prices.

The Group has strong operating procedures to prevent and mitigate the impact of disease and environmental risks.

The Group is exposed to some risks arising from fluctuations in the price and demand of prawn. To mitigate those risks the Group continues to focus on producing a high quality product that is well sought after in the market. Where appropriate the Group will also enter into supply contracts.

16 Non-current assets - Property, plant and equipment

| Consolidated | Freehold land \$ | Leasehold land \$ | Buildings \$ | Ponds \$ | Plant and equipment \$ | Leasehold improvements \$ | Leased plant and equipment \$ | Carbon sinks \$ | Total \$ |
|---|----------------------------|-----------------------------|------------------------|--------------------|----------------------------------|-------------------------------------|---|---------------------------|--------------------|
| At 1 July 2018 | | | | | | | | | |
| Cost or fair value | 2,010,000 | - | 1,581,830 | 6,781,774 | 14,509,981 | 428,719 | 805,438 | 4,201,540 | 30,319,282 |
| Accumulated depreciation | - | - | (281,429) | (1,411,455) | (4,744,944) | (373,683) | (148,456) | (3,229,236) | (10,189,203) |
| Net book amount | 2,010,000 | - | 1,300,401 | 5,370,319 | 9,765,037 | 55,036 | 656,982 | 972,304 | 20,130,079 |
| Year ended 30 June 2019 | | | | | | | | | |
| Opening net book amount | 2,010,000 | - | 1,300,401 | 5,370,319 | 9,765,037 | 55,036 | 656,982 | 972,304 | 20,130,079 |
| Additions | - | 21,540,035 | 2,901,886 | - | 6,579,507 | 144 | 244,415 | - | 31,265,987 |
| Assets included in a disposal group classified as held for sale and other disposals | - | - | - | - | (34,402) | (32,455) | (34,127) | (972,304) | (1,073,288) |
| Disposals | - | - | - | - | (3,789,953) | - | (44,647) | - | (3,834,600) |
| Depreciation charge | - | (397,995) | (84,171) | (339,090) | (1,342,584) | (2,419) | (168,023) | - | (2,334,282) |
| Closing net book amount | 2,010,000 | 21,142,040 | 4,118,116 | 5,031,229 | 11,177,605 | 20,306 | 654,600 | - | 44,153,896 |
| At 30 June 2019 | | | | | | | | | |
| Cost or fair value | 2,010,000 | 21,540,035 | 4,483,716 | 6,781,774 | 16,678,652 | 31,908 | 898,843 | - | 52,424,928 |
| Accumulated depreciation | - | (397,995) | (365,600) | (1,750,545) | (5,501,047) | (11,602) | (244,243) | - | (8,271,032) |
| Net book amount | 2,010,000 | 21,142,040 | 4,118,116 | 5,031,229 | 11,177,605 | 20,306 | 654,600 | - | 44,153,896 |

16 Non-current assets - Property, plant and equipment (continued)

| Consolidated | Notes | Freehold land \$ | Leasehold land \$ | Buildings \$ | Ponds \$ | Plant and equipment \$ | Leasehold improvements \$ | Leased plant and equipment \$ | Total \$ |
|---|-------|---------------------|-------------------------|-----------------|-------------|------------------------------|---------------------------------|--|--------------|
| At 1 July 2019 | | | | | | | | | |
| Cost or fair value | | 2,010,000 | 21,540,035 | 4,483,716 | 6,781,774 | 16,678,652 | 31,908 | 898,843 | 52,424,928 |
| Accumulated depreciation | | - | (397,995) | (365,600) | (1,750,545) | (5,501,047) | (11,602) | (244,243) | (8,271,032) |
| Net book amount | | 2,010,000 | 21,142,040 | 4,118,116 | 5,031,229 | 11,177,605 | 20,306 | 654,600 | 44,153,896 |
| Year ended 30 June 2020 | | | | | | | | | |
| Opening net book amount | | 2,010,000 | 21,142,040 | 4,118,116 | 5,031,229 | 11,177,605 | 20,306 | 654,600 | 44,153,896 |
| Adjustment for change in accounting policy | 2 | - | (21,142,040) | - | - | - | - | (654,600) | (21,796,640) |
| Additions | | - | - | 516,481 | 1,137,769 | 3,261,776 | - | - | 4,916,026 |
| Depreciation charge | | - | - | (183,540) | (368,355) | (1,983,821) | (2,420) | - | (2,538,136) |
| Disposals | | - | - | - | - | (622,447) | - | - | (622,447) |
| Closing net book amount | | 2,010,000 | - | 4,451,057 | 5,800,643 | 11,833,113 | 17,886 | - | 24,112,699 |
| At 30 June 2020 | | | | | | | | | |
| Cost or fair value | | 2,010,000 | - | 5,000,198 | 7,919,543 | 19,310,690 | 31,908 | - | 34,272,339 |
| Accumulated depreciation | | - | - | (549,141) | (2,118,900) | (7,477,577) | (14,022) | - | (10,159,640) |
| Net book amount | | 2,010,000 | - | 4,451,057 | 5,800,643 | 11,833,113 | 17,886 | - | 24,112,699 |

16 Non-current assets - Property, plant and equipment (continued)

Queensland aquaculture CGU ('QLDAQ')

At 30 June 2020, management has determined the recoverable amount of the Queensland Aquaculture CGU by assessing the fair value less cost of disposal (FVLCOD) of the underlying assets. The valuation is considered to be level 3 in the fair value hierarchy due to unobservable inputs used in the valuation. No impairment was identified.

Management's approach and the key assumptions used to determine the CGU's FVLCOD in FY20 were as follows:

| CGU | Unobservable inputs | 2020 | 2019 | Approach in determining key assumptions |
|-------|-------------------------|---------------------|------|--|
| QLDAQ | Cost of disposal | 5% | - | Estimated based on the company's experience with disposal of assets and on industry benchmarks |
| | Sales price per hectare | \$55,000 - \$84,000 | - | Average sales price for similar properties in North Queensland |

In the prior year the recoverable amount of QLDAQ was determined based on a value in use calculation using cash flow projections covering a five year period, based on detailed financial forecasts prepared by local management and approved by the Board of Directors.

The following describes each key assumption on which the Company based its value in use calculation for QLDAQ in FY19:

- The discount rate applied to pre-tax cash flow projections is 13.6%;
- Cash flows beyond the five year period are estimated using a terminal value calculated under standard valuation principles incorporating a long term growth rate of 2.5%;
- Revenue from operations is forecast to increase as a result mainly price increases. This has been estimated as 9.2% cumulatively over the five year forecast period. Weighted average forecast prices have been assumed to increase significantly due to change in product mix and size;
- The impact of working capital has been assumed to increase in line with revenue growth; and
- Capital investment required to run the business has been assumed based on detailed estimates for FY20 and then in line with depreciation for FY21-FY24.

Refer below for sensitivities to key assumptions in FY19:

- Average price per kilogram decrease by 1%: \$2.84 million impairment;
- Discount rate increase to 15%: \$1.7 million impairment; and
- Terminal growth rate decrease to 2%: \$1.6 million impairment.

Lease - Legune station

On 15 February 2015, the Group entered into the Legune Station Access and Option Agreement. Under the agreement, the Group had the option to acquire the leasehold interest into the Legune Station. The station comprises 178,870 ha of land, property, plant & equipment and cattle.

The Group subsequently ceded their purchase option to a third party investor, who acquired the leasehold interest (including property, plant and equipment) on 31 October 2018. The Group and the third party investor simultaneously entered into a series of agreements whereby the Group lease 73,000 ha of the 178,870 ha of land (excluding any property, plant and equipment and cattle) with a fair value of \$12,202,717. The lease is effective from 12 December 2018. While the lease contract provides a potential maximum 90 year lease term (thereby securing the Group's ability to access the Legune site for this period), the Group has determined the relevant minimum lease term to be 30 years based on the relevant break clauses in the contract, the first of which occurs after 30 years.

Non-current assets pledged as security

The Group has provided a mortgage over LOT 166 ON CROWN PLAN CWL3565 & LOT 183 ON CROWN PLAN CWL3484 to the third party investor when entering into the lease agreement.

Depreciation methods and useful lives

The leased land is depreciated using the minimum lease term of 30 years.

17 Non-current assets - Right-of-use assets

| Consolidated | Notes | Leasehold land \$ | Leased Buildings \$ | Leased Plant and equipment \$ | Total \$ |
|--|-------|-------------------------|---------------------------|--|-------------------|
| Year ended 30 June 2020 | | | | | |
| Adjustment for change in accounting policy | 2 | 21,142,040 | - | 654,600 | 21,796,640 |
| Additions | | 84,812 | 1,086,782 | 418,693 | 1,590,287 |
| Depreciation charge | | (726,484) | (534,637) | (296,502) | (1,557,623) |
| Disposals | | - | - | (18,100) | (18,100) |
| Closing net book amount | | <u>20,500,368</u> | <u>552,145</u> | <u>758,691</u> | <u>21,811,204</u> |
| At 30 June 2020 | | | | | |
| Cost | | 21,624,847 | 1,086,782 | 1,265,820 | 23,977,449 |
| Accumulated depreciation | | (1,124,479) | (534,637) | (507,129) | (2,166,245) |
| Net book amount | | <u>20,500,368</u> | <u>552,145</u> | <u>758,691</u> | <u>21,811,204</u> |

For details on the leasehold land and impairment please refer to note 16.

18 Non-current assets - Deferred tax assets

| | Consolidated | |
|---|--------------------------------|--------------------------------|
| | 30 June 2020 \$ | 30 June 2019 \$ |
| The balance comprises temporary differences attributable to: | | |
| Tax losses | (5,848,792) | (703,646) |
| Provisions | 512,409 | 371,876 |
| Accruals | 78,162 | 47,497 |
| Intangible assets | 5,549,275 | 128,319 |
| Depreciable assets | 371,961 | 109,006 |
| Accrued interest | (389,059) | 46,948 |
| Lease assets and liabilities | (273,956) | - |
| Net deferred tax assets | - | - |
| Movements: | | |
| Charged/credited: | | |
| - to profit or loss | 322,878 | 335,011 |
| Write off of Deferred Tax Asset | (322,878) | (694,509) |
| Under/(over) provision of deferred tax in previous year | - | 87,784 |
| Timing difference moved out on account of demerger | - | 271,714 |
| Closing balance at 30 June | - | - |

Unrecognised deferred tax balances

Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognised are attributable to the following:

| | | |
|--------------------------------|------------|------------|
| Tax losses (revenue in nature) | 27,333,648 | 17,811,287 |
|--------------------------------|------------|------------|

19 Non-current assets - Intangible assets

| Consolidated | Development costs \$ | Goodwill \$ | Patents, trademarks and other rights \$ | Computer software \$ | Other intangible assets \$ | NGAC accreditation \$ | Total \$ |
|---|--------------------------------|-----------------------|---|--------------------------------|--------------------------------------|---------------------------------|--------------------|
| At 1 July 2018 | | | | | | | |
| Cost | 3,111,325 | 1,207,187 | 3,072 | 151,706 | 790,166 | 238,131 | 5,501,587 |
| Accumulated amortisation and impairment | (1,899,485) | - | (3,072) | (151,706) | (790,166) | (238,131) | (3,082,560) |
| Net book amount | 1,211,840 | 1,207,187 | - | - | - | - | 2,419,027 |
| Year ended 30 June 2019 | | | | | | | |
| Opening net book amount | 1,211,840 | 1,207,187 | - | - | - | - | 2,419,027 |
| Disposals | (1,211,840) | - | - | - | - | - | (1,211,840) |
| Impairment charge | - | (1,207,187) | - | - | - | - | (1,207,187) |
| Closing net book amount | - | - | - | - | - | - | - |
| Cost | - | 1,207,187 | - | 25,745 | - | - | 1,232,932 |
| Accumulated amortisation and impairment | - | (1,207,187) | - | (25,745) | - | - | (1,232,932) |
| Net book amount | - | - | - | - | - | - | - |

19 Non-current assets - Intangible assets (continued)

(a) *Significant estimates: key assumptions used for value-in-use calculations*

The Group did not record any impairment loss during the year, in the prior year the Group recorded an impairment of \$1.2 million against the carrying value of QLDAQ goodwill.

20 Other non-current assets

| | Consolidated | |
|-------------------------------|---------------------|-----------|
| | 30 June | 30 June |
| | 2020 | 2019 |
| | \$ | \$ |
| Loan to AAM Licensees Pty Ltd | 5,000,000 | 5,000,000 |

The loan to AAM Licensees Pty Ltd was provided on 12 December 2018, at an interest rate of 7% per annum (2019: nil), calculated on a daily basis, and is due to be repaid on 11 December 2021.

The receivable forms part of the series of arrangements in relation to Legune and as at 30 June 2020 management consider there to be an immaterial expected credit loss in relation to the receivable.

21 Current liabilities - Trade and other payables

| | Consolidated | |
|------------------|---------------------|-----------|
| | 30 June | 30 June |
| | 2020 | 2019 |
| | \$ | \$ |
| Trade payables | 5,374,678 | 6,792,700 |
| Accrued expenses | 57,405 | 915 |
| PAYG payable | 821,243 | 497,886 |
| Other payables | 644,281 | 638,385 |
| | 6,897,607 | 7,929,886 |

The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

22 Current liabilities - Borrowings

| | Consolidated | |
|---|-------------------------|-------------------------|
| | 30 June 2020 | 30 June 2019 |
| | \$ | \$ |
| Secured | | |
| Bank loans | 632,599 | - |
| Lease liabilities | - | 380,453 |
| Total secured current borrowings | 632,599 | 380,453 |
| | | |
| Total current borrowings | 632,599 | 380,453 |

(a) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 3.

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from Financing activities.

| | Consolidated | | | Closing Balance 30 June 2020 |
|-------------------------------------|--|--------------------------|------------------------------|---|
| | Opening balance 1 July 2019 | Cash movement | Non-cash movement | |
| | \$ | \$ | \$ | \$ |
| Current borrowings | | | | |
| Bank loans | - | 632,599 | - | 632,599 |
| Lease liabilities | 385,804 | | (385,804) | - |
| Vendor finance | (5,351) | | 5,351 | - |
| Total current borrowings | 380,453 | 632,599 | (380,453) | 632,599 |
| | | | | |
| Non-current borrowings | | | | |
| Lease liabilities | 17,633,543 | (1,153,361) | (16,480,182) | - |
| Other loans | 5,188,845 | - | (188,845) | 5,000,000 |
| Loans from related parties | 13,400,000 | (586,378) | (3,476,132) | 9,337,490 |
| Total non-current borrowings | 36,222,388 | (1,739,739) | (20,145,159) | 14,337,490 |
| | | | | |
| Total Borrowings | 36,602,841 | (1,107,140) | (20,525,612) | 14,970,089 |

23 Current liabilities - Provisions

| | Consolidated | |
|-------------------|---------------------|------------------|
| | 30 June | 30 June |
| | 2020 | 2019 |
| | \$ | \$ |
| Employee benefits | 1,459,130 | 1,219,639 |
| | 1,459,130 | 1,219,639 |

24 Non-current liabilities - Borrowings

| | Notes | Consolidated | |
|--------------------------------------|-------|---------------------|-------------------|
| | | 30 June | 30 June |
| | | 2020 | 2019 |
| | | \$ | \$ |
| Secured | | | |
| Lease liabilities | | - | 17,633,543 |
| Other loans | | 5,000,000 | 5,188,845 |
| Total secured non-current borrowings | | 5,000,000 | 22,822,388 |
| Unsecured | | | |
| Loans from related parties | 32(c) | 9,337,490 | 13,400,000 |
| Total non-current borrowings | | 14,337,490 | 36,222,388 |

(i) Secured liabilities and assets pledged as security

The Group has a \$80,000 (2019: \$80,000) facility on its company credit cards and has been required to provide guarantee facilities of \$212,201 (2019: \$273,205) in respect of office leases and a guarantee of \$133,920 (2019: \$133,920) in favour of Great Barrier Reef Marine Parks. The Group maintains term deposits with the bank to secure these facilities.

Other loans

The loan from AAM Licensees Pty Ltd was provided on 12 December 2018, at an interest rate of 7% per annum and is due to be repaid on 11 December 2021. The Group has the option to settle up to 50% of interest accruing on the loan with Seafarms Group Limited shares. This option has not been exercised during the current financial year.

Loans from related parties

The fair value of the liability portion of the Avatar Finance Pty Ltd convertible loan is determined using a market interest rate for an equivalent non-convertible loan. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the loan.

Refer note 32 for details of the convertible loan.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

24 Non-current liabilities - Borrowings (continued)

| | Notes | Consolidated | |
|--|-------|-----------------------|-----------------------|
| | | 30 June 2020 \$ | 30 June 2019 \$ |
| Current | | | |
| Deposits at call | 11 | 426,121 | 487,125 |
| Total current assets pledged as security | | <u>426,121</u> | <u>487,125</u> |
| Non-current | | | |
| <i>First mortgage</i> | | | |
| Freehold land | 16 | 2,010,000 | 2,010,000 |
| <i>Finance lease</i> | | | |
| Leased land * | | <u>20,500,368</u> | 21,142,040 |
| Total non-current assets pledged as security | | <u>22,510,368</u> | 23,152,040 |
| Total assets pledged as security | | <u>22,936,489</u> | 23,639,165 |

* As at 30 June 2020 the leased land was reclassified as a right of use asset.

(ii) Risk exposures

Information about the Group's exposure to interest rate and foreign exchange risk is provided in note 3.

25 Non-current liabilities - Provisions

| | Consolidated | |
|--|-----------------------|-----------------------|
| | 30 June 2020 \$ | 30 June 2019 \$ |
| Employee benefits - long service leave | 35,693 | 19,947 |
| Make good provision | 129,889 | - |
| Other provisions | - | 89,493 |
| | <u>165,582</u> | <u>109,440</u> |

(a) Other provisions

| | Consolidated | |
|---|-----------------------|-----------------------|
| | 30 June 2020 \$ | 30 June 2019 \$ |
| Opening balance 1 July | 109,440 | 175,208 |
| Additional provisions recognised | - | - |
| Provision / (Payments) made during the year | 56,142 | (65,768) |
| Closing balance 30 June | <u>165,582</u> | <u>109,440</u> |

The other provision represents the lease liability for the Perth office. The increase in the carrying amount of the provision for the prior year results from the end of the initial 21 month rent free period negotiated on the lease on 1 July 2015. The lease is due to expire on 30 June 2020.

26 Issued capital

(a) Share capital

| | Notes | 30 June 2020 Shares | 30 June 2019 Shares | 30 June 2020 \$ | 30 June 2019 \$ |
|-------------------------------|-------|---------------------------|---------------------------|-----------------------|-----------------------|
| Ordinary shares | | | | | |
| Fully paid | | 2,422,262,301 | 1,972,053,969 | 169,793,544 | 154,757,053 |
| Convertible preference shares | 26(c) | 30,150,190 | 30,150,190 | 301 | 301 |
| | | 2,452,412,491 | 2,002,204,159 | 169,793,845 | 154,757,354 |

(b) Movements in ordinary share capital

| | Number of shares | \$ |
|---|------------------|-------------|
| Opening balance 1 July 2018 | 1,417,084,698 | 103,674,332 |
| Nissui Investment | 283,188,768 | 27,985,766 |
| Exercise of listed options - proceeds received | 295,035 | 28,618 |
| Placement | 271,485,468 | 24,433,713 |
| Less: Transaction costs arising on share issues | - | (1,365,075) |
| Balance 30 June 2019 | 1,972,053,969 | 154,757,354 |
| Opening balance 1 July 2019 | 1,972,053,969 | 154,757,354 |
| Debt conversion | 33,333,333 | 3,000,000 |
| Exercise of listed options - proceeds received | 208,333 | 20,208 |
| Placement | 416,666,666 | 12,500,000 |
| | 2,422,262,301 | 170,277,562 |
| Less: Transaction costs arising on share issues | - | (483,717) |
| Balance 30 June 2020 | 2,422,262,301 | 169,793,845 |

(c) Movements in convertible preference share capital

| Details | Number of shares | \$ |
|-----------------------------|------------------|-----|
| Opening balance 1 July 2018 | 30,150,190 | 301 |
| Balance 30 June 2019 | 30,150,190 | 301 |
| Opening balance 1 July 2019 | 30,150,190 | 301 |
| Balance 30 June 2020 | 30,150,190 | 301 |

(d) Convertible preference shares

The convertible preference shares were issued at \$0.00001. To convert to fully paid ordinary shares each holder is required to pay \$0.06499. Conversion can occur at any time at the election of the holders. Conversion of convertible preference shares may only be made in multiples of 1,000 convertible preference shares. There is no debt component linked to the convertible preference shares and no maturity date.

The convertible preference shares have limited voting rights as described in ASX Listing Rule 6.3 and are entitled to the payment of a dividend equal to one hundred thousandth of any dividends declared in respect of ordinary shares and such dividend will rank in priority over ordinary shares for payment. Dividends on convertible preference shares will not be cumulative.

26 Issued capital (continued)

(e) Options

Unlisted options

Information relating to the Group's Employee Option Plan and options issued to employees and executives of the Group, including details of options issued, exercised and lapsed during the financial period and options outstanding at the end of the financial period, is set out in note 38.

Listed options

On 17 July 2017, the Group issued 126,092,585 listed options pursuant to the Option Offers made to those participants in the June 2017 Share Placement. Shareholders who subscribed for shares in the June 2017 Share Participation Plan were eligible to participate in the June 2017 Share Placement.

The listed options were issued free of charge and have an exercise price of 10 cents per share and expire on 17 July 2021.

As at 30 June 2020, 503,368 listed options have been exercised (2019: 295,035) leaving 125,539,218 (2019: 125,747,551) listed options unexercised.

27 Issuances, repurchases and repayments of equity securities

The Company completed a debt equity conversion on 30 August 2019 after shareholder approval was received to issue 33,333,333 fully paid ordinary shares at \$0.09 per share to reduce the debt owed by the Company to Avatar Finance Pty Limited by \$3 million. The Company successfully completed a private share placement to professional and sophisticated investors, of 228,686,667 shares at 3 cents per share, on 2 April 2020 raising \$6.86m. After receiving shareholder approval, a private placement on 29 June 2020 of 187,979,999 shares at 3 cents per share, to Avatar Industries Pty Ltd raising \$5.64m. In addition 208,333 options were exercised during the period amounting to \$20,208. Equity raising costs for the year amounted to \$0.5m.

28 Reserves

(a) Other reserves

| | Consolidated | |
|--------------------------------------|---------------------|------------|
| | 30 June | 30 June |
| | 2020 | 2019 |
| | \$ | \$ |
| Financial assets revaluation reserve | (24,740) | (24,740) |
| Share-based payments | 10,371,472 | 10,371,472 |
| Option premium reserve | 1,670,705 | 1,670,705 |
| | 12,017,437 | 12,017,437 |

(b) Nature and purpose of other reserves

(i) Share-based payments

The share-based payments reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised
- the grant date fair value of shares issued to employees
- the issue of shares held by the Seafarms Employee Share Trust to employees
- the grant date fair value of options issued to third parties but not exercised

28 Reserves (continued)

(ii) Option premium

The option premium represents the fair value of 47,734,412 Seafarms Group Limited options issued as part consideration for the Ranger takeover bid.

(iii) Financial assets revaluation reserve

Changes in the fair value of financial assets are taken to the financial assets revaluation reserve. Amounts are recognised in profit and loss when the associated assets are sold or impaired.

29 Key management personnel disclosures

(a) Directors

The following persons were directors of Seafarms Group Limited during the financial year:

(i) Chairman - executive

I N Trahar

(ii) Executive directors

H R Whitcombe

Dr C D Mitchell

(iii) Non-executive directors

P Favretto

Hisami Sakai

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

| <i>Name</i> | <i>Position</i> | <i>Employer</i> |
|-------------|---------------------------------------|-----------------------------|
| D Donovan | Chief Operating Officer | Seafarms Operations Limited |
| R Dyer | Project Director (31 October 2017) | Seafarms Group Limited |
| A Soanes* | Director & General Manager Operations | CO2 Australia Limited |
| J Bulinski* | Director | CO2 Australia Limited |

* The carbon entities were demerged on 23 July 2018, the amounts included are for payments made during the period prior to the demerger date (i.e. 1 to 23 July 2018).

(c) Key management personnel compensation

| | Consolidated | |
|------------------------------|-------------------------|-------------------------|
| | 30 June 2020 | 30 June 2019 |
| | \$ | \$ |
| Short-term employee benefits | 1,447,717 | 1,483,214 |
| Post-employment benefits | 191,584 | 192,184 |
| Long-term benefits | 21,486 | 21,342 |
| Share-based payments | - | 280,432 |
| | 1,660,787 | 1,977,172 |

30 Remuneration of auditors

During the year the following fees were agreed for services provided by the auditor of the Parent entity, its related practices and non-related audit firms:

(a) Audit services

(i) *Deloitte Touche Tohmatsu*

| | Consolidated | |
|---------------------------------------|-------------------------|-------------------------|
| | 30 June 2020 | 30 June 2019 |
| | \$ | \$ |
| Audit and review of financial reports | 176,000 | 175,000 |
| Total auditors' remuneration | 176,000 | 175,000 |

31 Commitments

(a) Capital commitments

The Group has no material capital commitments as at 30 June 2020 (30 June 2019: Nil).

32 Related party transactions

(a) Parent entities

Detailed remuneration disclosures are provided in the remuneration report on pages 13 to 22.

(b) Subsidiaries

Interests in subsidiaries are set out in note 33.

(c) Loans to/from related parties

The Group has a \$15.2 million a credit facility with Avatar Finance Pty Ltd, a company owned by Mr Ian Trahar, Chairman of the Group.

The amounts advanced and interest charged are disclosed in the following table:

| | Consolidated | |
|---|-------------------------|-------------------------|
| | 30 June 2020 | 30 June 2019 |
| | \$ | \$ |
| <i>Loan from Avatar Finance Pty Ltd</i> | | |
| Beginning of the year | 13,400,000 | 14,500,000 |
| Debt equity conversion | (3,000,000) | - |
| Loans advanced | 500,000 | 5,600,000 |
| Loan repayments made | (500,000) | (6,700,000) |
| Extinguishment of loan | (10,400,000) | - |
| Fair value of liability portion of convertible loan | 8,684,000 | - |
| Interest charged | 1,239,868 | 759,426 |
| Interest paid | (586,378) | (759,426) |
| End of period | 9,337,490 | 13,400,000 |

Interest expense is calculated by applying the effective interest rate of 15% to the loan liability component.

32 Related party transactions (continued)

(d) Terms and conditions

The facility from Avatar Finance Pty Ltd prior to the new arrangements was provided on normal commercial terms and conditions and at market rates and is to be repaid on 15 September 2021. The average interest rate on the loan during the year was 5.63% (2019: 6.23%).

On 20 August 2019, at the extraordinary general meeting, the shareholder's approved the following transactions in relation to the loan from Avatar Finance Pty Ltd:

- The conversion of \$3 million of debt owed to Avatar Finance Pty Ltd into 33,333,333 Ordinary shares with a deemed issue price of \$0.09 per share;
- The issue of a convertible security to Avatar Finance Pty Ltd, which gives Avatar Finance Pty Ltd the right to, at its election, convert amounts outstanding under the facility to shares at a price of 9 cents per share up to the maximum conversion amount of \$12.2 million (135,555,555 shares); and
- The extension of the repayment date under the facility from 15 March 2021 to 15 September 2021.

The Group has pledged LOT 166 ON CROWN PLAN CWL3565 & LOT 183 ON CROWN PLAN CWL3484 as security to Avatar Finance Pty Ltd when entering into the Legune lease agreement.

33 Subsidiaries and transactions with non-controlling interests

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries.

| Name of entity | Country of incorporation | Class of shares | Equity holding | |
|--|--------------------------|-----------------|----------------|-----------|
| | | | 2020 % | 2019 % |
| Seafarms Operations Pty Limited (formerly Seafarms Operations Limited) | Australia | Ordinary | 100 | 100 |
| Marine Harvest Australia Pty Ltd | Australia | Ordinary | 100 | 100 |
| Seafarms Hinchinbrook Pty Ltd | Australia | Ordinary | 100 | 100 |
| Project Sea Dragon Pty Ltd | Australia | Ordinary | 100 | 100 |
| Marine Farms Pty Ltd | Australia | Ordinary | 100 | 100 |
| Seafarm Queensland Pty Ltd | Australia | Ordinary | 100 | 100 |
| PSD Construction Employment Pty Ltd | Australia | Ordinary | 100 | 100 |

The subsidiaries, remaining after the demerger of the carbon entities on 23 July 2018, have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 34.

34 Deed of cross guarantee

All companies in the Group are parties to a deed of cross-guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

The balance sheet and income statement of the closed group is the same as that of the consolidated entity.

Set out below is a consolidated income statement for the 12 months ended 30 June 2020 of the Closed Group consisting of Seafarms Group Limited, Seafarms Operations Limited, Marine Farms Pty Ltd, Marine Harvest Australia Pty Ltd, Seafarm Queensland Pty Ltd, Seafarm Hinchinbrook Pty Ltd, PSD Construction Employment Pty Ltd and Project Sea Dragon Pty Ltd.

34 Deed of cross guarantee (continued)

(a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings

| | 30 June 2020 \$ | 30 June 2019 \$ |
|---|--------------------------------|--------------------------------|
| <i>Consolidated statement of profit or loss</i> | | |
| Revenue from continuing operations | 27,815,691 | 24,394,803 |
| Other (losses) / income | 781,354 | (12,349) |
| Fair value adjustment of biological assets | (127,187) | (1,485,164) |
| Fair value adjustment of finished goods | 872,015 | 531,275 |
| Consulting expense | (2,913,406) | (4,634,729) |
| Legal fees | (1,180,269) | (1,553,965) |
| Travel | (1,146,947) | (1,835,123) |
| Insurance | (891,239) | (339,268) |
| Rent | (56,075) | (278,001) |
| Research & development | (1,526,911) | (3,900,021) |
| Marketing | (135,465) | (173,358) |
| Founder stock centre | (1,592,042) | (3,355,144) |
| Finance costs | (4,988,476) | (2,720,196) |
| Impairment of intangible assets | - | (1,207,187) |
| Cost of goods sold | (29,557,312) | (24,464,571) |
| Other expenses | (1,671,869) | (1,755,741) |
| Employee benefits expense | (5,128,772) | (6,417,104) |
| Depreciation and amortisation expense | (4,095,758) | (2,334,282) |
| Loss before income tax | (25,542,668) | (31,540,125) |
| Income tax (expense) benefit | - | - |
| Loss for the period | (25,542,668) | (31,540,125) |
| | 30 June 2020 \$ | 30 June 2019 \$ |
| <i>Consolidated statement of comprehensive income</i> | | |
| Loss for the period | (25,542,668) | (31,540,125) |
| Total comprehensive loss for the period | (25,542,668) | (31,540,125) |

(b) Consolidated statement of financial position

Set out below is a consolidated balance sheet as at 30 June 2020 of the Closed Group consisting of Seafarms Group Limited, Seafarms Operations Limited, Marine Farms Pty Ltd, Marine Harvest Australia Pty Ltd, Seafarm Queensland Pty Ltd, Seafarm Hinchinbrook Pty Ltd, PSD Construction Employment Pty Ltd and Project Sea Dragon Pty Ltd.

34 Deed of cross guarantee (continued)

| | 30 June 2020 \$ | 30 June 2019 \$ |
|--------------------------------------|-----------------------|-----------------------|
| Current assets | | |
| Cash and cash equivalents | 6,466,055 | 16,302,589 |
| Trade receivables | 2,634,029 | 2,516,486 |
| Inventories | 10,684,684 | 12,598,297 |
| Other current assets | 1,294,230 | 912,605 |
| Biological assets | 2,683,903 | 3,590,388 |
| Total current assets | 23,762,901 | 35,920,365 |
| Non-current assets | | |
| Other non-current assets | 5,000,000 | 5,000,000 |
| Property, plant and equipment | 24,112,699 | 44,153,896 |
| Right-of-use assets | 21,811,204 | - |
| Total non-current assets | 50,923,903 | 49,153,896 |
| Total assets | 74,686,804 | 85,074,261 |
| Current liabilities | | |
| Trade and other payables | 6,897,607 | 7,929,886 |
| Lease liabilities | 2,125,372 | - |
| Provisions | 1,459,130 | 1,219,639 |
| Borrowings | 632,599 | 380,453 |
| Total current liabilities | 11,114,708 | 9,529,978 |
| Non-current liabilities | | |
| Borrowings | 14,337,490 | 36,222,388 |
| Lease liabilities | 18,646,747 | - |
| Provisions | 165,582 | 109,440 |
| Total non-current liabilities | 33,149,819 | 36,331,828 |
| Total liabilities | 44,264,527 | 45,861,806 |
| Net assets | 30,422,277 | 39,212,455 |
| Equity | | |
| Issued capital | 172,054,845 | 154,757,354 |
| Reserves | 12,017,437 | 12,017,437 |
| Accumulated losses | (153,650,005) | (127,562,336) |
| Total equity | 30,422,277 | 39,212,455 |

35 Events occurring after the reporting period

The Company has negotiated a \$7 million unsecured loan facility from an unrelated party on normal and usual terms. The loan is repayable on the earlier of any equity raising or 30 September 2021.

At the date of this report no other matter or circumstance has occurred subsequent to 30 June 2020 that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

36 Reconciliation of loss for the year to net cash flows from operating activities

| | Consolidated | |
|---|---------------------|----------------|
| | 30 June | 30 June |
| | 2020 | 2019 |
| | \$ | \$ |
| Loss for the year | (25,542,668) | (30,944,301) |
| Depreciation and amortisation | 4,095,758 | 2,334,282 |
| Impairment of intangibles | - | 1,207,187 |
| Non-cash employee benefits expense - share-based payments | - | 1,019,903 |
| Accrued interest | 2,854,222 | - |
| Net losses on sale of non-current assets | - | 12,349 |
| Fair value change | (744,828) | - |
| Interest income received | - | (111,220) |
| Change in operating assets and liabilities: | | |
| (Increase)/decrease in trade debtors and receivables | (117,543) | 1,445,860 |
| (Increase)/decrease in other current assets | (381,625) | 137,086 |
| Decrease/(increase) in inventories | 2,785,628 | (5,118,697) |
| Decrease/(increase) in biological assets | 779,298 | 2,190,937 |
| Decrease/(increase) in other operating assets | - | 939,061 |
| (Decrease)/increase in trade creditors | (1,032,277) | (933,336) |
| Increase/(decrease) in other operating liabilities | - | (1,807,140) |
| Increase/(decrease) in other provisions | 295,633 | (434,677) |
| Net cash outflow from operating activities | (17,008,402) | (30,062,706) |

37 Earnings per share

(a) Basic earnings per share

| | Consolidated | |
|---|---------------------|----------------|
| | 30 June | 30 June |
| | 2020 | 2019 |
| | Cents | Cents |
| Basic earnings per share from continuing operations | (1.24) | (1.86) |
| From discontinued operation | - | 0.04 |
| Total basic earnings per share attributable to the ordinary owners of the Company | (1.24) | (1.82) |

(b) Diluted earnings per share

| | Consolidated | |
|---|---------------------|----------------|
| | 30 June | 30 June |
| | 2020 | 2019 |
| | Cents | Cents |
| Diluted earnings per share from continuing operations | (1.24) | (1.86) |
| From discontinued operation | - | 0.04 |
| Total basic earnings per share attributable to the ordinary owners of the Company | (1.24) | (1.82) |

37 Earnings per share (continued)

(c) Reconciliation of earnings used in calculating earnings per share

| | Consolidated | |
|--|--------------------------------|--------------------------------|
| | 30 June 2020 \$ | 30 June 2019 \$ |
| <i>Basic earnings per share</i> | | |
| Loss from continuing operations | (25,542,668) | (31,540,125) |
| From discontinued operation | - | 595,824 |
| | (25,542,668) | (30,944,301) |
| <i>Diluted earnings per share</i> | | |
| Loss from continuing operations | (25,542,668) | (31,540,125) |
| Loss from continuing operations attributable to the ordinary equity holders of the Company | (25,542,668) | (31,540,125) |
| Profit/(loss) from discontinued operation | - | 595,824 |
| Loss attributable to the ordinary equity holders of the company used in calculating diluted earnings per share | (25,542,668) | (30,944,301) |

Due to the net loss position of the Group, any conversion to shares would be anti-dilutive.

(d) **Weighted average number of shares used as denominator**

| | Consolidated | |
|--|------------------------------------|------------------------------------|
| | 30 June 2020 Number | 30 June 2019 Number |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 2,060,717,598 | 1,697,780,679 |

38 Share-based payments

Share based compensation payments are provided to employees in accordance to the "Seafarms Group's Employee Incentive Plan" as detailed in the remuneration report.

Share based compensation payments are measured at the fair value of the equity instruments at the grant date. The fair value at grant date is independently determined using the valuation method detailed in the remuneration report.

The fair value of the equity instruments granted is adjusted to reflect market Vesting Conditions, but excludes the impact of any non-market Vesting Conditions. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Upon the exercise of performance rights, the balance of the share based payments reserve relating to those performance rights is transferred to issued capital and the proceeds received, net of any directly attributable transaction costs, are credited to issued capital. The Group measures the cost of equity settled transactions with key management personnel at the fair value of the equity instruments at the date at which they are granted. Fair value is determined using valuation methods detailed in the remuneration report.

38 Share-based payments (continued)

The variables in the valuation model are the share price on the date of the award, the duration of the award, the risk free interest rate, share price volatility and dividend yield. The inputs used for each of the current schemes is provided below.

| Scheme | Risk free interest rate | Share price volatility | Dividend yield | Value (cents per share) |
|------------------|--------------------------------|-------------------------------|-----------------------|--------------------------------|
| Unlisted options | 2.01% to 2.19% | 61% to 64% | - | 2.2 |

| Details | 30 June 2020 | | 30 June 2019 | |
|------------------------------------|---------------------------------|---|--------------------------------|---|
| | Number of shares options | Weighted average exercise price (cents per unit) | Number of share options | Weighted average exercise price (cents per unit) |
| Outstanding at beginning of year | 35,000,000 | 9.70 | 35,000,000 | 9.70 |
| Outstanding at the end of the year | 35,000,000 | 9.70 | 35,000,000 | 9.70 |

The options outstanding at 30 June 2020 had a weighted average exercise price of 9.7 cents per option and a weighted average remaining contractual life of 1 year. In 2018, options were granted on 22 August 2017 and 19 January 2018. The aggregate of the estimated fair value of the options granted on those dates were \$779,276. The inputs into the Black Scholes model are as follows:

| | 30 June 2020 | 30 June 2019 |
|---|---------------------|---------------------|
| Weighted average share price (cents per share) | 6.4 | 6.4 |
| Weighted average exercise price (cents per share) | 9.7 | 9.7 |
| Expected volatility | 61% to 64% | 61% to 64% |
| Expected life (years) | 2 | 2 |
| Risk-free interest rate | 2.01% to 2.19% | 2.01% to 2.19% |
| Expected dividends yield | 0% | 0% |

For all awards, the volatility assumption is representative of the level of uncertainty expected in the movements of the Group's share price over the life of the award. The assessment of the volatility includes the historic volatility of the market price of the Group's share and the mean reversion tendency of volatilities. The expected volatility of each company in the peer group is determined based on the historic volatility of the companies' share prices. In making this assumption, eighteen months of historic volatility was used.

(a) Unlisted share options issued

On 7 August 2018, the Group issued 5,320,622 unlisted share options to Nippon Suisan Kaisha Limited (Nissui). The options are subject to a voluntary 3-year escrow period (i.e. from 7 August 2018 to 7 August 2021) during which Nissui is prohibited from transferring the options (or the ordinary shares in Seafarms issued subsequent to the exercise of options) without the consent of Seafarms. The options have an exercise period of 5 years from 7 August 2018 to 1 June 2023 at an exercise price of \$0.062 per unlisted option. At the 30 June 2020, these 5,320,622 unlisted options remain unexercised.

On 12 December 2018, the Group issued 50,000,000 and 30,000,000 unlisted share options to AAM Investment Partners as part of the Legune transaction. Both sets of options are subject to a 12-month escrow period from the date of the Legune Station completion (i.e. from 12 December 2018 to 12 December 2019) during which AAM Investment Partners is prohibited from transferring the options (or the ordinary shares in Seafarms issued subsequent to exercise of options) without the consent of Seafarms. The options have an exercise period of 3 years from 12 December 2018 to 12 December 2021 and 5 years from 12 December 2018 to 12 December 2023 respectively at an exercise price of \$0.097 per unlisted option. At the 30 June 2020, both the 50,000,000 and 30,000,000 unlisted options remain unexercised.

38 Share-based payments (continued)

The fair value of the unlisted share options was determined using the Black-Scholes model using the following inputs as at each grant date:

| Unlisted option holder | Nissui | AAM Investment Partners | AAM Investment Partners |
|-----------------------------------|---------------|--------------------------------|--------------------------------|
| Grant date | 7 August 2018 | 12 December 2018 | 12 December 2018 |
| Number of unlisted options issued | 5,320,622 | 50,000,000 | 30,000,000 |
| Exercise price | \$0.062 | \$0.097 | \$0.097 |
| Annualised volatility | 85.0% | 85.0% | 85.0% |
| Dividend yield | 0% | 0% | 0% |
| Risk-free interest rate | 2.261% | 1.944% | 2.05% |
| Assessed fair value per option | \$0.0745 | \$0.0559 | \$0.068 |

39 Contingent liabilities

(a) Contingent liabilities

The Group has entered into an agreement whereby the Group will provide a loan of \$5 million to AAM Licensees Pty Ltd when financial close has occurred. The loan is at market interest rates and repayable upon completion of stage 1 of Project Sea Dragon. If financial close has not occurred on/before 12 December 2023 AAM Licensees Pty Ltd will be irrevocably released from the obligation to repay the outstanding loan.

40 Parent entity financial information

(a) Summary financial information

The individual financial statements for the Parent entity show the following aggregate amounts:

| | 30 June 2020 | 30 June 2019 |
|-----------------------------|-------------------------|-----------------|
| | \$ | \$ |
| Balance sheet | | |
| Current assets | 116,210,114 | 111,787,967 |
| Non-current assets | 28,762,984 | 23,798,429 |
| Total assets | 144,973,098 | 135,386,396 |
| Current liabilities | 5,043,464 | 2,455,815 |
| Non-current liabilities | 32,489,240 | 30,308,282 |
| Total liabilities | 37,532,704 | 32,764,097 |
| Net assets | 107,440,394 | 102,622,299 |
| <i>Shareholders' equity</i> | | |
| Issued capital | 172,044,211 | 154,746,719 |
| Reserves | | |
| Reserves | 12,042,178 | 11,581,370 |
| Retained earnings | (76,645,995) | (63,505,790) |
| | 107,440,394 | 102,822,299 |

40 Parent entity financial information (continued)

| | | |
|---------------------------------|---------------------|---------------------|
| Loss for the period | <u>(12,150,419)</u> | <u>(20,507,025)</u> |
| Total comprehensive loss | <u>(12,150,419)</u> | <u>(20,507,025)</u> |

(b) Guarantees entered into by the parent entity

There are cross guarantees given by Seafarms Group Limited and all its subsidiaries as described in note 34. No deficiencies of assets exist in any of these companies. The parent company has given no other guarantees.

(c) Contingent liabilities of the parent entity

The Parent entity did not have any contingent liabilities as at 30 June 2020 or 30 June 2019. For information about guarantees given by the Parent entity, please see above.

(d) Contractual commitments for the acquisition of property, plant or equipment

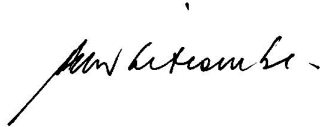
As at 30 June 2020, the parent entity had no contractual commitments for the acquisition of property, plant or equipment.

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 25 to 83 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the financial period ended on that date, and
- (b) the financial statements and notes set out on pages 25 to 83 are also in accordance with the international financial reporting standards issued by the International Accounting Standards Board
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
- (d) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed Group identified in note 34 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 34.

The Directors have been given the declarations by the executive chairman and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.



Harley Ronald Whitcombe
Perth
29 September 2020

Independent Auditor's Report to the members of Seafarms Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Seafarms Group Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|---|
| <p>Valuation of Biological assets</p> <p><i>Refer to Note 3 'Critical accounting estimates and judgements' and Note 15 'Biological assets'</i></p> <p>As at 30 June 2020 the Group held \$2.7 million of biological assets. This balance comprises the hatchery live crop of \$1 million, carried at cost, and live prawns of \$1.7 million carried at fair value less estimated costs to sell.</p> <p>In order to determine the fair value of the live prawns, management prepare a discounted cash flow model ("DCF") which requires them to exercise significant judgement in respect of:</p> <ul style="list-style-type: none"> • Survival rates; • Harvest average body weight; • Average production cost per kilogram; and • Sales price per type and category of prawn. | <p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the processes and relevant controls over the key inputs and assumptions used by management to determine fair value; • Assessing the appropriateness of the valuation methodology; • Assessing and challenging the key assumptions in the DCF model as follows: <ul style="list-style-type: none"> ○ Survival rates by comparing to historical trends; ○ Harvest average body weight by comparing to historical trends; ○ Average production cost per kilogram by comparing to historical trends and testing a sample of recent costs to external supporting evidence; and ○ Sales price per type and category of prawn by comparing to recent historical sales prices and industry data. • Challenging the appropriateness of the discount rate used in the DCF model; and • Performing sensitivity analysis on the key assumptions outlined above. <p>We also assessed the appropriateness of the disclosure in the Notes to the financial statements.</p> |

| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|--|
| <p>Carrying amount of non-current assets – Queensland aquaculture</p> <p><i>Refer to Note 16 ‘Property, plant and equipment’</i></p> <p>As at 30 June 2020 the carrying value of property, plant and equipment for the Queensland Aquaculture cash-generating-unit (“CGU”) was \$24.1 million.</p> <p>Management has assessed the recoverable amount of the CGU using the Fair Value Less Cost of Disposal (“FVLCD”) method.</p> <p>In the impairment assessment, the most significant area of judgement applied by management relates to the estimated fair value per hectare of the land on which the farms are located.</p> | <p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Evaluating the reasonableness of management’s judgement in relation to non-current asset impairment indicators and the adoption of the FVLCD method; • Assessing whether management had included all appropriate assets and liabilities in the CGU; • Assessed if management’s FVLCD assessment was performed in accordance with the relevant accounting standards; • In conjunction with our valuation experts: <ul style="list-style-type: none"> ○ Assessing the fair value per hectare used in the assessment; and ○ Evaluating the competence and objectivity of the third-party expert utilised by management. • Performing sensitivity analysis on the fair value per hectare. <p>We also assessed the appropriateness of the disclosures in Note 16 to the financial statements.</p> |
| <p>Future Funding</p> <p><i>Refer to note 1(c) ‘Going concern’</i></p> <p>The Group continually monitors cash flow requirements to ensure the Group’s contractual commitments can be met.</p> <p>We note that the Group has discretion to defer non-committed expenditure on the development of Project Sea Dragon until such time as it achieves financial close on the planned capital and debt funding raising.</p> | <p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Assessing the financial position of the Group as at 30 June 2020 and up to date of the financial report; • Challenging the underlying assumptions reflected in management’s cash flow forecasts, including performing sensitivity analysis; • Assessing the historical accuracy of the forecasts prepared by management; • Inquiring with management and the board as to knowledge of events and conditions that may impact: |

| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|--|--|
| <p>The adequacy of project funding and liquidity as well as the relevant impact on the going concern assessment is due to the inherent uncertainties associated with securing the level of funding required and the timing of achieving financial close.</p> | <ul style="list-style-type: none"> ○ The assessment on the Group's ability to pay its debts as and when they fall due; and ○ Achieving financial close in relation to Project Sea Dragon. ● Confirming the receipt of payments received subsequent to year end. <p>We also assessed the appropriateness of the disclosures in Note 1 to the financial statements.</p> |

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020 but does not include the financial report and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in on pages 13 to 22 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Seafarms Group Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Peter Rupp

Partner

Chartered Accountants

Perth, 29 September 2020

Seafarms Group Limited
Shareholder information
30 June 2020

The Shareholder information set out below was applicable as at 30 June 2020.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

| Holding | Ordinary shares |
|------------------|----------------------|
| 1 - 1000 | 57,454 |
| 1,001 - 5,000 | 1,573,993 |
| 5,001 - 10,000 | 6,031,561 |
| 10,001 - 100,000 | 97,138,155 |
| 100,001 and over | 2,317,461,138 |
| | <u>2,422,262,301</u> |

B. Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

| Name | Ordinary shares | |
|---|----------------------|-----------------------------|
| | Number held | Percentage of issued shares |
| Nippon Suisan Kaisha Ltd | 283,230,208 | 11.69 |
| Avatar Industries Pty Ltd (SRN) | 245,791,047 | 10.15 |
| The Elsie Cameron Foundation Pty Ltd | 208,333,333 | 8.60 |
| Gabor Holdings Pty Ltd (The Tricorp A/C) | 196,685,268 | 8.12 |
| Avatar Industries Pty Ltd (SRN) | 158,984,969 | 6.56 |
| JB Were (NZ) Nominees Limited <56871 A/c> | 65,793,651 | 2.72 |
| USB Nominees Pty Ltd | 54,674,781 | 2.26 |
| Thirty Celebration Pty Ltd <JC McBain Super Fund A/c> | 53,047,460 | 2.19 |
| Avatar Industries Pty Ltd (HIN) | 48,916,666 | 2.02 |
| Alocasia Pty Limited <Camellia Super Fund A/C> | 43,017,931 | 1.78 |
| Fifty Second Celebration Pty Ltd <JC McBain Family A/c> | 42,706,917 | 1.76 |
| Pinnacle Superannuation P/L <PJF S/FA/C> | 37,916,666 | 1.57 |
| Wilbow Group Equities Pty Ltd | 21,172,914 | 0.87 |
| Gabor Holdings Pty Ltd | 21,016,472 | 0.87 |
| Rubi Holdings Pty Ltd <John Rubino S/F A/C> | 20,000,000 | 0.83 |
| Peta Pty Ltd <Rosebud Super Pension Fund> | 17,143,730 | 0.71 |
| Narrow Lane Pty Ltd <Super Fund> | 17,000,229 | 0.70 |
| Crestpark Investments Pty Ltd | 15,415,465 | 0.64 |
| CO2 T'EE Employee Share Plan Pty Ltd <CO2 Employee Share A/C> | 13,500,000 | 0.56 |
| City Lane Pty Ltd <The Whitcombe Family A/c> | 10,017,128 | 0.41 |
| | <u>1,574,364,835</u> | <u>65.01</u> |

C. Substantial holders

Substantial holders in the Company are set out below:

| | Number held | Percentage |
|---|-------------|------------|
| Gabor Holdings Pty Ltd (and associates) | 675,871,221 | 27.90% |
| Nippon Suisan Kaisha Ltd | 283,230,208 | 11.69% |