seafarms

ASX Announcement | 28 February 2020
Seafarms Group Limited (ASX:SFG)
(ASX Announcement 641)

# Seafarms Group Results for the Half-Year Ended 31 December 2019

Attached is Seafarms Group's Report for the half-year ended 31 December 2019 including ASX Appendix 4D.

Ends.

Authorised by the Board of Seafarms Group Limited.

For further information, please contact:


**Seafarms Group**

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Company Secretary
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# Seafarms Group Limited

ABN 50 009 317 846

# Interim financial report for the half-year 31 December 2019

# Seafarms Group Limited
# Appendix 4D
# Half-year 31 December 2019

Name of entity
Seafarms Group Limited

ABN or equivalent company reference

ABN 50 009 317 846

Half-year

31 December 2019
(Previous corresponding period: 31 December 2018)

## Results for announcement to the market

| | | | | $ |
|---|---|---|---|---|
| Revenue from ordinary activities | Up | 20.1% | to | 21,543,045 |
| Net loss for the period attributable to members | Down | 7.4% | to | (12,259,005) |
| Loss from ordinary activities after tax attributable to members | Down | 7.4% | to | (12,259,005) |

| **Dividends / distributions** | **Amount per security** | **Franked amount per security** |
|---|---|---|
| Final dividend (per share) | - | - |
| Interim dividend | - | - |

| | **31 December 2019** | **31 December 2018** |
|---|---|---|
| Net tangible asset backing (per share) | **0.02** | 0.02 |

# Seafarms Group Limited

ABN 50 009 317 846

# Interim financial report - 31 December 2019



## Contents



This financial report covers the consolidated financial statements for the consolidated entity consisting of Seafarms Group Limited ("the Company") and its subsidiaries (together referred to as "the Group"). The financial report is presented in the Australian currency.

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

Its registered office is:
Seafarms Group Limited
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 2, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 28 February 2020.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial reports and other information are available at our Shareholders' Centre on our website: www.seafarms.com.au

| | |
|---|---|
| **Directors** | Ian Norman Trahar B.Ec, MBA<br>*Executive Chairman*<br>Harley Ronald Whitcombe B.Bus, CPA<br>Dr Christopher David Mitchell PhD, BSc (Hons), GAICD<br>Paul John Favretto LL.B.<br>Hisami Sakai<br>Naoto Sato - Alternate for Hisami Sakai |
| **Secretary** | Harley Ronald Whitcombe B.Bus, CPA |
| **Principal registered office in Australia** | Level 11, 225 St Georges Terrace<br>Perth, Western Australia 6000<br>(08) 9216 5200 |
| **Share register** | Computershare Investor Services Pty Limited<br>GPO Box D182<br>Perth, Western Australia 6000<br>(08) 9323 2000 |
| **Auditor** | Deloitte Touche Tohmatsu<br>Chartered Accountants<br>123 St Georges Terrace<br>Perth WA 6000 |
| **Bankers** | HSBC Bank Australia Limited<br>190 St Georges Terrace<br>Perth, Western Australia 6000<br><br>Australia and New Zealand Banking Group Limited<br>77 St Georges Terrace<br>Perth WA 6000 |
| **Stock exchange listings** | Seafarms Group Limited shares are listed on the Australian Securities Exchange.<br>ASX code - SFG. |
| **Website** | www.seafarms.com.au |

## Directors' report

### Directors

The following persons held office as Directors of Seafarms Group Limited during the financial period:

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

The above-named directors held office during and since the end of the half-year unless otherwise stated.

### Company financial performance

The overall financial performance during the first half of the 2019 financial year reflects the investment being made by the Group in pursuing its expansion in aquaculture operations.

| | **Consolidated Half-year** | |
|---|---|---|
| | **31 December 2019 $** | 31 December 2018 $ |
| Total Revenue | **21,543,045** | 17,933,884 |
| Net loss after tax from continuing operations | **(12,259,005)** | (13,837,976) |
| Net profit after tax from discontinued operations | **-** | 595,824 |
| Net loss for the period | **(12,259,005)** | (13,242,152) |
| **Add back:** | | |
| Finance expenses | **2,679,944** | 925,640 |
| EBIT | **(9,579,061)** | (12,316,512) |
| Cash and cash equivalents | **2,113,937** | 8,523,900 |

The directors do not believe that they are able to provide any further comment or predictions on the Group's future financial performance other than what is included in the Group's ASX releases.

### Review of operations

*Operating results*

The Group's half-year net loss after tax from continuing and discontinued operations was $12,259,005 (31 December 2018: $13,242,151). Loss before interest and tax from continuing operations was $9,579,061 (31 December 2018: $12,316,512 loss). Revenue from continuing operations for the six months was up 20% to $21,543,045 (31 December 2018: $17,933,884). Basic loss per share from continuing and discontinued operations was 0.61 cents (31 December 2018: 0.82 cents loss). No dividend was declared for the period.

*Operations*

Seafarm Queensland Pty Ltd operates 150 hectares of prawn production ponds in Cardwell and Ingham (far north Queensland) where it produces circa 1,700 metric tonnes of black tiger and banana prawns that are distributed to Australian retailers and the domestic food service industry.

The Cardwell, Ingham and Flying Fish Point production hub continue to provide the platform for building the requisite management team systems, brand, logistics, science and management policy and procedures for the implementation and execution of Project Sea Dragon.

**Review of operations (continued)**

*Operations (continued)*

The company reported the completion of settlement ponds for incoming water at Farms 1 and 2 in Cardwell. This measure was deemed necessary to reduce biosecurity risk in an environment in which water quality can be variable and may be impacted by nearby activities.

The business continues to put in place mechanisms to improve broodstock availability, including investment in domestication and specific pathogen free animals. The Australian Research Council Industry Transformative Hub into advanced prawn breeding produced 37 families of domesticated prawns. The domesticated animals supplement the wild caught stock.

The process plant upgrade was completed with Seafarms delivering its first shipment of black tiger prawns to Nissui in Japan. The shipment was the culmination of significant upgrading to the process plant at Cardwell that included: enhancing grading capability, installation of a semi-individual quick freeze system and improved handling and loading facilities.

The Crystal Bay Prawns and Crystal Bay Tigers brand identities continue to be strong marketing assets and the company continues to increase its ranges and improve its offering to the domestic consumer.

*Project Sea Dragon*

The project ("PSD") entails a staged development to create a 10,000 ha export-focused, low cost producer of high quality Australian Black Tiger prawns. PSD plans to:

- ‘Industrialise’ known processes and technology;
- Pursue and capture significant science upside using clear adoption pathways;
- Occupy a global production cost profile in the bottom quartile of lowest cost producers;
- Deploy an operational approach more akin to food manufacturing than farming;
- Embrace its clean, sustainable, biosecure credentials.

The project is being developed across multiple sites at Exmouth (Western Australia), Point Ceylon at Bynoe Harbour (near Darwin), Gunn Point (near Darwin), Legune Pastoral Lease (Northern Territory) and Kununurra (Western Australia). The geographic separation of sites is designed to facilitate biosecurity. Each of the facilities is designed to deliver key product in the prawn supply production chain:

- Exmouth - specific pathogen free prawns
- Bynoe Harbour - improved prawn broodstock, and prawn post-larvae
- Gunn Point - post larvae
- Legune - prawn grow-out
- Kununurra - semi-individual quick frozen raw and cooked prawns for consumers.

Integration of the value-chain in this way provides for production efficiencies and enables the highest quality to be maintained at all points of the value-chain.

The half-year continued to see PSD progress.

Three additional cyclone rated sheds totalling 1,350 square meters of additional floor space for the Founder Stock Centre at Exmouth have been erected. Water conditioning and site management works were implemented to up-grade water quality and control systems at the site. Fit-out of the first shed comprising spawning facilities, larval rearing rooms and grow-out is complete, with the new facility providing x213 m2 of new tank area for grow-out broodstock maturation. A period of testing is underway prior to transfer of animals. The second and third sheds are ready for fit out.

The site for the breeding centre at Bynoe Harbour has been secured with fencing, access has been established with completion of an intersection at Fog Bay Rd and roading to the site suitable for construction now complete. The footprint for all Step 1 facilities was cleared, chain wire fencing installed to secure the site, the inlet (settlement) ponds were completed as were the outlet ponds, and the earthworks for the main facilities were levelled and compacted. The site is ready for construction pending finance.

**Review of operations (continued)**

*Operations (continued)*

*Project Sea Dragon (continued)*

For Legune significant work was been undertaken with further design, tender evaluation and negotiation on key packages of work. Expressions of Interest for the provision of a nominal 10MW power station under a build, own operate framework were sought and received. Formal tender documents for the power station and other key packages at Legune continued to be developed.

The Northern Territory Government proceeded with the construction of the Keep River Road to the Keep River and the bridge over it. The very late onset of the Wet Season enabled construction to continue through to the end of the calendar year. The Northern Territory Government announced that the Stage 1 works on the road were 65% complete and announcing the second stage works which include the bridge over Sandy Ck. This important piece of infrastructure is designed to provide year-round access.

Seafarms has identified its preferred option for the establishment of internet communications between Kununurra and Legune and within the extensive area of Legune.

The National Native Title Tribunal formally registered the Legune ILUA on 19th December 2019.

With all material approvals for construction of Stage 1 of Project Sea Dragon in place the company mandated GFI as lead arranger for finance of Project Sea Dragon.

**Equity raising**

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. In addition 208,333 options were exercised during the period amounting to $20,208. Equity raising costs for the half year amounted to $29,468.

**Matters subsequent to the end of the financial period**

The company signed an off-take agreement with the European Company Primstar BV for black tiger prawns from Project Sea Dragon. The 5 year agreement with an option to extend by agreement will open the EU market to product from Project Sea Dragon.

Upon completion of acceptance testing the first batch of animals was transferred to the recently completed facility at Exmouth.

In January 2020, Seafarms exercised its Option to Lease the land for the Kununurra processing plant from the WA Government. The ability to exercise the option was dependent upon a number of conditions precedent being met including the development plan for the site, granting of access easements, and plans being deposited with the State Authorities. Seafarms has received the Development Lease.

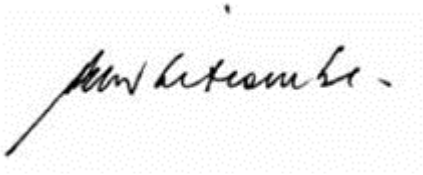
No other matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

**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 6.

This report is made in accordance with a resolution of directors made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the Directors.



Harley Ronald Whitcombe
Executive Director
Perth
28 February 2020

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

28 February 2020

Dear Board Members

**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 review of the financial statements of Seafarms Group Limited for the half-year ended 31 December 2019, 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 review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

**Peter Rupp**
Partner
Chartered Accountants
Perth, 28 February 2020

**Seafarms Group Limited**
**Condensed consolidated statement of profit or loss**
**For the half-year 31 December 2019**

| | Notes | Consolidated Half-year 31 December 2019 $ | 31 December 2018 $ |
|---|---|---|---|
| **Revenue from continuing operations** | | **21,543,045** | 17,933,884 |
| Fair value adjustment of biological assets | | **(34,906)** | (296,802) |
| Net realisable value adjustment of finished goods | | **(531,837)** | 220,593 |
| Cost of goods sold | | **(20,450,977)** | (16,862,711) |
| Employee benefits expense | | **(2,532,157)** | (2,856,935) |
| Depreciation and amortisation expense | | **(1,884,011)** | (929,558) |
| Consulting expense | | **(855,275)** | (2,580,048) |
| Legal fees | | **(269,153)** | (1,474,209) |
| Travel | | **(838,947)** | (1,141,281) |
| Insurance | | **(435,675)** | (140,129) |
| Rent | | **(4,064)** | (121,753) |
| Research and development | | **(724,819)** | (3,396,613) |
| Marketing | | **(48,683)** | (116,511) |
| Founder Stock Centre* | | **(729,585)** | - |
| Other expenses | | **(1,782,017)** | (1,150,263) |
| Finance costs | | **(2,679,944)** | (925,640) |
| **Loss before and after income tax** | | **(12,259,005)** | (13,837,976) |
| **Loss from continuing operations** | | **(12,259,005)** | (13,837,976) |
| Profit from discontinued operation | 6 | **-** | 595,824 |
| **Loss for the period** | | **(12,259,005)** | (13,242,152) |

* Founder Stock Centre expenses represents the operating costs of the Exmouth (Brood stock) facility.

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

**Seafarms Group Limited**
**Condensed consolidated statement of other comprehensive loss For the half-year 31 December 2019**

| | Consolidated Half-year | |
|---|---|---|
| | **31 December 2019** | 31 December 2018 |
| | **$** | $ |
| **Loss for the period** | **(12,259,005)** | (13,242,151) |
| **Other comprehensive (loss)/income** | | |
| *Items that may be reclassified to profit or loss* | | |
| **Other comprehensive (loss)/income for the period, net of tax** | **-** | - |
| **Total comprehensive (loss) for the period** | **(12,259,005)** | (13,242,151) |
| Total comprehensive (loss) for the period is attributable to: | | |
| Owners of Seafarms Group Limited | **(12,259,005)** | (13,242,151) |
| | **Cents** | Cents |
| **(Loss) per share from continuing and discontinued operations attributable to the ordinary equity holders of the Company:** | | |
| Basic (loss) per share | **(0.61)** | (0.82) |
| Diluted (loss) per share | **(0.61)** | (0.82) |
| **(Loss) per share from continuing operations attributable to the ordinary equity holders of the Company:** | | |
| Basic (loss) per share | **(0.61)** | (0.85) |
| Diluted (loss) per share | **(0.61)** | (0.85) |

*The above condensed consolidated statement of profit or loss and other comprehensive loss should be read in conjunction with the accompanying notes.*

**Seafarms Group Limited**
**Condensed consolidated statement of financial position**
**As at 31 December 2019**

| | Notes | Consolidated 31 December 2019 $ | 30 June 2019 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **2,113,937** | 16,302,589 |
| Trade and other receivables | | **6,602,311** | 2,516,486 |
| Inventories | | **3,610,233** | 12,598,297 |
| Other current assets | | **711,426** | 912,605 |
| Biological assets | 9 | **4,586,766** | 3,590,388 |
| **Total current assets** | | **17,624,673** | 35,920,365 |
| **Non-current assets** | | | |
| Property, plant and equipment | | **25,346,444** | 44,153,896 |
| Right-of-use assets | 2(a) | **22,615,420** | - |
| Other non-current assets | | **5,000,000** | 5,000,000 |
| **Total non-current assets** | | **52,961,864** | 49,153,896 |
| **Total assets** | | **70,586,537** | 85,074,261 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | **3,256,856** | 7,929,886 |
| Borrowings | | **-** | 380,453 |
| Lease liabilities | | **1,329,673** | - |
| Provisions | | **1,426,667** | 1,219,639 |
| **Total current liabilities** | | **6,013,196** | 9,529,978 |
| **Non-current liabilities** | | | |
| Borrowings | 7 | **14,060,845** | 36,222,388 |
| Lease liabilities | | **18,797,875** | - |
| Provisions | | **54,431** | 109,440 |
| **Total non-current liabilities** | | **32,913,151** | 36,331,828 |
| **Total liabilities** | | **38,926,347** | 45,861,806 |
| **Net assets** | | **31,660,190** | 39,212,455 |
| **EQUITY** | | | |
| Contributed equity | | **160,009,094** | 154,757,354 |
| Other reserves | 8(a) | **12,017,437** | 12,017,437 |
| Accumulated losses | | **(140,366,341)** | (127,562,336) |
| **Total equity** | | **31,660,190** | 39,212,455 |

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

**Seafarms Group Limited**
**Condensed consolidated statement of changes in equity**
**For the half-year 31 December 2019**

| Consolidated | Issued capital $ | Share-based payments reserve $ | Options premium reserve $ | Financial assets revaluation reserve $ | Accumulated losses $ | Total equity $ |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2018** | 103,674,332 | 4,516,569 | 1,670,705 | (24,740) | (93,994,063) | 15,842,803 |
| Loss for the period | - | - | - | - | (13,242,151) | (13,242,151) |
| **Total comprehensive loss for the period** | **-** | **-** | **-** | **-** | **(13,242,151)** | **(13,242,151)** |
| Contributions of equity & debt equity conversion net of transaction costs & tax | 24,979,506 | - | - | - | - | 24,979,506 |
| Recognition of share-based payments | - | 5,231,386 | - | - | - | 5,231,386 |
| De-merger of Carbon Entities | - | - | - | - | (2,623,972) | (2,623,972) |
| Revaluation of share-based payments | - | 78,132 | - | - | - | 78,132 |
| | 24,979,506 | 5,309,518 | - | - | (2,623,972) | 27,665,052 |
| **Balance at 31 December 2018** | **128,653,838** | **9,826,087** | **1,670,705** | **(24,740)** | **(109,860,186)** | **30,265,704** |

| Consolidated | Notes | Issued capital $ | Other equity* $ | Share-based payments reserve $ | Options premium reserve $ | Financial assets revaluation reserve $ | Accumulated losses $ | Total equity $ |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 July 2019** | | 154,757,354 | - | 10,371,472 | 1,670,705 | (24,740) | (127,562,336) | 39,212,455 |
| Loss for the period | | - | - | - | - | - | (12,259,005) | (12,259,005) |
| **Total comprehensive loss for the period** | | **-** | **-** | **-** | **-** | **-** | **(12,259,005)** | **(12,259,005)** |
| Contributions of equity & debt equity conversion net of transaction costs & tax | 5 | 2,990,740 | - | - | - | - | - | 2,990,740 |
| Value of conversion rights on convertible loan | 10 | - | 2,261,000 | - | - | - | - | 2,261,000 |
| Capital distribution* | 10 | - | - | - | - | - | (545,000) | (545,000) |
| | | 2,990,740 | 2,261,000 | - | - | - | (545,000) | 4,706,740 |
| **Balance at 31 December 2019** | | **157,748,094** | **2,261,000** | **10,371,472** | **1,670,705** | **(24,740)** | **(140,366,341)** | **31,660,190** |

* The amount shown for other equity is the value of the conversion rights relating to the Avatar Finance 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 conversion right).

Refer note 7 and note 10 for further detail.

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

**Seafarms Group Limited**
**Condensed consolidated statement of cash flows**
**For the half-year 31 December 2019**

| | Consolidated Half-year | |
|---|---|---|
| | **31 December 2019 $** | 31 December 2018 $ |
| **Cash flows from operating activities** | | |
| Receipts from customers (inclusive of goods and services tax) | **15,899,451** | 13,892,330 |
| Payments to suppliers and employees (inclusive of goods and services tax) | **(23,957,970)** | (30,006,120) |
| | **(8,058,519)** | (16,113,790) |
| Interest paid | **(2,491,944)** | (925,640) |
| **Net cash (outflow) from operating activities** | **(10,550,463)** | (17,039,430) |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | **(3,344,661)** | (2,252,870) |
| Interest received | **-** | 45,884 |
| **Net cash (outflow) from investing activities** | **(3,344,661)** | (2,206,986) |
| **Cash flows from financing activities** | | |
| (Payments)/proceeds from issues of shares and other equity securities | **(9,260)** | 24,979,506 |
| Proceeds/(repayment) of borrowings | **-** | (1,348,793) |
| Lease (payments)/proceeds | **(284,268)** | - |
| **Net cash (outflow)/inflow from financing activities** | **(293,528)** | 23,630,713 |
| **Net (decrease)/increase in cash and cash equivalents** | **(14,188,652)** | 4,384,297 |
| Cash and cash equivalents at the beginning of the period | **16,302,589** | 4,139,603 |
| **Cash and cash equivalents at end of period** | **2,113,937** | 8,523,900 |

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

## 1 Summary of significant accounting policies

### (a) Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 '*Interim Financial Reporting*'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 '*Interim Financial Reporting*'. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

### (b) Basis of preparation of half-year report

The condensed 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.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2019 annual financial report for the financial year ended 30 June 2019 except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

### (c) Going concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

For the half-year ended 31 December 2019, the Group incurred an operating cash outflow of $10,550,463 (31 December 2018: outflow $17,039,430) and a net loss for the period of $12,259,005 (31 December 2018: $13,242,152). At 31 December 2019, the Group had net current assets of $11,611,477 (30 June 2019: $26,390,387), including $2,113,937 cash and cash equivalents (30 June 2019: $16,302,589) .

The directors have prepared a cash flow forecast for the period ending 28 February 2021, which indicates the Group will have sufficient cash flow to fund its operations during the twelve month period from the date of signing this report, which has been based on the following assumptions:

(a) Cash receipts of at least $7 million in relation to the issuance of securities by April 2020;
(b) Continued deferral of planned but not committed expenditure on the development of Project Sea Dragon until such time as it achieves financial close on planned fund-raising activities;
(c) Managing and deferring Group costs and creditor payments where applicable to coincide with the fund-raising activity outlined above to ensure all obligations can be met.

The fund-raising initiative is advanced at the date of this report in order to raise the required additional funding. The Directors are confident this fund-raising initiative will be successful and the financial report has therefore been prepared on the going concern basis.

The Directors have reviewed the Group's overall position and outlook in respect of the matters outlined above and are of the opinion that there are reasonable grounds to believe that the operational and financial plans in place are achievable and accordingly the Group will be able to continue as a going concern and meet its obligations as and when they fall due.

Should the Directors not be successful in achieving the matters set out above, a material uncertainty would exist that may cast significant doubt on the ability of the Group to continue as a going concern and therefore whether it will be able to realise its assets and extinguish its liabilities in the normal course of business.

## 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 condensed 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 the 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%.

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 $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 initial application.

| | 2019<br>$ |
|---|---|
| Operating lease commitments disclosed as at 30 June 2019 | 486,567 |
| Discounted using the lessee's incremental borrowing rate of at the date of initial application | 1,353,584 |
| Add: finance lease liabilities recognised as at 30 June 2019 | 18,019,347 |
| **Lease liability recognised as at 1 July 2019** | **19,372,931** |
| Of which are: | |
| Current lease liabilities | 798,954 |
| Non-current lease liabilities | 18,573,977 |
| | 19,372,931 |

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 condensed consolidated statement of financial position as at 31 December 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 types of assets:

| | 31 December 2019<br>$ | 1 July 2019<br>$ |
|---|---|---|
| Properties (excluding make good provisions) | 21,630,292 | 22,209,249 |
| Equipment | 242,430 | 286,374 |
| Motor vehicles | 667,606 | 654,601 |
| **Total right-of-use assets (excluding make good provisions)** | **22,540,328** | **23,150,224** |
| Properties (make good provisions) | 75,092 | 129,372 |
| **Total right-of-use assets (including make good provisions)** | **22,615,420** | **23,279,596*** |

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

## 2 Changes in accounting policies (continued)

### (a) Adjustments recognised on adoption of AASB 16 (continued)

The change in accounting policy affected the following items in the condensed consolidated statement of financial position on 1 July 2019:

*(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 for 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.

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

The Group leases various property, equipment and motor vehicles. Rental contracts are typically made for fixed 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 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 that option.

The lease payments are discounted using the interest rate implicit in the lease. If that 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 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 carrying amounts of assets and liabilities within the next financial period are discussed below.

***Biological assets***

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 in the valuation of prawns 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.

***Estimated impairment of other non-current assets***

Determining whether other non-current assets are impaired requires an estimation of the value in use of the cash-generating units to which the assets have been allocated. The value in use calculation requires the directors to estimate 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.

***Impairment of 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.

***Lease term and valuation***

The Group makes estimates and assumptions concerning the exercising extension options included in lease agreements based on 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 terms specific variables.

***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 inception of the lease, of the items outlines below require significant management judgement:

- The likelihood that the purchase option will be exercised;

## 3 Critical accounting estimates and judgements (continued)

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

- The likelihood of extending the lease contract beyond the first 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 right-of-use asset, or an expense in the period of entering into the lease;
- Valuation of these other direct costs such as unlisted share options;
- 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 well as the right-of-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 and loss may arise.

## 4 Segment information

### (a) Description of segments

**Business segments**

*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.

*Other*

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

### (b) Segments

| **Half-year 31 December 2019** | **Aquaculture** | **Carbon services** | **Other** | **Consolidated** |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| **Segment revenue** | | | | |
| Sales to external customers | 21,499,429 | | - | 21,499,429 |
| Total sales revenue | 21,499,429 | | - | 21,499,429 |
| Other revenue | 2,002 | - | 41,614 | 43,616 |
| **Total segment revenue** | 21,501,431 | - | 41,614 | 21,543,045 |
| **Consolidated revenue** | | | | 21,543,045 |
| **Segment (loss)/profit** | | | | |
| Segment (loss)/profit | **(8,739,628)** | **-** | **(3,519,377)** | (12,259,005) |
| Central administration and directors' salaries | | | | - |
| Loss before income tax | | | | (12,259,005) |
| Income tax expense | | | | - |
| **Loss for the half-year** | | | | (12,259,005) |
| **Segment assets at 31 December 2019** | | | | |
| Segment assets | **63,516,122** | **-** | **2,052,302** | 65,568,424 |
| Unallocated assets | | | | 5,018,113 |
| **Total assets** | | | | 70,586,537 |

## 4 Segment information (continued)

### (b) Segments (continued)

| Half-year 31 December 2018 | Aquaculture | Carbon services | Other | Consolidated |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Segment revenue** | | | | |
| Sales to external customers | 17,888,000 | - | | 17,888,000 |
| Total sales revenue | 17,888,000 | - | - | 17,888,000 |
| Other revenue | 272 | - | 45,612 | 45,884 |
| **Total segment revenue** | 17,888,272 | - | 45,612 | 17,933,884 |
| **Consolidated revenue** | | | | 17,933,884 |
| **Segment profit/(loss)** | | | | |
| Segment loss | **(11,047,961)** | **595,824** | **(2,790,014)** | (13,242,151) |
| Central administration and directors' salaries | | | | |
| Loss before income tax | | | | (13,242,151) |
| Income tax benefit | | | | - |
| **Loss for the half year** | | | | (13,242,151) |
| **Segment assets at 30 June 2019** | | | | |
| Segment assets | **70,376,014** | **-** | **-** | 70,376,014 |
| Unallocated assets | | | | 14,698,247 |
| **Total assets** | | | | 85,074,261 |

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 and finance costs, 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.

## 5 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. In addition 208,333 options were exercised during the period amounting to $20,208. Equity raising costs for the half year amounted to $29,468.

## 6 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 being held to seek approval for the demerger of CO2 Australia Group from the Seafarms Group.

## 6 Discontinued operation (continued)

### (a) Description (continued)

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

The financial performance and cash flow information presented is for the half-year ended 31 December 2018.

| | 31 December 2018 $ |
|---|---|
| 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 | 595,824 |
| **Profit/(loss) from discontinued operation** | 595,824 |
| Net cash (outflow) from operating activities | (952,473) |
| Net cash (outflow) from investing activities | (20,223) |
| Net cash (outflow) from financing activities | (99,633) |
| **Net (decrease) in cash generated by the subsidiary** | (1,072,329) |

## 6 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 $ |
|---|---|
| Current 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 | |
| Provisions | 15,504 |
| **Total liabilities** | 2,850,396 |
| **Net assets** | 2,623,972 |

## 7 Non-current liabilities - Borrowings

| | Consolidated | |
|---|---|---|
| | **31 December 2019 $** | 30 June 2019 $ |
| **Secured** | | |
| Lease liabilities | **-** | 17,633,543 |
| Other loans | **5,188,845** | 5,188,845 |
| Total secured non-current borrowings | **5,188,845** | 22,822,388 |
| **Unsecured** | | |
| Loans from related parties (refer note 10) | **8,872,000** | 13,400,000 |
| Total non-current borrowings | **14,060,845** | 36,222,388 |

**Secured liabilities and assets pledged as security**

The Group has $66,500 (2018: $120,865) facility on its company credit cards and has been required to provide guarantee facilities of $227,005 (2018: $207,987) in respect of office leases. The Group maintains a term deposit 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 50% of interest accruing on the loan by issuing Seafarms Group Limited shares. This option has not been exercised during the current reporting period.

**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 10 for details of the convertible loan.

## 8 Reserves

### (a) Other reserves

| | Consolidated | |
|---|---|---|
| | **31 December 2019 $** | 30 June 2019 $ |
| Financial assets revaluation reserve | **(24,740)** | (24,740) |
| Share-based payments | **10,371,473** | 10,371,472 |
| Option premium reserve | **1,670,704** | 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

## Reserves

**(b) Nature and purpose of other reserves (continued)**

*(i) Share-based payments (continued)*

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

In determining the fair value of share based payments granted during the period, a key estimate requiring management judgement is the volatility and expected life input assumed within the option pricing model. The Group uses historical volatility of the Company to deter-mine an appropriate level of volatility expected, commensurate with the expected option life.

*(ii) Option premium*

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

*(iii) Financial assets revaluation reserve*

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

## 9 Fair value measurement

This note provides information about how the Group determines fair values of various financial assets including biological assets and financial liabilities.

**(a) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis**

The Group holds biological assets at fair value.

Biological assets of $4,586,766 (30 June 2018: $3,590,388) are valued utilising unobservable inputs including survival rates, average growth rates, feed costs, feed conversion ratio, power costs, the harvest weight of prawns, mortality rates, processing costs and the sale price of harvested prawns to customers. These are considered Level 3 inputs in the fair value measurement hierarchy set out in AASB13, *Fair Value Measurement.*

There have been no transfers between Level 1 and Level 2 in the period.

**(b) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis**

The Directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

**(c) Reconciliation of Level 3 fair value measurements**

| **Biological assets** | **31 December 2019 $** | 30 June 2019 $ |
|---|---|---|
| **Livestock at fair value** | | |
| Opening Balance | **3,590,387** | 5,781,325 |
| Gain or Loss arising from changes in fair value less estimated point of sale costs | **(34,906)** | (1,485,164) |
| Increases due to purchases | **10,191,439** | 5,075,553 |
| Decreases due to harvest | **(9,160,154)** | (5,781,325) |
| **Closing Balance** | **4,586,766** | 3,590,388 |

## 10 Related party transactions

### (a) Loans to/from related parties

During the period, the Group had a $15.2 million credit facility with Avatar Finance Pty Ltd, a company owned by Mr Ian Trahar, Chairman of the Group. The amounts repaid and interest charged are disclosed in the following table:

| | Consolidated | |
|---|---|---|
| | **31 December 2019 $** | 30 June 2019 $ |
| *Loan from Avatar Finance Pty Ltd* | | |
| Beginning of the year | **13,400,000** | 14,500,000 |
| Loans advanced | **-** | 5,600,000 |
| Debt equity conversion | **(3,000,000)** | - |
| Loan repayments made | **-** | (6,700,000) |
| Extinguishment of loan | **(10,400,000)** | - |
| Fair value of liability portion of convertible loan (note 7) | **8,684,000** | - |
| Interest charged | **509,812** | 759,426 |
| Interest paid | **(321,812)** | (759,426) |
| End of period | **8,872,000** | 13,400,000 |

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

### (b) 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 period was 5.88% (2019: 6.23%).

On 20 August 2019, at the extraordinary general meeting, shareholders 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 it election, convert amounts outstanding under the facility to shares at a price of 9 cents per share up to a 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.

## 11 Events occurring after the reporting period

The company signed an off-take agreement with the European Company Primstar BV for black tiger prawns from Project Sea Dragon. The 5 year agreement with an option to extend by agreement will open the EU market to product from Project Sea Dragon.

Upon completion of acceptance testing the first batch of animals was transferred to the recently completed facility at Exmouth.

## 11 Events occurring after the reporting period (continued)

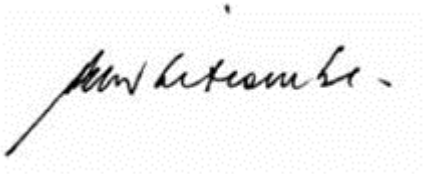
On 1 January 2020, Seafarms exercised its Option to Lease the land for the Kununurra processing plant from the WA Government. The ability to exercise the option was dependent upon a number of conditions precedent being met including the development plan for the site, granting of access easements, and plans being deposited with the State Authorities. Seafarms has received the Development Lease.

No other matter or circumstance has occurred subsequent to period end 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 in subsequent financial periods.

In accordance with a resolution of the Directors of Seafarms Group Limited, I state that in the opinion of the Directors:

- The financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
  - Giving a true and fair view of the financial position as at 31 December 2019 and the performance for the half-year ended on that date of the consolidated entity; and
  - Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.
- There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the board



Harley Ronald Whitcombe
Executive Director
Perth
28 February 2020

Deloitte.

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

We have reviewed the accompanying half-year financial report of Seafarms Group Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2019, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 7 to 24.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Seafarms Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte.



*Auditor's Independence Declaration*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Seafarms Group Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Seafarms Group Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Material Uncertainty Relating to Going Concern*

We draw attention to Note 1 in the half-year financial report which indicates that the consolidated entity incurred a net loss of $12,259,005 and incurred net cash outflows from operating activities of $10,550,463 for the period ended 31 December 2019. These conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

**Peter Rupp**
Partner
Chartered Accountants
Perth, 28 February 2020