# Seafarms Group Limited ABN 50 009 317 846
# Financial statements - 30 June 2018

## Contents



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 2, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 31 August 2018.

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

| | Notes | Consolidated 30 June 2018 $ | 30 June 2017 $ |
|---|---|---|---|
| **Revenue from continuing operations** | 5 | **35,051,906** | 35,739,152 |
| | | | |
| Other gains/(losses) | 6 | **318,115** | (368,179) |
| Finance costs | | **(1,077,166)** | (1,010,193) |
| Fair value adjustment of biological assets | | **593,507** | 944,497 |
| Fair value adjustment of finished goods | | **(842,994)** | 430,617 |
| Cost of Goods Sold | 7 | **(26,503,732)** | (26,681,625) |
| Plantation costs | | **(2,469,798)** | (2,246,329) |
| Employee benefits expense | 7 | **(7,523,661)** | (6,111,125) |
| Consulting expense | | **(2,343,888)** | (2,066,813) |
| Travel | | **(2,338,788)** | (1,943,848) |
| Rent | | **(430,673)** | (433,658) |
| Legal fees | | **(2,188,895)** | (234,612) |
| Depreciation and amortisation expense | 7 | **(1,948,524)** | (1,816,029) |
| Marketing | | **(201,548)** | (134,755) |
| Insurance | | **(256,170)** | (256,875) |
| Impairment of intangible assets | 19 | **(1,016,448)** | - |
| Research and development | 7 | **(4,919,002)** | (5,485,259) |
| Other expenses | | **(1,906,508)** | (1,719,257) |
| Share of profit/(loss) from associates | 34 | **60,560** | (111,875) |
| **Loss before income tax** | | **(19,943,707)** | (13,506,166) |
| | | | |
| Income tax expense | 8 | **(3,576)** | (6,269,297) |
| **Loss for the year** | | **(19,947,283)** | (19,775,463) |
| | | **Cents** | Cents |
| **Loss per share for loss attributable to the ordinary equity holders of the Company:** | | | |
| Basic loss per share | 37 | **(1.42)** | (1.75) |
| Diluted loss per share | 37 | **(1.42)** | (1.75) |

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

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| **Loss for the year** | **(19,947,283)** | (19,775,463) |
| **Other comprehensive income** | | |
| Total comprehensive loss for the year is attributable to: | | |
| Owners of Seafarms Group Limited | **(19,947,283)** | (19,775,463) |

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

| | Notes | Consolidated 30 June 2018 $ | 30 June 2017 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | **4,139,603** | 11,874,838 |
| Trade and other receivables | 10 | **3,962,346** | 1,597,295 |
| Inventories | 11 | **7,294,677** | 7,708,673 |
| Current tax receivables | 12 | **-** | 15,786 |
| Other current assets | 13 | **1,049,691** | 1,003,078 |
| Accrued income | 14 | **939,061** | 912,701 |
| Biological assets | 15 | **5,781,325** | 4,530,997 |
| Total current assets | | **23,166,703** | 27,643,368 |
| **Non-current assets** | | | |
| Inventories | 16 | **184,923** | 184,923 |
| Investments accounted for using the equity method | 34 | **409,268** | 348,708 |
| Property, plant and equipment | 17 | **20,130,079** | 19,302,139 |
| Intangible assets | 19 | **2,419,027** | 3,520,929 |
| Total non-current assets | | **23,143,297** | 23,356,699 |
| **Total assets** | | **46,310,000** | 51,000,067 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 20 | **8,890,367** | 6,026,605 |
| Borrowings | 21 | **2,958,701** | 447,186 |
| Provisions | 22 | **1,520,318** | 1,433,910 |
| Deferred revenue | 23 | **1,807,140** | 1,848,392 |
| Total current liabilities | | **15,176,526** | 9,756,093 |
| **Non-current liabilities** | | | |
| Borrowings | 24, 21 | **15,047,233** | 8,223,763 |
| Provisions | 25 | **243,438** | 301,591 |
| Total non-current liabilities | | **15,290,671** | 8,525,354 |
| **Total liabilities** | | **30,467,197** | 18,281,447 |
| **Net assets** | | **15,842,803** | 32,718,620 |
| **EQUITY** | | | |
| Contributed equity | 26 | **103,674,332** | 101,512,627 |
| Other reserves | 27(a) | **6,162,534** | 5,252,773 |
| Retained earnings | | **(93,994,063)** | (74,046,780) |
| **Total equity** | | **15,842,803** | 32,718,620 |

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

| **Consolidated** | Notes | **Issued capital $** | **Options premium reserve $** | **Financial assets revaluation reserve $** | **Share-based payments reserve $** | **Accumulated losses $** | **Total equity $** |
|---|---|---|---|---|---|---|---|
| **Balance at 1 July 2016** | | 79,021,152 | 1,670,705 | (24,740) | 3,606,808 | (54,271,317) | 30,002,608 |
| Loss for the year as reported in the 2017 financial statements | | - | - | - | - | (19,775,463) | (19,775,463) |
| **Total comprehensive loss for the period** | | **-** | **-** | **-** | **-** | **(19,775,463)** | **(19,775,463)** |
| **Transactions with owners in their capacity as owners:** | | | | | | | |
| Contributions of equity, net of transaction costs and tax | 26 | 22,491,475 | - | - | - | - | 22,491,475 |
| **Balance at 30 June 2017** | | **101,512,627** | **1,670,705** | **(24,740)** | **3,606,808** | **(74,046,780)** | **32,718,620** |
| | | | | | | | |
| **Balance at 1 July 2017** | | 101,512,627 | 1,670,705 | (24,740) | 3,606,808 | (74,046,780) | 32,718,620 |
| Loss for the period as reported in the 2018 financial statements | | - | - | - | - | (19,947,283) | (19,947,283) |
| **Total comprehensive loss for the period** | | **-** | **-** | **-** | **-** | **(19,947,283)** | **(19,947,283)** |
| **Transactions with owners in their capacity as owners:** | | | | | | | |
| Contributions of equity, net of transaction costs and tax | | 2,161,705 | - | - | - | - | 2,161,705 |
| Performance rights issued to employees | | - | - | - | 729,000 | - | 729,000 |
| Recognition of share-based payments | | - | - | - | 155,761 | - | 155,761 |
| Lapsed options in share based payments reserve | | - | - | - | 25,000 | - | 25,000 |
| | | 2,161,705 | - | - | 909,761 | - | 3,071,466 |
| **Balance at 30 June 2018** | | **103,674,332** | **1,670,705** | **(24,740)** | **4,516,569** | **(93,994,063)** | **15,842,803** |

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

| | Notes | Consolidated **30 June 2018 $** | 30 June 2017 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of goods and services tax) | | **32,602,213** | 36,679,784 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | **(47,995,748)** | (50,481,890) |
| | | **(15,393,535)** | (13,802,106) |
| Interest paid | | **(1,077,166)** | (1,010,193) |
| **Net cash outflow from operating activities** | 36 | **(16,470,701)** | (14,812,299) |
| | | | |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | **(2,794,033)** | (2,817,666) |
| Proceeds from other financial assets | | **-** | 313,190 |
| Interest received | | **32,809** | 62,754 |
| **Net cash outflow from investing activities** | | **(2,761,224)** | (2,441,722) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issues of shares and other equity securities | | **2,161,705** | 22,491,475 |
| Proceeds/(Repayment) of borrowings | | **9,334,985** | (1,646,148) |
| **Net cash inflow from financing activities** | | **11,496,690** | 20,845,327 |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | **(7,735,235)** | 3,591,306 |
| Cash and cash equivalents at the beginning of the period | | **11,874,838** | 8,283,532 |
| **Cash and cash equivalents at end of period** | 9 | **4,139,603** | 11,874,838 |

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

## Contents of the notes to the consolidated financial statements

## 1 Summary of significant accounting policies

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

### (b) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties, biological assets and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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:

- AASB 107 *Amendments to AASB 107 - Disclosure initiative*
- AASB 112 *Amendments to AASB 112 - Recognition of Deferred Tax Assets for Unrealised Losses*

**Amendments at AASB 107 Disclosure Initiative**

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The Group's liabilities arising from financing activities consist of borrowings (notes 21 & 24). A reconciliation between the opening and closing balances of these items is provided in note 21. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in note 21, the application of these amendments has had no impact on the Group's consolidated financial statements.

## 1 Summary of significant accounting policies (continued)

*New and amended standards adopted by the group (continued)*

**Amendments AASB 112 Recognition of Deferred Tax Assets for Unrealised Losses**

The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference. The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

*Standards and Interpretations in issue not yet adopted*

The following new or amended accounting standards issued by the AASB are relevant to current operations and may impact the Group in the period of initial application. They are available for early adoption but have not been applied in preparing this Financial Report.

| Standard/Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|---|---|
| AASB 9 *Financial Instruments* and the relevant amending standards | 1 January 2018 | 30 June 2019 |
| AASB 15 *Revenue from Contracts with Customers*, AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15* | 1 January 2018 | 30 June 2019 |
| AASB 16 *Leases* | 1 January 2019 | 30 June 2020 |
| Amendments to IFRS 2 *Classification and Measurement of Share-based Payments Transactions* | 1 January 2018 | 30 June 2019 |
| Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* | Date to be determined | Date to be determined |

**Impact of changes to Australian Accounting Standards and Interpretations**

*(i) AASB 9 'Financial Instruments', and the relevant amending standards*

AASB 9 applies to annual periods beginning on or after 1 January 2018.

AASB 9 Financial Instruments (revised December 2014) and AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014). This standard replaces AASB 139 Financial Instruments: Recognition and Measurement.

AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation of impairment on financial assets, and new general hedge accounting requirements. It also carries forward guidance on recognition and derecognition of financial instruments from AASB 139. The Group does not intend to early adopt the standard.

Retrospective application is required with some exceptions. Restatement of comparatives is not required, however, the comparative period can be restated if it can be done so without the use of hindsight.

The Group has undertaken an assessment of the classification, measurement and disclosure impacts and has determined that the new standard will have no significant or material impacts on the information otherwise presented in this Annual Report upon application of AASB 9.

## 1 Summary of significant accounting policies (continued)

*Standards and Interpretations in issue not yet adopted (continued)*

**Impact of changes to Australian Accounting Standards and Interpretations (continued)**

*(ii) AASB 15 'Revenue from Contracts with Customers'*

AASB 15 is effective for annual reporting periods commencing on or after 1 January 2018, which means that it will be effective for the Group's financial year ending 30 June 2019.

AASB 15 establishes a single comprehensive model for entities to use to account for revenue arising from contracts with customers. AASB 15 will supersede the current revenue guidance including AASB 118 'Revenue', and AASB 111 'Construction Contracts' and the related interpretations when it becomes effective.

The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration, which the entity expects to be entitled in exchange for those goods, or services.

The Group has performed an assessment of the impact of AASB 15, and does not expect the standard to give rise to a material impact with regard to the timing of revenue recognition or the overall financial performance of the Group. As part of the assessment management identified that certain payments to customers (relating to promotional expenditure), which are classified as expenses under the existing standard, will be offset against revenue based on the requirements relating to distinct goods and services prescribed by AASB 15 regarding these types of transactions. The effect of the change is not considered to be material to sales revenue.

*(iii) AASB 16 'Leases'*

AASB 16 applies to annual reporting periods beginning on or after 1 January 2019 and replaces AASB 117 Leases and the related interpretations. AASB 16 Leases specifies how to recognise, measure and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise right-of-use assets and lease liabilities for almost all leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of $1 million, refer to note 30: Commitments.

Some of the operating leases currently held expire prior to the implementation of the standard and decisions on future leases will be made on a case-case basis.

Consequently, the Group continues to monitor and quantify the effect of the new standard with each change to the leasing portfolio and any subsequent lease modifications.

The following effects to the Group's financial statements and disclosures are expected:

- Total assets and liabilities on the balance sheet will be grossed-up, due to the recognition of the right-to-use assets (non-current assets) and the corresponding fair value of lease liabilities. Current liabilities will also show an increase due to a portion of the lease liability being classified as a current liability;
- Straight-line operating lease rental expense will be replaced with a depreciation charge for the right-of-use assets and interest expense charged at the implicit rates on the lease liabilities;
- Compared to the current net earnings profile, interest expense will be greater earlier in a leases life due to the higher principal value, causing profit variability over the course of a leases life. This effect may be partially mitigated due to a mix of different leases held in the Group at different stages of their term; and
- Cash flows from financing activities will increase for repayment of principal portion of all lease liabilities.

Based on the assessment to date, the impact is expected to be minimal for the Group.

*(iv) 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;*

## 1 Summary of significant accounting policies (continued)

*Standards and Interpretations in issue not yet adopted (continued)*

**Impact of changes to Australian Accounting Standards and Interpretations (continued)**

*(iv) Other new accounting standards (continued)*

- 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) 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 2018 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)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the 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) Associates*

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iii) below), after initially being recognised at cost.

## 1 Summary of significant accounting policies (continued)

*(ii) Associates (continued)*

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as reduction in the carrying amount of the investment.

*(iii) Equity method*

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

*(iv) 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.

*(v) Joint ventures*

Jointly controlled assets
The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the joint venture are set out in note 34.

Joint venture entities
The interest in a joint venture partnership is accounted for using the equity method after initially being recognised at cost. Under the equity method, the share of the profits or losses of the partnership is recognised in profit or loss, and the share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. Details relating to the partnership are set out in note 34.

Profits or losses on transactions establishing the joint venture partnership and transactions with the joint venture are eliminated to the extent of the Group's ownership interest until such time as they are realised by the joint venture partnership on consumption or sale. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

## 1 Summary of significant accounting policies (continued)

### (d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

*(i) Project development fees and carbon sink project management fees*

Carbon sink project revenue is recognised in proportion to the work performed in relation to the product development and the various stages of completion of the carbon sinks. Work performed that has not been invoiced is recognised as revenue with a corresponding asset recorded on the balance sheet as accrued income. If payment has been received in excess of the stage of completion of the project, the liability is recognised in deferred income.

Management related income is recognised on an accrual basis in accordance with the substance of the relevant contract.

*(ii) Sale of environmental credits*

Revenue from the sale of environmental credits is recognised when the Group has transferred to the buyer the significant risks and rewards of the ownership of the environmental credits.

*(iii) Fee for services*

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- Installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period;
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

*(iv) Sale of Goods Revenue*

Revenue from the sale of prawns is recognised when the Group has transferred to the buyer the significant risks and rewards of the ownership of the prawns.

### (e) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance 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.

### (f) 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.

## 1 Summary of significant accounting policies (continued)

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 when there is a legally enforceable right to offset current tax assets and liabilities and when 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.

*(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 8.

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.

**(g) Leases**

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 17). Finance leases are capitalised at the lease's inception at the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement 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 property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 30). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

## 1 Summary of significant accounting policies (continued)

### (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) Impairment of assets

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 reviewed 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 to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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 that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (j) 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.

### (k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. Trade receivables are generally due for settlement within 30 days.

## 1 Summary of significant accounting policies (continued)

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement within ‘other expenses’. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the income statement.

### (l) 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.*

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.

The Group's asset development activities involve the development and management of carbon sinks under contract to third parties. It also involves the acquisition of forestry rights and other assets which are held to offer for resale to third parties.

### (m) 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.

### (n) Investments and other financial assets

*Classification*

The Group classifies its investments in the following categories: environmental credits at FVTPL, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

*(i) Environmental credits at fair value through profit or loss*

Environmental credits at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as other current assets.

## 1 Summary of significant accounting policies (continued)

*Classification (continued)*

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 10) and receivables in the balance sheet.

*(iii) Available-for-sale financial assets*

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long-term.

*Recognition and derecognition*

Regular purchases and sales of financial assets are recognised on trade date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. 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.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held to maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Loans and receivables are carried at amortised cost using the effective interest method.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

*Subsequent measurement*

Available-for-sale financial assets are subsequently carried at fair value. Gains or losses arising from changes in the fair value of available for sale assets are recorded through equity, unless there is an impairment.

Environmental credits at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'Environmental credits at FVTPL' category are presented in profit or loss within other income or other expenses in the period in which they arise.

Details on how the fair value of financial instruments is determined are disclosed in note 2.

*Fair value*

The fair values of environmental credits are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity specific inputs.

## 1 Summary of significant accounting policies (continued)

*Impairment*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in profit or loss.

**(o) 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. For carbon sinks held by the Group the economic benefits from the asset are consumed in a pattern which is linked to the production level of carbon credits. Such assets are depreciated on a unit of production basis. 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:

| | |
|---|---|
| - Freehold buildings | 10 - 50 years |
| - Ponds | 10 - 50 years |
| - Plant and equipment | 2 - 15 years |
| - Leasehold improvements | Length of lease |
| - Vehicles | 3 - 30 years |
| - Furniture, fittings and equipment | 5 years |
| - Carbon sinks | 30 - 50 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 (note 1(i)).

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

## 1 Summary of significant accounting policies (continued)

### (p) 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.

*(iv) Goodwill*

Goodwill is measured as described in note 1(h). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 4). CGUs (or groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or Group of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or Group of CGUs) and then to the other assets in the CGU (or groups of CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

*(v) NGAC Accreditation*

The accreditation under the New South Wales Greenhouse Gas Abatement Scheme (NSWGGAS) allows the Group to generate revenues from any single project and is transferrable between projects at no significant additional cost. During 2011 the Carbon Farming Initiative (CFI) received Royal Assent and the Clean Energy Bill passed through the House of Representatives. As at the 30 June 2018 the Group determined that the NGAC asset was no longer generating revenues therefore was no longer classified as a viable asset so the carrying value ($170,249) was written off.

## 1 Summary of significant accounting policies (continued)

### (q) Trade and other payables

These amounts represent liabilities for goods and services measured initially at fair value provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### (r) 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.

Borrowings are removed from the balance sheet 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.

### (s) 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.

### (t) Employee benefits

*(i) Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits 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 balance sheet.

*(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.

# 1 Summary of significant accounting policies (continued)

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

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.

**(u) 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 balance sheet.

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.

**(v) 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.

*(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.

## 1 Summary of significant accounting policies (continued)

*(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 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.

| | **Consolidated** | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| **Financial assets** | | |
| Cash and cash equivalents | **4,139,603** | 11,874,838 |
| Loans and receivables | **3,980,284** | 1,634,471 |
| Fair value through profit or loss | **192,475** | 186,504 |
| | **8,312,362** | 13,695,813 |
| **Financial liabilities** | | |
| Amortised cost | **26,896,301** | 14,697,554 |
| | **26,896,301** | 14,697,554 |

### (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 2018** | | 30 June 2017 | |
|---|---|---|---|---|
| | **Weighted average interest rate %** | **Balance $** | Weighted average interest rate % | Balance $ |
| Deposits at call | **1.6%** | **328,851** | 1.8% | 307,987 |
| Net exposure to cash flow interest rate risk | | **328,851** | | 307,987 |

*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.

## 2 Financial risk management (continued)

### (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.

In the carbon segment, trade accounts receivable consist mainly of a small number of large enterprises which have individual contracts for the management of carbon sinks, and the government for re-vegetation projects (eg the 20 million trees project). With very few customers, of which all have significant financial standing, the Group is able to maintain low levels of credit risk.

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 2018 $** | 30 June 2017 $ |
| **Trade receivables** | | |
| *Counterparties without external credit rating ** | | |
| Group 1 | **-** | - |
| Group 2 | **3,669,000** | 1,231,526 |
| Group 3 | **-** | - |
| | **3,669,000** | 1,231,526 |

* 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 adequate reserves, banking facilities and reserve borrowing facilities by continuously 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 $700,000 at the end of the reporting period (2017: $500,000).

## 2 Financial risk management (continued)

*(i) Financing arrangements (continued)*

*(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.

| **Contractual maturities of financial liabilities** <br> **At 30 June 2018** | **Less than 6 months** $ | **6 - 12 months** $ | **Between 1 and 2 years** $ | **Between 2 and 5 years** $ | **Over 5 years** $ | **Total contrac-tual cash flows** $ | **Carrying amount (assets)/ liabilities** $ |
|---|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | | |
| Trade payables | 8,890,367 | - | - | - | - | - | - |
| Bank Loan | 2,825,680 | - | - | - | - | - | - |
| Lease liabilities | 56,350 | 53,254 | 154,246 | 392,988 | - | - | 656,837 |
| Borrowings - Fixed rate 7.5% | 23,417 | - | - | - | - | - | - |
| Borrowings - variable rate (weighted average 2018: 5.95%, 2017: 5.68%) | - | - | - | 14,500,000 | - | - | 14,500,000 |
| **Total non-derivatives** | 11,795,814 | 53,254 | 154,246 | 14,892,988 | - | - | 15,156,837 |

| At 30 June 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | | |
| Trade payables | 6,026,605 | - | - | - | - | - | - |
| Lease liabilities | 20,212 | 20,888 | 43,892 | 179,871 | - | - | 264,863 |
| Borrowings - Fixed rate 7.5% | 326,665 | 79,420 | - | - | - | - | - |
| Borrowings - variable rate (weighted average 2018: 5.95%, 2017: 5.68%) | - | - | - | - | - | - | 8,000,000 |
| **Total non-derivatives** | 6,373,482 | 100,308 | 43,892 | 179,871 | - | - | 8,264,863 |

### (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).

## 2 Financial risk management (continued)

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2018:

| **Consolidated - at 30 June 2018** | **Level 1 $** | **Level 2 $** | **Level 3 $** | **Total $** |
|---|---|---|---|---|
| **Assets** | | | | |
| Biological assets | **-** | **-** | **5,781,325** | **5,781,325** |
| **Total assets** | **-** | **-** | **5,781,325** | **5,781,325** |

| Consolidated - at 30 June 2017 | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| **Assets** | | | | |
| Biological assets | - | - | 4,530,997 | 4,530,997 |
| **Total assets** | - | - | 4,530,997 | 4,530,997 |

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 note15.

## 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 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 goodwill and other non-current assets*

Determining whether goodwill and 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 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 carrying amount of goodwill at 30 June 2018 was $1,207,187 (30 June 2017: $1,207,187). No impairment losses were assessed in 2018 or 2017.

## 3 Critical accounting estimates and judgements (continued)

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

*(i) Revenue recognition*

The Group's policy for recognising revenue from project development is based on management's estimation of the stage of completion for these projects by reference to costs incurred compared to total estimated costs at completion. As at 30 June 2018, the group has recognised $939,061 (2017: $912,701)as accrued income and $1,807,140 (2017: $1,848,392) as deferred income as a result if the application of this policy.

*(ii) Development costs*

Management continually evaluates the commercial and technical feasibility of projects, together with the ability to complete the project and generate revenues. As at 30 June 2018, the Group has capitalised $1,211,840 (2017: $2,124,534) as development costs and recognised an impairment loss of $846,199 during the year (2017: -) as a result of following this policy.

## 4 Segment information

### (a) Description of segments

**Business Segments**
The Group operates wholly within three reportable segments, all located within Australia.

*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.

*Carbon services*
The establishment and management of carbon sinks and re-vegetation projects throughout Australia including the provision of abatement certificates generated from accredited forest carbon sinks owned by the Group and its customers, and trading in environmental credits.

*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 2018 is as follows:

## 4 Segment information (continued)

### (b) Segments (continued)

| **Year to 30 June 2018** | **Aquaculture** | **Carbon services** | **Other** | **Consolidated** |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| **Segment revenue** | | | | |
| Sales and external customers | 26,940,720 | 6,593,791 | 1,427,604 | 34,962,115 |
| Total sales revenue | 26,940,720 | 6,593,791 | 1,427,604 | 34,962,115 |
| Other revenue | 32,809 | - | 56,982 | 89,791 |
| **Total segment revenue** | 26,973,529 | 6,593,791 | 1,484,586 | 35,051,906 |
| **Consolidated revenue** | | | | 35,051,906 |
| **Segment loss** | | | | |
| Segment (loss)/profit | **(14,262,502)** | **(1,338,530)** | **566,308** | (15,034,724) |
| Central administration and directors' salaries | | | | (4,908,983) |
| Loss before income tax | | | | (19,943,707) |
| Income tax expense | | | | (3,576) |
| **Loss for the year** | | | | (19,947,283) |
| **Segment assets** | | | | |
| Segment assets/(liabilities) | **36,991,450** | **4,622,371** | **(16,277)** | 41,597,544 |
| Unallocated assets | | | | 4,712,456 |
| **Total assets** | | | | 46,310,000 |

The segment information provided to the strategic steering committee for the reportable segments for the year ended 30 June 2017 is as follows:

| **year ended 30 June 2017** | Aquaculture | Carbon services | Other | Consolidated |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Segment revenue** | | | | |
| Sales and external customers | 29,285,798 | 5,379,148 | 1,008,000 | 35,672,946 |
| Total sales revenue | 29,285,798 | 5,379,148 | 1,008,000 | 35,672,946 |
| Other revenue | 10,590 | - | 55,715 | 66,305 |
| **Total segment revenue** | 29,296,388 | 5,379,148 | 1,063,715 | 35,739,251 |
| **Consolidated revenue** | | | | 35,739,251 |
| **Segment loss** | | | | |
| Segment (loss) / profit | (10,937,644) | (277,238) | 294,594 | (10,920,288) |
| Central administration and directors' salaries | | | | (2,585,878) |
| Loss before income tax | | | | (13,506,166) |
| Income tax expense | | | | (6,269,297) |
| **Loss for the year** | | | | (19,775,463) |
| **Segment assets** | | | | |
| Segment assets / (liabilities) | 32,177,597 | 6,653,800 | (4,490) | 38,826,907 |
| Unallocated assets | | | | 12,173,161 |
| **Total assets** | | | | 51,000,068 |

## 4 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

| **2018** | **Individually significant items** | **Depreciation and amortisation** |
|---|---|---|
| | **$** | **$** |
| Carbon Services | **(1,016,448)** | **(378,848)** |
| Aquaculture | **-** | **(1,557,321)** |
| Other | **-** | **(12,355)** |
| **Total** | **(1,016,448)** | **(1,948,524)** |

| 2017 | Individually significant items | Depreciation and amortisation |
|---|---|---|
| | $ | $ |
| Carbon Services | - | (298,214) |
| Aquaculture | - | (1,505,473) |
| Other | - | (12,342) |
| Total | - | (1,816,029) |

The individually significant items for 2018 includes an impairment charge of $846,199 in the carbon services segment relating to capitalised development costs on projects and a write off of NGAC accreditation asset ($170,249) that management has assessed to no longer be viable in 2018.

## 5 Revenue

| | Consolidated 30 June 2018 $ | 30 June 2017 $ |
|---|---|---|
| **From continuing operations** | | |
| *Sales revenue* | | |
| Project development fees | **3,715,701** | 2,749,336 |
| Carbon sink project management fees | **2,878,090** | 2,590,177 |
| Fee for services | **1,427,604** | 1,008,000 |
| Sale of Goods Revenue | **26,940,720** | 29,285,798 |
| | **34,962,115** | 35,633,311 |
| *Other revenue* | | |
| Interest on financial assets held as investments | **32,809** | 62,754 |
| Office services | **3,225** | 1,133 |
| Crop share and agistment | **53,757** | 41,954 |
| | **89,791** | 105,841 |
| | **35,051,906** | 35,739,152 |

## 6 Other gains/(losses)

| | Consolidated 30 June 2018 $ | 30 June 2017 $ |
|---|---|---|
| Net (loss)/gain on disposal of property, plant and equipment | **(120,314)** | 2,000 |
| Net (losses)/gains on financial assets | **(19,800)** | 95,097 |
| Net foreign exchange gains/(losses) | **22,521** | (27,520) |
| Gain/(loss) on environmental credits fair value through P&L | **-** | 31,263 |
| Contract termination fee | **435,708** | 158,472 |
| Loss on disposal of subsidiary - Refer to note 35 (b) | **-** | (627,491) |
| | **318,115** | (368,179) |

## 7 Expenses

***Profit before income tax includes the following specific expenses:***

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| *Depreciation* | | |
| Buildings | **70,538** | 77,795 |
| Plant and equipment | **1,153,280** | 1,119,019 |
| Ponds | **339,088** | 339,089 |
| Plant and equipment under finance leases | **80,384** | 7,891 |
| Carbon sinks | **191,016** | 223,804 |
| Leasehold improvements | **18,135** | 16,229 |
| Total depreciation | **1,852,441** | 1,783,827 |
| *Amortisation* | | |
| Research and development projects | **77,124** | 7,163 |
| NGAC | **17,700** | 22,124 |
| Software | **1,259** | 2,914 |
| Total amortisation | **96,083** | 32,201 |
| Total depreciation and amortisation | **1,948,524** | 1,816,028 |
| *Research and development* | | |
| Carbon projects | **1,498,168** | 578,584 |
| Project Sea Dragon | **3,420,834** | 4,906,675 |
| Research and development costs paid and expensed | **4,919,002** | 5,485,259 |
| *Employee benefits expense* | | |
| Equity settled share based payments | **884,761** | - |
| Superannuation | **277,743** | 237,822 |
| Other employee benefits | **6,361,157** | 5,873,303 |
| Total employee benefits expense | **7,523,661** | 6,111,125 |
| *Cost of goods sold* | | |
| Variable Selling Expenses | **3,161,143** | 3,329,984 |
| Cost of environmental credits sold | **1,157,975** | 349,493 |
| Cost of goods sold - prawns | **22,184,614** | 23,002,148 |
| Total cost of goods sold | **26,503,732** | 26,681,625 |

## 8 Income tax expense

### (a) Income tax expense/(benefit)

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| Current tax on profits for the year | **3,576** | - |
| Deferred tax (benefit) | **(235,024)** | - |
| Adjustments for deferred tax of prior periods | **(109,172)** | - |
| Write off current and prior year deferred tax assets | **344,196** | 6,269,297 |
| | **3,576** | 6,269,297 |

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

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| Loss from continuing operations before income tax expense | **(19,947,283)** | (13,506,166) |
| Tax at the Australian tax rate of 30.0% (2017 - 30.0%) | **(5,984,185)** | (4,051,850) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Non-deductible expenses | **1,965,029** | 2,004,267 |
| Sundry items | **(1,056,515)** | (793,515) |
| | **(5,075,671)** | (2,841,098) |
| Difference in overseas tax rates | **18,139** | 21,847 |
| (Over)/under provision of income tax in previous year | **(109,172)** | (190) |
| Write off current and prior year deferred tax assets | **344,196** | 5,713,662 |
| Current year tax losses not recognised | **4,826,084** | 3,375,076 |
| Income tax expense/(benefit) | **3,576** | 6,269,297 |

### (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(f).

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.

## 8 Income tax expense (continued)

### (d) Franking account

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| Franking account balance (tax paid basis) | **-** | 741,264 |
| Impact on franking account balance of dividends not recognised | **-** | - |
| | **-** | 741,264 |

## 9 Current assets - Cash and cash equivalents

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| Cash at bank and in hand | **3,809,431** | 11,565,530 |
| Deposits at call | **328,851** | 307,987 |
| Other cash and cash equivalents | **1,321** | 1,321 |
| | **4,139,603** | 11,874,838 |

### (a) Risk exposure

The Group's exposure to interest rate risk is discussed in note 2.

### (b) Cash at bank and on hand

Of the cash at bank and on hand, $1,963,372 (2017: $313,240) is non-interest bearing, and $2,176,231 (2017: $11,561,598) is in accounts that earn interest.

### (c) Cash not available for use

$328,851 (2017: $307,987) is held as security for bank facilities and lease guarantees (note 24).

### (d) Deposits at call

Deposits at call are interest bearing.

## 10 Current assets - Trade and other receivables

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| Trade receivables | **3,669,000** | 1,231,526 |
| Loans to employees | **77,629** | 77,603 |
| Goods and services tax (GST) receivable | **215,717** | 288,166 |
| | **3,962,346** | 1,597,295 |

### (a) Past due but not impaired

As of 30 June 2018, trade receivables of $3,115,739 (2017: $777,261) were past due but not impaired.

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| Up to 3 months | **3,003,058** | 166,280 |
| 3 to 6 months | **112,681** | 610,981 |
| | **3,115,739** | 777,261 |

### (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 2.

*(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 2 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

## 11 Current assets - Inventories

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| Finished goods | **6,166,915** | 5,901,303 |
| Feed and consumables | **1,127,762** | 1,807,370 |
| | **7,294,677** | 7,708,673 |

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.

## 12 Current assets - Current tax receivables

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| Current tax receivables | **-** | 15,786 |
| | **-** | 15,786 |

Current tax receivables relates to overseas income tax refundable to CO2 Asia Pte Ltd.

## 13 Current assets - Other current assets

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| Prepayments | **687,718** | 599,539 |
| Deposits paid | **17,938** | 21,390 |
| Environmental credits at FVTPL | **192,475** | 186,504 |
| Other aquaculture assets | **151,560** | 195,645 |
| | **1,049,691** | 1,003,078 |

Environmental credits have been purchased on the spot market. They do not represent carbon credits produced by the Group's carbon sinks. All credits generated from the Group's plantations were sold during the financial year.

## 14 Current assets - Accrued income

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| Carbon sink development | **112,404** | 62,058 |
| Accrued income from carbon sink management | **826,657** | 850,643 |
| | **939,061** | 912,701 |

## 15 Current assets - Biological assets

| | **30 June 2018 $** | 30 June 2017 $ |
|---|---|---|
| ***Livestock at fair Value*** | | |
| Opening Balance | **4,530,997** | 3,325,639 |
| Gain or Loss arising from changes in fair value less estimated point of sale costs | **593,507** | 944,497 |
| Increases due to purchases | **5,187,819** | 3,586,500 |
| Transferred to inventories | **(4,530,997)** | (3,325,639) |
| Closing Balance | **5,781,325** | 4,530,997 |

## 15 Current assets - Biological assets (continued)

The group has classified live prawn as level 3 in the fair value hierarchy (refer note 1 (a) 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 - Inventories

| | **Consolidated** | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| Other inventories | **184,923** | 184,923 |
| | **184,923** | 184,923 |

## 17 Non-current assets - Property, plant and equipment

| Consolidated | Freehold land $ | Freehold buildings $ | Ponds $ | Plant and equipment $ | Leasehold improvements $ | Leased plant and equipment $ | Carbon sinks $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| **At 1 July 2016** | | | | | | | | |
| Cost or fair value | 2,719,799 | 1,581,830 | 6,781,774 | 9,523,175 | 412,562 | 60,181 | 4,201,540 | 25,280,861 |
| Accumulated depreciation | - | (133,096) | (733,278) | (2,926,127) | (347,569) | (60,181) | (2,814,416) | (7,014,667) |
| Net book amount | 2,719,799 | 1,448,734 | 6,048,496 | 6,597,048 | 64,993 | - | 1,387,124 | 18,266,194 |
| **Year ended 30 June 2017** | | | | | | | | |
| Opening net book amount | 2,719,799 | 1,448,734 | 6,048,496 | 6,597,048 | 64,993 | - | 1,387,124 | 18,266,194 |
| Additions | - | - | - | 2,478,633 | 22,147 | 318,992 | - | 2,819,772 |
| Depreciation charge | - | (77,795) | (339,089) | (1,119,019) | (16,229) | (7,891) | (223,804) | (1,783,827) |
| Closing net book amount | 2,719,799 | 1,370,939 | 5,709,407 | 7,956,662 | 70,911 | 311,101 | 1,163,320 | 19,302,139 |
| **At 30 June 2017** | | | | | | | | |
| Cost or fair value | 2,719,799 | 1,581,830 | 6,781,774 | 12,000,323 | 426,459 | 379,173 | 4,201,540 | 28,090,898 |
| Accumulated depreciation | - | (210,891) | (1,072,367) | (4,043,661) | (355,548) | (68,072) | (3,038,220) | (8,788,759) |
| Net book amount | 2,719,799 | 1,370,939 | 5,709,407 | 7,956,662 | 70,911 | 311,101 | 1,163,320 | 19,302,139 |

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

| Consolidated | Freehold land $ | Freehold buildings $ | Ponds $ | Plant and equipment $ | Leasehold improvements $ | Leased plant and equipment $ | Carbon sinks $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| **At 1 July 2017** | | | | | | | | |
| Cost or fair value | 2,719,799 | 1,581,830 | 6,781,774 | 12,000,323 | 426,459 | 379,173 | 4,201,540 | 28,090,898 |
| Accumulated depreciation | - | (210,891) | (1,072,367) | (4,043,661) | (355,548) | (68,072) | (3,038,220) | (8,788,759) |
| Net book amount | 2,719,799 | 1,370,939 | 5,709,407 | 7,956,662 | 70,911 | 311,101 | 1,163,320 | 19,302,139 |
| **Year ended 30 June 2018** | | | | | | | | |
| Opening net book amount | 2,719,799 | 1,370,939 | 5,709,407 | 7,956,662 | 70,911 | 311,101 | 1,163,320 | 19,302,139 |
| Additions | - | - | - | 2,972,609 | 2,260 | 426,265 | - | 3,401,134 |
| Disposals | (709,799) | - | - | (10,954) | - | - | - | (720,753) |
| Depreciation charge | - | (70,538) | (339,088) | (1,153,280) | (18,135) | (80,384) | (191,016) | (1,852,441) |
| Closing net book amount | 2,010,000 | 1,300,401 | 5,370,319 | 9,765,037 | 55,036 | 656,982 | 972,304 | 20,130,079 |
| **At 30 June 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 |

## 18 Non-current assets - Deferred tax assets

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| **The balance comprises temporary differences attributable to:** | | |
| Tax losses | **11,655** | 237,172 |
| Provisions | **456,095** | 430,173 |
| Accruals | **81,031** | 135,605 |
| Intangible assets | **111,403** | 111,403 |
| Depreciable assets | **(57,414)** | 30,305 |
| Accrued interest | **(239,218)** | (314,064) |
| Research & development | **(363,552)** | (630,594) |
| Net deferred tax assets | **-** | - |
| **Movements:** | | |
| Opening balance at 1 July | **-** | 6,269,297 |
| Charged/credited: | | |
| - to profit or loss | **235,024** | (6,269,297) |
| Write off of Deferred Tax Asset | **(246,310)** | - |
| Realisation of prior year deferred tax assets | **(97,886)** | - |
| Under/(over) provision of deferred tax in previous year | **109,172** | - |
| 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) | **13,142,144** | 8,302,570 |

## 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 2016** | | | | | | | |
| Cost | 2,948,482 | 1,207,187 | 3,072 | 192,754 | 790,166 | 408,380 | 5,550,041 |
| Accumulated amortisation and impairment | (969,000) | - | (3,072) | (188,477) | (790,166) | (198,307) | (2,149,022) |
| Net book amount | 1,979,482 | 1,207,187 | - | 4,277 | - | 210,073 | 3,401,019 |
| **Year ended 30 June 2017** | | | | | | | |
| Opening net book amount | 1,979,482 | 1,207,187 | - | 4,277 | - | 210,073 | 3,401,019 |
| Additions | 152,215 | - | - | - | - | - | 152,215 |
| Other charge | - | - | - | (104) | - | - | (104) |
| Amortisation charge | (7,163) | - | - | (2,914) | - | (22,124) | (32,201) |
| Closing net book amount | 2,124,534 | 1,207,187 | - | 1,259 | - | 187,949 | 3,520,929 |
| Cost | 3,100,697 | 1,207,187 | 3,072 | 192,754 | 790,166 | 408,380 | 5,702,256 |
| Accumulated amortisation and impairment | (976,163) | - | (3,072) | (191,495) | (790,166) | (220,431) | (2,181,327) |
| Net book amount | 2,124,534 | 1,207,187 | - | 1,259 | - | 187,949 | 3,520,929 |

## 19 Non-current assets - Intangible assets (continued)

| **Consolidated** | **Development costs $** | **Goodwill $** | **Patents, trademarks and other rights $** | **Computer software $** | **Other intangible assets $** | **NGAC accreditation $** | **Total $** |
|---|---|---|---|---|---|---|---|
| **At 30 June 2017** | | | | | | | |
| Cost | 3,100,697 | 1,207,187 | 3,072 | 192,754 | 790,166 | 408,380 | 5,702,256 |
| Accumulated amortisation and impairment | (976,163) | - | (3,072) | (191,495) | (790,166) | (220,431) | (2,181,327) |
| Net book amount | 2,124,534 | 1,207,187 | - | 1,259 | - | 187,949 | 3,520,929 |
| **Year ended 30 June 2018** | | | | | | | |
| Opening net book amount | 2,124,534 | 1,207,187 | - | 1,259 | - | 187,949 | 3,520,929 |
| Additions | 10,629 | - | - | - | - | - | 10,629 |
| Amortisation charge | (77,124) | - | - | (1,259) | - | (17,700) | (96,083) |
| Impairment charge | (846,199) | - | - | - | - | (170,249) | (1,016,448) |
| Closing net book amount | 1,211,840 | 1,207,187 | - | - | - | - | 2,419,027 |
| | | | | | | | |
| **At 30 June 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 |

## 19 Non-current assets - Intangible assets (continued)

### (a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to operating segment.

Goodwill is monitored by management at the level of the three operating segments (see note 4 for details).

A segment-level summary of the goodwill allocation is presented below.

**Consolidated**

**2018**

| Consolidated<br>2017 | $ | Total<br>$ |
|---|---|---|
| Carbon services | - | - |
| Aquaculture | 1,207,187 | 1,207,187 |
| Other | - | - |
| | 1,207,187 | 1,207,187 |

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

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

The following table sets out the key assumptions for those CGUs that have significant goodwill allocated to them:

| | Budget period | | | | Growth rate beyond budget period ** | | Discount rate | |
|---|---|---|---|---|---|---|---|---|
| **CGU** | **Gross margin *** | | **Growth rate** | | | | | |
| | **2018 %** | 2017 % | **2018 %** | 2017 % | **2018 %** | 2017 % | **2018 %** | 2017 % |
| Aquaculture | **22.0** | 22.0 | **2.0** | 6.0 | **2.0** | 2.0 | **12.0** | 12.0 |

* Budgeted gross margin

** Weighted average growth rate used to extrapolate cash flows beyond the budget period

## 20 Current liabilities - Trade and other payables

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| Trade payables | **6,854,495** | 4,138,172 |
| Amounts due to associates | **581,797** | 298,018 |
| Accrued expenses | **429,506** | 820,445 |
| PAYG payable | **374,131** | 230,596 |
| Goods and service tax (GST) payable | **28,782** | - |
| Other payables | **621,656** | 539,374 |
| | **8,890,367** | 6,026,605 |

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

## 21 Current liabilities - Borrowings

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| **Secured** | | |
| Bank loans | **2,825,680** | - |
| Lease liabilities | **109,604** | 41,100 |
| Total secured current borrowings | **2,935,284** | 41,100 |
| **Unsecured** | | |
| Vendor finance | **23,417** | 406,086 |
| Total unsecured current borrowings | **23,417** | 406,086 |
| Total current borrowings | **2,958,701** | 447,186 |

### (a) Lease liabilities

The Group leased 8 vehicles under finance leases during the period (2017: 6 vehicles leased). The average lease term is 5 years. The Group has options to purchase the vehicles for a nominal amount at the end of the lease terms. The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

### (b) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 2.

## 21 Current liabilities - Borrowings (continued)

### (c) 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 | | | |
|---|---|---|---|---|
| | **Opening balance 1 July 2017 $** | **Cash movement $** | **Non-cash movement $** | **Closing Balance 30 June 2018 $** |
| **Current borrowings** | | | | |
| Bank loans | - | 2,825,680 | - | 2,825,680 |
| Lease liabilities | 41,100 | 68,504 | - | 109,604 |
| Vendor finance | 406,086 | (382,669) | - | 23,417 |
| **Total current borrowings** | **447,186** | **2,511,515** | **-** | **2,958,701** |
| **Non-current borrowings** | | | | |
| Lease liabilities | 223,763 | 323,470 | - | 547,233 |
| Loans from related parties | 8,000,000 | 6,500,000 | - | 14,500,000 |
| **Total non-current borrowings** | **8,223,763** | **6,823,470** | **-** | **15,047,233** |
| **Total Borrowings** | **8,670,949** | **9,334,985** | **-** | **18,005,934** |

## 22 Current liabilities - Provisions

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| Employee benefits | **1,520,318** | 1,433,910 |
| | **1,520,318** | 1,433,910 |

## 23 Current liabilities - Deferred revenue

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| Deferred income from project development | **1,251,597** | 1,786,651 |
| Deferred income on carbon sink management | **545,456** | 58,356 |
| Deferred advisory income | **10,087** | 3,385 |
| | **1,807,140** | 1,848,392 |

## 24 Non-current liabilities - Borrowings

| | Notes | Consolidated **30 June 2018 $** | 30 June 2017 $ |
|---|---|---|---|
| **Secured** | | | |
| Lease liabilities | | **547,233** | 223,763 |
| **Unsecured** | | | |
| Loans from related parties | 31(c) | **14,500,000** | 8,000,000 |
| Total non-current borrowings | | **15,047,233** | 8,223,763 |

Refer to note 36, $2,500,000 was converted to equity on 5 July 2017.

### (i) Secured liabilities and assets pledged as security

The Group has a $120,865 (2017: $115,000) facility on its company credit cards and has been required to provide guarantee facilities of $207,987 (2017: $192,987) in respect of office leases. The Group maintains a term deposit with the bank to secure these facilities.

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

| | Notes | Consolidated **30 June 2018 $** | 30 June 2017 $ |
|---|---|---|---|
| **Current** | | | |
| Deposits at call | 9 | **328,851** | 307,987 |
| Total current assets pledged as security | | **328,851** | 307,987 |

### (ii) Risk exposures

Information about the Group's exposure to interest rate and foreign exchange risk is provided in note 2.

## 25 Non-current liabilities - Provisions

| | Consolidated **30 June 2018 $** | 30 June 2017 $ |
|---|---|---|
| Employee benefits - long service leave | **68,230** | 49,014 |
| Other provisions | **175,208** | 252,577 |
| | **243,438** | 301,591 |

## 25 Non-current liabilities - Provisions (continued)

### (a) Other provisions

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| **Opening balance 1 July** | 252,577 | 153,777 |
| Additional provisions recognised | - | 115,331 |
| Payments made | (77,369) | (16,531) |
| **Closing balance 30 June** | **175,208** | **252,577** |

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 2018 Shares** | 30 June 2017 Shares | **30 June 2018 $** | 30 June 2017 $ |
|---|---|---|---|---|---|
| Ordinary shares | | | | | |
| Fully paid | | **1,417,084,698** | 1,361,868,033 | **103,674,031** | 101,512,326 |
| Convertible preference shares | 26(c) | **30,150,190** | 30,150,190 | **301** | 301 |
| | | **1,447,234,888** | 1,392,018,223 | **103,674,332** | 101,512,627 |

### (b) Movements in ordinary share capital

| | **Number of shares** | **$** |
|---|---|---|
| Opening balance 1 July 2016 | 1,028,967,449 | 79,020,851 |
| Placement | 332,900,584 | 23,656,443 |
| Less: Transaction costs arising on share issues | - | (1,164,667) |
| Balance 30 June 2017 | 1,361,868,033 | 101,512,627 |
| | | |
| Opening balance 1 July 2017 | 1,361,868,033 | 101,512,627 |
| Performance Rights issue | 13,500,000 | - |
| Debt conversion | 41,666,666 | 2,500,000 |
| Exercise of listed options - proceeds received | 49,999 | 5,000 |
| | 1,417,084,698 | 104,017,627 |
| Less: Transaction costs arising on share issues | - | (343,295) |
| Balance 30 June 2018 | 1,417,084,698 | 103,674,332 |

### (c) Movements in convertible preference share capital

| **Details** | **Number of shares** | **$** |
|---|---|---|
| Opening balance 1 July 2016 | 30,150,190 | 301 |
| Balance 30 June 2017 | 30,150,190 | 301 |

## 26 Issued capital (continued)

| | | |
|---|---|---|
| Opening balance 1 July 2017 | 30,150,190 | 301 |
| Balance 30 June 2018 | 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.

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.

### (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 2018, 49,999 listed options have been exercised leaving 126,042,586 listed options unexercised.

## 27 Reserves

### (a) Other reserves

| | **Consolidated** | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| Financial assets revaluation reserve | **(24,740)** | (24,740) |
| Share-based payments | **4,516,569** | 3,606,808 |
| Option premium reserve | **1,670,705** | 1,670,705 |
| | **6,162,534** | 5,252,773 |

### (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
- in the parent entity the fair value of shares and options issued to employees of subsidiaries.

## 27 Reserves (continued)

*(I) Share-based payments (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 assets classified as available for sale 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.

## 28 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

### (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:

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

### (c) Key management personnel compensation

| | **Consolidated** | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| Short-term employee benefits | **1,765,948** | 1,528,393 |
| Post-employment benefits | **232,019** | 223,744 |
| Long-term benefits | **27,263** | 24,562 |
| Share-based payments | **789,578** | - |
| | **2,814,808** | 1,776,699 |

## 29 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 2018 $** | 30 June 2017 $ |
| Audit and review of financial reports | **143,500** | 125,000 |
| Additional fees in respect to the prior period | **-** | 20,000 |
| Other fees paid to auditors | **25,500** | 25,000 |
| **Total auditors' remuneration** | **169,000** | 170,000 |

## 30 Commitments

### (a) Capital commitments

The Group has no material capital commitments as at 30 June 2018.

### (b) Lease commitments: Group as lessee

*(i) Non-cancellable operating leases*

Operating leases relate to four office facilities, each with different terms: 3 years with an option to renew for a further 3 years; 1 year with no option to renew; 8 years with 2 options for a further 4 years, and a fixed term to June 2020 with no option for any further extension. The operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. There are also fixed increase dates annually. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

The Group leases 8 motor vehicles under operating leases with a term of three years, with no option to purchase the vehicle at the expiry of the lease period.

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year | **530,317** | 423,103 |
| Later than one year but not later than five years | **472,826** | 1,001,210 |
| | **1,003,143** | 1,424,313 |

## 31 Related party transactions

### (a) Parent entities

Detailed remuneration disclosures are provided in the remuneration report on pages 9 to 17.

The parent entity within the Group and the ultimate Australian parent entity is Seafarms Group Limited.

## 31 Related party transactions (continued)

### (b) Subsidiaries

Interests in subsidiaries are set out in note 32.

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

The Group has an $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 2018 $** | 30 June 2017 $ |
| *Loan from Avatar Finance Pty Ltd* | | |
| Beginning of the year | **8,000,000** | 8,500,000 |
| Loans advanced | **9,000,000** | - |
| Debt equity swap | **(2,500,000)** | - |
| Loan repayments made | **-** | (500,000) |
| Interest charged | **499,419** | 480,467 |
| Interest paid | **(499,419)** | (480,467) |
| End of period | **14,500,000** | 8,000,000 |
| *Loans to other related parties* | | |
| Beginning of the year | **-** | 151,789 |
| Loans written off | **-** | (151,789) |
| End of period | **-** | - |

### (d) Terms and conditions

The facility from Avatar Finance Pty Ltd is provided on normal commercial terms and conditions and at market rates, and is to be repaid on 15 March 2021. The average interest rate on the loan during the year was 5.95% (2017: 5.68%).

## 32 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** **2018** **%** | 2017 % |
|---|---|---|---|---|
| CO2 Australia Limited * | Australia | Ordinary | **100** | 100 |
| Carbon Banc Limited * | Australia | Ordinary | **100** | 100 |
| Carbon Estate Pty Ltd * | Australia | Ordinary | **100** | 100 |
| CO2 New Zealand Limited * | Australia | Ordinary | **100** | 100 |
| Mallee Land Company Pty Ltd * | Australia | Ordinary | **100** | 100 |
| Mallee Carbon Limited * | Australia | Ordinary | **100** | 100 |
| Carbon Sinks Services Pty Ltd * | Australia | Ordinary | **100** | 100 |
| The Oil Mallee Company of Australia Limited * | Australia | Ordinary | **100** | 100 |
| Yonderr Pty Ltd * | Australia | Ordinary | **100** | 100 |
| Seafarms Operations Pty Limited (formerly Seafarms Operations Limited) * | Australia | Ordinary | **100** | 100 |
| CO2 Group Financial Services Pty Ltd | 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** | - |

* These subsidiaries 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 33.

## 33 Deed of cross guarantee

All companies in the Group except CO2 Group Financial Services Pty Ltd ("CO2GFS") 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 except that they do not include CO2GFS.

Set out below is a consolidated income statement for the 12 months ended 30 June 2018 of the Closed Group consisting of Seafarms Group Limited, CO2 Australia Limited, Carbon Banc Limited, Carbon Estate Pty Ltd, CO2 New Zealand Limited, Mallee Land Company Pty Ltd, Mallee Carbon Limited, Carbon Sinks Services Pty Ltd, The Oil Mallee Company of Australia Limited, Yonderr Pty Ltd, 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.

## 33 Deed of cross guarantee (continued)

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

| | **30 June 2018 $** | 30 June 2017 $ |
|---|---|---|
| *Consolidated statement of profit or loss* | | |
| Revenue from continuing operations | **34,037,797** | 35,739,152 |
| Other (losses) / income | **277,303** | (368,179) |
| Fair value adjustment of biological assets | **593,507** | 944,497 |
| Fair value adjustment of finished goods | **(842,994)** | 430,617 |
| Consulting expense | **(2,326,014)** | (2,066,813) |
| Legal fees | **(2,188,895)** | (234,612) |
| Travel | **(2,424,270)** | (1,877,310) |
| Insurance | **(256,170)** | (256,875) |
| Rent | **(488,366)** | (433,658) |
| Research & development | **(4,797,607)** | (5,485,259) |
| Marketing | **(201,548)** | (134,755) |
| Plantation costs | **(2,469,798)** | (2,246,329) |
| Finance costs | **(1,077,026)** | (1,010,193) |
| Cost of goods sold | **(25,422,788)** | (26,681,625) |
| Other expenses | **(2,758,778)** | (1,664,011) |
| Employee benefits expense | **(7,555,080)** | (6,111,125) |
| Depreciation and amortisation expense | **(1,936,687)** | (1,804,087) |
| Share of net loss of associates and joint venture partnership accounted for using the equity method | **60,560** | (111,875) |
| **Loss before income tax** | **(19,776,854)** | (13,372,440) |
| Income tax (expense) benefit | **(39,823)** | (6,299,623) |
| **Loss for the period** | **(19,816,677)** | (19,672,063) |

| | **30 June 2018 $** | 30 June 2017 $ |
|---|---|---|
| *Consolidated statement of comprehensive income* | | |
| **Loss for the period** | **(19,816,677)** | (19,672,063) |
| **Total comprehensive loss for the period** | **(19,816,677)** | (19,672,063) |

### (b) Consolidated statement of financial position

Set out below is a consolidated balance sheet as at 30 June 2018 of the Closed Group consisting of Seafarms Group Limited, CO2 Australia Limited, Carbon Banc Limited, Carbon Estate Pty Ltd, CO2 New Zealand Limited, Mallee Land Company Pty Ltd, Mallee Carbon Limited, Carbon Sinks Services Pty Ltd, The Oil Mallee Company of Australia Limited, Yonderr Pty Ltd, 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.

## 33 Deed of cross guarantee (continued)

| | 30 June 2018 $ | 30 June 2017 $ |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | **4,041,848** | 11,815,357 |
| Trade and other receivables | **3,667,814** | 1,238,679 |
| Inventories | **7,479,600** | 7,893,597 |
| Other current assets | **855,150** | 1,045,286 |
| Accrued income | **939,061** | 912,701 |
| Biological assets | **5,781,325** | 4,530,997 |
| **Total current assets** | **22,764,798** | 27,436,617 |
| **Non-current assets** | | |
| Investments in associates and joint ventures | **409,268** | 348,708 |
| Property, plant and equipment | **20,117,126** | 19,227,347 |
| Intangible assets | **2,419,028** | 3,520,929 |
| **Total-non-current assets** | **22,945,422** | 23,096,984 |
| **Total assets** | **45,710,220** | 50,533,601 |
| **Current liabilities** | | |
| Trade and other payables | **8,269,221** | 5,644,289 |
| Provisions | **1,520,318** | 1,433,910 |
| Other current liabilities | **7,395** | 7,495 |
| Deferred income | **1,807,140** | 1,848,392 |
| Borrowings | **2,975,076** | 1,392,188 |
| **Total current liabilities** | **14,579,150** | 10,326,274 |
| **Non-current liabilities** | | |
| Borrowings | **14,967,856** | 7,054,998 |
| Provisions | **68,230** | 49,014 |
| Other provisions | **238,222** | 476,340 |
| **Total non-current liabilities** | **15,274,308** | 7,580,352 |
| **Total liabilities** | **29,853,458** | 17,906,626 |
| **Net assets** | **15,856,762** | 32,626,975 |
| **Equity** | | |
| Issued capital | **99,872,633** | 97,710,928 |
| Reserves | **6,137,534** | 5,252,773 |
| Accumulated losses | **(90,153,405)** | (70,336,726) |
| **Total equity** | **15,856,762** | 32,626,975 |

## 34 Interests in joint ventures

### (a) Joint venture partnership

Blue-Leafed Mallee Pty Ltd (BLM) was a wholly owned subsidiary of the Parent Entity, conducting carbon projects through a 60% interest in a joint operation. In relation to its interest in the joint operation, BLM recognised its 60% share of the assets, liabilities, revenues and expenses in/resulting from the joint operation in the P&L and statement of financial position of the Group.

The Group has accounted for the retained 60% interest as an equity accounted investment - refer to Note 1(b)(iii) for the accounting policy.

### (b) Disposal of subsidiary

On 14 December 2016, the Group entered into a sale agreement with Motupipi Offshore Investments Limited to sell its 49% share in Callisto Quantitative Pte Limited for $49.

This transaction resulted in the recognition of a loss on disposal of subsidiary as follows:

| | **30 June 2018 $** | 30 June 2017 $ |
|---|---|---|
| Loss on disposal of subsidiary | - | 627,491 |

This loss has been recognised within ‘loss on disposal of subsidiaries’ on the face of the statement of profit and loss.

### (c) Equity accounted investment

At 30 June 2018, the carrying value of the investment in the statement of financial position is $409,268 (2017: $348,708).

During the current period an equity accounted profit of $60,560 has been recognised in profit or loss (2017: $111,875 loss).

## 35 Events occurring after the reporting period

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 would 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 the 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.

On 7 August 2018 Nippon Suisan Kaisha Limited's equity investment in Seafarms shares at 10 cents per share was completed. This resulted in an equity raising of $24.99 million.

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 or economic entity in subsequent financial periods.

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

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| Loss for the year | **(19,947,283)** | (19,775,463) |
| Depreciation and amortisation | **1,948,524** | 1,816,029 |
| Impairment of intangibles | **1,016,448** | - |
| Non-cash loss on exercised options | **19,800** | - |
| Non-cash employee benefits expense - share-based payments | **884,761** | - |
| Net losses on sale of non-current assets | **128,517** | - |
| Net gain on sale of financial assets | **-** | 12,973 |
| Fair value (gains)/losses on financial assets at fair value through profit or loss | **(20,294)** | (31,263) |
| Share of (profits)/loss of joint venture | **(60,560)** | 111,875 |
| Interest income received | **(32,809)** | (62,754) |
| Change in operating assets and liabilities: | | |
| (Increase)/decrease in trade debtors and receivables | **(2,365,051)** | (38,922) |
| Decrease/(increase) in inventories | **413,996** | (1,342,156) |
| (Increase)/decrease in other current assets | **(46,613)** | (462,363) |
| Decrease/(Increase) in current tax receivables | **15,786** | - |
| (Increase)/decrease in biological assets | **(1,250,328)** | (1,205,358) |
| Decrease/(increase) in deferred tax assets | **-** | 6,269,297 |
| Increase in other operating assets | **(26,360)** | (120,811) |
| Increase/(decrease) in trade creditors | **2,863,762** | (957,901) |
| (Decrease)/increase in other operating liabilities | **(41,252)** | 775,480 |
| Increase in other provisions | **28,255** | 199,038 |
| Net cash outflow from operating activities | **(16,470,701)** | (14,812,299) |

## 37 Earnings per share

### (a) Basic earnings per share

| | Consolidated | |
|---|---|---|
| | **30 June 2018 Cents** | 30 June 2017 Cents |
| Basic earnings per share | **(1.42)** | (1.75) |
| Total basic earnings per share attributable to the ordinary owners of the Company | **(1.42)** | (1.75) |

### (b) Diluted earnings per share

| | Consolidated | |
|---|---|---|
| | **30 June 2018 Cents** | 30 June 2017 Cents |
| Diluted earnings per share | **(1.42)** | (1.75) |
| Total basic earnings per share attributable to the ordinary owners of the Company | **(1.42)** | (1.75) |

## 37 Earnings per share (continued)

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

| | Consolidated | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| *Basic earnings per share* | | |
| Loss from continuing operations | **(19,947,283)** | (19,775,463) |
| | **(19,947,283)** | (19,775,463) |
| *Diluted earnings per share* | | |
| Loss from continuing operations | **(19,947,283)** | (19,775,463) |
| Loss from continuing operations attributable to the ordinary equity holders of the Company | **(19,947,283)** | (19,775,463) |

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 2018 Number** | 30 June 2017 Number |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | **1,404,415,725** | 1,132,472,278 |

## 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 methods 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.

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.

## 38 Share-based payments (continued)

| Scheme | Risk free interest rate | Share price volatility | Dividend yield | Value (cents per share) |
|---|---|---|---|---|
| Performance rights | - | - | - | 6.0 |
| Unlisted options 1 | 2.42% | 85.60% | - | 1.2 |
| Unlisted options 2 | 2.42% | 80.11% | - | 2.2 |

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, two years of historic volatility was used.

## 39 Parent entity financial information

### (a) Summary financial information

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

| | **30 June 2018 $** | 30 June 2017 $ |
|---|---|---|
| **Balance sheet** | | |
| Current assets | **68,131,136** | 76,507,070 |
| Non-current assets | **3,676,556** | 3,622,002 |
| Total assets | **71,807,692** | 80,129,072 |
| | | |
| Current liabilities | **2,650,752** | 762,872 |
| Non-current liabilities | **14,679,281** | 8,253,762 |
| Total liabilities | **17,330,033** | 9,016,634 |
| | | |
| Net assets | **54,477,659** | 71,112,438 |
| | | |
| *Shareholders' equity* | | |
| Issued capital | **103,663,698** | 101,501,993 |
| Reserves | | |
| Reserves | **(6,187,274)** | 5,302,513 |
| Retained earnings | **(42,998,765)** | (35,692,069) |
| | | |
| | **54,477,659** | 71,112,437 |
| | | |
| **Loss for the period** | **(7,306,696)** | (11,086,453) |
| | | |
| **Total comprehensive loss** | **(7,306,696)** | (11,086,453) |

### (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 33. 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 2018 or 30 June 2017. For information about guarantees given by the Parent entity, please see above.

## 39 Parent entity financial information (continued)

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

As at 30 June 2018, the parent entity had no contractual commitments for the acquisition of property, plant or equipment.