

## Directors' report

The Directors present their report together with the financial statements of Seafarms Group Limited (referred to hereafter as the Group) consisting of Seafarms Group Limited and the entities it controlled at the end of or during the year ended 30 September 2015.

### Directors

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

Ian Norman Trahar  
 Harley Ronald Whitcombe  
 Dr Christopher David Mitchell  
 Paul John Favretto

### Principal activities

The Group's principal continuing activity during the year consisted of aquaculture project development, aquaculture operations, carbon project management (Australia, New Zealand and Vietnam), the provision of environmental services (advisory in ecosystem offsets and carbon farming projects), and trading environmental credits.

### Review of operations

The Group has reported a loss for the year after taxation of \$15,959,969 (2014: loss \$6,649,228).

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

	<b>Segment revenues</b>		<b>Segment results</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
	\$	\$	\$	\$
Carbon services	<b>6,419,678</b>	17,382,355	<b>(250,929)</b>	1,440,089
Aquaculture	<b>19,351,324</b>	4,979,411	<b>(11,281,087)</b>	(4,005,648)
Other	<b>1,438,905</b>	1,330,727	<b>702,433</b>	35,029
Total segment revenue/result	<b>27,209,907</b>	23,692,493	<b>(10,829,583)</b>	(2,530,530)

Segment results are adjusted earnings before interest and tax, which is the measure of segment result that is reported to the strategic steering committee to assess the performance of the operating segments.

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

#### *Carbon services*

The company was a successful bidder in the first round of the government's Emissions reduction Fund Auction. All bids were successful and contracts were secured to 2025.

The process of streamlining plantation management operations was completed.

The company was appointed as a large-scale service provider under the Australian Government's 20 Million Trees program, with CO2 Australia contracted to deliver a series of large-scale re-vegetation projects through to June 2018.

The company restructured its operations to ensure that it allocates appropriate resources to the contracted management of its plantations.

Carbon Banc continues to selectively trade a range of instruments. Returns throughout the year were volatile driven in part by the nature of the instruments and by targeting of trading opportunities.

## Review of operations (continued)

### *Carbon services (continued)*

Environmental trading represents a very dynamic space and the group continues to invest in the development of and improvement in its trading models and strategies. The Board retains close oversight of all trading activities with a preparedness to respond to changes quickly.

### *Aquaculture*

Seafarms commenced its first prawn farming operations in 2014 in North Queensland.

The grow out production during the year was increased from approximately 600 tonnes of fresh and cooked prawns sold into Australian markets to in-excess of 1,400 tonnes.

Seafarms produces two types of prawns: bananas and black tigers sold under the unique Crystal Bay™ Prawns brand which are available in supermarkets, seafood markets and wholesalers and can be found on the menus at many fine restaurants across Australia.

Seafarms has taken the opportunity to test stocking rates and feed mixtures and suppliers during the year as well as commence the domestication program for the black tiger prawns.

Seafarms has continued to develop plans to leverage from our Queensland operations platform into a world-class greenfield development in northern Australia via the company's Project Sea Dragon. The company has continued to progress Project Sea Dragon, a 100,000 tonne per annum prawn farming operation securing the requisite land position in northern Australia and commenced the feasibility study work for stage 1 by seeking the approvals for the project including indigenous engagement and preparation of an environmental impact statement. The Study is expected to be completed in the last quarter of 2016.

The project received major project status from the Commonwealth, Northern Territory and Western Australian governments during the financial year.

The Australian Research Council's Industrial Transformation Research Hub for Advanced Prawn Breeding was launched during the year.

Scientific work packages were developed and the program of scientific work has commenced.

### *Other*

CO2 Australia's team of environmental professionals continues to extend its range of service offerings substantive expansion in the variety of engagements secured within the environmental services sector. The Advisory team continues to secure repeat business from its key blue-chip client base.

## Significant changes in the state of affairs

Contributed equity increased by \$15,248,092 (2014: \$10,063,346) as the result of a rights issue. Details of the changes in contributed equity are disclosed in note 30 to the financial statements.

## Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 September 2015 that has significantly affected the Group's operations, results or state of affairs, or may do so in future years.

## Likely developments and expected results of operations

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

## Information on directors

**Ian Norman Trahar B.Ec, MBA.** *Executive Chairman*

### **Experience and expertise**

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

### **Other current directorships**

None.

### **Former directorships in last 3 years**

None.

### **Special responsibilities**

Chair of the board.

Member of the audit committee.

Member of remuneration committee.

### **Interests in shares and options**

402,974,561 shares in Seafarms Group Limited.

**Harley Ronald Whitcombe B.Bus, CPA.** *Executive Director.*

### **Experience and expertise**

Mr Whitcombe has had many years' commercial and finance experience, providing company secretarial services to publicly listed companies. He is a member of the Australian Institute of Company Directors.

### **Other current directorships**

None.

### **Former directorships in last 3 years**

None.

### **Special responsibilities**

Chief Financial Officer & Company Secretary of Seafarms Group Limited.

### **Interests in shares and options**

12,013,259 ordinary shares in Seafarms Group Limited.

**Dr Christopher David Mitchell PhD, BSc (Hons), GAICD.** *Executive Director.*

### **Experience and expertise**

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

**Information on directors (continued)**

**Other current directorships**

None.

**Former directorships in last 3 years**

None.

**Special responsibilities**

Member of the audit committee.

Member of remuneration committee.

**Interests in shares and options**

2,393,936 ordinary shares in Seafarms Group Limited.

**Paul John Favretto LL.B.** *Non-executive Director.*

**Experience and expertise**

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

**Other current directorships**

None.

**Former directorships in last 3 years**

None.

**Special responsibilities**

Chairman of remuneration committee.

Chairman of audit committee.

**Interests in shares and options**

36,666,666 ordinary shares in Seafarms Group Limited.

**Company secretary**

The Company secretary is Mr Harley Ronald Whitcombe B.Bus, CPA. Mr Whitcombe was appointed to the position of Company secretary on 12 November 2001. Mr Whitcombe has had many years' commercial and finance experience, providing company secretarial services to publicly listed companies. He is a member of the Australian Institute of Company Directors.

**Meetings of directors**

The numbers of meetings of the Company's board of Directors and of each board committee held during the year ended 30 September 2015, and the numbers of meetings attended by each Director were:

	Full meetings of directors		Meetings of committees			
			Audit		Remuneration	
	A	B	A	B	A	B
Ian Norman Trahar	13	14	3	3	1	1
Harley Ronald Whitcombe	14	14	-	-	-	-
Dr Christopher David Mitchell	14	14	3	3	-	1
Paul John Favretto	14	14	3	3	1	1

A = Number of meetings attended

B = Number of meetings held during the time the Director held office or was a member of the committee during the year

## **Remuneration report (audited)**

The Directors are pleased to present your Company's 2015 remuneration report which sets out remuneration information for Seafarms Group Limited's non-executive Directors, executive Directors and other key management personnel.

### *Non-executive director remuneration policy*

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

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

### *Executive remuneration policy and framework*

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

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

Alignment to shareholders' interests:

- attracts and retains high calibre executives.

Alignment to program participants' interests:

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

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

The executive remuneration and reward framework has two components:

- base pay and benefits, including superannuation; and
- short-term performance incentives.

The combination of these comprises an executive's total remuneration. The Group intends to conduct a review of the incentive plans during the year ending 30 September 2016 to ensure continued alignment with financial and strategic objectives.

### *(a) Elements of remuneration*

#### *Base pay and benefits*

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

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

**Remuneration report (audited) (continued)**

*(a) Elements of remuneration (continued)*

*Base pay and benefits (continued)*

There are no guaranteed base pay increases included in any executives' contracts.

*Short-term incentives*

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

*(b) Details of remuneration*

*Amounts of remuneration*

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

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

- Ian Norman Trahar (Chairman and Executive Director)
- Harley Ronald Whitcombe (Executive Director and Company Secretary)
- Dr Christopher David Mitchell (Executive Director)
- Paul John Favretto (Non-executive Director)

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

- Aaron Soanes (Director and General Manager of Operations, CO2 Australia Limited)
- Dr James Bulinski (Director, CO2 Australia Limited)
- Dallas Donovan (Chief Operating Officer, Seafarms Operations Limited)

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

**Remuneration report (audited) (continued)**

(b) Details of remuneration (continued)

2015	Short-term employee benefits			Post-em	Long-	Share-based		Total
	Cash	Cash	Non-	employment	term	Termi-	Performance	
Name	salary and	bonus*	monetary	Super-	Long	nation	rights	
	fees		benefits	annuation	service	benefits		
	\$	\$	\$	\$	leave	\$	\$	\$
Non-executive Directors								
P Favretto	35,200	-	-	25,025	-	-	-	60,225
<b>Sub-total non-executive directors</b>	<b>35,200</b>	-	-	<b>25,025</b>	-	-	-	<b>60,225</b>
Executive Directors								
I Trahar	240,450	-	-	23,529	4,378	-	-	268,357
H Whitcombe	286,434	14,754	-	25,727	4,931	-	-	331,846
C Mitchell	244,398	14,754	18,249	23,218	4,450	-	-	305,069
Other key management personnel (Group)								
A Soanes	180,000	-	-	17,100	3,000	-	-	200,100
J Bulinski	182,160	-	13,769	17,210	3,036	-	-	216,175
D Donovan	241,500	-	-	22,943	4,397	-	-	268,840
<b>Total key management personnel compensation (Group)</b>	<b>1,410,142</b>	<b>29,508</b>	<b>32,018</b>	<b>154,752</b>	<b>24,192</b>	-	-	<b>1,650,612</b>

\* The cash bonus to H Whitcombe was paid on 22 December 2014 after a successful resolution of negotiations with the Australian Taxation Office. C Mitchell's cash bonus was paid on 14 January 2015 in recognition of the successful rationalisation of the Group's carbon business.

2014	Short-term employee benefits			Post-em	Long-	Share-based		Total
	Cash	Cash	Non-	employment	term	Termi-	Performance	
Name	salary and	bonus *	monetary	Super-	Long	nation	rights	
	fees		benefits	annuation	service	benefits		
	\$	\$	\$	\$	leave	\$	\$	\$
Non-executive Directors								
P Favretto	35,200	-	-	24,922	-	-	-	60,122
<b>Sub-total non-executive directors</b>	<b>35,200</b>	-	-	<b>24,922</b>	-	-	-	<b>60,122</b>
Executive Directors								
I Trahar	240,450	-	-	23,529	4,388	-	-	268,367
H Whitcombe	291,641	-	-	27,172	4,942	-	-	323,755
A Grant (until 21 January 2014)	136,075	-	20,881	44,389	-	563,771	-	765,116
C Mitchell	244,398	-	19,779	22,760	4,460	-	-	291,397
Other key management personnel (Group)								
A Soanes	201,983	-	-	18,796	3,285	-	-	224,064
J Bulinski	182,160	-	15,888	16,964	3,324	-	-	218,336
D Donovan	241,500	15,000	-	23,877	4,407	-	-	284,784
<b>Total key management personnel compensation (Group)</b>	<b>1,573,407</b>	<b>15,000</b>	<b>56,548</b>	<b>202,409</b>	<b>24,806</b>	<b>563,771</b>	-	<b>2,435,941</b>

\* The cash bonus was paid to D Donovan on 23 December 2013 for successfully negotiating the purchase of the business and assets of Seafarm Pty Ltd (refer to note 36).

**Remuneration report (audited) (continued)**

*(c) Service agreements*

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

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

I Trahar, H Whitcombe, Executive Directors:

- Term of agreement - no fixed term;
- Base salary which includes superannuation is reviewed annually (minimum increase of CPI);
- Employer may terminate employment on giving twelve months notice and in the event of early termination at the option of the employer, by payment of a termination benefit equal to 100% of base salary for the unexpired period of notice. The employee may terminate on giving three months notice.

C Mitchell, Executive Director and Managing Director of CO2 Australia Limited (from 21 January 2014):

- Term of agreement - no fixed term;
- Base salary which includes superannuation is reviewed annually (minimum increase of CPI);
- Employer may terminate employment on giving six months notice and in the event of early termination at the option of the employer, by payment of a termination benefit equal to six months of base salary for the unexpired period of notice;
- In the event of redundancy, six months base salary is to be paid plus payment equivalent to three weeks of base salary for each completed year of service;
- Salary-packaged motor vehicle is included.

A Soanes Director and Manager of Operations, CO2 Australia Limited:

- Term of agreement - no fixed term;
- Base salary which includes superannuation is reviewed annually (minimum increase of CPI);
- Employer or employee may terminate employment on giving one months notice;
- In the event of redundancy, three months base salary is to be paid plus payment equivalent to two weeks of base salary for each completed year of service;

J Bulinski Director, CO2 Australia Limited

- Term of agreement - no fixed term;
- Base salary which includes superannuation is reviewed annually (minimum increase of CPI);
- Employer or employee may terminate employment on giving one months notice;

D Donovan Chief Operating Officer, Seafarms Operations Limited

- Term of agreement - no fixed term;
- Base salary which includes superannuation is reviewed annually (minimum increase of CPI);
- Employer or employee may terminate employment on giving one months notice;

**Remuneration report (audited) (continued)**

*(d) Additional statutory information*

*Remuneration breakdown*

The following table shows the relative proportions of remuneration that are linked to performance and those that are fixed, based on the amounts disclosed as statutory remuneration expense on page 7 above:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2015 %	2014 %	2015 %	2014 %	2015 %	2014 %
<b>Executive Directors of Seafarms Group Limited</b>						
I Trahar	100%	100%	-%	-%	-%	-%
H Whitcombe	100%	100%	-%	-%	-%	-%
C Mitchell	100%	100%	-%	-%	-%	-%
<b>Other key management personnel of the group</b>						
A Soanes	100%	100%	-%	-%	-%	-%
J Bulinski	100%	100%	-%	-%	-%	-%
D Donovan	100%	100%	-%	-%	-%	-%

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

*(i) Share-based compensation*

No options over ordinary shares in the company were provided to any director or key management personnel of the parent entity or the Group during the year (2014: Nil). There are currently no option or share schemes that may affect remuneration in future reporting periods.

*Shares provided on exercise of options*

No shares were provided to any Director of Seafarms Group Limited or other Key Management Personnel on exercise of options during the financial year.

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

**Remuneration report (audited) (continued)**

(d) *Additional statutory information (continued)*

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

*Shares provided on exercise of options (continued)*

	<b>Year ended 30 September 2015</b>	<b>Year ended 30 September 2014</b>	<b>Year ended 30 September 2013</b>	<b>Year ended 30 September 2012</b>	<b>Year ended 30 September 2011</b>
	\$	\$	\$	\$	\$
Revenue	27,209,907	23,692,492	45,339,991	64,263,790	35,424,605
Net profit/(loss) before tax	(16,334,712)	(8,045,200)	(10,735,144)	7,045,442	2,206,062
Net profit/(loss) after tax	(15,959,969)	(6,649,228)	(6,779,523)	4,912,698	1,549,727

	<b>30 September 2015</b>	<b>30 September 2014</b>	<b>30 September 2013</b>	<b>30 September 2012</b>	<b>30 September 2011</b>
Share price at start of year	6c	6c	10c	16c	20c
Share price at end of year	6c	6c	6c	10c	16c
Dividend	-	-	-	-	-
Basic earnings/(loss) per share	(2.31)c	(1.36)c	(1.50)c	1.19cps	0.52cps
Diluted earnings/(loss) per share	(2.31)c	(1.36)c	(1.50)c	1.12cps	0.42cps

Changes in the wealth of the business prior to the 2012 financial year bore no relationship to the remuneration of key management personnel. On 31 August 2011, shareholders approved the Seafarms Group Limited Employee Incentive Plan. Under the Plan, eligible participants were granted Performance Rights to acquire ordinary shares in Seafarms Group Limited, subject to satisfying any vesting conditions. The Plan commenced on 30 September 2011, and terminated 1 February 2014.

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

Seafarms Group Limited received more than 98% of "yes" votes on its remuneration report for the 2015 financial year. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

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

(i) *Option holdings*

No options were held or issued at any time to Directors of Seafarms Group Limited and other key management personnel during the financial year (2014: Nil).

*Share holdings*

The numbers of shares in the Company held during the financial year by each Director of Seafarms Group Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

**Remuneration report (audited) (continued)**

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

2015	Balance at the start of the year	Received during the year on the exercise of options	Received on vesting of rights to deferred shares	Other changes during the year	Balance at end of the year
Name					
<b>Directors of Seafarms Group Limited</b>					
<b>Ordinary shares</b>					
I N Trahar	329,706,461	-	-	73,268,100	402,974,561
H R Whitcombe	12,013,259	-	-	-	12,013,259
C D Mitchell	1,903,050	-	-	490,886	2,393,936
P J Favretto	30,000,000	-	-	6,666,666	36,666,666
<b>Other key management personnel of the Group</b>					
<b>Ordinary shares</b>					
A Soanes	1,931,525	-	-	(258,684)	1,672,841
J Bulinski	931,525	-	-	-	931,525
D Donovan	-	-	-	-	-
2014	Balance at the start of the year	Received during the year on the exercise of options	Received on vesting of rights to deferred shares	Other changes during the year	Balance at end of the year
Name					
<b>Directors of Seafarms Group Limited</b>					
<b>Ordinary shares</b>					
I N Trahar	214,673,321	-	-	115,033,140	329,706,461
H R Whitcombe	12,013,259	-	-	-	12,013,259
A W T Grant (until 21 January 2014)	6,985,032	-	-	-	6,985,032
C D Mitchell	1,903,050	-	-	-	1,903,050
P J Favretto	20,730,720	-	-	9,269,280	30,000,000
<b>Other key management personnel of the Group</b>					
<b>Ordinary shares</b>					
A Soanes	1,931,525	-	-	-	1,931,525
J Bulinski	931,525	-	-	-	931,525
D Donovan	-	-	-	-	-

**Loans to key management personnel**

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

**Shares under option**

There are no unissued ordinary shares of Seafarms Group Limited under option at the date of this report.

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

**Insurance of officers**

(a) *Insurance of officers*

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

**Insurance of officers (continued)**

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

**Non-audit services**

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

Details of amounts paid or payable to the auditor for non-audit services provided during the year are outlined at note 33 to the financial statements.

**Dividends - Seafarms Group Limited**

The Directors of Seafarms Group Limited do not recommend the payment of a dividend for the year ending 30 September 2015 (2014: Nil).

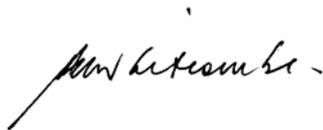
**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 14.

**Auditor**

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

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



Harley Ronald Whitcombe  
Melbourne  
30 November 2015