ASX Announcement | 26 February 2021
Seafarms Group Limited (ASX:SFG)
(ASX Announcement 672)

Seafarms Group Results for the Half-Year Ended 31 December 2020

Attached is Seafarms Group's Report for the half-year ended 31 December 2020 including ASX Appendix 4D.

Ends.

Authorised by the Board of Seafarms Group Limited.

For further information, please contact:

Seafarms Group

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Seafarms Group Limited

ABN 50 009 317 846

Interim financial report for the half-year 31 December 2020

Seafarms Group Limited
Appendix 4D
Half-year 31 December 2020

Name of entity
Seafarms Group Limited

ABN or equivalent company reference	Half-year
ABN 50 009 317 846	31 December 2020 (Previous corresponding period: 31 December 2019)

Results for announcement to the market

				$
Revenue from ordinary activities	Down	30.7%	to	14,937,260
Net loss for the period attributable to members	Down	4.5%	to	(12,810,687)
Loss from ordinary activities after tax attributable to members	Down	4.5%	to	(12,810,687)

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

	31 December 2020	**31 December 2019**
Net tangible asset backing (per share)	**0.01**	0.02

Seafarms Group Limited
ABN 50 009 317 846
Interim financial report - 31 December 2020

Contents

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

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

Its registered office is:
Seafarms Group Limited
Level 11, 225 St Georges Terrace
Perth, WA 6000

Its principal place of business is:
Seafarms Group Limited
Level 11, 225 St Georges Terrace
Perth, WA 6000

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on page 2 which is not part of this financial report.

The financial report was authorised for issue by the Directors on 26 February 2021.

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

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

Directors' report

Directors

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

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

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

Company financial performance

The overall financial performance during the first half of the 2021 financial year reflects the investment being made by the Group in pursuing its expansion in aquaculture operations.

	Consolidated Half-year	
	31 December 2020 $	31 December 2019 $
Total Revenue	**14,937,260**	21,543,045
Net loss before and after tax for the period	**(12,810,687)**	(12,259,005)
Add back:		
Finance expenses	**2,158,306**	2,679,944
Earnings before interest and tax (EBIT)	**(10,652,381)**	(9,579,061)
Cash and cash equivalents	**5,522,921**	2,113,937

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

Review of operations

Operating results

The Group's half-year net loss after tax was $12,810,687 (31 December 2019: $12,259,005). Loss before interest and tax was $10,652,381 (31 December 2019: $9,579,061 loss). Revenue from continuing operations for the six months was down 30.7% to $14,937,260 (31 December 2019: $21,543,045). Basic loss per share from continuing and discontinued operations was 0.53 cents (31 December 2019: 0.61 cents loss). No dividend was declared for the period.

Queensland Operations

Seafarm Queensland Pty Ltd has the capacity to operate 132.5 hectares of prawn production ponds in Cardwell and Ingham (far north Queensland) where it produces up to 1,700 metric tonnes of black tiger and banana prawns that are distributed to Australian retailers and the domestic food service industry.

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

Review of operations (continued)

Queensland Operations (continued)

The business continues to put in place mechanisms to improve broodstock availability, including investment in domestication and specific pathogen free animals. For the first time up to 80% of the Ingham Farm (Farm 3) was stocked with domesticated tiger prawns from the Australian Research Council Industry Transformative Hub program. These animals were domesticated in Queensland and while they are not Specific Pathogen Free, these families have been bred with the intention of reducing dependence on wild-caught broodstock. This stocking will for the first time provide the company with some production data to assess the impact of domestication on production outcomes.

Although the most production remains with black tiger prawns, strategic cropping of banana prawns enables the company to produce fresh product earlier in the season. Seafarms produced a banana prawn crop during the period for one of Australia's major retailers. This crop met market expectations.

All black tiger prawns produced for Christmas 2020 were sold.

The Crystal Bay Prawns and Crystal Bay Tigers brand identities continue to be strong marketing assets and the company continues to work with retailers to provide formats that meet customer needs. The development of the 1 kg frozen Black Tiger packs sold through leading supermarkets continues to find strong market acceptance.

The Queensland operations continue to support the PSD investment thesis particularly that there is strong demand for large high quality black tiger prawns in export and domestic markets and that existing prawn farming operations are constrained by climatic factors that prevent year-round production. Farm 3 at Ingham produces biological metrics that are reflective of the relevant biological assumptions for Project Sea Dragon.

Seafarms operations continued their strong focus on workplace safety, resulting in a 38% reduction in recordable injuries in the first half of the 2021 financial year.

Covid-19

The global Covid-19 pandemic continued to influence the environment within which the company operated during the half-year. As indicated in the full year (2020) report the pandemic introduced additional uncertainty and Directors indicated that maximum production flexibility would be required and hedged against market risk by reducing pond stocking in the second half. This ensured pull-through of all inventory and product grown for the Christmas (December) period. The decision to reduce the Christmas crop also provided the company with the opportunity for an extended dry-out at Farm 2.

Covid-19 interrupted the planned product acceptance testing by Primstar which has now been postponed by agreement. As has been widely reported retail seafood sales through retail channels remained strong whereas food service was weaker.

Border closures, lock-downs and changes to regulations resulted in interrupted interstate travel that materially slowed discussions with financers. Due diligence activities such as site inspections were unable to be undertaken. Noting that Aboriginal people, governments and communities recognised that Covid-19 poses particular risks to Aboriginal people, the Northern Land Council, Native Title Holders and Seafarms modified the structured committee meetings normally held with Native Title Holders. One meeting was held by video-conference. All Parties were satisfied with arrangements given the circumstances.

Management continued to monitor, review and adjust responses to the pandemic as previously disclosed. Company staff did not report any Covid-19 infections and the Cardwell processing plant continued to operate within 'Covid-safe practices'. Domestic logistics and supply chains remained intact.

Project Sea Dragon

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

- ‘Industrialise’ known processes and technology;
- Pursue and capture significant science upside using clear adoption pathways;
- Occupy a global production cost profile in the bottom quartile of lowest cost producers;

Review of operations (continued)

Project Sea Dragon (continued)

- Deploy an operational approach more akin to food manufacturing than farming;
- Embrace its clean, sustainable, biosecure credentials.

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

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

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

The company continued to progress financing of Project Sea Dragon despite the challenging environment created by the Covid-19 as described above.

The company has settled on the optimal development pathway for Project Sea Dragon. Stage 1A is to include an expanded Founder Stock Centre at Exmouth, a Breeding Centre (Broodstock and Hatchery) at Bynoe Harbour a 396 ha farm and ancillary facilities at Legune and a processing plant at Kununurra, this approach leads to the most rapid route to production. From a construction perspective the expansion through to the full Stage 1 (centred on 3 Farms at Legune) can be implemented seamlessly and as expansion occurs the Hatchery site at Gunn Point will be developed.

Project Sea Dragon activities during the half-year focussed on debt financing and has mandated debt coordinators and arrangers to work on behalf of the company to secure suitable debt arrangements for Project Sea Dragon.

The Stage 1A plans were independently examined by a number of specialist consultants that assessed: planned construction schedule; capex estimates and risk; biological and aquaculture processes; biosecurity; markets and pricing; insurances and alignment with the Equator Principles. This extensive additional due diligence was undertaken to assist the financing case and involved considerable time for the Project team.

Project Sea Dragon continues to be supported by the Northern Territory and Western Australian Governments. The Project Development Agreement with the Northern Territory has been extended and construction of the Keep River Road is now complete. The Western Australian Government committed publicly to construction of the unsealed section of the Moonamang Road to the Northern Territory border. This means that the public infrastructure required to support Project Sea Dragon in the border area is complete (NT) or well advanced (WA).

The biological program at Exmouth continued to progress with a number of third generation (G3) animals continuing to pass rigorous pathogen testing to meet Specific Pathogen Free requirements. As a result of the modest expansion of Exmouth additional wild (G0) animals were introduced to the facility. A specific biosecurity risk assessment was undertaken prior to this introduction and infrastructure changes were made to more strongly compartmentalise the site in order reduce the risks of cross-contamination. Early results from the initial screening of the G0 animals suggest that there was a lower prevalence of pathogens in these animals than in previous shipments. The company is examining ways of introducing flexibility into the domestication program pending construction of the Bynoe Harbour facility.

Equity raising

A total of 218,332 options were exercised during the period, at $0.097 per share, amounting to $21,178.

Matters subsequent to the end of the financial period

In February 2021 it was agreed that the repayment dates of Seafarm's loans from unrelated parties, amounting to $12,000,000, would be extended to the earlier of an equity raising or 15 April 2022, all other terms of the loans remaining unchanged. Refer to note 5(a) for further details.

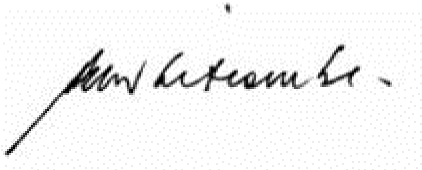
No other matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

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

On behalf of the Directors.



Harley Ronald Whitcombe
Executive Director
Perth
26 February 2021

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

26 February 2021

Dear Board Members

Seafarms Group Limited

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

As lead audit partner for the review of the half year financial report of Seafarms Group Limited for the half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter Rupp
Partner
Chartered Accountants

	Notes	Consolidated Half-year 31 December 2020 $	31 December 2019 $
Revenue from continuing operations		**14,937,260**	21,543,045
Other gains**		**1,393,630**	-
Fair value adjustment of biological assets		**296,926**	(34,906)
Net realisable value adjustment of finished goods		**(1,499,114)**	(531,837)
Cost of goods sold		**(13,752,750)**	(20,450,977)
Employee benefits expense		**(3,261,049)**	(2,532,157)
Depreciation and amortisation expense		**(2,037,218)**	(1,884,011)
Consulting expense		**(2,031,179)**	(855,275)
Legal fees		**(1,469,964)**	(269,153)
Travel		**(78,180)**	(838,947)
Insurance		**(654,445)**	(435,675)
Rent		**(20,065)**	(4,064)
Research and development		**(517,993)**	(724,819)
Marketing		**(4,556)**	(48,683)
Founder Stock Centre*		**(1,318,761)**	(729,585)
Other expenses		**(634,923)**	(1,782,017)
Finance costs		**(2,158,306)**	(2,679,944)
Loss before and after income tax for the period		**(12,810,687)**	(12,259,005)

** Other gains represents government grants from Jobkeeper subsidies received during the period.
* Founder Stock Centre expenses represents the operating costs of the Exmouth (Brood stock) facility.

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

	Consolidated Half-year	
	31 December 2020 $	31 December 2019 $
Loss for the period	**(12,810,687)**	(12,259,005)
Other comprehensive (loss)/income		
Items that may be reclassified to profit or loss		
Other comprehensive (loss)/income for the period, net of tax	**-**	-
Total comprehensive loss for the period	**(12,810,687)**	(12,259,005)
Total comprehensive loss for the period is attributable to:		
Owners of Seafarms Group Limited	**(12,810,687)**	(12,259,005)

	Cents	Cents
Loss per share from operations attributable to the ordinary equity holders of the Company:		
Basic loss per share	**(0.53)**	(0.61)
Diluted loss per share	**(0.53)**	(0.61)

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

	Notes	Consolidated 31 December 2020 $	30 June 2020 $
ASSETS			
Current assets			
Cash and cash equivalents	5	**5,522,921**	6,466,055
Trade and other receivables		**5,544,963**	2,634,029
Inventories		**2,702,233**	10,684,684
Other current assets		**957,938**	1,294,230
Biological assets	9	**3,238,061**	2,683,903
Total current assets		**17,966,116**	23,762,901
Non-current assets			
Property, plant and equipment		**23,210,651**	24,112,699
Right-of-use assets		**21,723,577**	21,811,204
Other non-current assets		**5,000,000**	5,000,000
Total non-current assets		**49,934,228**	50,923,903
Total assets		**67,900,344**	74,686,804
LIABILITIES			
Current liabilities			
Trade and other payables		**6,371,135**	6,897,607
Borrowings	6	**12,000,000**	632,599
Lease liabilities		**1,529,502**	2,125,372
Provisions		**1,497,376**	1,459,130
Total current liabilities		**21,398,013**	11,114,708
Non-current liabilities			
Borrowings	7	**9,337,490**	14,337,490
Lease liabilities		**19,367,511**	18,646,747
Provisions		**164,558**	165,582
Total non-current liabilities		**28,869,559**	33,149,819
Total liabilities		**50,267,572**	44,264,527
Net assets		**17,632,772**	30,422,277
EQUITY			
Contributed equity		**172,076,027**	172,054,845
Other reserves	8(a)	**12,017,437**	12,017,437
Accumulated losses		**(166,460,692)**	(153,650,005)
Total equity		**17,632,772**	30,422,277

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

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

Consolidated	Issued capital $	Other equity* $	Share-based payments reserve $	Options premium reserve $	Financial assets revaluation reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2020	169,793,845	2,261,000	10,371,472	1,670,705	(24,740)	(153,650,005)	30,422,277
Loss for the period	-	-	-	-	-	(12,810,687)	(12,810,687)
Total comprehensive loss for the period	**-**	**-**	**-**	**-**	**-**	**(12,810,687)**	**(12,810,687)**
Contributions of equity & debt equity conversion net of transaction costs & tax	21,182	-	-	-	-	-	21,182
Balance at 31 December 2020	**169,815,027**	**2,261,000**	**10,371,472**	**1,670,705**	**(24,740)**	**(166,460,692)**	**17,632,772**

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

Refer note 7 and note 9 for further detail.

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

	Consolidated Half-year 31 December 2020 $	31 December 2019 $
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**11,769,094**	15,899,451
Payments to suppliers and employees (inclusive of goods and services tax)	**(16,031,295)**	(23,957,970)
	(4,262,201)	(8,058,519)
Interest paid	**(1,178,480)**	(2,491,944)
Net cash outflow from operating activities	**(5,440,681)**	(10,550,463)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(465,574)**	(3,344,661)
Net cash outflow from investing activities	**(465,574)**	(3,344,661)
Cash flows from financing activities		
Proceeds / (payments) from issue of share options	**21,178**	(9,260)
Proceeds from borrowings	**7,000,000**	-
Repayment of borrowings	**(632,599)**	-
Lease payments	**(1,425,458)**	(284,268)
Net cash inflow /(outflow) from financing activities	**4,963,121**	(293,528)
Net decrease in cash and cash equivalents	**(943,134)**	(14,188,652)
Cash and cash equivalents at the beginning of the period	**6,466,055**	16,302,589
Cash and cash equivalents at end of period	**5,522,921**	2,113,937

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

1 Summary of significant accounting policies

(a) Statement of compliance

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

(b) Basis of preparation of half-year report

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2020 annual financial report for the financial year ended 30 June 2020 except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

(c) Going concern

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

For the six-month period ended 31 December 2020, the Group incurred an operating cash outflow of $5,440,681 (31 December 2019: outflow $10,550,463) and a net loss for the period of $12,810,687 (31 December 2019: $12,259,005).

At 31 December 2020, the Group had net current liabilities of $3,431,896 (30 June 2020 net current assets: $12,648,193), including $5,522,921 cash and cash equivalents (30 June 2020: $6,466,055) . Subsequent to 31 December 2020 the repayment due dates of $12,000,000 borrowings included in current liabilities have been extended to 15 April 2022.

The Group continually monitors cash flow requirements to ensure that it has sufficient funds to meet its contractual commitments and non-discretionary corporate overheads and adjusts its spending accordingly. Of particular note, the Group has forecasted full drawdown of the Avatar Finance Pty Ltd facility over the next 4 months and has discretion to defer non-committed expenditure on the development of Project Sea Dragon until such time as it achieves financial close on planned fund-raising activities. As such the Group is able to ensure that capital commitments are not entered into until there is certainty over the related funding. The Group is continuing to progress with project development funding.

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

2 Critical accounting estimates and judgements

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

(a) Critical accounting estimates

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

Biological assets

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

Estimated impairment of other non-current assets

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

Impairment of financial assets

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

Recognition of a financial asset

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

Lease term and valuation

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

Convertible note

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

2 Critical accounting estimates and judgements (continued)

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

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

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

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

- The likelihood that the purchase option will be exercised;

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

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

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

Unlisted options

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

3 Segment information

(a) Description of segments

Business segments

Aquaculture

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

Other

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

(b) Segments

Half-year 31 December 2020	**Aquaculture $**	**Other $**	**Consolidated $**
Segment revenue			
Sales to external customers	14,887,013	-	14,887,013
Total sales revenue	14,887,013	-	14,887,013
Other revenue		50,247	50,247
Total segment revenue	14,887,013	50,247	14,937,260
Consolidated revenue			14,937,260
Segment loss			
Segment loss	**(11,234,034)**	**(1,230,379)**	(12,464,413)
Central administration and directors' salaries			(723,134)
Loss before income tax			(13,187,547)
Income tax expense			-
Loss for the half-year			(13,187,547)
Segment assets at 31 December 2020			
Segment assets	**64,694,237**	**3,206,107**	67,900,344
Unallocated assets			-
Total assets			67,900,344

3 Segment information (continued)

(b) Segments (continued)

Half-year 31 December 2019	**Aquaculture $**	**Other $**	**Consolidated $**
Segment revenue			
Sales to external customers	21,499,429		21,499,429
Total sales revenue	21,499,429	-	21,499,429
Other revenue	2,002	41,614	43,616
Total segment revenue	21,501,431	41,614	21,543,045
Consolidated revenue			21,543,045
Segment loss			
Segment loss	**(8,739,628)**	**(3,519,377)**	(12,259,005)
Central administration and directors' salaries			
Loss before income tax			(12,259,005)
Income tax benefit			-
Loss for the half year			(12,259,005)
Segment assets at 30 June 2020			
Segment assets	**68,534,235**	**2,052,302**	70,586,537
Unallocated assets			-
Total assets			70,586,537

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 receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions. While most of these assets can be directly attributed to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment assets do not include income taxes.

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

4 Issuances, repurchases and repayments of equity securities

A total of 218,332 options were exercised during the period, at $0.097 per share, amounting to $21,182.

5 Cash and cash equivalents

	Consolidated	
	31 December 2020 $	30 June 2020 $
Cash at bank and in hand	**5,096,800**	6,039,934
Deposits at call	**426,121**	426,121
	5,522,921	6,466,055

(a) Cash not available for use

$426,121 (2020: $426,121) is held as security for bank facilities and lease guarantees.

6 Current liabilities - Borrowings

	Consolidated	
	31 December 2020 $	30 June 2020 $
Secured		
Bank loans	**-**	632,599
Other loans	**5,000,000**	-
Total secured current borrowings	**5,000,000**	632,599
Unsecured		
Other loans	**7,000,000**	-
Total unsecured current borrowings	**7,000,000**	-
Total current borrowings	**12,000,000**	632,599

(a) Other loans

The $5,000,000 loan from AAM Licensees Pty Ltd was provided on 12 December 2018, at an interest rate of 7% per annum, and was due to be repaid on 11 December 2021. The Group has the option to settle up 50% of interest accruing on the loan by issuing Seafarms Group Limited shares. This option has not been exercised during the current reporting period. On 26 February 2021 it was agreed that the repayment date of this loan would be extended to 15 April 2022, all other terms of the loan remained unchanged.

A $7,000,000 loan from an unrelated party, on normal and usual terms, was repayable on the earlier of an equity raising or 30 September 2021. On 25 February 2021 it was agreed that the repayment date of this loan would be extended from the earlier of an equity raising or 30 September 2021 to the earlier of an equity raising or 15 April 2022, all other terms of the loan remained unchanged.

Information about the security relating to each of the secured liabilities and the fair value of each of the borrowings is provided in note 7.

7 Non-current liabilities - Borrowings

	Consolidated	
	31 December 2020 $	30 June 2020 $
Secured		
Other loans	**-**	5,000,000
Unsecured		
Loans from related parties (refer note 9)	**9,337,490**	9,337,490
Total non-current borrowings	**9,337,490**	14,337,490

Secured liabilities and assets pledged as security

The Group has $80,000 (2020: $80,000) facility on its company credit cards and has been required to provide guarantee facilities of $212,201 (2020: $212,201) in respect of office leases and a guarantee of $133,920 (2020: $133,920) in favour of Great Barrier Reef Marine Parks. The Group maintains a term deposit with the bank to secure these facilities.

Other loans

Refer note 5(a) for details.

Loans from related parties

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

Refer note 9 for details of the convertible loan.

8 Reserves

(a) Other reserves

	Consolidated	
	31 December 2020 $	30 June 2020 $
Financial assets revaluation reserve	**(24,740)**	(24,740)
Share-based payments	**10,371,473**	10,371,472
Option premium reserve	**1,670,704**	1,670,705
	12,017,437	12,017,437

(b) Nature and purpose of other reserves

(i) Share-based payments

The share-based payments reserve is used to recognise:
- the grant date fair value of options issued to employees but not exercised
- the grant date fair value of shares issued to employees
- the issue of shares held by the Employee Share Trust to employees.
- the grant date fair value of options issued to third parties but not exercised

Reserves

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

(i) Share-based payments (continued)

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

(ii) Option premium

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

(iii) Financial assets revaluation reserve

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

9 Fair value measurement

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

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

The Group holds biological assets at fair value.

Biological assets of $3,238,061 (30 June 2020: $2,683,903) are valued utilising unobservable inputs including survival rates, average growth rates, feed costs, feed conversion ratio, power costs, the harvest weight of prawns, mortality rates, processing costs and the sale price of harvested prawns to customers. These are considered Level 3 inputs in the fair value measurement hierarchy set out in AASB13, *Fair Value Measurement.*

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

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

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

(c) Reconciliation of Level 3 fair value measurements

Biological assets	**31 December 2020 $**	30 June 2020 $
Livestock at fair value		
Opening Balance	**2,683,903**	3,590,388
Gain or (Loss) arising from changes in fair value less estimated point of sale costs	**296,926**	(127,187)
Increases due to purchases	**6,918,108**	2,811,091
Decreases due to harvest	**(6,660,876)**	(3,590,389)
Closing Balance	**3,238,061**	2,683,903

10 Related party transactions

(a) Loans to/from related parties

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

	Consolidated	
	31 December 2020 $	30 June 2020 $
Loan from Avatar Finance Pty Ltd		
Beginning of the year	**9,337,490**	13,400,000
Debt equity conversion	**-**	(3,000,000)
Loans advanced	**-**	500,000
Loan repayments made	**-**	(500,000)
Extinguishment of loan	**-**	(10,400,000)
Fair value of liability portion of convertible loan	**-**	8,684,000
Gain on modification of convertible loan	**(432,842)**	-
Interest charged	**678,986**	1,239,868
Interest paid	**(246,144)**	(586,378)
End of period	**9,337,490**	9,337,490

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

(b) Terms and conditions

The facility from Avatar Finance Pty Ltd prior to the new arrangements was provided on normal commercial terms and conditions and at market rates, and was due to be repaid on 15 September 2021. The average interest rate on the loan during the period was 4.06% (2019: 5.88%).

On 30 November 2020 it was agreed, by Avatar Finance Pty Ltd and Seafarms, that the repayment date of this facility would be extended from 15 September 2021 to 15 March 2022 and no line fee would be payable after 15 September 2021.

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

11 Events occurring after the reporting period

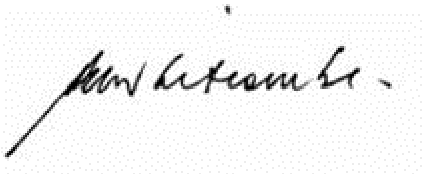
In February 2021 it was agreed that the repayment dates of Seafarm's loans from unrelated parties, amounting to $12,000,000, would be extended to the earlier of an equity raising or 15 April 2022, all other terms of the loans remaining unchanged. Refer to note 5(a) for further details.

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

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

- The financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
    - Giving a true and fair view of the financial position as at 31 December 2020 and the performance for the half-year ended on that date of the consolidated entity; and
    - Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.
- There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the board



Harley Ronald Whitcombe
Executive Director
Perth
26 February 2021

Deloitte.

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

Conclusion

We have reviewed the half-year financial report of Seafarms Group Limited (the "Company") and its subsidiaries (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2020, and the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 7 to 21.

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

(a) giving a true and fair view of the Company's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and

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

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Directors' Responsibilities for the Half-year Financial Report

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

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte.

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter Rupp
Partner
Chartered Accountants
Perth, 26 February 2021