Ocean Grown Abalone Pty Ltd

ACN 148 155 042

SPECIAL PURPOSE FINANCIAL STATEMENTS

For The Year Ended 30 June 2016

OCEAN GROWN ABALONE PTY LTD
CORPORATE DIRECTORY

Directors
Peter Harold – Non Executive Chairman
Bradley Adams – Managing Director
Ignazio Ricciardi – Executive Director
Danielle Lee – Non Executive Director

Company Secretary
Winton Willesee
Erlyn Dale

Registered Office
Level 3, 3 Cantonment Street
Fremantle WA 6160
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Principal Place of Business
617 Brindley Street
Augusta WA 6290

Auditors
Stantons International
Level 2,
1 Walker Avenue
West Perth WA 6005

Share Register
Automic Registry Services
Level 2/267 St Georges Terrace
Perth WA 6000

OCEAN GROWN ABALONE PTY LTD
CONTENTS

The Directors present the financial report for Ocean Grown Abalone Pty Ltd (the **Company**) and its subsidiaries (the **Group**) for the year ended 30 June 2016. The Company was a proprietary company during the year ended 30 June 2016. The Company was subsequently converted to a public company on 22 December 2016 and changed its name to Ocean Grown Abalone Limited.

Directors

The names of the Directors that held office during or since the end of the financial year are detailed below:

Peter Harold[1]	Non Executive Chairman
Bradley Adams[2]	Managing Director
Ignazio Ricciardi[2]	Executive Director
Danielle Lee[1]	Non Executive Director
Vincenzo Ricciardi[3]	Director
Peter Kestel[4]	Director
Craig Kestel[4]	Director

1. Appointed 19 May 2017
2. Appointed 1 July 2013
3. Resigned 19 May 2017
4. Resigned 5 August 2016

Principal Activities

The principal activities of the Company during the course of the financial year were the ongoing development of its sea ranching hardware design and processes that allows for near-shore aquaculture (**Ranching**). This included activities in relation to the establishment of its initial abalone Ranching operation in Flinders Bay, Augusta WA. In particular, the continuation of the construction and deployment of Abitat structures (**Abitats**) and the seeding of juvenile abalone stock, for the purposes of undertaking larger scale trials over a three-year growth cycle.

Review of operations and financial results

The Group generated sales revenue of $291,679 for the year ended 30 June 2016, (2015: $64,234). Operating loss before tax for the year ended 30 June 2016 amounted to $1,123,232 (2015: $1,493,498).

The net loss of the Group for the year, after provision for income tax, was $1,325,923 (2015: $1,553,242).

Operations

During the financial year, the Company continued the construction and deployment of Abitat structures and seeding of juvenile stock at the Flinders Bay project in Augusta WA, for the purposes of undertaking larger scale trials over a three-year growth cycle.

Research and development activity was also undertaken in relation to potential expansion sites at Wylie Bay (Esperance, WA) and Port Lincoln (SA).

The Company incorporated a new subsidiary on 4 August 2015, called Wylie Bay Abalone Pty Ltd (**WBA**), for the purposes of undertaking activity on the Wylie Bay project. The Company owns 66.67% of WBA with remaining 33.33% owned by an unrelated entity, Ocean King Fishing Pty Ltd.

Corporate

During the financial year the Company issued new convertible notes totalling $1,700,000, the key terms of which were:

- annual interest rate of 8% payable monthly in arrears;
- loan balance being convertible to shares at an issue price of $0.80 per share, with such conversion being at the election of the note holder; and
- termination date of 30 June 2017.

During the financial year the Company also raised $50,000 via the exercise of 1,000,000 options, each with an exercise price of $0.05. These options had previously been issued to directors in the 2015 financial year.

There were no other significant changes in the nature of the Company's business activities during the financial year. Other than as disclosed in the financial statements, no matters have arisen since the end of the financial year which significantly affect or may significantly affect the operations of the Company, the results of the operations or the state of affairs of the Company in future years.

Significant changes in the state of affairs

All significant changes in the state of affairs of the Company during the period are discussed in detail above.

Dividend Paid or Recommended

During the financial year, the Company did not declare or pay any dividends.

Events arising since the end of the reporting period

Significant matters that have arisen since the end of the financial year are:

- additional convertible notes totalling $0.25 million were issued during the 2017 financial year. These notes were issued on the same terms as the convertible notes issued during the 2016 financial year;
- on 11 November 2016, the Company undertook a share split on a 5 for 1 basis (**Share Split**), resulting in the number of Shares on issue in the Company increasing from 10,000,000 to 50,000,000;
- on 18 November 2016, the Company issued 47,218,750 new Shares (on a post Share Split basis) pursuant to the conversion of all outstanding convertible notes, totalling $7,555,000, at a conversion price of $0.16 per Share;
- on 22 December 2016, the Company converted from a proprietary company to a public company and changed its name to Ocean Grown Abalone Limited; and
- on 22 December 2016, the Company completed a placement consisting of 30,000,000 Shares (on a post Share Split basis) at an issue price of $0.20 per Share for gross proceeds of $6,000,000.

Other than as disclosed above or in the financial statements, no significant matters have arisen since the end of the financial year which significantly affects the operations of the Company, the results of those operations or the state of affairs of the Company for the in future financial years.

Likely Developments and Expected Results of Operations

The Group will continue to carry on its business plan by:

- continuing to manage its research and development activities in Augusta with the longer term aim of achieving commercial operations;
- developing its export supply chains into Asia; and
- further expand the current Augusta operations and continue other trial and research programs at other sites around Australia, including Esperance and Port Lincoln.

Environmental Regulations

The Company's operations are subject to environmental regulations under Western Australian law. The Group has procedures in place to ensure regulations are adhered to. The Group is not aware of any breaches in relation to environmental matters.

Options

As at 30 June 2016, there were no outstanding options on issue to purchase Shares. This follows the exercise of 1,000,000 options during the 2016 financial year, as detailed above.

Proceedings On Behalf Of Company

No legal proceedings have been brought against the Company to the date of this report.

Indemnifying officers

The Company has insurance that covers the Directors and Executives against liability for costs that may be incurred in defending civil or criminal proceedings that may be brought against the Directors, in their capacity as a Director.

Indemnifying of Auditors

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an Auditor of the Company.

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 9 of this report.

Signed in accordance with a resolution of the Directors.

Bradley Adams
Managing Director
7 September 2017

OCEAN GROWN ABALONE PTY LTD
DIRECTORS' DECLARATION

The Directors have determined that the Company was not a reporting entity and that these special purpose financial statements should be prepared in accordance with the accounting policies described in Note 2 to the financial statements on pages 14 to 21.

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 10 to 33 are in accordance with the *Corporations Act 2001*, including:

   a) complying with selected Australian Accounting Standards as described in Note 2, the *Corporations Act 2001* and other mandatory professional reporting requirements in Australia; and

   b) giving a true and fair view of the Company's financial position as at 30 June 2016 and of its performance for the financial year.

2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Bradley Adams
Managing Director
7 September 2017

Stantons International Audit and Consulting Pty Ltd
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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
OCEAN GROWN ABALONE PTY LTD

Report on the Financial Report

We have audited the accompanying financial report of Ocean Grown Abalone Pty Ltd, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report and have determined that the accounting policies described in Note 2 to the financial statements which form part of the financial report are appropriate to meet the financial reporting requirements of the *Corporations Act 2001* and are appropriate to meet the needs of the members. The directors' responsibility also includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note 2, are appropriate to meet the needs of the members. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

The financial report has been prepared for distribution to members for the purpose of fulfilling the directors' financial reporting under the *Corporations Act 2001*. We disclaim any assumption of responsibility for any reliance on this report or on the financial report to which it relates to any person other than the members, or for any purpose other than that for which it was prepared.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion, the financial report gives a true and fair view of the financial position of Ocean Grown Abalone Pty Ltd as of 30 June 2016 and of its financial performance and its cash flows for the year then ended in accordance with the *Corporations Act 2001* and accounting policies described in Note 2 to the financial statements.

Inherent Material Uncertainty Regarding Valuation of inventory of Biological Assets and harvested Abalone

Without qualification to the opinion expressed above, attention is drawn to the following matter:

As referred to in Note 8 to the financial statements, biological assets are carried at a value of $2,218,417. The biological assets include live abalone on abitats, which are measured at fair value less costs to sell. Estimating the fair value is a complex process involving a number of judgements and estimates regarding various inputs (refer also to Note 2 (v)). Because of the inherent uncertainty associated with the valuation of the biological assets due to the sample size selected for the stocktake and thus the number of abalone, their size, mortality rates and absence of an active market during the growth phase, their carrying value may differ from the realisable value.

Similarly, as the valuation of the harvested abalone is derived from the valuation model noted above, their carrying value may differ from the realisable value.

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD

(Trading as Stantons International)

(An Authorised Audit Company)

Stantons International Audit & Consulting Pty Ltd

Martin Michalik

Martin Michalik
Director

West Perth, Western Australia
7 September 2017

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7 September 2017

Board of Directors
Ocean Grown Abalone Pty Ltd
Suite 6, 20 Twickenham Road
Burswood, WA 6100

Dear Sirs

RE: OCEAN GROWN ABALONE PTY LTD

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Ocean Grown Abalone Pty Ltd.

As Audit Director for the audit of the financial statements of Ocean Grown Abalone Pty Ltd for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours faithfully

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LIMITED
(Trading as Stantons International)
(An Authorised Audit Company)

Martin Michalik

Martin Michalik
Director

OCEAN GROWN ABALONE PTY LTD
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 $	2015 $
Revenue	3	291,679	64,234
Other income	4	79,221	11,441
R&D tax incentive	4	1,435,659	1,526,085
Total income		**1,806,559**	**1,601,760**
Cost of goods sold	8	(3,045)	-
Fair value adjustment of biological assets	8	184,069	(71,692)
Processing expenses		(252,795)	(31,689)
Employee benefits expense		(1,058,612)	(891,229)
Diving, vessels & operations expense		(677,028)	(809,791)
Corporate & administration		(212,678)	(219,925)
Depreciation & amortisation expense		(274,726)	(196,881)
Goodwill write-off	11, 23	-	(605,986)
Net interest received / (paid)		(551,547)	(246,307)
Other expenses		(83,429)	(21,758)
		(2,929,791)	**(3,095,258)**
Loss before tax		**(1,123,232)**	**(1,493,498)**
Income tax (expense)	5	(202,691)	(59,744)
Loss after tax from continuing operations		**(1,325,923)**	**(1,553,242)**
Other comprehensive income / (loss) for the year, net of tax:			
- Items that may be reclassified to profit or loss		-	-
- Items that will not be reclassified to profit or loss		-	-
Total comprehensive Loss for the year		**(1,325,923)**	**(1,553,242)**
Loss attributable to:			
- Owners of the Company		(1,325,823)	(1,553,242)
- Non-controlling interests		(100)	-
		(1,325,923)	(1,553,242)
Total comprehensive loss attributable to:			
- Owners of the Company		(1,325,823)	(1,553,242)
- Non-controlling interests		(100)	-
		(1,325,923)	(1,553,242)

The accompanying notes form part of these financial statements.

OCEAN GROWN ABALONE PTY LTD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Notes	2016 $	2015 $
CURRENT ASSETS			
Cash and cash equivalents	6	467,393	1,474,187
Trade and other receivables	7	1,598,151	1,418,795
Biological assets	8	540,000	-
Other	12	210,000	-
TOTAL CURRENT ASSETS		2,815,544	2,892,982
NON CURRENT ASSETS			
Property, plant and equipment	9	990,172	991,514
Biological assets	8	1,678,417	862,433
Deferred tax assets	10	-	21,507
Intangible assets	11	135,615	135,615
Other assets	12	96,289	88,887
TOTAL NON CURRENT ASSETS		2,900,493	2,099,956
TOTAL ASSETS		5,716,037	4,992,938
CURRENT LIABILITIES			
Trade and other payables	13	187,693	242,679
Interest bearing liabilities	14	7,550,040	150,397
Provisions	15	16,856	18,042
Current tax liability	16	94,237	81,251
TOTAL CURRENT LIABILITIES		7,848,826	492,369
NON CURRENT LIABILITIES			
Interest bearing liabilities	14	360,738	5,750,125
Deferred tax liabilities	17	30,952	-
TOTAL NON CURRENT LIABILITIES		391,690	5,750,125
TOTAL LIABILITIES		8,240,516	6,242,494
NET ASSET (DEFICIENCY)		(2,524,479)	(1,249,556)
EQUITY			
Contributed equity	18	1,675,446	1,625,446
Accumulated losses	19	(4,200,825)	(2,875,002)
Equity attributable to owners of the Company		(2,525,379)	(1,249,556)
Non-controlling interests		900	-
TOTAL EQUITY		(2,524,479)	(1,249,556)

The accompanying notes form part of these financial statements.

OCEAN GROWN ABALONE PTY LTD
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

	Issued Capital $	Accumulated Losses $	Total $	Non-controlling interest $	Total Equity $
Balance as at 1 July 2014	725,446	(1,321,760)	(596,314)	-	(596,314)
Loss after income tax expense for the year	-	(1,553,242)	(1,553,242)	-	(1,553,242)
Other comprehensive loss for the year	-	-	-	-	-
Total comprehensive loss for the year	**-**	**(1,553,242)**	**(1,553,242)**	**-**	**(1,553,242)**
Transactions with owners recorded directly in equity					
Shares issued	900,000	-	900,000	-	900,000
Share issue costs	-	-	-	-	-
Total transactions with owners recorded directly in equity	**900,000**	**-**	**900,000**	**-**	**900,000**
Balance as at 30 June 2015	**1,625,446**	**(2,875,002)**	**(1,249,556)**	**-**	**(1,249,556)**
Balance as at 1 July 2015	1,625,446	(2,875,002)	(1,249,556)	-	(1,249,556)
Loss after income tax expense for the year	-	(1,325,823)	(1,325,823)	(100)	(1,325,923)
Other comprehensive loss for the year	-	-	-	-	-
Total comprehensive loss for the year	**-**	**(1,325,823)**	**(1,325,823)**	**(100)**	**(1,325,923)**
Transactions with owners recorded directly in equity					
Shares issued	50,000	-	50,000		50,000
Share issue costs	-	-	-	-	-
Non-controlling interest	-	-	-	1,000	1,000
Total transactions with owners recorded directly in equity	**50,000**	**-**	**50,000**	**1,000**	**51,000**
Balance as at 30 June 2016	**1,675,446**	**(4,200,825)**	**(2,525,379)**	**900**	**(2,524,479)**

The accompanying notes form part of these financial statements.

OCEAN GROWN ABALONE PTY LTD
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 $	2015 $
Cash flows from operating activities			
Receipts from customers		251,161	56,031
Other income		79,221	11,441
Payments to suppliers and employees		(3,823,609)	(2,910,404)
R&D tax incentive		1,266,641	259,444
Net cash (used in) operating activities	21	**(2,226,586)**	**(2,583,488)**
Cash flows from investing activities			
Purchases of plant, equipment and intangible assets		(276,249)	(492,345)
Pre-acquisition loan to Two Oceans Abalone		-	(173,980)
Purchase of Two Oceans Abalone		-	(450,000)
Incorporation of Wylie Bay Abalone		(2,000)	-
Payment of lease deposits		(1,237)	(60,624)
Interest received		16,071	15,162
Net cash (used in) investing activities		**(263,415)**	**(1,161,787)**
Cash flows from financing activities			
Proceeds from borrowings		2,160,653	4,484,924
Repayment of borrowings		(150,397)	(125,092)
Interest paid		(567,617)	(261,469)
Borrowing costs		(9,432)	(25,474)
Proceeds from issue of shares		50,000	900,000
Net cash from financing activities		**1,483,207**	**4,972,889**
Net (decrease) / increase in cash and cash equivalents		**(1,006,794)**	**1,227,614**
Cash and cash equivalents at the beginning of the financial year		**1,474,187**	**246,573**
Cash and cash equivalents at the end of the financial year	6	**467,393**	**1,474,187**

The accompanying notes form part of these financial statements.

Note 1. NATURE OF OPERATIONS OCEAN GROWN ABALONE PTY LTD

Ocean Grown Abalone Pty Ltd and its wholly owned subsidiaries' (the **Group**) principal activities are the ongoing development of its sea ranching hardware design and processes that allows for near-shore aquaculture. This included activities in relation to the establishment of its initial Ranching operation in Flinders Bay, Augusta WA for the purposes of undertaking larger scale trials over a three year growth cycle.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

(i) Special purpose financial report

In the directors' opinion, the Company was not a reporting entity for the 2016 financial year because there were no users dependent on general purpose financial reports.

This is a special purpose financial report that has been prepared for the sole purpose of complying with the *Corporations Act 2001* requirements to prepare and distribute a financial report to the members and must not be used for any other purpose.

The financial report has been prepared in accordance with the recognition and measurement principles of all applicable Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. It contains the disclosures that are mandatory under the Accounting Standards and those considered necessary by the directors to meet the needs of the members. Ocean Grown Abalone Pty Ltd is a for-profit entity for the purpose of preparing the financial statements and is a company limited by shares, incorporated and domiciled in Australia. In particular preparation has been in accordance with the following Australian Accounting Standards:

AASB 101 *Presentation of Financial Statements;*
AASB 107 *Statement of Cash Flows;*
AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors;*
AASB 1031 *Materiality;*
AASB 1048 *Interpretation of Standards;*
AASB 1054 *Australian Additional Disclosures; and*
AASB 3 *Business Combinations*

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- financial assets and liabilities (including derivative instruments);
- certain classes of property, biological assets, inventory and plant and equipment – measured at fair value.

(iii) Going Concern

The financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and realisation of assets and settlement of liabilities in the ordinary course of business. For the year ended 30 June 2016, the Group incurred a loss after tax from continuing operations of $1,325,923 (2015: $1,553,242) and incurred net operating cash outflows of $2,226,586 (2015: $2,583,488). At 30 June 2016, the Group had a net current asset deficiency of $5,033,282 (2015: net current assets of $2,400,613).

The Group's ability to continue as a going concern is dependent upon its ability to generate positive cash flow through its business operations and raise further equity or debt financing. The Directors continue to be focused on meeting the Group's business objectives and are mindful of the funding requirements to meet these objectives. The Directors consider the basis of going concern to be appropriate for the following reasons:

- the results achieved to date from the Company's research and development trials and future growth prospects;
- the Director's achievements to date in terms of raising requisite levels of financing, in the form of both equity and debt, to meet its operational requirements;
- ongoing eligibility for the R&D tax incentive refund;
- subsequent conversion of all outstanding convertible notes to equity in December 2016; and
- the Company's ability to manage its level of operational activity and hence working capital requirements.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

(iv) New and amended standards adopted by the Company

The Company has considered the implications of new and amended Accounting Standards but determined that their application to the financial statements is either not relevant or not material.

(iv) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations issued by the AASB which are not yet mandatorily applicable to the Company have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

- AASB 15: *Revenue from Contracts with Customers* (applicable to annual reporting periods commencing on or after 1 January 2018).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

This Standard will require retrospective restatement, as well as enhanced disclosures regarding revenue.

The directors anticipate that the adoption of AASB 15 will not have a material impact on the Company's revenue recognition and disclosures.

- AASB 16: *Leases* (applicable to annual reporting periods commencing on or after 1 January 2019).

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: *Leases* and related interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as either operating leases or finance leases. Lessor accounting remains similar to current practice.

The main changes introduced by the new Standard are as follows:

- recognition of the right-to-use asset and liability for all leases (excluding short term leases with less than 12 months of tenure and leases relating to low value assets);

- depreciating the right-to-use assets in line with AASB 116: *Property, Plant and Equipment* in profit or loss and unwinding of the liability in principal and interest components;

- inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;

- application of practical expedient to permit a lessee to elect not to separate non-lease components and instead account for all components as a lease; and

- additional disclosure requirements.

The directors anticipate that the adoption of AASB 16 will not have a material impact on the Company's revenue recognition and disclosures.

- *Other standards not yet applicable*

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

b) Basis of Consolidation

The Group financial statements consolidate those of the parent company and its subsidiaries. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. A list of subsidiaries is provided in Note 25. All subsidiaries have a reporting date of 30 June.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interest are attributed their share of profit or loss and each component of comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

c) Business Combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interest issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are general measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of: (i) the fair value of consideration transferred; (ii) the recognised amount of any non-controlling interest in the acquiree; and (iii) the acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair value of identifiable net assets exceed the sum calculated above, the excess is recognised directly in profit and loss as a bargain purchase.

d) Foreign currency translation

Foreign currency transactions during the period are converted to Australian currency using the exchange rates prevailing at the dates of the transactions. Amounts receivable and payable in foreign currency at balance date are also converted at the spot rate at each reporting date.

Realised exchange gains and losses during the period are included in the operating profit before income tax as they arise. Unrealised exchange gains and losses at balance date are included in the operating profit before income tax to the extent that their realisation is certain.

e) Revenue recognition

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

Interest income and expenses are reported on an accrual basis.

f) Research and development tax refund

Refund amounts received or receivable under the Federal Government's Research and Development Tax Incentive are recognised on an accrual basis.

g) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership are transferred to entities in the economic entity are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

h) Employee benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

i) Impairment

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets are impaired. In the case of financial assets classified as available for sale, a significant or prolonged decline in the fair value of an asset below its cost is considered as an indicator that the assets are impaired. If any such evidence exists for 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 the statement of profit or loss and other comprehensive income – is removed from equity and recognised in the statement of profit or loss and other comprehensive income. Impairment losses recognised in the statement of profit or loss and other comprehensive income on equity instruments classified as available for sale are not reversed through the statement of profit or loss and other comprehensive income.

j) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The Group is not consolidated for tax purposes.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 substantially enacted by the end of the reporting period 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 for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

k) Good 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.

l) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position includes cash on hand, deposits held at call with banks and other highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the purposes of the Statement of Cash Flows, cash and cash equivalents are as described above.

m) Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

n) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs include all expenses directly attributable to the manufacturing process. Costs are assigned on the basis of weighted average costs. In the case of abalone stock, upon harvest the stock is transferred from Biological Assets to Inventory at a revised cost value, being the carrying value previously determined for that stock in accordance with the AASB 141 (refer Note 2(o) below).

Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expense.

o) Biological Assets

Biological assets comprise abalone stock located on Abitats.

The abalone stock are valued at their fair value less costs to sell in accordance with the AASB 141 Agriculture Standard. Where fair value cannot be reliably measured biological assets are measured at cost less impairment losses.

For abalone stock below 90mm (~120g whole weight), these biological assets are measured at cost as the Company considers that the fair value for this stock cannot be reliably measured on the basis that its commercial sales are only for product above this size threshold.

Abalone stock above 90mm (~120g whole weight) are measured at fair value less cost to sell. The valuation takes into consideration estimated growth rates and mortality (refer Note 2(v) for a description of the methodology used for the estimation of growth rates and mortality). The market prices are derived from observable market prices (when available) and realised prices. The prices are reduced for estimated harvesting costs, processing costs, freight costs and other selling costs, to determine the net fair value.

The net increase / (decrease) in the fair value of abalone stock at period end is recognised as income / (expense) in the profit and loss.

p) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Fair value movements are recognised within the income statement.

q) Property, plant and equipment

Property, plant and equipment is initially recognised at acquisition cost or manufacturing cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in a manner intended by the Group's management. These assets are subsequently measured at cost less and depreciation and impairment losses.

Repairs and maintenance expenditure is charged to the Statement of Profit or Loss during the financial period in which it is incurred.

Depreciation

The depreciable amount of fixed assets are depreciated on either a diminishing value (DV) method or on a straight-line (SL) basis over their useful lives to the Group commencing from the time the asset is held ready for use. The following depreciation rates were applied during the financial period:

• Plant and equipment	20% SL
• Dive vessels	20% SL
• Barge	20% SL
• Dive equipment	20% SL
• Motor vehicles	20% SL
• Moulds	20% SL

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Derecognition

Additions of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in the Profit or Loss.

Impairment

Carrying values of plant and equipment are reviewed at each balance date to determine whether there are any objective indicators of impairment that may indicate the carrying values may be impaired.

r) Intangible assets

Trademarks, patents leases and licenses are initially recorded at cost incurred to acquire. Intangible assets which are deemed to have an indefinite life are tested annually for impairment and carried at cost less accumulated impairment losses. Assets deemed for have a finite life are amortised over their expected economic life to the Company and then recorded at cost less accumulated amortisation and impairment losses.

s) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

t) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

u) Provisions

Provisions are recognised when the entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

v) Critical accounting estimates and judgments

Estimates and judgements are continually evaluated and 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.

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 year are discussed below.

Biological Assets

Biological assets are measured at fair value less cost to sell in accordance with AASB 141. Abalone stock below 90mm (~120g) are measured at cost, on the basis that the Company considers that the fair value cannot be measured reliably.

Abalone stock above 90mm (120g) is measured at fair value in accordance with AASB 141. Management estimates the fair value of biological assets, taking into account the most reliable evidence available at each reporting date in relation to the underlying assumptions, including mortality rates, growth rates, calculation of biomass, harvest costs, processing costs, selling costs and market prices.

Biomass is calculated using a size/weight algorithm derived from industry reports. In relation to the assumptions underlying mortality rates and growth rates, from which the stock estimates are extrapolated, including biomass, these are updated following each six monthly survival count and size class measurements. The bi-annual stock counts and measurements are taken over approximately 6% of the entire farm, which has been determined to be a statistically relevant sample size.

The future realisation of these biological assets may be affected by any variance between actual results and the assumptions relied upon.

Impairment

In assessing impairment, management estimates the recoverable amount of each assets or cash generating unit based on expected future cash flows and uses an interest rate to discount them (where applicable). Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (if applicable).

Useful life of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected useful life of the assets. Uncertainties in these estimates include assessing the impact of the Company's operating environment and technical and other forms of obsolescence.

Note 3. REVENUE

Revenue for the reporting period consisted of the following:

	2016 $	2015 $
Sale of abalone product	28,232	15,436
Processing revenue	263,447	48,798
	291,679	**64,234**

During the financial year approximately 710kg (live weight for 90mm and over class) of abalone product was sold at an average price of approximately $39.80 per kg. The abalone product sold was sourced from both the Company's initial sea ranching trials and subsequent larger scale trial harvest, seeding for which commenced during the 2015 financial year.

Processing revenue relates to processing activities undertaken for third parties, with approximately 42,976 kg (live weight) of abalone processed for customers (average price of $6.13 kg).

Note 4. OTHER INCOME

(a) Other revenue for the reporting period consisted of the following:

	2016 $	2015 $
Facility use	8,400	3,364
Miscellaneous	70,821	8,077
	79,221	**11,441**

(b) **R&D Tax Incentive**

	2016 $	2015 $
Accrued during the year (refer also Note 7)	1,435,659	1,526,085
	1,435,659	**1,526,085**

		2016 $	2015 $
Note 5.	INCOME TAX		
	A reconciliation between income tax benefit / (expense) and the product of accounting (loss) / profit before income tax multiplied by the Company's applicable income tax rate is as follows:		
	(Loss) before income tax	(1,123,232)	(1,493,498)
	At statutory income tax rate of 28.5% (2015: 30%)	(320,121)	(448,049)
	Other non deductible expenditure for income tax purposes:		
	R&D tax rebate	(409,164)	(457,826)
	Other non-deductible expenses	7,711	7,355
	Expenditure subject to R&D tax incentive claim	909,251	844,427
	Other adjustment	15,171	14,401
	Goodwill write off	-	181,796
	Recognised tax losses	(157)	(82,360)
	Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income	202,691	59,744

The components of income tax expense comprise:

	2016 $	2015 $
Current income tax payable	150,232	81,251
Deferred income tax expense/(benefit)	52,459	(21,507)
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income	202,691	59,744

The following deferred tax balances have not been brought to account:

	2016 $	2015 $
Deferred tax assets		
Carried forward revenue losses – Two Oceans Abalone Pty Ltd	191,274	201,506
Carried forward capital losses – Two Oceans Abalone Pty Ltd	2,892	3,045
Carried forward revenue losses – OGA Operations Pty Ltd	1,337	-
Carried forward revenue losses – Wylie Bay Abalone Pty Ltd	86	-
Deferred tax assets not recognised	195,589	204,551

Due to uncertainty regarding the utilisation of prior year tax losses in future years, the tax losses have not been recognised as an asset.

		2016 $	2015 $
Note 6.	**CASH AND CASH EQUIVALENTS**		
	Cash at bank and in hand	467,393	1,474,187
		467,393	**1,474,187**

		2016 $	2015 $
Note 7.	TRADE AND OTHER RECEIVABLES		
	Trade debtors	84,624	44,105
	Sundry & other debtors	1,435,659	1,266,641
	GST receivable	77,868	108,049
		1,598,151	**1,418,795**

At the reporting date, none of the trade and other receivables were past due or impaired.

Sundry & other debtors for the 2016 financial year represents the R&D refund for the period of $1,435,659.

		2016 $	2015 $
Note 8.	BIOLOGICAL ASSETS		
	CURRENT		
	Abalone on Abitats	540,000	-
		540,000	**-**
	NON CURRENT		
	Abalone on Abitats	1,678,417	862,433
		1,678,417	**862,433**

The carrying value of abalone on hand at year end was calculated as follows:

	2016 $	2015 $
Opening balance	862,433	-
Increases due to purchases	1,174,960	934,125
Decreases due to harvest for processing to inventory	(3,045)	-
Fair value adjustment at year end recognised in profit and loss	184,069	(71,692)
Closing balance	**2,218,417**	**862,433**

The closing stock estimate was 1,438,577 abalone with a biomass of 87,219kg. This comprised (i) 1,189,555 abalone with an estimated nominal size below 90mm and total estimated biomass of 49,113kg; and (ii) 249,022 abalone with an estimated nominal size above 90mm and total estimated biomass of 38,106kg. The classification of the closing biological stock between current and non-current is based on the estimated harvest potential for the 2017 financial year, which will be sourced from within the closing stock above 90mm.

As detailed in Note 2(o), historical cost is used as an estimate of fair value for abalone below the minimum commercial harvest size of 90mm.

Note 2(o) also details that stock above 90mm is measured at fair value less costs to sell. For the 2016 financial year, the fair value of stock above 90mm has been estimated using a value of $30kg (live weight), which in turn is based on the Company's assessment of the market value of the stock at balance date less estimated harvest, processing and selling costs. The fair value assessment also assumes a further 10% mortality rate between balance date and harvest date.

Commercial harvest during the 2016 financial year comprised 3,045 abalone, which had a carrying value of $3,045. The balance of the harvest during the 2016 financial year was taken from trial stock

Note 8. BIOLOGICAL ASSETS (continued)

that had been expensed in prior periods. All harvested abalone was sold during the financial year.

There is inherent uncertainty in the estimate of the closing number of abalone and biomass and hence the resultant fair value estimate for closing stock. As detailed in Note 2(v), the number of abalone and biomass is estimated using a model that factors in projected growth and mortality rates, which in turn are based on the results of survival counts and size class measurements taken during the Company's trial phase and subsequent six monthly stock counts (based upon a 6% statistically relevant sample). Actual growth and mortality rates will invariably differ to some extent across the farm.

Note 9. PROPERTY, PLANT AND EQUIPMENT

	2016 $	2015 $
Plant & equipment, at cost	386,311	353,712
less : Accumulated depreciation	(213,888)	(170,772)
	172,423	182,940
Motor vehicles, at cost	208,996	208,996
less : Accumulated depreciation	(75,969)	(50,756)
	133,027	158,240
Barge, at cost	63,190	63,190
less : Accumulated depreciation	(28,113)	(15,474)
	35,077	47,716
Dive vessels, at cost	603,559	477,890
less : Accumulated depreciation	(202,503)	(87,020)
	401,056	390,870
Dive equipment, at cost	237,713	130,470
less : Accumulated depreciation	(68,194)	(24,296)
	169,519	106,174
Moulds, at cost	134,840	134,840
less : Accumulated depreciation	(58,965)	(31,995)
	75,875	102,845
Leasehold improvements, at cost	60,683	60,683
less : Accumulated depreciation	(60,683)	(60,683)
	-	-
Office equipment, at cost	6,936	5,693
less : Accumulated depreciation	(3,741)	(2,964)
	3,195	2,729
Net carrying amount	**990,172**	**991,514**

		2016 $	2015 $
Note 10	DEFERRED TAX ASSETS		
	Deferred income tax benefit	-	21,507

The deferred income tax benefit that was recognised in the 2015 financial year in relation to the fair value adjustment to the carrying value of Biological Assets, has been offset against the deferred tax liability arising in the 2017 financial year (refer Note 17)

		2016 $	2015 $
Note 11.	INTANGIBLE ASSETS		
	Artificial reef technology, at cost	62,650	62,650
	less: accumulated amortisation	-	-
		62,650	62,650
	Ocean leases, at cost	41,870	41,870
	less: accumulated amortisation	-	-
		41,870	41,870
	Patents & trademarks, at cost	31,095	31,095
	less: accumulated amortisation	-	-
		31,095	31,095
	Goodwill on acquisition	-	605,986
	less: goodwill write-off	-	(605,986)
		-	-
		135,615	**135,615**

During the 2015 financial year goodwill of $605,986 was recorded arising from the acquisition of Two Oceans Abalone Pty Ltd (**TOA**) on 30 April 2015, and was subsequently expensed. The goodwill on acquisition represented the difference between the cash consideration paid by the Company of $450,000 and the assessed fair value of the net asset deficiency of TOA of $155,986 on 30 April 2015, being the acquisition date (refer further Note 24). The decision to write off the goodwill was based on an assessment of TOA's historical financial performance, in particular, with TOA not having established a profitable operation as at the date of the acquisition.

		2016	2015
		$	$
Note 12.	OTHER ASSETS		
	CURRENT		
	Prepayments	210,000	-
		210,000	-
	NON CURRENT		
	Augusta Boat Harbour Marina	17,050	13,150
	Corporate & financing costs	4,026	1,761
	Deposits	73,013	71,776
	Other	2,200	2,200
		96,289	88,887

Prepayments as at 30 June 2016 related to advance payments for hatchery-reared juvenile abalone stock that was subsequently received in the 2017 financial year and seeded on Abitats.

		2016	2015
Note 13.	TRADE AND OTHER PAYABLES		
	Trade payables	37,757	149,647
	Accrued expenses	149,936	93,032
		187,693	242,679
Note 14.	INTEREST BEARING LIABILITIES		
	CURRENT		
	Equipment loans	245,040	150,397
	Convertible notes	7,305,000	-
		7,550,040	150,397
	NON CURRENT		
	Equipment loans	360,738	145,125
	Convertible notes	-	5,605,000
		360,738	5,750,125

Note 14. INTEREST BEARING LIABILITIES (continued)

Equipment Loans

The equipment loans have been provided to Ocean Grown Abalone Operations Pty Ltd (OGA Operations) by National Australia Bank Limited, pursuant to a master asset finance agreement with a facility limit of $750,000. The loans are secured over the financed assets via an equitable mortgage. Additional loan security is provided in the form of a charge over the assets of OGA Operations and the Company. The Company has also provided a guarantee and indemnity to the loan provider for the full facility limit.

The equipment loans at reporting date comprised:

- $127,945 which commenced in May 2014, with 36 monthly repayments (final payment date 17 May 2017) and an annual interest rate of 5.61% ;
- $17,180 which commenced in June 2014, with and requires 36 monthly repayments (final payment date 4 June 2017) and an annual interest rate of 5.23%;
- $226,600 which commenced in July 2015, with 60 monthly repayments (final payment date of 10 July 2020) and an annual interest rate of 5.2%;
- $196,974 which commenced in November 2015, with 60 monthly repayments (final payment date 15 November 2020) and an annual interest rate of 4.82%; and
- $37,079 which commenced in November 2015, with 60 monthly repayments (final payment date 16 November 2020) and an annual interest rate of 4.82%.

Convertible Notes

(i) $1,700,000 of convertible notes were issued during the 2016 financial year, the key terms of which were:
  - annual interest rate of 8% payable monthly in arrears;
  - loan balance being convertible to shares at an issue price of $0.80 per share, with such conversion being at the election of the note holder; and
  - redemption date of 30 June 2017.

(ii) $4,455,000 of convertible notes were issued during the 2015 financial year, the key terms of which were:
  - annual interest rate of 8% payable monthly in arrears;
  - loan balance being convertible to shares at an issue price of $0.80 per share, with such conversion being at the election of the note holder; and
  - redemption date of 30 June 2017.

(iii) $1,150,000 of convertible notes issued during the 2014 financial year remain outstanding, the key terms of which were:
  - annual interest rate of 8% payable monthly in arrears;
  - loan balance being convertible to shares at an issue price of $0.80 per share, with such conversion being at the election of the note holder; and
  - redemption date of 30 June 2017.

Refer Note 21 for details on the subsequent conversion of all outstanding convertible notes.

	2016 $	2015 $
Note 15. PROVISIONS		
CURRENT		
Employee entitlements – annual leave	16,856	18,042
	16,856	**18,042**

		2016 $	2015 $
Note 16.	TAXATION		
	CURRENT		
	Current income tax payable	94,237	81,251

The income tax payable balance of $94,237 represents the income tax payable for the financial year of $150,232 less an income tax receivable balance of $55,995, which arises from an adjustment to the original 2015 financial year tax assessment.

Despite incurring an operating loss before tax for the 2016 financial year, the Company recorded income tax payable predominantly due to the add back for tax purposes of expenditure which had already been claimed for R&D tax incentive purposes. The Company had insufficient carried forward tax losses to offset the resulting taxable income.

Note 17.	DEFERRED TAX LIABILITIES		
	Deferred income tax liability	30,952	-

The deferred income tax liability benefit arises from the fair value adjustment at balance date to the carrying value of Biological Assets of $184,069 (gain), the tax liability for which is expected to be realised in future periods when the assets are sold. The resulting deferred tax liability for the period of $52,459 has been partially offset against the corresponding deferred income tax asset from the 2015 financial year of $21,507.

Note 18. CONTRIBUTED EQUITY

	2016	2015
	No.	No.
(a) Issued and paid up capital		
No. fully paid ordinary shares	10,000,000	9,000,000
	$	$
Balance at beginning of year	1,625,446	725,446
Issue of shares at $0.05 on 31 December 2015 upon the exercise of options	50,000	900,000
Share issue costs	-	-
Balance at end of year	**1,675,446**	**1,625,446**
(b) Movement in ordinary shares	No.	No.
Balance at the beginning of year	9,000,000	5,000,000
Shares issued during the year	1,000,000	4,000,000
Balance at end of year	10,000,000	9,000,000

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders meetings, each ordinary share is entitled to one vote when a poll is called.

(c) Share options

There were no options on issue at balance date.

	2016	2015
	$	$

Note 19. ACCUMULATED LOSSES

	2016	2015
Retained losses at beginning of year	(2,875,002)	(1,321,760)
Net loss for the year	(1,325,823)	(1,553,242)
Dividends paid in the year	-	-
Retained profits at end of year	**(4,200,825)**	**(2,875,002)**

Note 20. AUDITORS' REMUNERATION

	2016	2015
Audit fees – current year	15,000	15,000

Note 21. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

Reconciliation of net Cash provided by Operating Activities to Operating Profit after Income Tax

	2016 $	2015 $
Loss after income tax for the year	(1,325,923)	(1,553,242)
Depreciation and amortisation	274,726	196,881
Write-off goodwill on acquisition TOA	-	605,986
Fair value ("FV") adjustment – biological assets	(184,069)	71,692
Net interest paid/(received)	551,547	246,307
Change in assets and liabilities		
(Increase) in biological assets (excluding FV adjustment)	(1,171,915)	(934,125)
(Increase) in trade and other receivables	(220,338)	(61,597)
(Increase) in R&D tax refund receivable	(169,018)	(1,266,641)
Decrease / (Increase) in deferred tax assets	21,508	(21,507)
Increase in deferred tax liabilities	30,952	-
(Decrease) in trade and other payables	(45,855)	40,632
Increase in income tax payable	12,985	81,251
(Decrease) in provisions	(1,186)	10,875
Net cash (used in) operating activities	**(2,226,586)**	**(2,583,488)**

Note 22. SUBSEQUENT EVENTS

Significant matters that have arisen since the end of the financial year are:

- additional convertible notes totalling $0.25 million were issued during the 2017 financial year. These notes were issued on the same terms as the convertible notes issued during the 2016 financial year;
- on 11 November 2016, the Company undertook the Share Split (on a 5 for 1 basis), resulting in the number of Shares on issue in the Company increasing from 10,000,000 to 50,000,000;
- on 18 November 2016, the Company issued 47,218,750 new Shares (on a post Share Split basis) pursuant to the conversion of all outstanding convertible notes, totalling $7,555,000, at a conversion price of $0.16 per Share;
- on 22 December 2016, the Company converted from a proprietary company to a public company and changed its name to Ocean Grown Abalone Limited; and
- on 22 December 2016, the Company completed a placement consisting of 30,000,000 Shares (on a post Share Split basis) at an issue price of $0.20 per Share for gross proceeds of $6,000,000.

Other than as disclosed above or in the financial statements, no significant matters have arisen since the end of the financial year which significantly affects the operations of the Company, the results of those operations or the state of affairs of the Company for the in future financial years.

Note 23. CONTINGENT LIABILITIES

At 30 June the Company had contingent liabilities amounting to:

- $60,000 in respect of security deposit guarantees in favour of the Minister for Fisheries (WA); and
- $10,000 in respect of a security deposit guarantee in favour of the Department of Primary Industries and Regions.

Other than as disclosed in the financial statements, the Company does not have any contingent liabilities at balance sheet date and none have arisen since balance sheet date to the date of signing the Directors' report.

Note 24. BUSINESS COMBINATIONS

On 30 April 2015, the Company acquired 100% of the issued capital of Two Oceans Abalone Pty Ltd (TOA). The total cost of the acquisition was $450,000, which comprised 100% cash consideration.

The following table summarises the consideration paid for TOA and the amounts of the assets acquired and liabilities assumed, recognised at the acquisition date.

Recognised amounts of identifiable assets acquired and liabilities assumed	
	2015
	$
Assets	
Cash	21,813
Receivables	13,507
Property plant &equipment	24,569
Other assets	2,241
	62,130
Liabilities	
Trade & other payables	12,955
Interest bearing liabilities	5,361
Loan from the Company	199,800
	218,116
Total identifiable net liabilities	**155,986**
Fair value of consideration paid	450,000
Goodwill on acquisition	**605,986**

The goodwill on acquisition represented the difference between the cash consideration paid by the Company of $450,000 and the assessed fair value of the net liabilities of TOA of $155,986 on the acquisition date.

The decision to write off the goodwill was based on an assessment of TOA's historical financial performance, in particular, with TOA not having established a profitable operation as at the date of the acquisition. The goodwill will not be deductible for tax purposes.

The revenue included in the consolidated statement of profit or loss and other comprehensive income since 30 April 2015, contributed by TOA was $52,706. TOA also contributed profit of $11,604 over the same period.

Note 25. CONTROLLED ENTITIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 2(b).

Name	Country of Incorporation	Percentage Owned	
		2016	2015
Ocean Grown Abalone Operations Pty Ltd	Australia	100%	100%
Two Oceans Abalone Pty Ltd[1]	Australia	100%	100%
Wylie Bay Abalone Pty Ltd[2]	Australia	66.67%	-

*Notes:

1. Acquisition date was 30 April 2015 (refer Note 24)
2. Incorporated on 4 August 2015