HUON AQUACULTURE GROUP LIMITED
ABN 79 114 456 781
Appendix 4D
Half-Year Report

1 Reporting period

- Reporting Period – Half-year ended 31 December 2020
- Previous Corresponding Period – Half-year ended 31 December 2019

2 Results for announcement to the market

	31 December 2020 $'000	31 December 2019 $'000	% Change
Revenue from ordinary activities (including other income)	231,890	182,217	27.26%
Profit (loss) from ordinary activities after tax attributable to members	(95,330)	21,996	(533.40%)
Net profit (loss) for the period attributable to members	(95,330)	21,996	(533.40%)

Dividends	Amount per security Cents	Franked amount per security Cents	Total dividend amount $'000
Current year to 31 December 2020:			
Interim Dividend (per ordinary share)	0	0	0
Prior year to 30 June 2020:			
Final Dividend (per ordinary share)	0	0	0
Interim Dividend (per ordinary share)	0	0	0

- Record date for determining entitlements to dividend – not applicable
- Payment date of dividend – not applicable

- Explanation of results – Refer to the Interim Financial Report, the Media Release and Results Presentation released today for further explanations of the figures presented.

3 Net Tangible Assets per security

	31 December 2020	31 December 2019
Net tangible assets per ordinary security ($ per security)	$ 1.60	$ 2.74

4 Entities over which control has been gained or lost during the period

- None.

5 Details of individual and total dividends or distributions

- Refer item 2 above.

6 Details of any dividend or distribution reinvestment plans

- The Company does not currently have a dividend reinvestment plan.

7 Details of associates and joint venture entities

- The Company does not have investments in Associates or Joint Ventures.

8 Independent audit report or review

- The Interim Financial Report has been indepentently reviewed by the Company's auditors. The review report is not subject to a modified opinion, emphasis of matter or other matter paragraph. A copy of the review report is included in the Interim Financial Report.

Thomas Haselgrove
Company Secretary
Date: 26 February 2021

HUON AQUACULTURE GROUP LIMITED

ABN 79 114 456 781

Interim Financial Report
For the Half Year Ended 31 December 2020

HUON AQUACULTURE GROUP LIMITED

Interim Financial Report for the Half Year Ended 31 December 2020

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by Huon Aquaculture Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

DIRECTORS' REPORT

The Directors of Huon present the report of the consolidated entity consisting of Huon Aquaculture Group Limited (the "Company") and the entities it controlled ("Consolidated Group", "Huon") at the end of, or during, the half-year ended 31 December 2020.

DIRECTORS

The following persons were directors of Huon Aquaculture Group Limited during the whole of the half-year and up to the date of this report:

Peter Bender	Executive Director
Frances Bender	Executive Director
Neil Kearney	Non-Executive Chairman
Simon Lester	Non-Executive Director
Tony Dynon	Non-Executive Director

COMPANY SECRETARY

Thomas Haselgrove

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Group during the financial period were hatching, farming, processing, sales and marketing of Atlantic salmon and Ocean trout.

OPERATING AND FINANCIAL REVIEW

Overview

Huon Aquaculture has delivered a statutory loss of $95.3 million for the six months ended 31 December 2020 ($22.0 million NPAT pcp). The result includes a non-cash impairment charge of $113.9 million ($79.9 million after tax).

Despite a 24% increase in revenue to $220.1 million on the strength of a 45% increase in harvest tonnage, earnings continued to be significantly impacted by COVID-19. The reduction in global demand for salmon resulted in a 28% fall in the international salmon price relative to the previous six months. This impacted pricing across all Huon's distribution channels but particularly the lower priced spot export market. The scheduled increase in production resulted in a shift in the channel mix towards the international market which, during the half, accounted for 51% of total volume and contributed to a 15% drop in the overall average price to $11.41/HOG kg.

In light of recent unsolicited approaches, the Board has initiated a strategic review to assess the potential for corporate level transactions for the benefit of shareholders. Grant Samuel has been appointed to undertake the strategic review. Shareholders should not assume that any transaction will eventuate from the strategic review.

Performance Overview

Huon began FY2021 with significant biomass in the water, including fish for harvest carried over from the FY2020 in response to COVID related constraints on sales and distribution. The company is also seeing benefits flow from our investments designed to expand harvest volumes, lower the cost of production, and position the business to meet expected growth. In the first half of FY2021 an additional 7,000 tonnes of fish were available for harvest delivering a 45% increase in total harvest tonnage for the 6 months.

The bulk of our increased production volumes are being sold into the export market, where we have made good progress in diversifying the markets we can access to reduce dependence on any single market. In the Domestic market Huon captured 87% of the available volume growth indicating strong demand for Huon salmon. Volumes in the Wholesale channel recovered to pre-COVID levels in the first half, despite some disruption from Victoria being in lock down for 4 months of the first half.

Record volumes have been delivered across domestic retail and e-commerce channels with average prices increasing slightly, up 5% pcp. The increased consumer activity in these markets is expected to deliver long term benefits through increased per capita consumption with more consumers now familiar with salmon as a weekly family menu item. This is being reinforced in 2021 with the launch in February of a major 12 month advertising campaign designed to drive brand awareness and boost Huon Salmon sales nationally.

The cost of production in the first half, before freight costs, fell to $8.86/HOG kg its lowest level for 5 years. Harvest weight over the period was a record 5.77kg, which reflected excellent growing conditions and the improvements to Huon's farming practices.

It is pleasing to see the business delivering such a strong operational performance. It is an endorsement of our strategy to expand into high energy sites to help grow production and invest in technology, people and systems to enhance operational efficiency. In the first half of FY2021 this investment delivered increased smolt size to sea. Improved growth and survival rates at sea, and improved feed conversion rates.

It is, however, also disappointing to note the exceptional operating performance of the business is being masked by significant and ongoing disruption to our domestic and international markets caused by the Coronavirus pandemic. Supply growth for 2021 is forecast in a range of 0.5-2.0%[1], which is lower than demand growth or historical supply growth. Longer term both domestic and international markets for salmon are expected to experience demand growth of 10% and 7%, respectively, against a backdrop of an underlying long term structural shortfall in supply in international markets.

While Huon experienced increased volume sales across all channels during the first half of FY2021, prices dropped on average by 14% or around $2 per HOG kg relative to the first six months of FY2020 due to a significant decline in the international salmon price.

Faced with increased harvest tonnage and muted demand in the Australian food service sector it was vital Huon maintained access to international markets. This was achieved with the support of the Australian Government's International Freight Assistance Mechanism, however the freight costs per HOG kg more than doubled to $2.06.

The disruption to our markets, with simultaneous depressed pricing and increased costs, have resulted in Huon reporting a loss of $15.4 million (loss of $95.3 million, less impairment charges after tax of $79.9 million) for the six months ended 31 December 2020.

[1] Rabobank

In November Huon experienced two separate incidents involving damage to the netting of fish pens resulting in fish escapes. The loss represented 0.2% of the biomass with an estimated cost of around $2 million. The organised theft of salmon during the first half from the Ingleburn processing facility in Sydney was uncovered in December leading to a number of arrests with charges laid and legal proceedings underway. The overall net cost is expected to be around $2 million.

Impact of COVID-19

The coronavirus pandemic has had a significant and multifaceted impact on market conditions and in turn on Huon's performance over the past 6 months.

Governments around the world have been forced to introduce various and often multiple COVID-19 lockdowns that have dramatically reduced activity across the food service sector. A direct consequence of these lockdowns is global oversupply of salmon which has depressed international salmon prices. The average international price of salmon in the first half of 2021 was down 28% compared to the first half of FY2020 and has remained depressed. This impacted pricing across all Huon's distribution channels but particularly the lower priced spot export market which accounted for a third of revenues in the first half and resulted in a 15% drop in the overall average price to $11.41/HOG kg.

This COVID-19 collapse in international salmon pricing coincided with Huon delivering its planned additional 7,000 tonnes of salmon into the export market. The average price for Huon's exports declined 10% to $9.76/HOG kg compared to $10.85/HOG kg in the prior corresponding period (pcp). We estimate this fall in the salmon prices resulted in $38 million of lost revenues in the first half of 2021.

During the same period the cost of international freight rose dramatically, with cash freight costs incurred increasing 183% from $14 million to $40 million, adding an additional $26 million of costs linked to the COVID-19 grounding of international flights. The combination of higher freight costs and lower international pricing means the COVID-19 impact on our export activities has resulted in a negative $55 million impact on the business in the first half.

The decision to fund our growth capex program from cash flow and debt resulted in a higher level of gearing than normal at the time when COVID-19 hit in the second half of FY2020. The reduction in cash flow and increased costs during the first half of FY2021, combined with the uncertain outlook resulted in a $66 million equity raising in August to reduce net debt and ensure the company remained well capitalised during COVID-19.

Huon has lowered projections for operating earnings (EBITDA) for FY2021, due to the decline in salmon prices, high freight costs and uncertainty around the global economy. Uncertainty in the international salmon market and international airfreight market is expected to continue, and adversely affect future cash flow projections. As a consequence, management's expectations of future cash flows have been downgraded, resulting in an impairment of $114 million.

As a result of the ongoing focus in 1H2021 on maintaining the biomass at already increased levels, together with good spring and early summer growing conditions, debt levels have remained high. As a result, the company has secured support from its lenders by way of revised terms for its banking facilities for the period until 31 March 2022, on and from such date the previous financial covenants recommence.

While the loss in the first half of 2021 was not within business expectations, the focus remains on managing cash flow to support the biomass at current levels. Capital expenditure is restricted to a focussed maintenance capex budget of $15-25 million annually, eased by a reduction in planned volumes. The dividend will remain suspended until the business returns to profit.

Financial Overview

Statutory Earnings - Six months ended		31 Dec 2020	30 Jun 2020	31 Dec 2019	Dec to Dec Change	Dec to Dec % Change
Tonnage	t	19,293	12,245	13,321	5,972	45%
Revenue [1]	$M	220.1	161.8	178.1	42.0	24%
Revenue per HOG kg	$/kg	11.41	13.21	13.37	(1.96)	-15%
EBITDA [2]	$M	(100.1)	(0.4)	49.2	(149.3)	-303%
EBITDA per HOG kg	$/kg	(5.19)	(0.03)	3.69	(8.88)	-241%
EBITDA Margin	%	-45.5%	-0.2%	27.6%	-73.1%	-265%
EBIT	$M	(129.7)	(20.1)	29.8	(159.5)	-535%
NPAT	$M	(95.3)	(17.1)	22.0	(117.3)	-533%
Fair value adjustment of Biological Assets	$M	4.3	(24.7)	26.2	(21.9)	-84%
Related income tax refund/(expense) [3]	$M	(1.3)	7.4	(7.9)	6.6	-84%
Biological Assets	$M	260.1	264.0	252.1	8.0	3%
Earnings per share	c	(86.76)	(19.51)	25.19	(111.95)	-444%
Return on assets [6]	%	-21.0%	1.4%	1.1%	-22.1%	-1981%
Operating cash flow	$M	(4.4)	(10.9)	19.3	(23.7)	-123%
Net debt [4]	$M	120.8	167.3	139.7	(18.9)	-14%
Total gearing ratio [5]	%	43.3%	54.3%	42.9%	0.4%	1%

Operating Earnings - Six months ended		31 Dec 2020	30 Jun 2020	31 Dec 2019	Dec to Dec Change	Dec to Dec % Change
Revenue	$M	220.1	161.8	178.1	42.0	24%
Operating EBITDA [8]	$M	9.5	24.3	23.0	(13.5)	-59%
Operating EBITDA per HOG kg	$/kg	0.49	1.98	1.73	(1.24)	-72%
Operating EBITDA Margin	%	4.3%	15.0%	12.9%	-8.6%	-67%
Operating EBIT	$M	(20.1)	4.6	3.6	(23.7)	-658%
Operating NPAT [9]	$M	(18.4)	0.2	3.7	(22.1)	-597%
Operating Earnings per share	c	(16.81)	0.26	4.16	(20.97)	-504%
Operating Return on assets [7]	%	-2.3%	1.2%	2.5%	-4.9%	-193%

1 Revenue from the sale of goods.
2 EBITDA is a non-IFRS financial measure which is used to measure business performance, using net depreciation and amortisation recognised in the income statement.
3 Related income tax at current tax rate.
4 Net Debt is total debt net of cash and cash equivalents.
5 Total Gearing Ratio is measured as debt (net of cash)/net assets.
6 Return on Assets is measured as statutory EBIT (rolling 12 months)/total assets.
7 Operating Return on Assets (excludes impairment charges) is measured as Operating EBIT (rolling 12 months)/total assets.
8 Operating EBITDA excludes impairment charges and the impact of the Fair Value Adjustment of Biological Assets.
9 Operating NPAT excludes impairment charges and the impact of the Fair Value Adjustment of Biological Assets and related tax impact.

The recovery of the biomass during FY2020 translated into harvest volumes of 19,293 tonnes, up 45% on pcp, and a 24% increase in revenues to $220.1 million on pcp. The revenue growth was impacted by the 14% fall in the international salmon price compared to H22019, (10% on pcp), and a 21% fall in the wholesale price on pcp.

Huon's focus on driving operational efficiencies resulted in production costs in H12021 (excluding freight) falling 16% to $8.86/HOG kg. However, the increase in harvest tonnage in H12021 resulted in higher volumes being sold through the export channel where COVID impacted freight costs increased 96% to $2.06/HOG kg. The combination of higher freight costs and a 15% fall in the average sales price resulted in operating EBITDA falling 59% to $9.5 million.

Huon's strategy of increasing the average size of smolt to sea has resulted in fish survival rates and feed conversion continuing to improve. The average harvest weight in H12021 increased to 5.77 HOG kg compared to 5.07 HOG kg pcp. This higher weight was consistent through the harvest of the new year class.

As a result, Operating EBITDA /HOG kg reduced 72% to $0.49 /HOG kg. Depreciation increased 22% to $29.5m, pushing down operating NPAT from $0.2 million in the pcp to $18.4 million loss this half.

NPAT fell 170% to a $15.4 million loss (before impairment charges), supported by a small uplift in the Fair Value Adjustment of Biological Assets over pcp of $4.3 million.

Channel Mix

Sales Channel - Six months ended		31 Dec 2020	30 Jun 2020	31 Dec 2019	Dec to Dec Change	Dec to Dec % Change
Wholesale HOG	t	6,134	4,815	6,045	89	1%
Retail HOG	t	3,298	2,407	2,014	1,284	64%
Export HOG	t	9,860	5,023	5,263	4,597	87%
Total HOG kg	t	19,292	12,245	13,322	5,970	45%
Wholesale % of revenue	%	34%	42%	52%	-18%	-35%
Retail % of revenue	%	23%	23%	16%	6%	39%
Export % of revenue	%	44%	35%	32%	12%	36%
Wholesale $ / HOG kg	$/kg	12.05	14.08	15.21	(3.16)	-21%
Retail $ / HOG kg	$/kg	15.14	15.30	14.43	0.71	5%
Export $ / HOG kg	$/kg	9.76	11.37	10.85	(1.09)	-10%

Huon sales volume into the wholesale market increased 1% but with a drop in the net price by 21% to $12.05/kg. Volumes recovered to pre COVID levels relative to 2H2020 which was materially impacted by COVID lock-downs nationally from April to June. Pricing remained stable during the half.

Exports to the spot market in the half of 8,024t accounted for 42% of total volume at an average price of $9.42/HOG kg. International spot prices fell heavily in July as a result of disruption caused by COVID-19 to the international food service sector and remained at these depressed levels. The average international price for the half of 46.6 NOK, falling by 28% compared to the average for 2H2020 of 64.5 NOK.

Huon's contracted sales into the domestic retail channel achieved record volumes increasing 64% on pcp. Volumes exceeded 3,000 tonnes in the half as Huon launched a new range of value added products. Pricing into the retail market increased 5% on pcp to $15.14/HOG kg due to shift in sales mix to higher priced value add products.

Contracted sales into the international retail market rose 144% as volumes increased to 1,800t, 10% of volume for the half. Average prices fell 20% to $11.22/HOG kg in response to the decreased demand globally, creating pressure on the international salmon price.

Long term demand growth trends are predicted to continue to outstrip supply growth and growth in supply over this year is forecast to average only 0.5 to 2.0% globally. Growth in global demand is expected to cover as foodservice gradually reopens, together with a lift in price expectations.

DIRECTORS' REPORT (CONTINUED)

Biological Assets

Biological Assets - Six months ended		31 Dec 2020	30 Jun 2020	31 Dec 2019	Dec to Dec Change	Dec to Dec % Change
Biological assets at fair value	$M	260.1	264.0	252.1	8.0	3%
Fair value adjustment (FVA)	$M	32.4	28.1	52.8	(20.4)	-39%
Biological assets (excluding FVA)	$M	227.7	235.9	199.3	28.4	14%
Total weight of live finfish at sea	t	28,883	26,429	23,001	5,882	26%
Biological asset value/kg (live)	$/kg	9.01	9.99	10.96	(1.96)	-18%
Fair value adjustment/kg (live)	$/kg	1.12	1.06	2.30	(1.17)	-51%
Biological assets/kg (live) (excluding FVA)	$/kg	7.88	8.93	8.66	(0.78)	-9%
Number of fish (harvest)	000's	3,342	2,445	2,629	713	27%
Sales volume (HOG kg)	t	19,293	12,245	13,321	5,972	45%
Average HOG weight	kg	5.77	5.01	5.07	0.71	14%
Average price/HOG kg (net sales)	$/kg	11.41	13.21	13.37	(1.96)	-15%
Net sales	$M	220.1	161.8	178.1	42.0	24%

The investment in biological assets only rose 3% on pcp to $260.1 million as the fair value adjustment reduced 39% to $32.4 million, pushed down by the lower pricing outlook.

The average value of biological assets decreased in 1H2021 against pcp $10.96/HOG kg to $9.01/HOG kg, reflecting the fall in the average market price in the same period from $13.37 to $11.41. This was driven by the increased weighting in the channel mix to export and the fall in both the wholesale and export pricing. The resulting increment in the Fair Value Adjustment (FVA) was $4.3 million for 1H2021.

The improvement in live weight at sea, which increased from 23,000t to 29,000t (+26%), is a result of the number of fish increasing 5% and the average weight of fish at sea increasing 18% over pcp.

Biological assets at cost (excluding FVA), fell 9% to $7.88/HOG kg from $8.66/HOG kg in pcp. Production costs have eased in line with expectations with fish growth benefiting from continuing efficiency projects and good growing conditions, resulting in above average growth rates and high survival rates.

Cash Generation

Cash Generation - Six months ended		31 Dec 2020	30 Jun 2020	31 Dec 2019	Dec to Dec Change	Dec to Dec % Change
Operating EBITDA	$M	9.5	24.3	23.0	(13.5) -	0.6
Cash flow from operations	$M	(4.4)	(10.9)	19.3	(23.7) -	1.2
Add – net interest paid	$M	2.4	3.9	2.6	(0.2) -	0.1
– net lease interest paid	$M	4.2	3.6	2.3	1.9	0.8
– tax paid/(refunded)	$M	-	(3.7)	0.3	(0.3) -	1.0
Adjusted cash flow from operations	$M	2.2	(7.1)	24.5	(22.3) -	0.9
EBITDA conversion	%	23%	-29%	107%	-83%	-78%
Capex	$M	4.0	9.1	12.5	(8.5) -	0.7
Cash at end of period	$M	4.9	5.9	15.5	(10.6) -	0.7

Adjusted cash flow from operations decreased from $24.5 million in pcp to $2.2 million in 1HY2021 with conversion of Operating EBITDA to cash worsening to 23%.

Sales channel mix impacted cash inflows, firstly with higher sales into the export channel where revenues were negatively impacted from the lower international pricing environment, and secondly with an increased presence in the retail channel where collection times are generally longer than in the export and wholesale channels. Cash outflow for inventory growth increased in the half with improved biological performance increasing feed consumption. The high level of export volume and increased cost of international air freight was also a key contributor to the low level of cashflow from operations.

Capex spend of $4.0 million in 1H2021 follows the lower requirement for capital spend following the completion of major projects in FY2019. The outlook for flatter volume growth will result in ongoing reduced levels of capex spend with the full year capex expected to be below $15 million.

Ongoing maintenance capex expected to be in the range of $15-25 million annually.

Environment

Caring for the environment is at the core of everything Huon does. Looking after the oceans and waterways where our fish are grown is fundamental to the operation of the business.

Huon has increased the size of its Environmental Compliance team who are now responsible for environmental management across all operations, ensuring the operations remain 100% compliant for all regulatory requirements.

Monitoring the health of the seabed beneath and around our pens is undertaken regularly and to ensure Huon's strict internal compliance standards are maintained. In the past 3 years our leases have achieved a compliance level of at least 99%.

We are constantly finding ways to reduce our reliance on fresh water and to either recycle our wastewater or put it to alternative productive use. Huon collaborates with other organisations to ensure that all plastic waste from marine operations can be recycled and our product packaging is regularly assessed for their compliance with Sustainable Packaging Guidelines

Climate change has the potential to impact the Tasmanian salmon industry, particularly through varying sea water temperatures. Huon's range of mitigation strategies includes:

- Additional investment in Tasmania's Selective Breeding Program. Huon now has access to 50% of the biological output, allowing it to maintain the benefits the program brings to its growth in production numbers.
- Undertaking joint trials to develop improved feed diets to help the fish convert feed in summer temperatures that are higher than their preferred range for growth.
- Focus on fish husbandry, reducing stocking densities of larger production pens during summer.
- Continued investment in net cleaning technology, providing cleaner nets and maintaining dissolved oxygen levels.
- Salmon is already recognised as one of the lowest carbon footprint proteins, however we continue to investigate potential for reductions in GHG emissions across the supply chain.

People and Safety

Safety & Wellbeing

Huon have a people and culture strategy focused on building high performing teams and inspiring and growing our people These programs have not only focussed on reducing the risk of worker injury, but also on proactive initiatives to increase physical, emotional, and financial wellbeing. Programs being run during the first half include:

- Employee support programs such as Mental Health First Aid training, language, numeracy, and literacy support.
- Support through training and upskilling with over 55 employees completing VET sector qualifications in Engineering fabrication, Certificate III Aquaculture, Work Health and Safety and Marine engineering qualifications.
- Engagement Pulse survey conducted in October 2020.
- Welcome to Leadership Mentoring Program supporting newly promoted employees' transition to their first leadership role.

Huon's injury management processes have seen a continued reduction in the number and severity of Worker's Compensation Claims. While the LTIFR has reflected an increase from 5.0 (FY2020) to 5.7 lost time injuries, the average time lost has reduced from 13hr (FY2020) to 8.3hr and the incident rate has reduced from 0.79 (FY2020) to 0.53 Lost time injuries per 100 employees.

The business continued its focus on embedding ISO45001 – Standard for Work Health and Safety Management Systems, including the development of policy and procedures to manage any high-risk activity across the business. The proactive implementation of these Standards is an ongoing focus for the business aimed at not only reducing risks but also improving the wellbeing of Huon's workforce and supporting people and leaders to manage safety effectively.

Focus on People, Culture and Leadership

Huon's Workforce Development Strategy continued to be implemented with employee capability development and the employee experience remaining a key focus. The Huon Welcome to Leadership Mentoring Program 2020 has continued and supports newly promoted employees transition into their first leadership role.

There continues to be a strong focus on growing the skill sets within Huon with employees enrolled in VET sector qualifications in seafood processing, engineering fabrication, marine mechanical and electrical apprenticeships. Language, literacy, and numeracy support continue to be made available to employees requesting support to assist them in their everyday work.

The Huon Innovation Program continues to bring our employees' ideas to life with a number of submissions progressing to further develop and implement the innovations.

Huon now employs 757 people across the Group (FY2020 723), the increase supporting the increase in production during the half.

Outlook

Huon's focus in FY2021 will continue to be on growing the market and locking in contracted sales. Our expectation of an annual harvest of at least 36,000 tonnes has been revised down to 35,000 tonnes following a decision to move part of the harvest into the first half of FY2022.

The remainder of the year will continue to present challenges as economies emerge from the constraints imposed by COVID-19. We are however optimistic about our ability to deliver continued productivity improvements in the way we farm. The average cost of production for FY2021 is expected to fall by around 7% on the previous year, consistent with our target of lowering operating costs, excluding freight, below $9.50/HOG kg.

Revenue will depend on pricing which will be driven both by global and domestic supply dynamics and the economic environment as countries globally manage their response to the pandemic. While we are confident of recording increased revenue given the strong uplift in volume, the near-term outlook for the international salmon price suggests little change with only a modest improvement forecast by Rabobank for calendar year 2021.

The proportion of Huon's sales into international markets in FY2021 is likely to be around 40%. The strong foundations that continue to be built with international retail partners throughout Asia will progressively increase the share of exports going to contracted international retail sales.

Huon has launched a national advertising campaign directed at growing per capita consumption in the domestic market. It also increased its capability to supply fresh salmon to outlets in Western Australia following the opening of the Forrestdale processing facility. On the back of strong growth in the first half, retail demand is expected to return to the long term average growth rate of 10%pa in the second half. Increasing the contribution of retail sales to overall revenue is a strategic goal as it will deliver the certainty of known volume that will underpin more stable Group financial performance over time.

The increase in production in FY2021, is the outcome of Huon's long term strategy to meet growing demand. Over the next two years we expect our channel mix to reflect that growth in the domestic market, reducing the percentage of sales into the spot export market below 10%. Nevertheless, while the underlying fundamentals within the global salmon industry of a long term structural shortfall in supply remain, the setback delivered by COVID has had a material impact on Huon's profitability. Operating earnings (EBITDA) for FY2021 are expected to be substantially below last year at $15-20 million.

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 11 and forms part of this Directors' Report.

ROUNDING OF AMOUNTS

The company is of a kind referred to ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with the instrument.

This report is made in accordance with a resolution of Directors.

Peter Bender
Managing Director and CEO

Hobart
Date: 26 February 2021

Auditor's Independence Declaration

As lead auditor for the review of Huon Aquaculture Group Limited for the half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Huon Aquaculture Group Limited and the entities it controlled during the period.

Alison Tait
Partner
PricewaterhouseCoopers

Melbourne
26 February 2021

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INTERIM FINANCIAL REPORT

For the half-year ended 31 December 2020

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CONDENSED CONSOLIDATED INCOME STATEMENT

For the half-year ended 31 December 2020

	Notes	Half-year 2020 $'000	Half-year 2019 $'000
Revenue from operations	1	**220,069**	178,118
Other income		11,821	4,099
Expenses			
Fair value adjustment of biological assets		4,325	26,229
Changes in inventories of finished goods and work in progress		(2,569)	20,653
Raw materials and consumables used		(119,886)	(109,101)
Employee benefits expense	2 (a)	(49,977)	(41,261)
Depreciation and amortisation expense	2 (a)	(29,508)	(24,122)
Impairment losses	16	(113,918)	-
Finance costs	2 (a)	(6,803)	(3,864)
Freight & distribution expense		(39,598)	(14,043)
Other expenses		(9,972)	(10,767)
Total expenses		**(367,906)**	(156,276)
Profit/ (loss) before income tax expense		**(136,016)**	25,941
Income tax (expense)/ credit		40,686	(3,945)
Profit/ (loss) for the half-year attributable to members of the Company		**(95,330)**	21,996

	Cents per share 2020	Cents per share 2019
Earnings per ordinary share		
Basic (cents per share)	(93.23)	25.19
Diluted (cents per share)	(93.23)	25.19

The above condensed consolidated income statement should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2020

	Half-year	
	2020	2019
	$'000	$'000
Profit/ (loss) for the half-year	(95,330)	21,996
Other comprehensive income	-	-
Total comprehensive income/ (loss) for the half-year (net of tax)	**(95,330)**	21,996
Total comprehensive income/ (loss) attributable to:		
Owners of Huon Aquaculture Group Limited	(95,330)	21,996
	(95,330)	21,996

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

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2020

	Notes	31 December 2020 $'000	30 June 2020 $'000
Assets			
Current Assets			
Cash and cash equivalents		4,931	5,934
Trade and other receivables		37,152	24,472
Inventories		24,958	19,321
Biological assets	3	260,140	264,021
Other financial assets		-	2,255
Current tax receivable		382	382
Other assets		9,375	12,844
Total current assets		**336,938**	329,229
Non-current assets			
Financial assets		1,996	1,342
Property, plant and equipment	5	239,064	305,581
Right of use assets	7	102,534	162,590
Other assets	6	8,190	8,411
Intangible assets	15	-	3,325
Total non-current assets		**351,784**	481,249
Total assets		**688,722**	810,478
Liabilities			
Current liabilities			
Trade and other payables		79,886	82.865
Borrowings	9	5,885	23,413
Lease liabilities	7	16,834	16,777
Other financial liabilities		2,823	3,025
Provisions		9,382	8,688
Other current liabilities	17	4,815	3,534
Total current liabilities		**119,625**	138,302
Non-current liabilities			
Borrowings	9	119,807	149,772
Lease liabilities	7	151,068	152,459
Deferred tax liabilities		11,934	53,186
Provisions		5,685	5,506
Other non-current liabilities	17	1,726	3,022
Total non-current liabilities		**290,220**	363,945
Total liabilities		**409,845**	502,247
Net assets		**278,877**	**308,231**
Equity			
Contributed equity	10	230,607	164,999
Other reserves		1,178	810
Retained earnings		47,092	142,422
Total equity		**278,877**	**308,231**

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2020

	Notes	Contributed Equity $'000	Retained Earnings $'000	Share-based Payment Reserve $'000	Total Equity $'000
Balance at 1 July 2019		**164,302**	**148,494**	**1,324**	**314,120**
Adjustment on adoption of AASB 16 (net of tax)		-	(8,367)	-	(8,367)
Restated total equity at beginning of period		164,302	140,127	1,324	305,753
Profit/ (loss) for the half-year		-	21,996	-	21,996
Other comprehensive income		-	-	-	-
Total other comprehensive income for the half-year, (net of tax)		-	21,996	-	21,996
Issue of shares pursuant to executive long term incentive plan		-	-	-	-
Share-based payment expense	11	-	-	348	348
Dividends paid or provided for	4	-	(2,620)	-	(2,620)
Balance at 31 December 2019		**164,302**	**159,503**	**1,672**	**325,477**
Balance at 1 July 2020		**164,999**	**142,422**	**810**	**308,231**
Adjustment on adoption of AASB 16 (net of tax)		-	-	-	-
Restated total equity at beginning of period		164,999	142,422	810	308,231
Profit/ (loss) for the period		-	(95,330)	-	(95,330)
Other comprehensive income		-	-	-	-
Total other comprehensive income/ (loss) for the half-year, (net of tax)		-	(95,330)	-	(95,330)
Contributions of equity (net of tax)	10	64,680	-	-	64,680
Issue of shares pursuant to executive long term incentive plan		-	-	-	-
Issue of shares under Huon Employee Share Scheme	10	928	-	-	928
Share-based payment expense	11	-	-	368	368
Dividends paid or provided for	4	-	-	-	-
Balance at 31 December 2020		**230,607**	**47,092**	**1,178**	**278,877**

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

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS

For the half-year ended 31 December 2020

	Notes	Half-year 2020 $'000	Half-year 2019 $'000
Cash flows from operating activities			
Receipts from customers		221,241	181,726
Payments to suppliers and employees		(219,015)	(157,209)
		2,226	24,517
Interest received		7	5
Interest and other costs of finance paid		(2,439)	(2,643)
Interest on lease liabilities		(4,162)	(2,279)
Income tax (paid)/ refunded		-	(286)
Net cash inflow/ (outflow) from operating activities		**(4,368)**	**19,314**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		-	6
Payments for property, plant and equipment		(4,033)	(12,483)
Payment for other assets		(654)	(63)
Net cash inflow/ (outflow) from investing activities		**(4,687)**	**(12,540)**
Cash flows from financing activities			
Proceeds from borrowings		-	18,484
Repayment of borrowings		(47,493)	(4,697)
Payment for principal elements of lease liabilities		(8,569)	(5,086)
Payment of shares for employee share plan		-	-
Dividends paid to company's shareholders		-	(2,620)
Proceeds from issue of shares		64,114	-
Net cash inflow/ (outflow) from financing activities		**8,052**	**6,081**
Net increase/ (decrease) in cash held		(1,003)	12,855
Cash and cash equivalents at beginning of half-year		5,934	2,611
Cash and cash equivalents at end of half-year		**4,931**	**15,466**

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These condensed consolidated financial statements and notes represent those of Huon Aquaculture Group Limited and Controlled Entities (the 'Consolidated Group'). Huon Aquaculture Group Limited is a company limited by shares, incorporated in Australia, and whose shares are publicly traded on the Australian Securities Exchange (ASX).

Basis of preparation of half-year report

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2020 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by Huon Aquaculture Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below:

(a) New and amended standards adopted by the Group

The Group adopted all of the following new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

(b) Impact of standards issued but not yet applied by the entity

A number of new standards, amendments of standards and interpretations have recently been issues but are not yet effective and have not been adopted by the Group as at the financial reporting date.

Management are currently assessing the impact of these standards, but do not believe they will have a material impact on the Group's accounting policies, financial position or performance.

(c) Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 June 2020 except for:

Borrowings (forecast for compliance with covenants – note 9)

Impairment of assets (note 16)

Biological assets (note 3)

Funding position

The Group has substantially lowered projections for operating earnings (Operating EBITDA) for FY2021, due to the decline in salmon prices, high freight costs and uncertainty around the global economy. As a result, the Board and management (the Chief Operating Decision Makers) have carefully considered the Group's funding position for at least the next 12 months from the date the financial statements are issued ("forecast period"). Based on their assessment, it has been concluded that the Group will continue to operate as a going concern. As a result, the financial statements have been prepared on this basis.

As of 31 December 2020, the Group has non-current bank debt of $119.8 million (net debt $120.8 million) and is in compliance with banking covenants.

The Group has agreed to revised terms for its banking facilities with its banking partners for the period until 31 March 2022. The revised terms require the Group to comply with agreed liquidity levels over the period 31 March 2021 to 31 December 2021 (refer note 9). If the Group does not meet agreed liquidity levels the borrowings may become immediately repayable.

The ability for the Group to operate within the revised terms for liquidity is based on the Group's forecast cash flow position over the period. The Group's forecast cash flows include assumptions relating to harvest volumes, sales channel mix, price and freight costs. The cash flow forecast does not include any unforeseen impact on the biomass and harvest volumes over the forecast period.

A critical assumption is the ability to meet operating cash flow forecasts, which include assumptions for channel mix and assumptions for price per HOG kg for the domestic and export sales. The forecast over the period 1 March 2021 to 31 December 2021, assumes 30% - 35% sales volume exported. A material change in the export volumes and the export sales price assumptions could have an impact on forecast operating cash flows and the net debt position.

If net sales price per HOG kg or channel mix was to adversely impact cash flows, the Group has other cash flow initiatives to ensure headroom in the net debt facilities is maintained. These include bringing forward harvest volumes and other cash flow initiatives which could include the following:

- monetisation of certain assets held by the Group
- consideration of termination of certain lease commitments
- reviewing further options in relation to the capital structure

Based on the forecast and cash flow initiatives that can be actioned, if needed, the Directors believe the Group will continue to trade within the limits of the available funding facilities and comply with financial covenants.

Performance

1. Revenue

	Sale of Goods		
	Domestic	**Export**	**Total**
	$'000	$'000	$'000
2020			
Segment revenue	123,881	96,188	220,069
Revenue from external customers	123,881	96,188	220,069
Timing of revenue recognition - at a point in time	**123,881**	**96,188**	**220,069**
2019			
Segment revenue	121,028	57,090	178,118
Revenue from external customers	121,028	57,090	178,118
Timing of revenue recognition - at a point in time	121,028	57,090	178,118

2. Profit for the half-year before tax

Profit before income tax from continuing operations includes the following items of revenue and expense:

	Half-year	
	2020	2019
	$'000	$'000
(a) Expenses:		
Gross depreciation of non-current assets	18,450	17,770
Gross depreciation of right of use assets	10,837	6,132
Gross amortisation of non-current assets	221	220
Total gross depreciation and amortisation	**29,508**	24,122
Depreciation – net impact recognised in changes in inventories of finished goods and work in progress	101	(4,757)
Net depreciation and amortisation	**29,609**	19,365
Interest and fees	2,641	3,119
Interest on lease liabilities	4,162	2,279
Total gross finance costs	**6,803**	5,398
Interest – net impact recognised in changes in inventories of finished goods and work in progress	(465)	(1,534)
Net finance costs	**6,338**	3,864
Employee benefits expense	49,977	41,261
Total employee benefits costs	**49,977**	41,261

2. Profit for the half-year before tax (continued)

(b) JobKeeper grant income	6,087	-

(c) Income tax

Income tax expense is recognised based on management's estimate of the weighted effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the half-year to 31 December 2020 is 30%, compared to 15% for the six months ended 31 December 2019. The lower tax rates are as a result of carry forward losses and credits for research and development amendments.

3. Biological assets

	31 December 2020 $'000	30 June 2020 $'000
Biological assets at fair value (i)		
Opening balance	264,021	209,129
Increase due to production	176,047	350,407
Decrease due to sales/ harvest/ mortality	(184,253)	(297,022)
Movement in fair value of biological assets	4,325	1,507
	260,140	264,021
Closing fair value adjustment on biological assets	32,390	28,065
Total weight of live finfish at sea (kg 000's)	28,883	26,429

(i) Members of the Consolidated Group, Huon Aquaculture Company Pty Ltd and Springfield Hatcheries Pty Ltd grow fish from juveniles through to harvest.

	31 December 2020			
	Level 1 $'000	**Level 2** $'000	**Level 3** $'000	**Total** $'000
Recurring fair value measurements				
Biological assets	-	-	260,140	260,140
Total financial assets recognised at fair value	-	-	260,140	260,140

	30 June 2020			
	Level 1 $'000	**Level 2** $'000	**Level 3** $'000	**Total** $'000
Recurring fair value measurements				
Biological assets	-	-	264,021	264,021
Total financial assets recognised at fair value	-	-	264,021	264,021

3. Biological assets (continued)

Fair value measurements using significant unobservable inputs

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements (refer to note 12 for details of fair value measurements and hierarchy):

Description	31 December 2020	30 June 2020
Biological assets at fair value ($'000)	260,140	264,021
Unobservable inputs	Adjusted weight of live finfish for fair value measurement: 27,030 tonne Price per HOG kg $12.13 to $12.63	Adjusted weight of live finfish for fair value measurement: 23,361 tonne Price per HOG kg $12.57 to $13.07
Relationship of unobservable inputs to fair value	Increase in price would increase fair value	Increase in price would increase fair value

Critical accounting estimates

Biological assets are measured at fair value less costs to sell in accordance with AASB 141. Broodstock, eggs, juveniles, smolt and live fish below 1kg are measured at cost, as the fair value cannot be measured reliably. Biomass beyond this is measured at fair value in accordance with AASB 141, and the measurement is categorised into Level 3 in the fair value hierarchy, as the input is an unobservable input. Live fish over 4kg are measured to fair value less cost to sell, while a proportionate expected net profit at harvest is incorporated for live fish between 1kg and 4kg. The valuation is completed for each year class of finfish, for each species and, each significant location.

The valuation is based on a market approach and takes into consideration inputs based on biomass in sea for each significant location, estimated growth rates, mortality and market price. There is no effective market for live finfish produced by the Consolidated Group so market price is determined on a model based on market prices for both salmon and trout, derived from observable market prices (when available), achieved prices and estimated future prices for harvest finfish.

4. Dividends

	Half-year	
	2020	2019
	$'000	$'000
Fully paid ordinary shares		
Dividends paid for or provided for during the half-year	-	2,620

Investment in controlled growth strategy

5. Property, plant and equipment

	Land and Buildings		Plant and Equipment		
	Freehold Land	Buildings	Plant and Equipment	Capital Work in Progress	Total
Consolidated	$'000	$'000	$'000	$'000	$'000
At 30 June 2020					
Cost	5,294	67,552	422,640	10,713	506,199
Accumulated depreciation	-	(12,346)	(188,272)	-	(200,618)
Net carrying amount	**5,294**	**55,206**	**234,368**	**10,713**	**305,581**
Half-year ended 31 December 2020					
Net carrying amount at the beginning of the half-year	5,294	55,206	234,368	10,713	305,581
Additions	-	-	398	-	398
Disposals and write-offs	-	-	(7)	-	(7)
Work in progress additions	-	-	-	3,635	3,635
Depreciation and amortisation	-	(1,657)	(16,793)	-	(18,450)
Acquisition in business combination	-	-	-	-	-
Capitalisation to asset categories	-	-	6,768	(6,768)	-
Transfers between classes	-	-	-	-	-
Impairment losses	-	(2,131)	(49,962)	-	(52,093)
Net carrying amount at the end of the half-year	**5,294**	**51,418**	**174,772**	**7,580**	**239,064**
At 31 December 2020					
Cost	5,294	67,552	429,676	7,580	510,102
Accumulated depreciation	-	(14,003)	(204,942)	-	(218,945)
Impairment losses	-	(2,131)	(49,962)	-	(52,093)
Net carrying amount	**5,294**	**51,418**	**174,772**	**7,580**	**239,064**

6. Other non-current assets

	31 December 2020	30 June 2020
	$'000	$'000
Marine farming sites		
Cost	16,244	16,244
Accumulated amortisation	(8,054)	(7,833)
	8,190	8,411

Amortisation expense is included in the line item "Depreciation and amortisation expense" in the income statement.

7. Leases

	Right-of-use assets			
	Buildings	Plant and Equipment	Marine Leases	Total
Consolidated	$'000	$'000	$'000	$'000
Half-year ended 31 December 2020				
Cost	30,387	150,151	5,630	186,168
Accumulated depreciation	(2,112)	(22,516)	(506)	(25,134)
Impairment losses	(7,600)	(48,900)	(2,000)	(58,500)
Net carrying amount	**20,675**	**78,735**	**3,124**	**102,534**
Movement				
Net carrying amount at the beginning of the half-year	21,587	135,395	5,608	162,590
Additions	7,458	2,156	19	9,633
Disposals and write-offs	(15)	-	(337)	(352)
Depreciation and amortisation	(755)	(9,916)	(166)	(10,837)
Impairment losses	(7,600)	(48,900)	(2,000)	(58,500)
Net carrying amount at the end of the half-year	**20,675**	**78,735**	**3,124**	**102,534**

Set out below are the carrying amounts of the lease liabilities and the moments during the year.

	31 December 2020	30 June 2020
	$'000	$'000
Balance at beginning of period	169,236	99,429
Additions	7,235	82,477
Accretion of interest	4,162	5,883
Lease payments	(12,731)	(18,553)
Balance at end of period	**167,902**	169,236
Current	16,834	16,777
Non-current	151,068	152,459
	167,902	169,236

8. Capital commitments

	31 December 2020 $'000	30 June 2020 $'000
Plant and equipment	-	-
Capital expenditure projects	-	-
	-	-
Payable:		
Not longer than 1 year	-	-
Longer than 1 year and not longer than 5 years	-	-
Longer than 5 years	-	-
	-	-

Net debt and working capital

9. Borrowings

The total amounts available under the facilities are shown below in the Summary of facilities table.

	31 December 2020 $'000	30 June 2020 $'000
Current		
Secured		
Bank loans	5,885	19,404
Other loans	-	4,009
Unsecured		
Other loans	-	-
	5,885	23,413
Non-current		
Secured		
Bank loans	119,761	149,726
Other loans	-	-
Unsecured		
Other loans	46	46
	119,807	149,772
	125,692	173,185

The weighted average effective interest rate on the bank loans is 1.68% per annum (30 June 2020: 2.45% per annum).

9. Borrowings (continued)

Summary of facilities ($'000)	31 December 2020 $'000		30 June 2020 $'000	
	Limit	**Undrawn Balance**	Limit	Undrawn Balance
Amortising Term Loan	45,000	-	45,000	-
Term Loan	110,000	30,000	110,000	-
Term loan (expires 31 October 2021)	20,000	20,000	20,000	15,000
Working capital	15,000	14,000	15,000	5,500
Bank guarantee	7,500	6,889	7,500	7,500
Uncommitted foreign exchange contracts	-	Discretionary	-	Discretionary
Uncommitted interest rate swaps	-	Discretionary	-	Discretionary
Aggregate facility limit	197,500	-	197,500	-
Aggregate undrawn balance	-	70,889	-	28,000

Loan covenants:

Under the terms of the Facilities, the Consolidated Group was required to comply with the following financial covenants for the period ended 31 December 2020:

- Equity Ratio (Tangible Net Worth/Total Tangible Assets) greater than 50%;
- Leverage Ratio (Net Debt/Operating EBITDA) less than 6.50 times;
- Interest Cover Ratio (Operating EBITDA/Total Finance Costs) greater than 3.5 times; and

The Consolidated Group complied with the financial covenants throughout the period to 31 December 2020.

Subsequent to year end, the Consolidated Group has agreed to revised terms for its banking facilities with its banking partners for the period until 31 March 2022. Under the revised terms for its banking facilities the financial covenants above have been waived for the period 31 March 2021 to 31 December 2021 and have been replaced with a Liquidity covenant to be measured on a monthly basis from 31 March 2021 to 31 December 2021. The Liquidity covenant has been set based on financial forecasts for net debt approved by the Board.

Under the revised Liquidity covenant the headroom for the forecast net debt per month is in a range of $5 million to $8 million plus a further $20 million of additional liquidity under the currently undrawn $20 million term loan which can be included in headroom subject to certain terms and conditions and consent from the lenders. Under the revised terms of the facilities the financial covenants on and from for 31 March 2022 are as follows (in line with the original terms of the facilities):

- Leverage Ratio (Net Debt/Operating EBITDA) less than 2.75 times;
- Interest Cover Ratio (Operating EBITDA/Total Finance Costs) greater than 3.5 times

Under the revised terms of the banking facilities the available limit of the facilities available to the Consolidated Group is $177.5 million. The term loan for $20 million which expires on 31 October 2021 is available to the Consolidated Group under certain terms and conditions and consent from the lenders, which would increase the facilities available to the Consolidated Group to $197.5 million.

9. Borrowings (continued)

Critical accounting estimates

The ability for the Consolidated Group to operate within the revised terms of the banking facilities is based on the Group's forecast cash flow over the period. The Group's forecast cash flows include assumptions relating to operating cash flows, management of working capital and other cash flow initiatives. The forecasts include critical assumptions for channel mix and assumptions for price per kg for the domestic and export sales. In particular, a material change in the export price assumptions for export sales could have an impact on forecast operating cash flows and the ability to meet the revised terms of the banking facilities.

The Directors and management have considered and assessed reasonably possible changes in key assumptions and has other cash flow initiatives to ensure headroom to comply with its financial covenants.

The Directors believe the Group will continue to comply with its financial covenants.

10. Issued Capital

	Consolidated 2020		Consolidated 2019	
	No.	**$'000**	No.	$'000
Ordinary share capital (fully paid):				
Ordinary shares	109,872,959	230,607	87,337,207	164,302

The Company has authorised share capital amounting to 109,872,959 ordinary shares of no par value.

	Consolidated 2020		Consolidated 2019	
	No.	**$'000**	No.	$'000
Movements in ordinary share capital				
At the beginning of the reporting period	87,545,281	164,999	87,337,207	164,302
Issue of shares to trustee of employee share plan	309,348	-	-	-
Issue of shares under Huon Employee Share Scheme	684,996	928	-	-
Proceeds from contribution of equity (net of tax)	21,333,334	64,680	-	-
Balance at end of reporting period	109,872,959	230,607	87,337,207	164,302

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

The voting rights attaching to ordinary shares are, on a show of hands every member present at a meeting in person or by proxy shall have one vote, and upon a poll each share shall have one vote.

There are no unquoted equity securities on issue.

There is no current on-market buy-back in respect of the Company's ordinary shares.

Other

11. Share-based payments

(a) Share-based payment arrangements

The Group offers the Chief Executive Officer and senior management the opportunity to participate in the Long-Term Incentive Plan ("the Plan"), which involves performance rights to acquire shares in Huon Aquaculture Group Limited. Refer to the annual report at 30 June 2020 for details of the Plan.

(b) Performance rights granted

Set out below is a summary of performance rights granted under the LTI plan.

Grant Date	Performance Period		Balance at start of period (number)	Granted during the period (number)	Forfeited during the period (number)	Vested during the period (number)	Balance at end of period (number)	Fair Value
	From	To						
30-Nov-17	1-Jul-17	30-Jun-20	210,429	-	(191,488)	-	18,941	$4.01
31-Oct-18	1-Jul-18	30-Jun-21	237,360	-	-	-	237,360	$4.26
23-Oct-19	1-Jul-19	30-Jun-22	263,502	-	-	-	263,502	$4.30
30-Oct-20	1-Jul-20	30-Jun-23	409,966	-	-	-	409,966	$2.47

(c) Fair value of performance rights granted

The fair value of performance rights is measured at grant date using a Black-Scholes pricing model that takes into account the term of the performance right, the share price at grant date, the expected volatility of the share price (based on historical daily closing share prices), the expected dividend yield of 1.3% (in accordance with current dividend policy), and the risk free interest rate.

The expense recognised in relation to performance rights applicable to the Chief Executive Officer and senior management for the half-year ended 31 December 2020 is $368,500 (31 December 2019: $348,598).

12. Fair value measurements

The Consolidated Group measures and recognises the following assets at fair value on a recurring basis after initial recognition:

Biological assets (refer to note 3)

The Consolidated Group does not subsequently measure any liabilities at fair value on a recurring basis, or any assets or liabilities at fair value on a non-recurring basis.

Fair value hierarchy

AASB 13 requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1: Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

Valuation techniques

The Consolidated Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured.

There has been no change in the valuation technique(s) used to calculate the fair values disclosed in the financial statements.

There have been no transfers between the fair value measurement levels during the financial year.

All other financial asset and liabilities that are measured at cost have a carrying amount that approximates the fair value at balance sheet date.

13. Key management personnel compensation

Remuneration arrangements of key management personnel are disclosed in the annual financial report.

14. Related party transactions

There have been no significant transactions entered into with related parties during the interim period.

15. Goodwill and other intangible assets

	31 December 2020 $'000	30 June 2020 $'000
Gross carrying amount		
Balance at the beginning of the period	4,496	4,496
Additions	-	-
Balance at the end of the period	**4,496**	4,496
Accumulated impairment losses		
Balance at the beginning of the period	(1,601)	(1,601)
Impairment losses	(2,895)	-
Balance at the end of the period	**(4,496)**	(1,601)
Net book value		
Balance at the beginning of the period	2,895	2,895
Balance at the end of the period	-	2,895
Other intangible assets	**430**	430
Impairment losses	**(430)**	-
	-	3,325

16. Impairment

Impairment of assets

At the end of each reporting period, the Consolidated Group assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information and internal sources of information, including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in consolidated income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the Consolidated Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The Consolidated Group identified one CGU representing the activities of generating its revenue output of aquaculture (Atlantic salmon and ocean trout).

The recoverable amount of the CGU has been determined using a value-in-use calculation. The calculation used cash flow projections based on financial budgets approved by the Board, over a 5 year period, before any fair value adjustments of biological assets.

The following table sets out the key assumptions used in the calculations:

Volume	Volume growth over the five-year forecast period has been set a 7.8% average annual growth rate, consisting of industry recognised growth rates plus growth based on resources available to the Group to allow expansion of production at a rate consistent with the industry average.
Price	Pricing growth over the five-year forecast period has been set at 2.2% average annual growth rate, recognising a period of lower average prices in FY2021 followed by a progressive increase as markets recover from COVID-19 restrictions and the underlying improvement driven by more favourable channel mix for the Group.
Freight & distribution expense	The five-year forecast period has reflected material variations in Freight & Distribution costs in line with the Groups assumptions on COVID-19 disruptions to the international airfreight market. International airfreight costs are expected to remain at elevated levels until FY2023, after which they are expected to progressively reduce and return to pre-COVID-19 levels during FY2024.
Production costs	Production costs per hog kg are expected to remain stable. Following the completion of Huon's two-year program of investing in infrastructure to drive the expansion of its production capacity, drive biological performance improvements and reduce production risk, production costs have been reducing. Production costs are expected to remain stable as the rate of average annual volume growth eases from 11.0% to 7.8%.
Annual capital expenditure	Capital expenditure requirements estimated to maintain the current production assets which are in operation and able to meet forecast volume projections.
Long-term growth rate	The weighted average growth rate used to extrapolate cash flows beyond the budget period. The rates are consistent with economic forecast growth rates published by the Reserve Bank of Australia.
Post-tax discount rates	Discount rates represent the current market assessment of the risks relating to the CGU. In performing the value-in-use calculations for the CGU, the Consolidated Group has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rates are disclosed in the table below.

	1H2021	2020	2019
Long-term growth rate	2.00%	1.75%	3.00%
Post-tax discount rate	8.37%	8.44%	7.9%
Pre-tax discount rates	12.0%	12.1%	11.3%

16. Impairment (continued)

The market capitalisation of the Group at 31 December 2020 was $292.3 million, which represented a $66 million deficiency against the net assets of $358.3 million. The Group has used this as an impairment indicator.

The Group has substantially lowered projections for operating earnings (EBITDA) for FY2021, due to the decline in salmon prices, high freight costs and uncertainty around the global economy. The Group expects uncertainty in the international salmon market and international airfreight market to continue, and adversely affect future cash flows. As a consequence, the annual average volume growth assumption has been downgraded and production and freight & distribution cost assumptions have been increased, and are reflected in management's expectations of future cash flows.

The carrying amount of the CGU is estimated to exceed the recoverable amount of the CGU at 31 December 2020 by $113.9 million. This impairment has been allocated as follows:

	$'000
Goodwill	2,895
Other intangible assets	430
Property. plant & equipment	49,962
Buildings	2,131
Right-of-use assets	58,500
Total impairment losses	**113,918**
Impact on deferred taxes	(34,033)
Net impairment losses	**79,885**

The Directors and management have considered and assessed reasonably possible changes in key assumptions. The recoverable amount of the CGU would be lower than its carrying amount to the extent noted below if the key assumptions were to change as follows:

Volume	Reduction in growth rate by 10% from 7.8% to 7.0%	$40.0m
Price	Reduction in growth rate by 10% from 2.2% to 1.9%	$57.0m
Post-tax discount rate	Increase from 8.4% to 9.2%	$67.0m

17. Other liabilities

	31 December 2020 $'000	30 June 2020 $'000
Deferred government grants		
Current	4,815	464
Non-current	1,726	1,960
	6,541	2,424

18. Contingent liabilities & contingent assets

There are no contingent liabilities or contingent assets at the date of this interim financial report.

19. Segment information

The chief operating decision maker for the Consolidated Group is the Chief Executive Officer of the Parent Entity. The Parent Entity determines operating segments based on information provided to the Chief Executive Officer in assessing performance and determining the allocation of resources within the Consolidated Group. Consideration is given to the Consolidated Group's products, the manner in which they are sold, the organisational structure of the Consolidated Group and the nature of customers.

The Consolidated Group hatches, farms, processes, markets and sells Atlantic salmon and ocean trout. Revenue associated with exports meets the quantitative thresholds and management concludes that this segment is reportable.

The chief operating decision maker only reviews export market sales. The total of the reportable segments' results, profit, assets and liabilities is the same as that of the Consolidated Group as a whole and as disclosed in the consolidated income statement, the consolidated statement of comprehensive income and the consolidated balance sheet.

All of the non-current assets are located in Australia being the domicile country of the Consolidated Group.

20. Subsequent events

Subsequent to the end of the half-year, the Consolidated Group agreed to revised terms for its banking facilities – the details are outlined in note 9.

In the interval between the end of the half-year and the date of this report there has not been any other item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the Consolidated Group, the results of those operations, and the state of affairs of the Consolidated Group, in future financial years.

21. Company details

The registered office of the company is:

Huon Aquaculture Group Limited
Level 13, 188 Collins Street
Hobart, Tasmania 7000

The principal place of business is:

Huon Aquaculture Group Limited
961 Esperance Coast Road
Dover, Tasmania 7109

DIRECTORS' DECLARATION

In the directors' opinion;

(a) the financial statements and notes set out on pages 13 to 36 are in accordance with the *Corporations Act 2001* including:
  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  (ii) giving a true and fair view of the Consolidated Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and

(b) 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.

Neil Kearney	Peter Bender
Chairman	Managing Director and CEO
Date: 26 February 2021	Date: 26 February 2021

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Independent auditor's review report to the members of Huon Aquaculture Group Limited

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Huon Aquaculture Group Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the condensed consolidated balance sheet as at 31 December 2020, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and condensed consolidated income statement for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

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

1. giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date

2. 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* (ASRE 2410). 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 Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & 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.

Responsibility of the directors for the half-year financial report

The directors 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.

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Auditor's responsibility 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 Group's financial position as at 31 December 2020 and of 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*.

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.

PricewaterhouseCoopers

PricewaterhouseCoopers

Alison Tait

Alison Tait
Partner

Melbourne
26 February 2021