



Our Ref: SFG ASX Announce EGM Notice July 19 (619)

19 July 2019

ANNOUNCEMENT 619

Company Announcements Office
Australian Securities Exchange
Level 6
20 Bridge Street
SYDNEY NSW 2000

By ASX Online
Number of pages: 106
(including this page)

Dear Sir

Re: Seafarms Group Notice of Extraordinary General Meeting & Proxy

Enclosed are the following Seafarms Group Limited documents which will be sent to shareholders today:

- Notice of Extraordinary General Meeting with supporting Explanatory Memorandum and Independent Experts Report; and
- Pro forma Proxy Form.

The Notice of Extraordinary General Meeting and attachments are included on the Company's web site www.seafarms.com.au.

The Company's Extraordinary General Meeting will be held in Melbourne on Tuesday 20 August 2019 at 11.00am AEST.

Please telephone Harley Whitcombe on (08) 9216 5200 with any queries.

Yours faithfully

Seafarms Group Limited

Harley Whitcombe
Director and Company Secretary

ENC

Seafarms Group Limited
ABN: 50 009 317 846

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About Seafarms Group

Seafarms Group Limited (ASX: SFG) is an ASX listed holding company with separate subsidiary aquaculture companies., Seafarm Operations Pty Ltd operates aquaculture operations in northern Queensland, producing high-quality seafood. Seafarms is currently the largest producer of farmed prawns – growing, processing and distributing the well-known Crystal Bay Prawns™ premium brand.

For further information refer the company's web site: www.seafarms.com.au

Project Sea Dragon

Project Sea Dragon Pty Ltd is developing Australia's largest integrated land-based prawn aquaculture project in northern Australia designed to produce high quality, year-round reliable volumes for export markets.

For further information refer the company's web site: www.seafarms.com.au/about-project-sea-dragon/



SEAFARMS GROUP LIMITED

ABN 50 009 317 846

Notice of Extraordinary General Meeting

11.00am (AEST), Tuesday, 20 August 2019

At Corrs Chambers Westgarth

Level 25

567 Collins Street

Melbourne VIC 3000

Seafarms Group Limited

NOTICE OF MEETING

An Extraordinary General Meeting of
Seafarms Group Limited (the **Company**)

will be held at

Corrs Chambers Westgarth Level 25, 567 Collins Street, Melbourne at 11.00am (AEST), Tuesday, 20 August 2019.

Dear Shareholder

I am pleased to invite you to attend an Extraordinary General Meeting of the Company to be held at Corrs Chambers Westgarth Level 25, 567 Collins Street, Melbourne VIC 3000 on Tuesday, 20 August 2019 at 11.00am (AEST).

The Extraordinary General Meeting is being held for certain shareholders approvals required in connection with the Company's capital raisings announced in April and May 2019 and to approve amendments to the existing debt facility provided to the Company by Avatar Finance Pty Ltd (**Avatar Finance**).

As set out in our previous announcements:

- the Company raised \$20 million under a placement in April 2019 (**Placement**) and \$4.43 million under a share purchase plan which closed in May 2019 (**SPP**), both at an issue price of \$0.09 (**Issue Price**);
- Avatar Finance has agreed to convert \$3 million of the outstanding principal under the existing debt facility with Avatar Finance (**Avatar Facility**) into shares at the same Issue Price (**Debt Conversion**); and
- the Company raised a further \$2.998 million through the issue of shares to Nippon Suisan Kaisha Limited (**Nissui**) at the Issue Price. It may raise up to a further \$1.83 million from Nissui in connection with Nissui's contractual anti-dilution right, following the issue of shares under the SPP and Debt Conversion.

The proceeds of the new issues of shares will be used to fund the development of Project Sea Dragon. For further information regarding the Company's use of funds, see the Company's announcement of the Placement, SPP and Debt Conversion, released to the ASX on 5 April 2019.

Your Directors believe that each of the resolutions is in the best interests of the Company and its Shareholders.

Mr Ian Trahar, gives no recommendation in respect of Items 4 and 6 (Approval of Debt Conversion and Approval of New Loan Arrangements with Avatar Finance) due to his interest in the outcome of those resolutions.

An independent expert report has been obtained in relation to Resolution 6 (Approval of New Loan Arrangements with Avatar Finance). The opinion of the expert is that the New Loan Arrangements are "not fair but are on balance, reasonable" to non-associated shareholders of the Company.

Voting on the resolutions at the Extraordinary General Meeting is important and if you are not able to attend I encourage you to nominate a proxy by returning the enclosed Proxy Form.

If you nominate a proxy, please carefully consider the proxy instructions in this Notice. Please ensure you forward the Proxy Form to the Company's Share Registry, Computershare Investor Services Pty Limited, so that it is received by 11.00am (AEST) on Sunday, 18 August 2019.

Yours faithfully



Dr Chris Mitchell
Executive Director
19 July 2019

The following pages contain details on the items of business to be conducted at the Extraordinary General Meeting.

Seafarms Group Limited

NOTICE OF MEETING

Items of Business	Resolution	Approval	Further Details
SPECIAL BUSINESS			
1. RATIFICATION OF PLACEMENT	That, for the purposes of refreshing the Company's issue capacity, in accordance with Listing Rule 7.4, and for all other purposes, the Company ratify the issue of 222,222,222 Shares at an issue price of \$0.09 per Share on 12 April 2019 to professional and sophisticated investors on the terms and conditions set out in the Explanatory Notes.	Ordinary resolution	Item 1, page 5
2. RATIFICATION OF ISSUE OF SECURITIES TO NISSUI	That, for the purposes of refreshing the Company's issue capacity, in accordance with Listing Rule 7.4, and for all other purposes, the Company ratify the issue of 33,311,111 Shares at an issue price of \$0.09 per Share on 29 April 2019 to Nippon Suisan Kaisha Limited on the terms and conditions set out in the Explanatory Notes.	Ordinary resolution	Item 2, page 6
3. RATIFICATION OF GRANT OF OPTIONS TO LPIG PTY LTD	That, for the purposes of refreshing the Company's issue capacity, in accordance with Listing Rule 7.4, and for all other purposes, the Company ratify the issue of 80,000,000 unlisted options to LPIG Pty Ltd on 12 December 2018 on the terms and conditions set out in the Explanatory Notes.	Ordinary resolution	Item 3, page 6
4. APPROVAL OF DEBT CONVERSION	That, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue up to 33,333,333 Shares at a deemed issue price of \$0.09 to Avatar Finance Pty Ltd on the terms and conditions set out in the Explanatory Notes.	Ordinary resolution	Item 4, page 7
5. APPROVAL OF PROPOSED ISSUE OF SECURITIES TO NISSUI	That, for the purposes of refreshing the Company's issue capacity, in accordance with the provisions of Listing Rule 7.1, and for all other purposes, the Company is authorised to issue up to 20,370,045 Shares to Nippon Suisan Kaisha Limited on the terms and conditions set out in the Explanatory Notes.	Ordinary resolution	Item 5, page 8
6. APPROVAL OF NEW LOAN ARRANGEMENTS WITH AVATAR FINANCE	<p>That, for the purposes of ASX Listing Rules 10.1, 10.11 and for all other purposes, the New Loan Arrangements with Avatar Finance Pty Ltd be approved on the terms set out in the Explanatory Memorandum.</p> <p>The Independent Expert's Report prepared by Invicta Corporate Finance concludes that the New Loan Arrangements outlined in Item 6 are "not fair but are on balance, reasonable" to Shareholders not associated with Avatar Finance Pty Ltd. Shareholders are referred to Annexure A of this Notice.</p>	Ordinary resolution	Item 6, page 8

Capitalised terms are defined in the attached Explanatory Notes.

Seafarms Group Limited

NOTICE OF MEETING

VOTING

Notice Record Date

The Company's shareholders (**Shareholders**) recorded on the Company's register of members at 7.00pm (AEST) on Monday, 15 July 2019 (**Notice Record Date**) will be entitled to receive this notice of meeting (**Notice**).

Voting Entitlement

Shareholders recorded on the Company's register of members at 7.00pm (AEST) on Sunday, 18 August 2019 (**Voting Entitlement Date**) will be entitled to vote on Items at the Company's extraordinary general meeting (**Meeting**).

Becoming a Shareholder

Persons who become registered Shareholders between the Notice Record Date and the Voting Entitlement Date, and wish to vote at the Meeting by proxy should call 1300 798 306 (within Australia) or +61 3 9415 4830 (outside Australia) and request an additional personalised voting form.

Persons who become beneficial Shareholders between the Notice Record Date and the Voting Entitlement Date, and wish to vote at the Meeting by proxy should contact their broker or intermediary for instructions on how to do so.

Voting Procedure

Under the Company's constitution (**Constitution**), any poll will be conducted as directed by the chair of the Meeting (the **Chair**).

Shareholders can vote in one of two ways:

- by attending the Meeting and voting; or
- by appointing a proxy to attend and vote on their behalf.

Shareholders are asked to arrive at the venue 30 minutes prior to the time designated for the Meeting, if possible, so that the Company may check their Shareholding against the Company's share register and note attendances.

Voting Restrictions

The voting exclusions under the ASX Listing Rules for each Item are set out in the Explanatory Notes to this Notice.

PROXY FORMS

Proxy Form

Enclosed with this Notice is a personalised proxy form (**Proxy Form**). The Proxy Form allows Shareholders who are not attending the Meeting to appoint a proxy to vote on their behalf.

If you hold fully paid ordinary shares in the capital of the Company (**Shares**) in more than one capacity, please complete the Proxy Form that is relevant to each holding.

Appointing proxies

Shareholders, who are entitled to attend and vote at the Meeting, may appoint a proxy to act generally at the Meeting and to vote on their behalf.

A proxy need not be a Shareholder of the Company.

A Shareholder entitled to attend and vote can appoint up to two proxies, and should specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number is specified, each proxy may exercise half of the Shareholder's votes. If you wish to appoint two proxies please call 1300 798 306 (within Australia) or +61 3 9415 4830 (outside Australia) and request an additional Proxy Form.

A corporate Shareholder or proxy must appoint a person as its corporate representative.

Undirected proxies

The Chair intends to vote all valid undirected proxies for all Items in favour of those Items.

Power of attorney and corporate representatives

If the Proxy Form is signed by an attorney, the power of attorney or a certified copy of it must be sent with the Proxy Form.

A body corporate member may elect to appoint a representative, rather than appoint a proxy. Where a body corporate appoints a representative, written proof of the representative's appointment must be to be lodged with, or presented to the Company before the Meeting.

A body corporate appointed as a proxy must also lodge a certificate of appointment of a corporate representative.

LODGING PROXY FORMS

Deadline

Proxy Forms must be received by 11.00am (AEST) on Sunday, 18 August 2019.

How to lodge Proxy Forms

You can lodge your Proxy Form with the Company by:

Mail: to GPO Box 242, Melbourne, Victoria 3001.

Delivery: to Level 11, 172 St Georges Terrace, Perth, Western Australia 6000.

Facsimile: 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia).

Further details on how to lodge your Proxy Form can be found on the reverse side of the Proxy Form.

ENQUIRIES

If you have any questions about this Notice or your Proxy Form please contact the Company's share registry, Computershare Investor Services Pty Ltd, at 1300 798 306 (within Australia) or +61 3 9415 4830 (outside Australia).

By order of the Board of Directors



Dr Chris Mitchell
Executive Director

19 July 2019

Seafarms Group Limited

EXPLANATORY NOTES

ITEM 1 RATIFICATION OF PLACEMENT

Background

On Friday, 5 April 2019, Seafarms Group Limited (the **Company**) announced a capital raising and issue of fully paid ordinary shares in the Company (**Shares**) comprising:

- an institutional placement to unrelated institutional and sophisticated clients of the Company's broker, Bell Potter Securities Limited (**Bell Potter**) which raised \$20 million (before costs) (**Placement**); and
- a share purchase plan (**SPP**).

The Company engaged Bell Potter as lead manager of the Placement on usual terms and conditions.

Under the Placement, the Company issued 222,222,222 Shares at \$0.09 (**Offer Price**) using its existing capacity under ASX Listing Rules 7.1 and 7.1A (**Placement Shares**).

Purpose of shareholder approvals

Listing Rule 7.1 permits an issue of new equity securities equivalent in number to not more than 15% of its capital in any 12 month period without the prior approval of its shareholders.

Listing Rule 7.1A provides an additional 10% capacity to issue shares without shareholder approval for certain pre-approved purposes provided shareholders have approved that additional capacity at its AGM, the Company is not included in the S&P/ ASX 300 Index and the Company's market capitalisation is less than \$300 million. Shareholders approved the additional 10% capacity at the Company's 2018 annual general meeting held on 23 November 2018.

Listing Rule 7.4 allows shareholders to refresh the Company's Listing Rule 7.1 and 7.1A capacity by ratifying an issue of securities which has been made, as it is treated as having been made with approval for the purposes of Listing Rule 7.1 if Shareholders subsequently ratify it and the issue did not breach Listing Rule 7.1.

Equity securities issued with shareholder approval under Listing Rules 7.1 or 7.4 do not count towards the 15% limit under Listing Rule 7.1 or the 10% limit under Listing Rule 7.1A. The Company confirms that the issue of the Placement Shares did not breach Listing Rule 7.1.

Item 1 seeks shareholder ratification under Listing Rule 7.4 for the issue of Placement Shares. Accordingly, this resolution is solely for the purpose of refreshing the Company's new issue capacity.

If Item 1 is not approved, the Placement Shares will continue to be counted toward the new issue capacity limits in Listing Rules 7.1 and 7.1A. In these circumstances, the Company's issue capacity under Listing Rules 7.1 and 7.1A will not be refreshed and the Company may require shareholder approval to issue shares in the future to the extent that it does not have remaining capacity under Listing Rules 7.1 and/ or 7.1A.

For the purposes of ASX Listing Rule 7.5, the Company advises:

Number of securities issued	222,222,222 Shares were issued, of which: <ul style="list-style-type: none"> • 170,069,154 Shares were issued under the Company's Listing Rule 7.1 capacity; and • 52,153,068 Shares were issued under the Company's Listing Rule 7.1A capacity.
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Date of issue 15 April 2019

Issue price \$0.09 per Placement Share.

Recipients Professional, sophisticated and other investors that fall within one or more of the classes of exemptions specified in section 708 of the *Corporations Act 2001* (Cth) (**Corporations Act**) who are clients of Bell Potter or who were otherwise identified by the Company. No related party of the Company participated in the Placement.

Terms of securities Fully paid ordinary shares which rank equally with other Shares on issue.

Intended use of funds The proceeds of the Placement and SPP will be used to fund the development of Project Sea Dragon, including:

- further expansion of Exmouth Founder Stock Centre to enable G3 (third generation) Specific Pathogen Free animals;
- commencing the initial development of the Bynoe Harbour Broodstock Maturation Centre; and
- undertaking required capital works on Legune Station which are beneficial for PSD and agricultural operations on the station.

For further information regarding the Company's use of funds, see the Company's announcement of the Placement and SPP, released to the ASX on 5 April 2019.

Board recommendation

The Board unanimously recommends Shareholders vote in favour of this ordinary resolution.

The Chair intends to vote undirected proxies in favour of Item 1.

Voting exclusion statement

The Company will disregard any votes cast in favour of this Item 1 by or on behalf of any person who participated in the Placement or an associate of those persons.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- it is cast by the Chair as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Seafarms Group Limited

EXPLANATORY NOTES

ITEM 2 RATIFICATION OF ISSUE OF SECURITIES TO NISSUI

Background

In connection with the Placement and in accordance with Nippon Suisan Kaisha Limited's (Nissui) contractual anti-dilution right, the Company offered Nissui the ability to subscribe for new Shares at the Offer Price. On 15 May 2019, 33,311,111 Shares were issued to Nissui at the Offer Price, raising \$2,998,000 (Nissui Shares).

Purpose of shareholder approvals

Item 2 seeks shareholder ratification under Listing Rule 7.4 for the issue of Shares to Nissui issued pursuant to the Company's 10% capacity under Listing Rule 7.1A. Accordingly, this resolution is solely for the purpose of refreshing the Company's new issue capacity. The Company confirms that and issue of the Placement Shares did not breach Listing Rule 7.1.

If Item 2 is not approved, the Nissui Shares will continue to be counted toward the new issue capacity limits in Listing Rule 7.1A. In these circumstances, the Company's capacity under Listing Rule 7.1A will not be refreshed and the Company may require shareholder approval to issue shares in the future to the extent that it does not have remaining capacity under Listing Rules 7.1 and/ or 7.1A.

For the purposes of ASX Listing Rule 7.5, the Company advises:

Number of securities issued	33,311,111 Shares were issued under the Company's Listing Rule 7.1A capacity.
Date of issue	15 May 2019.
Issue price	\$0.09 per Share.
Recipients	Nissui.
Terms of securities	Fully paid ordinary shares which rank equally with other Shares on issue.
Intended use of funds	The proceeds raised pursuant to the issue of the Nissui Shares will be used to fund the development of Project Sea Dragon. Further details are contained in Item 1 and the Company's announcement released to the ASX on 5 April 2019.

Board recommendation

The Board unanimously recommends Shareholders vote in favour of this ordinary resolution.
The Chair intends to vote undirected proxies in favour of Item 2.

Voting exclusion statement

The Company will disregard any votes cast in favour of this Item 2 by or on behalf of Nissui or any of its associates.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- it is cast by the Chair as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

ITEM 3 RATIFICATION OF GRANT OF OPTIONS TO LPIG PTY LTD

Background

As announced on 18 October 2018, the Company signed a sublease and co-operation agreement (Sublease) with AAM Licensees Pty Ltd, as trustee of the Pastoral Development Property Trust. AAM Licensees Pty Ltd is an entity that is part of the AAM Investment Group (AAM). As part of the arrangements with AAM, the Company granted 80,000,000 unlisted options to LPIG Pty Ltd (Unlisted Options), an entity related to AAM. The Unlisted Options were issued pursuant to the Company's 15% capacity under Listing Rule 7.1.

Purpose of shareholder approvals

Item 3 seeks Shareholder approval for the purposes of Listing Rule 7.4 to ratify the grant of the Unlisted Options. The Company confirms that the issue of the Placement Shares did not breach Listing Rule 7.1.

If Item 3 is not approved, the Unlisted Options will continue to be counted toward the new issue capacity limit in Listing Rule 7.1. In these circumstances, the Company's issue capacity under Listing Rule 7.1 will not be refreshed and the Company may require shareholder approval to issue shares in the future to the extent that it does not have remaining capacity under Listing Rules 7.1 and/ or 7.1A.

For the purposes of ASX Listing Rule 7.5, the Company advises:

Number of securities issued	80,000,000 Unlisted Options, comprising: <ul style="list-style-type: none"> • 30,000,000 unlisted options (the terms of which are set out in Part A of Schedule 1); and • 50,000,000 unlisted options (the terms of which are set out in Part B of Schedule 1), were allotted and granted by the Company under its Listing Rule 7.1 Capacity.
Date of issue	12 December 2018.
Issue price	The issue price for the Unlisted Options is nil. The Unlisted Options are exercisable at \$0.09 per Unlisted Option.
Recipients	LPIG Pty Ltd.
Terms of securities	Terms of the Unlisted Options are set out in Schedule 1.
Intended use of funds	No funds are raised by the issue of the Unlisted Options. Funds raised on exercise of the Unlisted Options will be used for working capital and general corporate purposes.

Board recommendation

The Board unanimously recommends Shareholders vote in favour of this ordinary resolution.
The Chair intends to vote undirected proxies in favour of Item 3.

Voting exclusion statement

The Company will disregard any votes cast in favour of this Item 3 by or on behalf of LPIG Pty Ltd or any of its associates.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- it is cast by the Chair as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Seafarms Group Limited

EXPLANATORY NOTES

ITEM 4 APPROVAL OF DEBT CONVERSION

Background

The Company has an existing credit facility agreement pursuant to which Avatar Finance Pty Ltd (**Avatar Finance**) has made available to the Company, a rolling credit facility of \$15.2 million (**Loan Amount**) for working capital purposes which is repayable on 15 March 2021 (**Avatar Facility**). Avatar Finance is a company controlled by Mr Ian Trahar, a director (and executive Chairman) of the Company. As at the date of this Notice, \$13.4 million is drawn down under the Avatar Facility. A summary of the terms of the Avatar Facility is set out in the table in Schedule 2.

Avatar Finance has proposed the conversion of a portion of the outstanding principal under the Avatar Facility by subscribing for \$3 million worth of new Shares at the Issue Price, the proceeds of which must be used to repay amounts outstanding under the Avatar Facility (**Debt Conversion**). This will result in the issue of 33,333,333 Shares to Avatar Finance.

The Debt Conversion demonstrates Mr Trahar's ongoing support and belief in the prospects of Project Sea Dragon and that, as the Company's largest shareholder, he will invest in new Shares on the same terms and at the same price as those issued under the Placement and SPP. The Debt Conversion increases the Company's access to funds, as \$3 million of the principal under the Avatar Facility will be repaid following the subscription by Avatar Finance and will remain available for drawdown by the Company under the Avatar Facility. The Debt Conversion will also reduce the interest payable by lowering the principal amounts outstanding under the Avatar Facility.

The issue price and terms of the Shares received by Avatar Finance on completion of the Debt Conversion are aligned with the investment terms which applied to the third party investors under the Placement and the offer made to shareholders under the SPP.

Purpose of shareholder approvals

Item 4 seeks shareholder approval for the purposes of ASX Listing Rule 10.11 to issue of Shares to Avatar Finance pursuant to the Debt Conversion.

Listing Rule 10.11 requires shareholder approval when issuing equity securities to a related party (except in certain circumstances, which are not applicable in this case). Approval of an issue of securities under Listing Rule 10.11 will also mean that those securities are not counted for the purposes of the new issue capacity in Listing Rules 7.1 and 7.1A.

For the purposes of the Corporations Act, a financial benefit is being provided to Avatar Finance by virtue of the issue of Shares to Avatar Finance as part of the Debt Conversion. Chapter 2E of the Corporations Act requires shareholder approval where a public company such as the Company seeks to give a 'financial benefit' to a 'related party' unless an exception applies.

It is an exception to requirement to obtain Shareholder approval where the financial benefit is provided on arm's length terms. The Directors (other than Mr Ian Trahar, who has a material personal interest in the Debt Conversion and accordingly did not attend any board meetings, participate in any board discussions or vote on any matters in relation to the Debt Conversion) (**Non-conflicted Directors**) have concluded that the terms of the Debt Conversion and any financial benefit received by Avatar Finance under it, is on terms that would be reasonable in the circumstances where the Company and Avatar Finance were dealing at arm's length or are less favourable to Avatar Finance.

In part this conclusion was based on the fact that Avatar Finance will be issued Shares on the same terms as arm's length parties who are not related parties of the Company under the Placement and SPP.

As with all issues of new Shares, the issue of Shares in respect of the Debt Conversion will result in dilution of each other Shareholder's proportionate interest in the Company.

If Item 4 is approved by Shareholders, the amount drawn under the Avatar Facility will be reduced to \$10.4 million. If Item 4 is not approved by Shareholders, the Company will not proceed with the Debt Conversion.

Information required under Listing Rule 10.13

The following information is provided for the purposes of Listing Rule 10.13.

Persons to receive securities	Avatar Finance. Avatar Finance may require the Shares to be issued to a related party of Avatar Finance.
Maximum number of securities to be issued	33,333,333 Shares.
Date of issue	It is intended that the Shares will be issued on or around 21 August 2019, but in any event no later than 1 month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules).
Relationship with the Company	As Avatar Finance is controlled by Ian Trahar, a director (and Chairman) of the Company, Avatar Finance is a related party of the Company. Avatar Finance is a substantial shareholder by virtue of being associated with Mr Trahar. Mr Trahar (and entities controlled by Mr Trahar) have voting power over 454,577,889 Shares representing approximately 23.05% of the issued Shares at the date of this Notice.
Issue price	The issue price of the Shares is \$0.09. This is the same price as the Shares issued to unrelated parties of the Company under the Capital Raising.
Terms of issue	The Shares are fully paid ordinary Shares which rank equally with other Shares on issue.
Use of funds	The \$3 million raised will be applied to repay a portion of the Loan Amount currently outstanding under the Avatar Facility.

Board recommendation

The Non-conflicted Directors consider that the Debt Conversion is in the best interests of Shareholders and recommends that the Shareholders vote in favour of Item 4 on the basis that the Debt Conversion is an important endorsement by the Company's largest shareholder of the terms of the Capital Raising and it provides additional access to funds (by providing the capacity to redraw the \$3 million if required by the Company) while reducing the Company's interest costs under the Avatar Facility. The Chair intends to vote undirected proxies in favour of Item 4.

Mr Ian Trahar declines to make a recommendation to Shareholders in relation to Item 4 due to his interest in the outcome by virtue of his controlling Avatar Finance.

In order to manage any potential or perceived conflict of interest, Mr Ian Trahar did not participate in the Board's consideration or vote in relation to the Debt Conversion.

Voting exclusion statement

The Company will disregard any votes cast in favour of Item 4 by or on behalf of Avatar Finance or any of its associates (including Ian Trahar). However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- it is cast by the Chair as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Seafarms Group Limited

EXPLANATORY NOTES

ITEM 5 APPROVAL OF PROPOSED ISSUE OF SECURITIES TO NISSUI

Background

As mentioned in Item 2 above, Nissui has a contractual anti-dilution right to retain its shareholding percentage in the Company on the same terms as offered to investors under a capital raising. This anti-dilution right applies to the proposed Debt Conversion. The Company has also agreed to extend the right in this instance to the recently-completed SPP. Accordingly, the Company will offer Nissui the ability to subscribe for Shares so that it may retain a 14.987% shareholding in the Company following the Debt Conversion.

The offer to Nissui is to subscribe for up to 20,370,045 Shares at the Offer Price (**Nissui Top-up Shares**). If Shareholders do not approve the Debt Conversion in Item 4, this number will be reduced by 5,876,356 Shares.

If Nissui accepts the offer to subscribe for any or all of the Nissui Top-up Shares, the Company will proceed to issue those Shares irrespective of whether Shareholder approval is obtained for this Item 5. Accordingly, if this Item 5 is not approved by Shareholders and Nissui elects to subscribe for any or all of the Nissui Top-up Shares, the Company will issue those Shares utilising its available placement capacity under Listing Rules 7.1 and/ or 7.1A.

For the purposes of Listing Rule 7.3, the Company provides the following information:

Max number of securities 20,370,045 Shares.
to be issued

Date of proposed issue	If Nissui elects to subscribe for any or all of the Nissui Top-up Shares, the Company expects that the Shares will be issued shortly following the Meeting and in any event no later than 3 months after the date of this Meeting.
Issue price	The issue price for the Nissui Top-up Shares will be \$0.09.
Recipients	Nissui.
Terms of securities	Fully paid ordinary shares which rank equally with other Shares on issue.
Intended use of funds	The proceeds raised pursuant to the issue of the Nissui Top-up Shares will be used to fund the development of Project Sea Dragon. Further details are contained in Item 1 and the Company's announcement released to the ASX on 5 April 2019.

Board recommendation

The Board unanimously recommends Shareholders vote in favour of this ordinary resolution.

The Chair intends to vote undirected proxies in favour of Item 5.

Voting exclusion statement

The Company will disregard any votes cast in favour of this Item 5 by or on behalf of Nissui or any of its associates.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- it is cast by the Chair as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

ITEM 6 APPROVAL OF NEW LOAN ARRANGEMENTS

The Independent Expert's Report prepared by Invicta Corporate Finance concludes that the New Loan Arrangements outlined in Item 6 are "not fair but on balance, reasonable" to the Company's Shareholders not associated with Avatar Finance. The Company's Shareholders are referred to the copy of the Independent Expert's Report at Annexure A of this Notice.

Overview of Avatar Facility

At the Company's 2018 extraordinary general meeting, the Company's shareholders approved the certain amendments to the Avatar Facility (**Previous Approval**). As set out in Item 5 above, the Avatar Facility is a rolling credit facility of \$15.2 million, of which \$13.4 million currently drawn, for working capital purposes and which is currently repayable on 15 March 2021. The Avatar Facility is secured over the assets of two subsidiaries of the Company, Seafarms Queensland Pty Ltd (**SOPL**) and Seafarm Hinchinbrook Pty Ltd (**SHPL**). A summary of the terms of the Avatar Facility is set out in the table in Schedule 2.

New Loan Arrangements

The Company and Avatar Finance have agreed to amend the Avatar Facility (**New Loan Arrangements**), subject to Shareholder approval, by:

- extending the repayment date by 6 months, from 15 March 2021 to 15 September 2021;
- providing Avatar Finance with the right (at its election) to convert amounts owed by the Company to Shares at a conversion price of \$0.09 per Share (**Conversion Right**). The proposal is for the Conversion Right to be exercisable:
 - from the date shareholder approval is granted under this Item 6 and until the expiry of the term of the Avatar Facility;
 - in relation to a maximum amount of \$12.2 million (**Maximum Conversion Amount**), which represents the Loan Amount less \$3 million (which is proposed to be converted under the Debt Conversion in Item 4); and
 - subject to and conditional upon receiving any necessary shareholder approvals (for instance, under Chapter 6 of the Corporations Act).

All other aspects of the Avatar Facility will not be amended.

Purpose of Approval - ASX Listing Rule 10.1

Under Item 6, the Company is seeking shareholder approval of the New Loan Arrangements pursuant to Listing Rule 10.1.

Listing Rule 10.1 provides that if an entity or any of its subsidiaries acquires or disposes of a 'substantial asset' to a 'substantial holder' or 'related party' of the entity, it must be approved by the entity's shareholders unless an exception to Listing Rule 10.1 applies. Under the Listing Rules, the term 'dispose' includes disposing or agreeing to dispose directly or through another person by means, including using an asset as a collateral by granting security over the asset.

A 'related party' of an entity is defined under section 228 of the Corporations Act and includes a company that is controlled by a director of the entity. As Avatar Finance is controlled by Ian Trahar, a director (and the Chairman) of the Company, Avatar Finance is a related party of the Company.

A 'substantial asset' is an asset valued at more than 5% of the equity interests as set out in the latest accounts given to ASX (currently being a threshold of approximately \$1.52 million for the Company).

Seafarms Group Limited

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Given:

- that the aggregate value of the fees and benefits to be paid to Avatar Finance under the New Loan Arrangements exceeds \$1.52 million;
- that security will continue to be granted by SQPL and SHPL to secure the New Loan Arrangements; and
- the grant of the proposed Conversion Right,

the New Loan Arrangements require Shareholder approval for the purposes of Listing Rule 10.1.

The Company previously obtained Shareholder approval for the Avatar Facility at its 2018 extraordinary general meeting, as the aggregate values of the fees and interests and the security granted to Avatar Finance exceeded the applicable threshold at the time. The New Loan Arrangements, and in particular the inclusion of the Conversion Right, are material amendments to the terms previously approved by Shareholders, and so the Company considers it prudent to obtain a new Shareholder approval for the New Loan Arrangements under Item 6.

Purpose of Approval - ASX Listing Rule 10.11

Item 6 also seeks shareholder approval under ASX Listing 10.11 as the Conversion Right involves the issue of a convertible security to Avatar Finance, as it gives Avatar Finance the right to, at its election, convert amounts outstanding under the Avatar Facility into Shares.

Pursuant to the Conversion Right the Company will, subject to Shareholder approval, issue a convertible security to Avatar Finance on the terms set out in Schedule 2 (**Convertible Security**) by making amendments to the Avatar Facility to give effect to the Conversion Right. The Convertible Security is convertible and assignable in whole or in part, at Avatar Finance's election.

As mentioned above, the Convertible Security gives Avatar Finance the right to, at its election, convert any amounts outstanding under the New Loan Arrangements into Shares up to the Maximum Conversion Amount at \$0.09 per Share.

Approval of an issue of securities under Listing Rule 10.11 will also mean that those securities are not counted for the purposes of the new issue capacity in Listing Rules 7.1 and 7.1A.

Information required under Listing Rule 10.13

The following information is provided for the purposes of Listing Rule 10.13.

Persons to receive securities	Avatar Finance.
Maximum number of securities to be issued	<p>The Convertible Security pursuant to the Conversion Right under the New Loan Arrangements.</p> <p>The Convertible Security may be converted into up to is 135,555,555 Shares at the election of the holder.</p>
Date of issue	It is intended that the Convertible Security will be issued on or around 21 August 2019, but in any event no later than 1 month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules).

Relationship with the Company

As Avatar Finance is controlled by Ian Trahar, a director (and Chairman) of the Company, Avatar Finance is a related party of the Company.

Avatar Finance is a substantial shareholder by virtue of being associated with Mr Trahar. Mr Trahar (and entities controlled by Mr Trahar) have voting power over 454,577,889 Shares representing approximately 23.05% of the issued Shares at the date of this Notice. Avatar Finance may require the Shares to be issued to a related party of Avatar Finance.

Issue price

The issue price of the Convertible Security is nil. Any Shares issued to Avatar Finance upon conversion of the Convertible Security are at \$0.09.

Terms of issue

The terms of the Convertible Security are set out in Schedule 2.

Use of funds

No funds will be raised through the grant of the Convertible Security. The Company will use any funds raised pursuant to the conversion of the Conversion Right by Avatar Finance for general working capital and corporate purposes.

Approval not required under Corporations Act Chapter 2E

Chapter 2E of the Corporations Act requires shareholder approval where a public company such as the Company seeks to give a 'financial benefit' to a 'related party' unless an exception applies.

As mentioned above, for the purposes of Chapter 2E of the Corporations Act, Avatar Finance is considered to be a related party. Under the New Loan Arrangements, the financial benefit being provided to Avatar Finance is the payment of interest and fees, the inclusion of the Conversion Right and the value of the security granted to Avatar Finance.

The Non-conflicted Directors have previously assessed the arm's length nature of the Avatar Facility on a number of occasions and each time has assessed the existing terms of the Avatar Facility as being on arm's length or better terms for the Company. In arriving at these determinations, the Non-conflicted Directors considered the attractive commercial terms of the New Loan Arrangements in comparison with the terms being offered by arm's length third party banks, including:

- the interest rate and fees for the Avatar Facility are comparable to the market rates for comparable facilities;
- the terms and scope of the security are more advantageous to the Company than those which would typically be required by banks;
- the Company is entitled to prepay the Avatar Facility at any time without payment of any fees/ penalty while any prepayment under the terms provided by banks involves a substantial fee;
- the New Loan Arrangements, require the Company to provide very limited warranties and covenants; and
- the events of default under the Avatar Facility are limited and narrow in scope.

Invicta Corporate Finance in their Independent Expert's Report (see section below) has concluded that the New Loan Arrangements are on arm's length terms.

Accordingly, the Company is not seeking shareholder approval under Chapter 2E of the Corporations Act.

Seafarms Group Limited

EXPLANATORY NOTES

Independent Expert Report

To assist you in deciding how to vote on Item 6, the Board engaged Invicta Corporate Finance to prepare the Independent Expert's Report to provide an opinion on whether or not the New Loan Arrangements, are 'fair and reasonable' to Shareholders who are not associated with Avatar Finance.

The Independent Expert's Report prepared by Invicta Corporate Finance concludes that the Avatar Facility, as amended, is not fair but on balance, reasonable to Shareholders not associated with Avatar Finance. For further details, refer to section 6 of the Independent Expert's Report at **Annexure A**.

A complete copy of the Independent Expert's Report is provided in **Annexure A** to this Notice and is also available on the Company's website, www.seafarms.com.au.

Key advantages and disadvantages of the New Loan Arrangements

The Non-conflicted Directors consider that the advantages of the Company entering into the New Loan Arrangements for Shareholders are that:

- the Company will now have access to \$15.2 million of working capital funding under the Avatar Facility until 15 September 2021 (as opposed to 15 March 2021);
- the Company will effectively have access to an efficient equity funding mechanism to raise funds at short notice from the Company's largest Shareholder (who has regularly supported the Company by contributing capital and providing loans) which may be accessed upon conversion by Avatar Finance;
- the Company will be able to redraw any of the Loan Amount converted by Avatar Finance pursuant to the Conversion Right up to the Loan Amount;
- any conversion will reduce the interest payable by lowering the principal amounts outstanding under the Avatar Facility; and
- it provides the ability for conversion under the Conversion Right without seeking further Shareholder approval and so enables Avatar Finance to provide comfort to third party investors that it will support a new fundraising if required as part of any future capital raising.

The flexibility provided by the access to additional funding under the New Loan Arrangements is important for the Company during this capital intensive development stage of Project Sea Dragon, especially in the period prior to obtaining third party project finance for the development of Project Sea Dragon.

The Non-conflicted Directors also note:

- the grant of the Conversion Right is unlikely to have a detrimental effect on the Company and, given the Company's cash position and forecasts, consider it is preferable for the Company that amounts outstanding under the Avatar Facility are converted into Shares rather than repaid in cash; and
- the New Loan Arrangements demonstrate Mr Trahar's ongoing support and belief in the prospects of Project Sea Dragon.

The Non-conflicted Directors consider that the disadvantages of the Company entering into the New Loan Arrangements for Shareholders are that:

- where Avatar Finance exercises its Conversion Right, this will result in dilution of each other Shareholder's proportionate interest in the Company. If Avatar Finance converts the Maximum Conversion Amount into Shares, 135,555,555 Shares will be issued to Avatar

Finance, representing 6.27% of the Company's Share capital (following the issue of Shares representing the Maximum Conversion Amount);¹

- if the Company's Share price is materially higher than the \$0.09 issue price on the date of the conversion, it may have been possible to raise funds at a higher issue price which would result in less dilution to the value of Shares and to a shareholder's proportionate interests in the Company; and
- Mr Trahar, who is associated with Avatar Finance, may increase his voting power in the Company by 3% each 6 months without shareholder approval. This may be done by the exercise by Avatar Finance of its Conversion Rights at \$0.09 per Share (rather than by the issue or acquisition of shares at market prices). Given the capital intensive development stage of Project Sea Dragon, the Company's preference would be that any increase in Mr Trahar's interest in the Company be done in a way which increases the Company's financial resources (such as through exercise of Conversion Rights), rather than acquiring Shares on market.

The Non-conflicted Directors have considered the advantages and disadvantages discussed above and believe that the benefits the New Loan Arrangements outweigh the potential disadvantages.

What if the New Loan Arrangements are not approved by Shareholders?

If the New Loan Arrangements are not approved by Shareholders:

- the Company will need to repay or re-finance the Avatar Facility on the current repayment date of 15 March 2021. There is no guarantee that the Company will be able to secure external funding to repay the debt to Avatar Finance;
- if Avatar Finance and the Company agree to conduct any further debt conversions, the Company will need to seek Shareholder approval resulting in a delay to any conversion and the Company incurring the relevant costs associated with the approval; and
- the Avatar Facility will remain on foot on its current terms.

Additional disclosures

The following additional information is provided to shareholders to enable them to assess the New Loan Arrangements:

Further details on Avatar Finance Avatar Finance is controlled by a director of the Company, Ian Trahar, and is accordingly a related party of the Company.

Avatar Finance is also a wholly owned subsidiary of Avatar Industries Pty Ltd, a substantial shareholder of the Company.

Avatar Finance does not hold any Shares.

¹ This figure assumes that all resolutions are in this Notice are passed, the Debt Conversion has occurred, that Nissui subscribes for new Shares to the maximum extent possible pursuant to its contractual anti-dilution mechanism and that the Company will not issue any further Shares.

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EXPLANATORY NOTES

Nature of benefit	<p>The benefit to be received by Avatar Finance under the Avatar Facility are:</p> <ul style="list-style-type: none"> The aggregate interest and fees payable to Avatar Finance. Since the date of the Previous Approval, the aggregate interest and fees paid to Avatar Finance under the Avatar Facility as at the date of this Notice is approximately \$760,000. A further \$97,051 is expected to become payable to Avatar Finance in fees and interest for the period between the date of this Notice and the Meeting. <p>If the New Loan Arrangements are approved the aggregate interest and fees payable to Avatar Finance from the Meeting to 15 September 2021 (ie the extended repayment date) will be approximately \$3.27 million.² The increase to the aggregate interest and fees payable due to the extension of the repayment date will be approximately \$750,000.</p> <ul style="list-style-type: none"> The ability to exercise its Conversion Right, which allows Avatar Finance to convert, at its election, amounts outstanding under the Avatar Facility into Shares up to the Maximum Conversion Amount at \$0.09 per Share. The ability to exercise the security over the assets of both SQPL and SHPL if the Company is unable to repay all amounts under the Avatar Facility in accordance with its terms. 	Alternative options available to the Company	<p>The alternative for the Company is to retain the existing structure of the Avatar Facility. In this case, the Company will be required to:</p> <ul style="list-style-type: none"> make all repayments under the Avatar Facility in cash; or If Avatar Finance agrees to convert outstanding amounts under the Avatar Facility, the Company will need to seek Shareholder approval and incur the associated costs.
Valuation of the New Loan Arrangements	<p>Invicta Corporate Finance independently valued the financial benefit to Avatar finance, including the value attributable to the Conversion Right, between \$4,153,633 and \$5,776,442. For further details, including valuation factors, refer to section 6 of the Independent Expert's Report at Annexure A.</p>	Directors' interest in the outcome	<p>Mr Ian Trahar has a material personal interest in the outcome of Item 6 by virtue of his controlling Avatar Finance.</p> <p>The Non-conflicted Directors do not have an interest in the outcome of Item 6.</p>
Dilution to other Shareholders	<p>The grant of the Conversion Right will not dilute any Shareholders.</p> <p>However, if Avatar Finance elects to convert amounts outstanding under the Avatar Facility, the maximum number of Shares that could be issued under the New Loan Arrangements is 135,555,555. If Avatar Finance were to be issued 135,555,555 the Shares on issue will increase from 2,025,757,347 to 2,161,312,902, representing a 6.27% increase to the Company's issued Shares on the basis that all resolutions in this Notice are approved.</p>	Other information	<p>This Notice, the Explanatory Memorandum and the Independent Expert's Report contain all the information reasonably required by Shareholders to decide whether or not to approve Item 6.</p>
Impact of the New Loan Arrangements on the Company	<p>If the New Loan Arrangements are approved, Avatar Finance will be able to convert, at its election, amounts outstanding under the Avatar Facility into Shares up to the Maximum Conversion Amount at \$0.09 per Share.</p> <p>If Avatar Finance exercises its Conversion Right, the Company will not be required to repay the converted amounts using cash. The New Loan Arrangements also avoid the need for obtaining Shareholder approval prior to any further debt conversions by Avatar Finance under the Avatar Facility.</p>	<div> <p>Board recommendation</p> <p>The Non-conflicted Directors considers that the New Loan Arrangements are in the best interests of Shareholders and recommends that the Shareholders vote in favour of Item 6.</p> <p>Mr Ian Trahar declines to make a recommendation to Shareholders in relation to Item 6 due to his interest in the outcome by virtue of his controlling Avatar Finance.</p> <p>In order to manage any potential or perceived conflict of interest, Mr Ian Trahar has did not participate in the Board's consideration or vote in relation to the New Loan Arrangements.</p> </div>	
		Voting exclusion statement	<p>The Company will disregard any votes cast in favour of Item 6 by or on behalf of Avatar Finance or any of its associates (including Ian Trahar). However, the Company need not disregard a vote if:</p> <ul style="list-style-type: none"> it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or it is cast by the Chair as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

² Assumes the Avatar Facility is fully drawn down during the entire term of the loan (ie July 2018 – September 2021) and a BBSY of 1.77% is applied for the duration of the loan.

Seafarms Group Limited

SCHEDULE 1

UNLISTED OPTION TERMS

Part A – 30 Million Unlisted Options

1.1 Entitlement

Each Seafarms Unlisted Option entitles the holder to subscribe for one Seafarms Share upon exercise of the Seafarms Unlisted Option and payment of the Exercise Price (defined below).

1.2 Exercise Price

Each Seafarms Unlisted Option is exercisable at A\$0.10 (**Exercise Price**).

1.3 Unlisted Options Expiry Date

The Seafarms Unlisted Options automatically expire at 5.00 pm AWST on the earlier of:

- (a) 6 months after the date on which the 'Second Payment' (as defined in the Sale Agreement) is paid by the 'Land Purchaser' (as defined in the Sale Agreement) to the Vendors; and
- (b) 5 years after the date of the Legune Station Completion,

(**Unlisted Options Expiry Date**).

1.4 Certificate

Seafarms must give the holder of the Seafarms Unlisted Option a certificate (if the Seafarms Unlisted Options are certificated) or a holdings statement (if the Seafarms Unlisted Options are uncertificated) stating:

- (a) the number of Seafarms Unlisted Options issued to each holder;
- (b) the Exercise Price of the Seafarms Unlisted Options; and
- (c) the date of issue of the Seafarms Unlisted Options.

1.5 Transfer and escrow

- (a) Subject to **clauses 1.5(b) and 1.5(c)** of this **Part A of Schedule 1**, during the period from the date of this document and ending 12 months after the Legune Station Completion (**Escrow Period**), the holder must not transfer the Seafarms Unlisted Options (or any Seafarms Shares issued upon the exercise of the Seafarms Unlisted Options) without the consent of Seafarms.
- (b) AAM may transfer any Seafarms Unlisted Options after Financial Close occurs to an Affiliate of AAM provided:
 - (i) the Seafarms Unlisted Options (and any Seafarms Shares issued upon the exercise of those Seafarms Unlisted Options) must be transferred back to AAM if the transferee ceases to be an affiliate of AAM during the Escrow Period;
 - (ii) the transfer can be made without any disclosure by Seafarms under the Corporations Act or otherwise; and
 - (iii) the transferee undertakes in favour of Seafarms to comply with (and ensuring any subsequent transferee complies with) the restrictions on transfer and requirements of AAM under this **clause 1.5** of this **Part A of Schedule 1**.
- (c) AAM may transfer any Seafarms Shares issued on exercise of Seafarms Unlisted Options after Financial Close occurs provided:
 - (i) the transfer can be made without any disclosure by Seafarms under the Corporations Act or otherwise; and
 - (ii) if the Seafarms Shares are not freely tradeable without disclosure by Seafarms under the Corporations Act, the transferee undertakes in favour of Seafarms to comply with (and ensuring any subsequent transferee complies with) the restrictions on transfer and requirements of AAM under this **clause 1.5** of this **Part A of Schedule 1**.
- (d) AAM and any transferee under **clause 1.5** of this **Part A of Schedule 1** agrees to the application of a holding lock during the Escrow Period to Seafarms Shares acquired upon the exercise of the Seafarms Unlisted Options.

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- (e) Seafarms agrees to release a holding lock:
 - (i) at the end of the Escrow Period;
 - (ii) to permit a transfer permitted under **clause 1.5** of this **Part A** of **Schedule 1** and may reapply the holding lock following the transfer; and
 - (iii) if the Seafarms Shares are freely tradeable without disclosure by Seafarms under the Corporations Act.

1.6 Exercise

The holder may exercise the Seafarms Unlisted Options at any time up to the Unlisted Options Expiry Date. Any Seafarms Unlisted Option not exercised, automatically expires on the Unlisted Options Expiry Date.

1.7 Notice of Exercise

- (a) The Seafarms Unlisted Options may only be exercised during the hours of 8.30 am to 5.00 pm AWST on a Business Day (**Business Hours**) by delivery to the registered office of Seafarms a notice in writing (**Exercise Notice**) stating the intention of the holder to:
 - (i) exercise all or a specified number of the Seafarms Unlisted Options; and
 - (ii) pay the Exercise Price in full for the exercise of each such Seafarms Unlisted Option.
- (b) A notice in writing received outside of Business Hours will be deemed received at the next opening of Business Hours.
- (c) The Exercise Notice must be accompanied by the certificate (if any) for the Seafarms Unlisted Options being exercised and a cheque made payable to Seafarms for the Exercise Price for the Seafarms Unlisted Options being exercised.
- (d) The Seafarms Unlisted Options will be deemed to have been exercised on the date the Exercise Notice is received or deemed to be received by Seafarms.

1.8 Issue of Seafarms Shares on Exercise

Seafarms will allot the Seafarms Shares to which the holder is entitled following exercise of Seafarms Unlisted Options.

1.9 Partial Exercise

The exercise of only some Seafarms Unlisted Options will not affect the rights of the holder to the balance of the Seafarms Unlisted Options held by them.

If the holder of the Seafarms Unlisted Options exercises less than the total number of Seafarms Unlisted Options registered in the holder's name, Seafarms must issue the holder of Seafarms Unlisted Options a new certificate (if any) for the remaining number of Seafarms Unlisted Options held by the holder.

1.10 No Dividends

Seafarms Unlisted Options will not confer an entitlement to receive dividends declared and paid by Seafarms, nor an entitlement to vote at general meetings of Seafarms unless the holder of the Seafarms Unlisted Options has exercised the Seafarms Unlisted Options before the date of exercise of the Seafarms Unlisted Option and participates as a result of holding Seafarms Shares.

1.11 Seafarms Shares on Exercise

Subject to the terms of this agreement, all Seafarms Shares issued on exercise of a Seafarms Unlisted Option will, from the date of issue:

- (a) rank equally in all respects (including, without limitation, rights relating to dividends) with other issued Seafarms Shares;
- (b) be issued credited as fully paid;
- (c) be duly authorised and issued by all necessary corporate action; and
- (d) be allotted and issued free from all liens, charges and encumbrances whether known about or not, including statutory and other pre-emption rights and any transfer restrictions.

1.12 Quotation

Seafarms will apply to ASX for official quotation of the Seafarms Shares issued upon exercise of Seafarms Unlisted Options within the time period required by the ASX Listing Rules.

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1.13 Bonus Issues

A holder of Seafarms Unlisted Options does not have the right to participate in bonus issues or new issues of securities offered to shareholders until Seafarms Shares are allotted to the holder pursuant to the exercise of the Seafarms Unlisted Options.

If Seafarms makes a bonus issue to existing shareholders and no Seafarms Share has been issued in respect of that Seafarms Unlisted Option before the record date for determining entitlements to the issue, then the number of Seafarms Shares over which that Seafarms Unlisted Option is exercisable will be increased in the manner permitted by the Listing Rules applying at the time of the bonus issue.

1.14 Reorganisation of Capital

In the event of a reorganisation (including, without limitation, consolidation, sub-division, reduction or return) of the capital of Seafarms, the rights of the holders of Seafarms Unlisted Options (including, without limitation, the number of Seafarms Unlisted Options to which the holder is entitled to and the Exercise Price) will be changed (as appropriate) in accordance with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

1.15 Pro Rata Issues

If Seafarms makes a pro-rata issue (other than a bonus issue) to existing shareholders and no Seafarms Share has been issued in respect of the Seafarms Unlisted Option before the record date for determining entitlements to the issue, then the Exercise Price will be changed in the manner permitted by the Listing Rules applying at the time of the pro-rata issue.

1.16 Registered Holders

Seafarms is entitled to treat the holder of a Seafarms Unlisted Option as the absolute holder of that Seafarms Unlisted Option and is not bound to recognise any equitable or other claim to, or interest in, that Seafarms Unlisted Option on the part of any person other than the holder, except as ordered by a court of competent jurisdiction or as required by statute.

Seafarms Group Limited

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Part B– 50 Million unlisted options

1.1 Entitlement

Each Seafarms Unlisted Option entitles the holder to subscribe for one Seafarms Share upon exercise of the Seafarms Unlisted Option and payment of the Exercise Price (defined below).

1.2 Exercise Price

Each Seafarms Unlisted Option is exercisable at A\$0.10 (**Exercise Price**).

1.3 Unlisted Options Expiry Date

- (a) The Unlisted Seafarms Options automatically expire at 5.00 pm AWST on the earlier of:
- (i) the date the AAM Loan plus accrued but unpaid interest is repaid; or
 - (ii) the date that is 3 years after the date of Legune Station Completion,
- (**Unlisted Options Expiry Date**) unless exercised or expired prior to that time.
- (b) Where Seafarms gives notice of an election to pay a Prepayment Amount by giving 60 days' notice (**Prepayment Notice Period**) in accordance with the AAM Loan Agreement, the number of options equal to the Resulting Amount divided by the Exercise Price (**Expiring Prepayment Options**) will automatically expire upon the end of that Prepayment Notice Period for that Prepayment.
- (c) If there is more than one holder of Seafarms Unlisted Options, the Seafarms Unlisted Options that comprise Expiring Prepayment Options will be as notified by AAM to Seafarms 5 Business Days before the end of the Prepayment Notice Period or failing notice, as determined by Seafarms in its absolute discretion.

1.4 No liability to holders

Seafarms is not liable to any holder of Seafarms Unlisted Options as a result of Seafarms determining which Seafarms Unlisted Options are Expiring Prepayment Options .

1.5 Certificate

Seafarms must give the holder of the Seafarms Unlisted Option a certificate (if the Seafarms Unlisted Options are certificated) or a holdings statement (if the Seafarms Unlisted Options are uncertificated) stating:

- (a) the number of Seafarms Unlisted Options issued to each holder;
- (b) the Exercise Price of the Seafarms Unlisted Options; and
- (c) the date of issue of the Seafarms Unlisted Options.

1.6 Transfer of Unlisted Options

- (a) Subject to **clauses 1.6(b) and (c)** of this **Part B** of **Schedule 1**, during the period from the date of this agreement and ending 12 months after the Legune Station Completion (**Escrow Period**), the holder must not transfer the Seafarms Unlisted Options (or any Seafarms Shares issued upon the exercise of the Seafarms Unlisted Options) without the consent of Seafarms.
- (b) AAM may transfer any Seafarms Unlisted Options after Financial Close occurs to an Affiliate of AAM provided:
- (i) the Seafarms Unlisted Options (and any Seafarms Shares issued upon the exercise of those Seafarms Unlisted Options) must be transferred back to AAM if the transferee ceases to be an affiliate of AAM during the Escrow Period;
 - (ii) the transfer can be made without any disclosure by Seafarms under the Corporations Act or otherwise; and
 - (iii) the transferee undertakes in favour of Seafarms to comply with (and ensuring any subsequent transferee complies with) the restrictions on transfer and requirements of AAM under this **clause 1.6** of this **Part B** of **Schedule 1**.

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- (c) AAM may transfer any Seafarms Shares issued on exercise of Seafarms Unlisted Options after Financial Close occurs provided:
 - (i) the transfer can be made without any disclosure by Seafarms under the Corporations Act or otherwise; and
 - (ii) if the Seafarms Shares are not freely tradeable without disclosure under the Corporations Act, the transferee undertakes in favour of Seafarms to comply with (and ensuring any subsequent transferee complies with) the restrictions on transfer and requirements of AAM under this clause 1.6 of this **Part B of Schedule 1**.
- (d) AAM may transfer any Seafarms Shares issued upon exercise of Seafarms Unlisted Options during the first 50 days of a Prepayment Notice Period up to the number of Seafarms Shares equal to the relevant Prepayment Amount divided by the Exercise Price, provided the transfer can be made without any disclosure by Seafarms under the Corporations Act or otherwise.
- (e) AAM and any transferee under **clause 1.6 of this Part B of Schedule 1** agrees to the application of a holding lock during the Escrow Period to Seafarms Shares acquired upon the exercise of the Seafarms Unlisted Options.
- (f) Seafarms agrees to release a holding lock:
 - (i) at the end of the Escrow Period;
 - (ii) to permit a transfer permitted under **clause 1.6 of this Part B of Schedule 1** and may reapply the holding lock following the transfer; and
 - (iii) where the Seafarms Shares can be transferred without any disclosure by Seafarms under the Corporations Act.

1.7 Exercise

- (a) Subject to early expiry of Seafarms Unlisted Options in accordance with **clause 1.3 of this Part B of Schedule 1**, the holder may exercise the Seafarms Unlisted Options at any time up to the Unlisted Options Expiry Date.
- (b) On each exercise, the holder must exercise the following number of Seafarms Unlisted Options:
 - (i) at least 10,000,000 Seafarms Unlisted Options; or
 - (ii) if exercising in the first 50 days of a Prepayment Notice Period, the lower of:
 - (A) 10,000,000 Seafarms Unlisted Options; and
 - (B) the relevant Prepayment Amount divided by the Exercise Price; or
 - (iii) if the holder holds a residual number of Seafarms Unlisted Options that is less than the amount determined under paragraph (i) or (ii) (as applicable), that residual number.

1.8 Notice of Exercise

- (a) The Seafarms Unlisted Options may only be exercised during the hours of 8.30 am to 5.00 pm AWST on a Business Day (**Business Hours**) by delivery to the registered office of Seafarms a notice in writing (**Exercise Notice**) stating the intention of the holder to:
 - (i) exercise all or a specified number of the Seafarms Unlisted Options; and
 - (ii) pay the Exercise Price in full for the exercise of each such Seafarms Unlisted Option.
- (b) A notice in writing received outside of Business Hours will be deemed received at the next opening of Business Hours.
- (c) The Exercise Notice must be accompanied by the certificate for the Seafarms Unlisted Options being exercised and a cheque made payable to Seafarms for the Exercise Price for the Seafarms Unlisted Options being exercised.
- (d) The Seafarms Unlisted Options will be deemed to have been exercised on the date the Exercise Notice is received or deemed to be received by Seafarms.

1.9 Issue of Seafarms Shares on Exercise

Seafarms will allot the Seafarms Shares to which the holder is entitled following exercise of Seafarms Unlisted Options.

1.10 Partial Exercise

The exercise of only some Seafarms Unlisted Options will not affect the rights of the holder to the balance of the Seafarms Unlisted Options held by them.

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If the holder of the Seafarms Unlisted Options exercises less than the total number of Seafarms Unlisted Options registered in the holder's name, Seafarms must issue the holder of Seafarms Unlisted Options a new certificate (if any) for the remaining number of Seafarms Unlisted Options held by the holder.

1.11 No Dividends

Seafarms Unlisted Options will not confer an entitlement to receive dividends declared and paid by Seafarms, nor an entitlement to vote at general meetings of Seafarms unless the holder of the Seafarms Unlisted Options has exercised the Seafarms Unlisted Options before the date of exercise of the Seafarms Unlisted Option and participates as a result of holding Seafarms Shares.

1.12 Seafarms Shares on Exercise

Subject to the terms of this Agreement, all Seafarms Shares issued on exercise of a Seafarms Unlisted Option will, from the date of issue:

- (a) rank equally in all respects (including, without limitation, rights relating to dividends) with other issued Seafarms Shares;
- (b) be issued credited as fully paid;
- (c) be duly authorised and issued by all necessary corporate action; and
- (d) be allotted and issued free from all liens, charges and encumbrances whether known about or not, including statutory and other pre-emption rights and any transfer restrictions.

1.13 Quotation

Seafarms will apply to ASX for official quotation of the Seafarms Shares issued upon exercise of Seafarms Unlisted Options within the time period required by the ASX Listing Rules.

1.14 Bonus Issues

A holder of Seafarms Unlisted Options does not have the right to participate in bonus issues or new issues of securities offered to shareholders until Seafarms Shares are allotted to the holder pursuant to the exercise of the Seafarms Unlisted Options.

If Seafarms makes a bonus issue to existing shareholders and no Seafarms Share has been issued in respect of that Seafarms Unlisted Option before the record date for determining entitlements to the issue, then the number of Seafarms Shares over which that Seafarms Unlisted Option is exercisable will be increased in the manner permitted by the Listing Rules applying at the time of the bonus issue.

1.15 Reorganisation of Capital

In the event of a reorganisation (including, without limitation, consolidation, sub-division, reduction or return) of the capital of Seafarms, the rights of the holders of Seafarms Unlisted Options (including, without limitation, the number of Seafarms Unlisted Options to which the holder is entitled to and the Exercise Price) will be changed (as appropriate) in accordance with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

1.16 Pro Rata Issues

If Seafarms makes a pro-rata issue (other than a bonus issue) to existing shareholders and no Seafarms Share has been issued in respect of the Seafarms Unlisted Option before the record date for determining entitlements to the issue, then the Exercise Price will be changed in the manner permitted by the Listing Rules applying at the time of the pro-rata issue.

1.17 Registered Holders

Seafarms is entitled to treat the holder of a Seafarms Unlisted Option as the absolute holder of that Seafarms Unlisted Option and is not bound to recognise any equitable or other claim to, or interest in, that Seafarms Unlisted Option on the part of any person other than the holder, except as ordered by a court of competent jurisdiction or as required by statute.

Seafarms Group Limited

SCHEDULE 2

KEY TERMS OF AVATAR FACILITY AND NEW LOAN ARRANGEMENTS

Comparison of Avatar Facility and New Loan Arrangements

Provision	Current terms of the Avatar Facility	New Loan Arrangements
Entitles involved	<p>The Company</p> <p>Avatar Finance</p> <p>Seafarm Queensland Pty Ltd (SQPL)</p> <p>Seafarm Hinchinbrook Pty Ltd (SHPL)</p>	No change.
Grant of Facility and Facility Limit	<p>Avatar Finance must advance principal amounts (of at least A\$100,000 or an integral multiple of that amount) as and when requested by the Company.</p> <p>The total amount of the outstanding principal must not exceed the facility limit of A\$15.2 million.</p>	No change.
Interest Rate	<p>For the Avatar Facility, the Company must pay interest on the outstanding principal at the interest rate set out below.</p> <p>The interest rate payable is the aggregate of:</p> <ul style="list-style-type: none"> the BBSY i.e. the rate percentage per annum which is equal to the average 'bid rate' quoted on the 'BBSY' page of the Reuters Monitor System at or about 10.00am (Sydney time) on that day for bank accepted bills of exchange of a tenor of 30 days; and a margin of 4% per annum. <p>Interest is payable on the last day of each month. Avatar Finance may capitalise any interest not paid on its due date on a monthly or any other periodic basis it determine. Interest is payable on capitalised interest.</p>	No change.
Line Fee	Line fee of 0.50% per annum is payable on the facility limit of \$15.2 million.	No change.
Repayment Date	The repayment date under the Avatar Facility is 15 March 2021.	The repayment date under the New Loan Arrangements is 15 September 2021.
Potential redraw	<p>Avatar Finance and the Company may agree for the Company to redraw funds under the facility after the 15 March 2021 until 15 March 2024 (or an earlier date agreed between the parties) on the same terms (except that no line fee will be payable after 15 March 2021).</p> <p>Avatar Finance's approval will be required for each drawdown after 15 March 2021 and the repayment date for each such drawdown may differ (subject to the final repayment date of 15 March 2024).</p>	No change.

Seafarms Group Limited

SCHEDULE 2

Provision	Current terms of the Avatar Facility	New Loan Arrangements
	Any redraw arrangements agreed between the parties will be capable of being terminated prior to 15 March 2024 by mutual agreement.	
Conversion Right	Not available.	<p>Avatar Finance may, at its election, convert any of the outstanding principal under the New Loan Arrangements into Shares at \$0.09 up to a maximum of \$12.2 million. Fees and interest payable to Avatar Finance are not convertible into Shares. The maximum number of Shares that may be issued to Avatar Finance under the New Loan Arrangements is 135,555,555.</p> <p>The Convertible Security is convertible in whole or in part. In the event that Avatar Finance elects to convert part of the amounts outstanding into Shares, the Company will issue a new certificate to Avatar Finance detailing the maximum number of Shares that the Convertible Security is convertible into.</p> <p>The Convertible Security is capable of being assigned, in whole or in part, at Avatar Finance's election.</p>
Prepayment	<p>The Company may prepay any part of the outstanding principal in multiples of \$100,000 on any Business Day ie any day other than a Saturday, Sunday or bank or public holiday in Perth, Western Australia.</p> <p>Any prepaid amount may be re-borrowed in accordance with the terms of the agreement.</p>	No change.
Negative pledge	The Company must not without the prior approval of Avatar Finance, mortgage, charge or grant any other form of security (including a security interest as defined in the <i>Personal Property Securities Act 2009</i> (Cth), other than a security interest created in the ordinary course of the Company's ordinary business) to any person.	No change.
Use of funds	The amounts advanced may only be used for working capital purposes or for repaying existing loans.	No change.
Compliance with applicable law	The Company must not pay any interest or fees under the agreement in breach of any applicable law, including any requirement to obtain shareholder approval under the Listing Rules. The Company must take all steps necessary to obtain the relevant regulatory approvals.	No change.
Events of Default	<p>Key Events of Default include:</p> <ul style="list-style-type: none"> Non-compliance: the Company not complying with any obligation under the agreement (including failure to pay any amount due for payment under the agreement) and that default is not rectified within 5 Business Days after its occurrence; Void document: the agreement is void, voidable or otherwise unenforceable by Avatar Finance or is 	No change.

Seafarms Group Limited

SCHEDULE 2

Provision	Current terms of the Avatar Facility	New Loan Arrangements
	<p>claimed to be so by the Company;</p> <ul style="list-style-type: none"> ▪ Authorisation ceasing: an authorisation from a government body necessary to enable (i) the Company to comply with its obligations under the agreement or to carry on its principal business or activity or; (ii) Avatar Finance to exercise its rights under the agreement is withheld or ceases to be in full force and effect; ▪ Material Adverse Effect: an event or series of events, including any material adverse change in the property or financial condition of the Company, occurs which is likely to have a material adverse effect on either the ability of the Company to comply with its obligations under the agreement or the effectiveness or enforceability of the agreement; or ▪ Insolvency: an insolvency event occurs in respect of the Company. <p>If any Event of Default occurs, Avatar Finance may at any time by notice to the Company (i) cancel the facility or any part of it as specified in the notice; and/ or (ii) make all amounts owing to Avatar Finance under the agreement payable on demand or immediately due for payment.</p>	
Change of control	<p>If there is a change in the persons who control, or if one or more persons acquire control of:</p> <ul style="list-style-type: none"> ▪ the Company; ▪ SQPL; or ▪ SHPL, <p>Without Avatar Finance's prior consent, Avatar Finance may at any time by notice to the Company: (i) cancel the facility or any part of it specified in the notice; and/ or (ii) make all amounts owing to Avatar Finance under the agreement payable on demand or immediately due for payment.</p>	No change.
Security and guarantee	<p>In addition to SQPL, SHPL, a wholly-owned subsidiary of the Company, grants security to Avatar Finance over all of its assets.</p> <p>In addition to SQPL, SHPL will also guarantee the payment to Avatar Finance of all amounts owing under the New Loan Arrangements.</p>	No change.
Indemnities	<p>The Company has indemnified Avatar Finance on demand against any liability, loss, cost or expense caused or contributed to be an 'Event of Default' (described above) or the exercise or attempted exercise of any right by Avatar Finance under this agreement. The provision regarding indemnity survive the termination of the agreement.</p> <p>Additionally:</p> <ul style="list-style-type: none"> ▪ SQPL indemnifies Avatar Finance against any liability or loss incurred by Avatar Finance if either 	No change.

Seafarms Group Limited

SCHEDULE 2

Provision	Current terms of the Avatar Facility	New Loan Arrangements
	<p>the Company or SQPL do not, are not obliged to, or are unable to, make payments to Avatar Finance in accordance with the terms of the arrangements; and</p> <ul style="list-style-type: none"> ▪ SHPL also provides an indemnity on similar terms to Avatar Finance. 	
Governing law and jurisdiction	<p>The arrangements are governed by and will be construed in accordance with the laws applicable in Western Australia and Avatar Finance and the Company irrevocably and unconditionally submit to the non-exclusive jurisdiction of the courts exercising jurisdiction in Western Australia.</p>	No change.

Annexure A

Independent Expert's Report



Seafarms Group Limited

Independent Expert's Report in Relation to the Amendment of
Terms of the Avatar Facility

Independent Expert's Report

10 July 2019

10 July 2019

The Independent Directors
Seafarms Group Limited
Level 11, 225 Georges Terrace
PERTH WA 6000

Dear Independent Directors,

INDEPENDENT EXPERT'S REPORT IN RELATION TO THE AMENDMENT OF TERMS OF THE AVATAR FACILITY ("NEW LOAN ARRANGEMENTS")

1. Introduction

At the 2018 Annual General Meeting of Seafarms Group Limited ("**SFG**" or the "**Company**"), the Company's Shareholders approved the provision of a loan facility to the Company from Avatar Finance Pty Ltd ("**Avatar Finance**") (the "**Avatar Facility**"). As at the date of this report ("**Report**"), the Avatar Facility had a limit of \$15.2 million of which \$13.4 million is currently drawn.

Avatar Finance is a company controlled by Mr Ian Trahar, a Director of SFG and a substantial shareholder of the Company (via related entities, including Gabor Holdings Pty Ltd). Avatar Finance and its associates hold a 23.05% shareholding in SFG.

Invicta Corporate Finance Pty Ltd ("**Invicta**") has been instructed that the Company and Avatar Finance are seeking to amend the terms of the Avatar Facility ("**New Loan Arrangements**") as follows:

- extending the repayment date by six (6) months, from 15 March 2021 to 15 September 2021 ("**Term Extension**"); and
- providing Avatar Finance with the right (at its election) to convert amounts owed by the Company into ordinary shares ("**Shares**") of the Company at a conversion price of \$0.09 per Share ("**Conversion Right**"). The proposal is for the Conversion Right to be exercisable:
 - from the date shareholder approval is granted to approve the New Loan Arrangements until the expiry of the term of the Avatar Facility;
 - in relation to a maximum amount of \$12.2 million ("**Maximum Conversion Amount**"), which represents the limit of the Avatar Facility less \$3 million (which is proposed to be converted into Shares under a separate resolution (for which Invicta has not been asked to opine on); and
 - subject to and conditional upon any necessary Shareholder approvals (for instance, under Chapter 6 of the Corporations Act 2001).

In addition to the above, SFG is also seeking Shareholder approval for Avatar Finance to subscribe for 33,333,333 new Shares at \$0.09 per Share. The \$3 million raised will be used to partly repay the Avatar Facility ("**Debt Conversion**"). The Debt Conversion will reduce the debt currently owed by SFG to Avatar Finance from approximately \$13.4 million to \$10.4 million.

2. Requirement for an Independent Expert's Report

This Report has been prepared by Invicta to assist the Independent Directors of SFG ("**Independent Directors**") in making their recommendation to the Non-Associated Shareholders in their consideration on whether to approve the New Loan Arrangements.

A detailed analysis of the regulatory requirements is set out in **Section 1.4** of this Report.

3. Summary of Conclusions

In our opinion, the New Loan Arrangements are **not fair** but **are on balance, reasonable** to the Non-Associated Shareholders of SFG.

Set out below is a summary of how we reached the conclusion above.

3.1 Fairness

In our opinion, the New Loan Arrangements are not fair.

Our assessment as to whether the New Loan Arrangements are "fair" under RG111 has been undertaken by comparing:

- the present value of the estimated actual Facility Payments to be made to Avatar Finance over the period from 15 March 2021 to 15 September 2021 ("**Extension Period**") plus the value of the Conversion Right

with

- the present value of the estimated market rate Facility Payments over the Extension Period ("**Market Rate Facility Payments**") plus the value of the consideration received for the Conversion Right.

The New Loan Arrangements will be fair if the former is equal to or less than the latter.

A summary of our assessment is set out in the following table:

Table 1: Fairness Assessment

	Note / Report Reference	As at 31 May 2019		
		Low	Mid-Point	High
Value of Actual Facility Payments	6.2	433,518	433,518	433,518
Market Value of the Conversion Right	6.3	3,720,115	4,549,726	5,343,124
Total Value of the Assets to be Provided	(a)	4,153,633	4,983,244	5,776,642
Value of Market Rate Facility Payments	6.2	506,854	580,191	653,527
Market Value of Consideration for the Conversion Right	6.4	-	-	-
Total Market Value of Consideration	(b)	506,854	580,191	653,527
Excess / (Deficiency) in Market Value of the Assets to be Provided over the Total Consideration	(b) - (a)	(3,646,779)	(4,403,053)	(5,123,115)
Is the Offer Fair?		No	No	No

Source: Invicta analysis

3.2 Reasonableness

In assessing the reasonableness of the New Loan Arrangements, we have considered the advantages and disadvantages of the New Loan Arrangements to the Non-Associated Shareholders. We have also considered the implications to Non-Associated Shareholders of not approving the New Loan Arrangements. A summary of this analysis is set out below.

3.2.1 Advantages & Disadvantages of the New Loan Arrangements

The following table sets out a summary of the advantages and disadvantages which we have considered as part of our analysis. Detailed commentary of the advantages and disadvantages listed below is set out in **Sections 6.6.1** and **6.6.2** of this Report:

Table 2: Advantages & Disadvantages of the New Loan Arrangements

Advantages	Disadvantages
<ul style="list-style-type: none"> • Extension of Repayment Date Should the New Loan Arrangements be approved, the term of the Avatar Facility will be extended by six (6) months (from 15 March 2021 to 15 September 2021) providing SFG with additional time to repay the Avatar Facility. The further time afforded to SFG in which to resolve its funding obligations, the more likely that favourable outcomes can be achieved for all Shareholders. • Ability to Access Favourable Debt Terms Further to the above, should the New Loan Arrangements be approved, SFG will have a further six (6) months to take advantage of loan terms which are more favourable to SFG (predominately in the form of a lower interest rate) compared to what they might obtain in the market generally. • Opportunity to Source Larger Facilities The extension of time to repay the Avatar Facility will allow SFG to continue to pursue the much-needed larger facilities required for Project Sea Dragon. • Ability to Access Additional Capital The New Loan Arrangements provide the potential for SFG to access additional capital from Avatar Finance at short notice (up to \$5.4 million in any six (6) month period). 	<ul style="list-style-type: none"> • Exercise at the Option of Avatar Finance Only The exercise of the Conversion Right is solely at the option of Avatar Finance and not SFG. This limitation means that access to additional capital offered by the New Loan Arrangement is not guaranteed. • Possible Dilution of Non-Associated Shareholders' Equity Interest As a result of the Conversion Right, there is a possibility that the equity interests of Non-Associated Shareholders will be reduced from 76.95% currently, to between 72.00% and 70.88%, depending on whether or not the Debt Conversion is also approved. In deciding whether or not they should approve the New Loan Arrangements, Non-Associated Shareholders should carefully consider whether or not this potential dilution cost is proportionate to the benefit of the Term Extension particularly in the case where funding for Project Sea Dragon is not secured and the Company seeks alternative proposals for the future of the Company. • Adverse Impact to Liquidity The potential increase in shareholding to Avatar and its associates may further reduce the liquidity of SFG's Shares (as a percentage of the total number of Shares on issue). However, all other things being equal, the total number of Shares trading should not be impacted.

Source: Invicta analysis.

3.2.2 Implications for Non-Associated Shareholders of Not Approving the New Loan Arrangements

In our opinion, based on information made available to us as at the date of this Report together with representations from management of SFG, in the event that the New Loan Arrangements are not approved, Non-Associated Shareholders of SFG would be subject to the following issues:

- under the current arrangements, SFG must repay the Avatar Facility by 15 March 2021. Whilst there may be a range of options available to SFG to facilitate this repayment (which may include new debt funding or an equity capital raising), as at the date of this Report, SFG do not have in place alternative funding to facilitate this repayment. In our view, this is not unusual given that the current repayment date is approximately 18 months away from the date of this Report.

If approved, the Term Extension provides the Company with any additional six (6) months to seek alternative funding arrangements or alternative proposals for the Company. Further, the Debt Conversion and possible exercise of the Conversion Right have the ability to significantly reduce the amount owing under the Avatar Facility;

- in the case that funding is not secured for Project Sea Dragon, SFG's bargaining position, in its exploration of alternative proposals for the future of the Company, may be hindered by the shorter term of the Avatar Facility; and
- given that the resolutions to approve the Debt Conversion and the New Loan Arrangements are not conditional upon one another, Non-Associated Shareholders have the option of approving the Debt Conversion and not approving the New Loan Arrangements.

In other words, Non-Associated Shareholders have the ability to obtain the benefits offered by the Debt Conversion and at the same time, not be burdened by the disadvantages (including the potential dilution of equity and voting interest upon the exercise of the Conversion Right) of the New Loan Arrangements predominately in the form of the Conversion Right, albeit they would also lose the benefit of the Term Extension.

3.2.3 Overall Reasonableness Conclusion

As set out in **Section 6.3**, we have assessed the fair market value of the Conversion Right to fall within the range of \$3.72 million to \$5.34 million, with a mid-point of \$4.55 million. Whilst the value of the Conversion Right could be considered excessive given that the benefits of the Conversion Right are in itself, not likely to have any material impact on the immediate cash needs facing the Company, we have also considered the following:

- the Company is currently operating in a short window of time in which it will have any bargaining power to renegotiate the terms of the Avatar Facility.

As detailed in **Section 1.2**, where funding for Project Sea Dragon is not secured within the next six (6) months, as at the date of this Report, there is uncertainty regarding the ongoing strategy for Project Sea Dragon and the future direction of the Company. In this scenario, SFG will need to reassess its strategy which may include continuing to fund the development of all or any stage of Project Sea Dragon including seeking any funding required for this

through equity (which may be dilutive to Shareholders) or if available, debt or convertible debt, seeking joint venture partners to assist with and/or fund the development of Project Sea Dragon, refocusing on the Company's operations in Cardwell, or some other strategy with the aim of maximising value for Shareholders and the Company.

Based on the above scenario, the additional six (6) months afforded by the Term Extension will assist the Independent Directors in achieving the best outcome for Shareholders, all matters considered.

Accordingly, it is our opinion and despite the relatively short period of time afforded by the Term Extension, that this benefit is a compelling reason for Non-Associated Shareholder to approve the New Loan Arrangements; and

- the benefit to Avatar Finance arising from the Conversion Right is reduced given that Avatar Finance has the ability in any case, to acquire up to 3% of the Shares of SFG in each six month period via the "creep" provisions of Section 611, Item 9 of the *Corporations Act*.

Based on the current capital structure of SFG, Avatar Finance could acquire a maximum of 59,161,619 Shares under the "creep" provisions. We note that this represents approximately 44% of the maximum number of Shares which could be obtained by Avatar Finance through the exercise of the Conversion Right. That is, Avatar Finance has access to a large portion of the benefit attributable to the Conversion Right whether or not the New Loan Arrangements are approved.

Having regard to the above, in our view, the New Loan Arrangements **are on balance, reasonable to the Non-Associated Shareholders**, particularly when taking into account the benefits that would arise from the Term Extension in the case that funding for Project Sea Dragon was not secured within the short term.

3.3 Assessment of Arm's Length Terms

Opinion

Based on the analysis set out in **Section 7** of this Report, in our opinion, the terms of the New Loan Arrangements are on balance, at arm's length terms.

Basis of opinion

In forming our opinion, we have had particular regard to the following factors:

- SFG currently has a lack of additional and/or alternative funding available to it. Further, the Company is currently operating in a short window of time in which it will have any bargaining power to renegotiate the terms of the Avatar Facility;
- the terms of the New Loan Arrangements fall within those observed for a number of comparable debt arrangements;
- the ability to repay the Avatar Facility and the impact that the additional six (6) months afforded by the Term Extension may have to achieving this goal; and

- the Independent Directors have exercised a degree of bargaining power and the fact that there is at this point no other meaningful options to SFG. In exercising this discretion, important considerations such as the lead broker requirements and the impact upon future capital raisings is also considered to be a key consideration.

We have also considered the value of the benefit of the Conversion Right to Avatar Finance. However on balance, we consider that the benefits afforded to SFG and the Non-Associated Shareholders are more important considerations than the value of the benefit to be received by Avatar Finance.

4. General Advice & Financial Services Guide

The conclusions and opinions expressed in this Report have been provided with consideration of Non-Associated Shareholders as a whole and does not consider the financial situation, objectives and needs of individual Non-Associated Shareholders. It is neither practical nor possible to assess the implications of the New Loan Arrangements on individual Non-Associated Shareholders as their individual circumstances are not known.

Individual Non-Associated Shareholders may place different emphasis on various aspects of the New Loan Arrangements to that adopted in this Report. Accordingly, individual Non-Associated Shareholders may reach different conclusions on whether or not the New Loan Arrangements are “fair” and “reasonable” in the case of their individual circumstances. Non-Associated Shareholders should seek their own independent professional advice to assist them in making a decision on whether to approve the New Loan Arrangements.

A financial services guide (“FSG”) is attached at **Appendix 1** of this Report.

5. Other Matters

5.1 Summary Only

This section sets out a summary of our Report, conclusions and opinions. You should read our full Report which sets out in full, the purpose, scope sources of information, basis of evaluation, limitations, analysis, conclusions and opinions

Yours faithfully,



Vince Fayad
Director



Nick Navarra
Director

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1. The Proposal

1.1 Background

On 11 March 2014 Seafarms Group Limited ("**SFG**" or the "**Company**") entered into an unsecured \$5.0 million credit facility agreement ("**Original Facility**") with Avatar Finance Pty Ltd ("**Avatar Finance**"). We note that Avatar Finance is a company controlled by Mr Ian Trahar, a director of SFG and a substantial shareholder of the Company (via related entities, including Gabor Holdings Pty Ltd (and associates)).

At the Company's 2016 Annual General Meeting, SFG's shareholders ("**Shareholders**") approved an increase in the Original Facility to \$8.5 million, repayable on 31 January 2019 and secured over all the assets of Seafarms Queensland Pty Ltd ("**SQPL**"), a subsidiary of SFG. Subsequently, the repayment date was extended to 15 March 2019.

On 28 February 2018, SFG and Avatar Finance entered into a \$3.7 million interim credit facility with a repayment date of 15 March 2019 ("**Interim Facility**"). The Interim Facility was amended on 14 May 2018 to increase the facility limit to \$6.7 million and extend the repayment date to 15 March 2020. The Interim Facility was granted on the basis that no interest or fees were payable and no security may be granted in relation to the Interim Facility unless and until permitted under ASX Listing Rule 10.1. As SFG did not obtain shareholder approval of, or a waiver of Listing Rule 10.1 in respect of, the Interim Facility, no interest or fees were paid by to Avatar Finance under the Interim Facility.

On 16 July 2018 Shareholders approved the following amendments to the Original Facility arrangements:

- increasing the limit of the Original Facility from \$8.5 million to \$15.2 million ("**Extended Facility Limit**") and rolling-over the Interim Facility into the Original Facility;
- extending the repayment date to 15 March 2021 ("**Extended Repayment Date**");
- extending the scope of the security to include all the assets of Seafarms Hinchinbrook Pty Ltd ("**SHPL**") ("**Security Extension Transaction**"); and
- including a provision that while all outstanding amounts under the Original Facility are to be repaid on the Extended Repayment Date:
 - Avatar Finance may, at its absolute discretion and subject to any conditions it deems fit, allow SFG to redraw the facility until 15 March 2024 ("**Final Repayment Date**") on the same terms with the exception that no line fee would be payable during this extended period; and
 - if Avatar Finance agrees to allow for the Original Facility to be redrawn after the Extended Repayment Date, SFG and Avatar Finance may agree to terminate the Facility prior to the Final Repayment Date.

For the purpose of this Report, the current facility between SFG and Avatar Finance is referred to as the "**Avatar Facility**".

Interest and fees have been paid by SFG to Avatar Finance in respect of the Avatar Facility from 11 March 2014 to date.

SFG and Avatar Finance are now seeking to amend the terms of the Avatar Facility ("**New Loan Arrangements**") as follows:

- extending the repayment date by six (6) months, from 15 March 2021 to 15 September 2021 ("**Term Extension**"); and
- providing Avatar Finance with the right (at its election) to convert any amounts outstanding under the New Loan Arrangements into fully paid ordinary shares of Seafarms ("**Shares**") at a conversion price of \$0.09 each, up to a maximum of \$12.2m ("**Conversion Right**"). It is noted that any line fees and interest payable to Avatar Finance are not convertible into Shares under the Conversion Right.

Pursuant to the Conversion Right SFG will, subject to Shareholder approval, issue a convertible security to Avatar Finance on the terms set out in Schedule 2 to the NOM by making amendments to the Facility to give effect to the Conversion Right. The Convertible Security is convertible and assignable in whole or in part, at Avatar Finance's election.

The maximum number of Shares that may be issued to Avatar Finance under the New Loan Arrangements will be 135,555,555 (i.e. \$12.2 million ÷ \$0.09).

- The proposal is for the Conversion Right to be exercisable:
 - from the date shareholder approval is granted to approve the New Loan Arrangements until the expiry of the term of the Facility;
 - in relation to a maximum amount of \$12.2 million ("**Maximum Conversion Amount**"), which represents the limit of the Facility less \$3 million (which is proposed to be converted into Shares under a separate resolution (for which Invicta has not been asked to provide an opinion)); and
 - subject to and conditional upon any necessary Shareholder approvals (for instance, under Chapter 6 of the Corporations Act 2001).

1.2 Negotiation Process & Additional Comments

Along with the proposed New Loan Arrangements, SFG is also seeking Shareholder approval for Avatar Finance to subscribe for 33,333,333 new Shares at \$0.09 per Share. The \$3 million raised will be used to partly repay the Avatar Facility ("**Debt Conversion**"). The Debt Conversion will reduce the debt currently owed by Seafarms to Avatar Finance from approximately \$13.4 million to \$10.4 million.

We have been advised the following by the Independent Directors of SFG in relation to the Debt Conversion and New Loan Arrangements:

- In April and May 2019, SFG completed a number of capital raisings (refer to **Section 4.7** for further details) to fund the continued development of Project Sea Dragon (further information regarding Project Sea Dragon can be found in **Section 4.3** of this Report) and other working capital needs.

- In order to assist with the successful completion of these capital raisings, the major shareholder of SFG (i.e. Mr Ian Trahar, who also controls Avatar Finance) was strongly encouraged by the Company's leading broker to the capital raisings, to convert a material portion of the outstanding amounts owing under the Avatar Facility as a vote of confidence in the Company. In Invicta's opinion, this was not an unreasonable request.
- As a result, Avatar Finance proposed to convert \$3m of the outstanding amounts owing under the Avatar Facility into equity of SFG which was accepted (subject to Shareholder approval) by the Board of the Company (i.e. the Debt Conversion).
- This triggered a renegotiation of the terms of the Avatar Facility resulting in the Term Extension and Conversion Right noting that the Debt Conversion was not conditional upon the approval of these changes.

- The Independent Directors of SFG have also indicated the following:

- the current strategy of SFG for the development of Project Sea Dragon is significantly dependant on the successful sourcing of significant funds from both private and Government sources within the short term (i.e. within six (6) months).

As at the date of this Report, discussions/negotiations with both private and Government entities remain ongoing and there remains a material uncertainty regarding the ability to secure such funding and the timing and terms of any funding which is subsequently secured;

- where such funding for Project Sea Dragon is not secured within the next six (6) months, the Independent Directors have indicated that the Company will need to reassess its strategy at that time. We have been advised that as at the date of this Report, the Board is not in a position to form a view (with any certainty) about what that strategy will be as it will be highly dependent on the success of its fundraising and development strategy over the next six (6) months and on the circumstances at that time;
- notwithstanding the above, the Independent Directors anticipate that a number of options will be considered with the ultimate aim to maximise the value of SFG, its assets and opportunities available to it. This may include continuing to fund the development of all or any stage of Project Sea Dragon including seeking any funding required for this through equity (which may be dilutive to Shareholders) or if available, debt or convertible debt, seeking joint venture partners to assist with and/or fund the development of Project Sea Dragon, refocusing on the Company's operations in Cardwell, or some other strategy with the aim of maximising value for Shareholders and the Company;
- noting the above, the Independent Directors believe that the Term Extension was essential to ensure that where alternative strategies needed to be considered, SFG would have sufficient time to properly consider and implement those strategies in a managed way and with the benefit of an improved negotiating position, so as to ensure the best outcome for Shareholders, all matters considered; and

- further, the Debt Conversion and Conversion Right, would also facilitate the Company achieving the best outcome for Shareholders due to the reduced debt levels and further availability of funds from the Avatar Facility.

In relation to the above, Invicta notes the following:

- In the case SFG is not successful in securing funding for Project Sea Dragon within the next six (6) months, it appears that the prospects for the Company will be subject to uncertainty (at least in the short term) which may have a negative impact on SFG's Share price which is currently trading at approximately \$0.09 per Share (i.e. the same price as the conversion price under the Conversion Right). In such a scenario, Avatar Finance is unlikely to exercise the Conversion Right and as such, any potential cash flow benefits directly associated with the Conversion Right would diminish.

Alternatively, should SFG be successful in securing funding and noting the significant level of such funding, the Maximum Conversion Amount of \$12.2m will be immaterial in comparison to the total funding required for Project Sea Dragon. Accordingly, it is our view that any potential cash flow benefits directly associated with the Conversion Right would be immaterial.

- Whilst the Debt Conversion will provide the Company with additional access to cash in the amount of \$3 million, we note that approval of the New Loan Arrangements are not conditional upon the Debt Conversion being approved.
- The Avatar Facility is currently due to be repaid on 15 March 2021. In the case SFG is not successful in securing funding for Project Sea Dragon, the Independent Directors have indicated that alternative steps will need to be taken to fund the repayment of the Avatar Facility which may, depending on the terms on which funding is obtained, be highly dilutive to Shareholders. In our view, this raises a number of issues including:
 - as noted above, where SFG does not secure funding for Project Sea Dragon, the Independent Directors have indicated that alternative strategies will need to be considered which may include continuing to fund the development of all or any stage of Project Sea Dragon including seeking any funding required for this through equity (which may be dilutive to Shareholders) or if available, debt or convertible debt, seeking joint venture partners to assist with and/or fund the development of Project Sea Dragon, refocusing on the Company's operations in Cardwell, or some other strategy with the aim of maximising value for Shareholders and the Company. We consider that the current repayment date of 15 March 2021 is a relatively short term within which SFG would be able to properly consider and implement those strategies in a managed way so as to ensure the best outcome for Shareholders, all matters considered; and
 - depending on the strategies adopted, the going concern assumption as it applies to the financial statements of SFG for the year ending 30 June 2020 may be jeopardised.

- Whilst the Term Extension will assist in mitigating these issues, due to the relatively short period, it may not have a significant impact on the final outcome for Shareholders where Project Sea Dragon does not proceed.

1.3 Impact of the Conversion Right on the Capital Structure of SFG

Based on the current capital structure of SFG, Avatar Finance's shareholders (including its associates) could increase their voting interests in SFG from 23.05% currently, to between 28.00% and 29.12% depending on whether or not the Debt Conversion and/or issue of Shares to Nissui (under item 5 of the NOM) are also approved. Refer to **Appendix 5** for an analysis of the impact of the Conversion Right upon the voting interest in SFG.

1.4 Regulatory Requirements

This Report has been prepared by Invicta to assist the Independent Directors of SFG in making their recommendation to the Non-Associated Shareholders in their consideration on whether to approve the New Loan Arrangements.

Our analysis of the various regulatory requirements possibly applicable to the New Loan Arrangements is set out below.

1.4.1 Corporations Act Requirements

Chapter 2E of the Corporations Act:

With some exemptions, Chapter 2E of the *Corporations Act 2001 (Cth)* ("**Corporations Act**") prohibits a public company from giving a financial benefit to a related party of the public company, without the prior approval of shareholders. Avatar Finance is considered to be a related party for the purposes of Chapter 2E.

In the present case, the New Loan Arrangements will result in the provision of a financial benefit to Avatar Finance in the form of:

- the payment of interest and fees; and
- the provision of the Conversion Right.

We have been advised that the Independent Directors consider that the New Loan Arrangements are on arm's length or less favourable terms to Avatar Finance and accordingly, are of the opinion that Shareholder approval under Chapter 2E is not required as it would fall within an exemption set out in Section 210 of the Corporations Act 2001.

Nevertheless, whilst SFG will not be seeking Shareholder approval for the purposes of Chapter 2E, Invicta has been requested to form an opinion in our Report as to whether or not the terms of the New Loan Arrangements are on arm's length or less favourable terms to Avatar Finance, in order to support the view of the Independent Directors.

Chapter 6 of the Corporations Act:

Section 606 of the Corporations Act prohibits (subject to certain exceptions) a person acquiring a relevant interest in voting securities of a listed entity if the acquisition would increase a person's voting power in the entity:

- from 20% or below to more than 20%; or
- from a starting point that is above 20% and below 90%.

There are certain exceptions, including if the acquisition is approved by shareholders under Section 611 Item 7 of the Corporations Act. We understand that SFG is not seeking Shareholder approval pursuant to Section 611 Item 7 in relation to the Conversion Right.

Accordingly, Avatar Finance will only be able to exercise its Conversion Right under what is known as the "creep" provisions of Section 611 Item 9 of the Corporations Act, whereby a shareholder holding at least 19.0% of the voting shares of a company may increase its percentage holding by 3% in any six (6) month period. Accordingly, SFG has not sought an Independent Expert's Report opining whether or not Conversion Right is "fair" and "reasonable" to the Shareholders not associated with Avatar Finance for the purposes of Section 611 Item 7 of the Corporations Act.

1.4.2 ASX Listing Rule Requirements

Australian Securities Exchange ("ASX") Listing Rule 10.1:

ASX Listing Rule 10.1 prohibits an entity from acquiring or disposing of a substantial asset from/to a related party without the prior approval of shareholders noting that:

- under Listing Rule 10.1.3, a related party includes an entity (including their associates) who have a relevant interest in at least 10% of the shares of a company; and
- under ASX Listing Rule 10.2, an asset is substantial if its value, or the value of the consideration for it, represents 5% or more of the equity interests of the entity.

In the present case, the financial benefits to be provided to Avatar Finance under the New Loan Arrangements require Shareholder approval.

Obtaining shareholders' approval under ASX Listing Rule 10.1 will allow SFG to continue paying interest or fees under the Avatar Facility when the repayment date is extended. The approval is required as the aggregate interest payments (including fees) ("**Facility Payments**"), the Conversion Right and the Shares to be issued pursuant to the Conversion Right, paid or payable to Avatar Finance exceed 5% or more of SFG's equity, and therefore the New Loan Arrangements will require shareholder approval to satisfy Listing Rule 10.1.

ASX Listing Rule 10.10.2 requires that a notice of meeting under ASX Listing Rule 10.1 must include a report on the New Loan Arrangements from an Independent Expert which states the experts' opinion as to whether the New Loan Arrangements are "fair" and "reasonable" to the Shareholders whose votes are not to be disregarded ("**Non-Associated Shareholders**").

ASX Listing Rule 10.11:

With some exceptions, ASX Listing Rule 10.11 prohibits an entity from issuing equity securities to a related party without the prior approval of shareholders.

In the present case, the issue of the Conversion Right to Avatar Finance requires approval by Shareholders for the purpose of ASX Listing Rule 10.11, as it gives Avatar Finance the right to, at its election, convert amounts under the Avatar Facility into Shares of the Company.

ASX Listing Rule 10.13 sets out the requirements of a notice of meeting under ASX Listing Rule 10.11. We note that whilst ASX Listing Rule does not require an IER to accompany a notice of meeting under ASX Listing Rule 10.11, SFG has elected to voluntarily commission an IER to assist Shareholders in assessing whether or not to approve the New Loan Arrangements.

2. Purpose, Scope & Information

2.1 Purpose

This Report has been prepared at the request of, and for the benefit of, the Independent Directors of SFG to assist them in fulfilling their obligations to provide Non-Associated Shareholders with full and proper disclosure to enable them to assess the merits of the New Loan Arrangements and to assist in making their recommendation to Non-Associated Shareholders on whether or not to approve the New Loan Arrangements.

This Report has also been prepared for the benefit of Non-Associated Shareholders and will accompany the Notice of Extraordinary General Meeting ("**NOM**") to be provided by SFG to Shareholders in relation to, amongst other matters, the New Loan Arrangements.

Invicta has provided its consent for this Report to accompany the NOM. Invicta is not responsible for the content of the NOM (except for this Report), or any other document or announcement associated with the New Loan Arrangements. Invicta acknowledges that this Report will be lodged with regulatory bodies including, but not limited to, the Australian Securities & Investments Commission ("**ASIC**") and the Australian Securities Exchange ("**ASX**").

Apart from that noted above, this Report has not been prepared for any other purpose or for use by any other person. Invicta does not accept any responsibility to any person other than the Independent Directors of SFG and Non-Associated Shareholders or for the use of this Report outside of the stated purpose. No Extract, quote or copy of this Report, in whole or in part, should be reproduced.

The decision to approve the New Loan Arrangements is a matter for individual Non-Associated Shareholders based on their expectations as to various factors including the value and future prospects of SFG, the terms of the New Loan Arrangements, market conditions and their particular circumstances including, but not limited to, risk profile, liquidity preferences, portfolio strategy, tax position and any other factor(s) which may be material to them. Non-Associated Shareholders should carefully consider the information contained in the NOM and this Report, as well as consulting with their professional advisors, in deciding what action they should take in relation to the New Loan Arrangements.

2.2 Scope

The scope of procedures we undertook in forming the opinions set out in this report were limited to those we believe were required in order to form our opinions.

2.2.1 Valuation

APES 225

This engagement has been undertaken in accordance with the requirements of Accounting Professional & Ethical Standards Board standard 225 Valuation Services ("**APES 225**").

This engagement is a "Valuation Engagement" as defined by APES 225 and is defined as follows:

"an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Member is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party

would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time.”

Fair Market Value

In assessing whether the New Loan Arrangements are “fair” and/or “reasonable”, it was necessary to determine the “fair market value” of the Facility Payments and the Conversion Right.

For the purpose of this Report, “fair market value” is defined as:

“the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious buyer, and a knowledgeable, willing, but not anxious vendor, acting at arm’s length”.

Special or Strategic Value

Special or strategic value represents an amount that a particular purchaser is willing to pay in excess of “fair market value” and reflects factors such as economies of scale, a reduction in competition, the securing of a source of supply or outlet for products and/or other synergies that are unique to the particular purchaser.

We **have not** considered special or strategic value in forming our opinion as to whether the New Loan Arrangements are “fair” to Non-Associated Shareholders as it is not normally considered is the assessment of “fair market value” as it relates to the individual circumstances of a special purchaser.

Financial Position of SFG

In arriving at our conclusions and in accordance with RG 111, Non-Associated Shareholders should note that in assessing whether or not the New Loan Arrangements are “fair”, we have not adjusted our valuations for the financial distress that may be experienced by SFG if the New Loan Arrangements are not approved. In other words, we have undertaken our valuations assuming a knowledgeable and willing, but not anxious, seller that is able to consider alternative options.

We have however, considered this outcome in assessing the reasonableness of the New Loan Arrangements and whether or not the New Loan Arrangements are on arm’s length terms.

2.2.2 Valuation Date

The valuation opinions set out in this Report are made as at 31 May 2019 (“**Valuation Date**”).

2.2.3 Current Market Conditions

The opinions expressed in this Report are based on economic, market and other conditions prevailing as at the Valuation date.

2.3 Sources of Information

Our Report has been prepared based on the information referred to in **Appendix 3**.

2.4 Reliance on Information

The statements and opinions set out in this Report have been provided in good faith and are based on Invicta's consideration and assessment of the information set out in **Appendix 3**. Invicta has no reason to believe that the information set out in **Appendix 3** is misleading, not reliable or not complete, nor does Invicta have any reason to believe that any material facts have been withheld.

The information set out in **Appendix 3** has been evaluated by Invicta through analysis, inquiry and review including an analysis of financial information and accounting records. These procedures did not include verification work nor constitute an audit or review in accordance with Australian Auditing and Assurance Standards. Consequently, our procedures do not enable us to become aware of all significant matters that might be identified in an audit or review and as such, we do not express an audit or review opinion.

It was not Invicta's role to undertake, and Invicta has not undertaken, any commercial, technical, financial, legal, taxation or other due diligence, or other similar investigative activities in respect of the New Loan Arrangements. Invicta understands that SFG has been advised by legal, accounting and other appropriate advisors in relation to such matters, as necessary. Invicta does not provide any warranty or guarantee as to the existence, extent, adequacy, effectiveness and/or completeness of any due diligence or other similar investigative activities by SFG and/or its advisors.

An opinion as to whether a corporate transaction is "fair and reasonable", "not fair but reasonable" or "not fair and not reasonable" is in the nature of an overall opinion, rather than an audit or detailed investigation and it is in this context that Invicta advises that it is not in a position, nor is it practical for Invicta, to undertake a detailed investigation or extensive verification exercise.

It is understood that, except where noted, the accounting information provided to Invicta was prepared in accordance with generally accepted accounting principles (including adoption of Australian Equivalents to International Financial Reporting Standards) and prepared in a manner consistent with the method of accounting used by SFG in previous accounting periods.

In accordance with normal practice, prior to finalising the Report, we confirmed facts with SFG. This was undertaken by means of providing SFG with a draft report. Invicta obtained a representation letter from SFG confirming that, to the best knowledge of SFG and its Directors, the information provided to, and relied upon by Invicta was complete and accurate, and that no significant information essential to the Report was withheld.

SFG has agreed to indemnify Invicta and its directors, employees, officers and agents (as applicable) against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided to Invicta by SFG, which is false and misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

2.4.1 Historical Financial Information

Our Report adopts historical financial information up to the reviewed consolidated financial statements of SFG for the six months ended 31 December 2018.

We have also considered unaudited financial information of SFG provided by management of the Company for the period up to 30 April 2019 (“**Management Accounts**”). In order to satisfy ourselves on the use of the unaudited financial information, we have:

- reviewed and compared to the financial information subject to review as at 31 December 2018; and
- conducted our own review of key balance sheet information.

The above does not constitute an audit. However, based on the above limited review, nothing has come to our attention which would suggest that the financial information included in the Management Accounts should not be relied upon.

2.4.2 Prospective Financial Information

In preparing this Report, Invicta considered and has relied upon certain prospective financial information in relation to SFG (“**Prospective Financial Information**”).

Invicta understands and has assumed that the Prospective Financial Information:

- has been prepared fairly and honestly, on a reasonable basis and is based on the best information available to the management and Directors of SFG and within the practical constraints and limitations of such information; and
- does not reflect any material bias either positive or negative.

We understand that the Prospective Financial Information has been based on assumptions concerning future events and market conditions and while prepared with due care and attention and the relevant directors consider the assumptions to be reasonable, future events and conditions are not accurately predictable and the assumptions and outcomes are subject to significant uncertainties. Actual results are likely to vary from the Prospective Financial Information and any variation may be materially positive or negative.

Accordingly, neither the Directors of SFG nor Invicta guarantee that the Prospective Financial Information or any other prospective statement contained in the Report or otherwise relied upon will be achieved.

Invicta has not been engaged to undertake an independent review of the Prospective Financial Information in accordance with Australian Auditing or Assurance Standards and has not undertaken such a review. However, in order to disclose and to rely on the Prospective Financial Information in this Report, Invicta is required to satisfy itself that the Prospective Financial Information has been prepared on a reasonable basis.

2.5 Other Assumptions

In preparing this Report and forming our opinion, Invicta has made certain assumptions including, but not limited to, the following:

- the New Loan Arrangements will be implemented as outlined in the NOM issued by SFG and that the legal mechanisms proposed to implement the New Loan Arrangements are valid and effective;

- information relating to the New Loan Arrangement that is distributed to Non-Associated Shareholders (including, but not limited to, the NOM), or any information issued by a statutory body is complete, accurate and fairly presented in all material respects;
- other than as publicly disclosed, all relevant parties have complied, and will continue to comply, with all applicable laws and regulations and existing contracts are in good standing, and will remain so and there is no alleged or actual material breach of the same or dispute in relation thereto (including, but not limited to, legal proceedings), and that there has been no formal or informal indication that any relevant party wishes to terminate or materially renegotiate any aspect of any existing contract, agreement or material understanding;
- that matters such as retention of key personnel and ownership of assets are in good standing, and will remain so; and
- any public information used in relation to SFG and any other publicly available information relied on by us, is accurate and not misleading and up to date.

3. Basis of Assessment

3.1 Approach

In preparing this Report, we have considered guidance provided by ASIC in particular, ASIC Regulatory Guide 111 *Content of Expert Reports* (“**RG111**”), ASIC Regulatory Guide 112 *Independence of Experts* (“**RG112**”) and ASIC Regulatory Guide 76 *Related Party Transactions* (“**RG76**”).

In arriving at our opinion, we have assessed the terms of the New Loan Arrangements as outlined in the body of this Report. We have considered:

- how the value of the assets being provided compares to the value of the consideration to be paid for the assets;
- the likelihood of an alternative offer being made to SFG;
- other factors which we consider to be relevant to the Non-Associated Shareholders in their assessment of the New Loan Arrangements; and
- the position of Non-Associated Shareholders should the New Loan Arrangements not be approved.

Initially, we have considered the two aspects of the New Loan Arrangements, being the Term Extension and the Conversion Right, separately.

In the context of a transaction requiring approval under ASX Listing Rule 10, RG 111 indicates that an expert should analyse the New Loan Arrangements with reference to two distinct criteria:

- is the Proposal “fair” and
- is the Proposal “reasonable”.

The following sections provide an overview of how each of these criteria are assessed.

3.1.1 Fair

Paragraph 57 of RG111 provides that a proposed related party transaction is ‘fair’ if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length.

Accordingly, in our view, the New Loan Arrangements will be “fair” if:

- the market value of the asset(s) to be disposed by SFG to the related party Avatar Finance;
- is equal to or less than:
- the market value of the benefits to be received by SFG in return.

In **Section 6.5**, we have assessed the fairness of the New Loan Arrangements by comparing:

- the present value of the actual estimated Facility Payments to be made to Avatar Finance over the period from 15 March 2021 to 15 September 2021 (“**Extension Period**”) plus the value of the Conversion Right;

with

- the present value of the estimated market rate Facility Payments over the Extension Period (“**Market Rate Facility Payments**”) plus the value of the consideration received for the Conversion Right.

3.1.2 Reasonable

As set out in paragraph 12 of RG111, the New Loan Arrangements will be “reasonable” if they are “fair”. Where the New Loan Arrangements are “not fair”, they may also be “reasonable” where the expert believes there are sufficient reasons for Non-Associated Shareholders to approve the New Loan Arrangements.

In the context of a related party transaction, RG 111.62 indicates that when deciding whether a proposed transaction is ‘reasonable’, factors that an expert might consider include:

- the financial situation and solvency of the entity, including the factors set out in RG 111.26, if the consideration for the financial benefit is cash;
- RG 111.26 indicates that an issue of shares for cash may have other benefits that should be considered in deciding whether the transaction is reasonable. These benefits may include:
 - the provision of new capital to exploit business opportunities;
 - a reduction in debt and interest payments; or
 - a needed injection of working capital.
- opportunity costs;
- the alternative options available to the entity and the likelihood of those options occurring;
- the entity’s bargaining position;
- whether there is selective treatment of any security holder, particularly the related party;
- any special value of the transaction to the purchaser, such as particular technology or the potential to write off outstanding loans from the target; and
- the liquidity of the market in the entity’s securities.

4. Profile of Seafarms Group Limited

4.1 Background

SFG is an ASX listed Australian agri-food company, with a current market capitalisation of approximately \$177 million as at 31 May 2019. According to SFG, the Company is currently Australia's largest producer of farmed prawns, with significant operational aquaculture expertise.

An overview of SFG's operations is set out in **Sections 4.2** and **4.3** below.

4.2 Queensland Operations

SFG's current Queensland operations (Cardwell) represents Australia's largest producer of farmed prawns under the well-known Crystal Bay brand (producing Banana and Black Tiger Prawns). The operations have been operational since 1988 and currently produce approximately +1,700 tonnes pa. The Queensland operations are a fully vertically integrated facility and have provided the Company with a platform to develop and test best practices for its planned industrial scale Project Sea Dragon ("**Project Sea Dragon**") operation. According to the 2018 Directors Report "The Queensland operations are primarily intended to demonstrate the fundamental operating concepts for Project Sea Dragon and provide the platform for the core of the workforce required for the much larger greenfield project."

4.3 Project Sea Dragon

Project Sea Dragon is a world class industrial scale aquaculture project to be developed and constructed in stages primarily located at Legune Station in the Northern Territory. Following eight years of development and approximately \$100 million of investment, SFG has obtained the material regulatory approvals required for Stage 1 of the development, meaning that Project Sea Dragon is shovel ready.

SFG continues to rapidly advance its world class Project Sea Dragon that according to SFG represents:

- an industrial scale, fully vertically integrated, sustainable, land-based shrimp/prawn aquaculture project in Northern Australia;
- one of the world's largest aquaculture projects;
- one of the most bio secure aquaculture projects in the world – very isolated no other aquaculture projects;
- complete end to end control of operations to ensure a multidisciplinary approach to maximise biosecurity and process protocols/controls;
- global leadership in black tiger prawn genetics/breeding;
- the only producer from a developed country offering a significant volume of superior shrimp product; and
- a new billion dollar plus export industry for northern Australia.

We have been instructed that the funds raised under the recent Placement and SPP will be applied to:

- further expansion of Exmouth Founder Stock Centre to enable G3 (third generation) Specific Pathogen Free animals;
- commencing the initial development of the Bynoe Harbour Broodstock Maturation Centre;
- undertaking required capital works on Legune Station which are beneficial for Project Sea Dragon and agricultural operations on the station, as agreed in the Sublease and Cooperation Agreement;
- obtaining/commissioning the engineering and detailed design and procurement packages for the current (2019) and next (2020) dry seasons;
- finalising processing plant design and associated tender documents;
- Australian Research Council research commitments;
- facilitating the project funding process including negotiating with equity and debt funding participants and adviser costs; and
- meeting SFG's ongoing contractual, regulatory and environmental compliance commitments relating to Project Sea Dragon and for the costs of the capital raising and general working capital requirements.

4.4 Demerger of CO2 Australia Group

At the extraordinary general meeting held on 16 July 2018, SFG received shareholder approval for the demerger of its environmental services business, CO2 Australia Group ("**CO2**") (the "**Demerger**"). SFG proposed to implement the Demerger by undertaking an equal capital reduction through the pro-rata in specie distribution of all shares in CO2 to shareholders of SFG registered on the record date. SFG advised the ASX that the pro rata in specie distribution of its shares in CO2 to SFG's shareholders was completed on 23 July 2018.

4.5 Directors

As at the date of this Report, SFG had the following Directors:

Table 3: Directors of SFG

Name & Position	Details
Ian Trahar B.EC, MBA Executive Chairman and Director Appointed 12 November 2001	Mr Trahar has a resources and finance background and has established and been involved in a number of businesses in the resources industry. He holds an MBA from the University of Melbourne.

Name & Position	Details
Dr Chris Mitchell PHD, BSC (HONS) Executive Director Appointed 27 July 2005	<p>Dr Mitchell has a PhD in marine biology from the University of Melbourne. He is an Adjunct Professor at the School of Environmental Science Murdoch University and has had a 20 year involvement in Australian and International climate change research working with CSIRO.</p> <p>Dr Mitchell was the Foundation Director of the Centre for Australian Weather and Climate Research.</p>
Harley Whitcombe B.BUS CPA Director, CFO, Company Secretary Appointed 12 November 2001	<p>Mr Whitcombe has had many years of commercial and finance experience, providing company secretarial services to publicly-listed companies.</p> <p>He is a CPA certified accountant.</p>
Mr Paul Favretto LL.B Non-Executive Director Appointed 18 December 2007	<p>Paul Favretto brings more than 20 years of financial services experience to Commodities Group. Paul's previous roles include senior management positions at Citibank Limited and Bankers Trust Australia Limited, and Managing Director of Avatar Industries Limited and KLZ Limited.</p> <p>Also Non-Executive Director of Ranger Minerals Limited from 1994 to 2002, Paul's special responsibilities include Chairman of the Remuneration Committee and Member of the Audit Committee.</p>
Hisami Sakai (Naoto Sato – alternate for Hisami Sakai) Non-Executive Director Nissui representative Appointed 7 August 2018	<p>On 7 August 2018 Mr Hisami Sakai was appointed as a Non-Executive Director of Seafarms Group Limited as Nippon Suisan Kaisha Limited's representative. Naoto Sato is the alternate representative for Hisami Sakai.</p>

Source: Management of SFG; Website of SFG accessed 22 May 2019.

4.6 Historical Financial Information

4.6.1 Historical Income Statements

Set out below are the historical consolidated income statements of SFG for the nine (9) months to 30 June 2016, the years ended 30 June 2017 and 2018 and the half year ended 31 December 2018:

Table 4: Historical Consolidated Income Statements

	9 Months to 30 June 2016 (Audited)	Year Ended 30 June		6 Months to 31 December 2018 (Reviewed)
		2017 (Audited)	2018 (Audited)	
Revenue				
Revenue from continuing operations	23,529,286	35,739,152	35,051,906	17,933,884
Other gains / (losses)	449,814	(368,179)	318,115	-
Fair value adjustment of biological assets	(262,310)	944,497	593,507	(296,802)
Fair value adjustment of finished goods	(361,358)	430,617	(842,994)	220,593
Total Revenue	23,355,432	36,746,087	35,120,534	17,857,675
Expenses				
Cost of goods sold	(20,228,460)	(26,681,625)	(26,503,732)	(16,862,710)
Plantation costs	(1,603,972)	(2,246,329)	(2,469,798)	-
Employee benefits expense	(4,436,370)	(6,111,125)	(7,523,661)	(2,856,935)
Consulting expense	(4,469,263)	(2,066,813)	(2,343,888)	(2,580,048)
Travel	(1,223,014)	(1,943,848)	(2,338,788)	(1,141,281)
Rent	(314,034)	(433,658)	(430,673)	(121,753)
Legal fees	(287,430)	(234,612)	(2,188,895)	(1,474,209)
Other expenses	(1,203,524)	(1,719,257)	(1,906,508)	(1,150,263)
Depreciation and amortisation expense	(1,412,484)	(1,816,029)	(1,948,524)	(929,558)
Marketing	(109,604)	(134,755)	(201,548)	(116,511)
Insurance	(200,633)	(256,875)	(256,170)	(140,129)
Impairment of PPE	(905,461)	-	-	-
Impairment of intangible assets	(267,886)	-	(1,016,448)	-
Research and development	(4,981,817)	(5,485,259)	(4,919,002)	(3,396,613)
Finance costs	(470,768)	(1,010,193)	(1,077,166)	(925,640)
Share of profit from associates	23,765	(111,875)	60,560	-
Loss from continuing operations before tax	(18,735,523)	(13,506,166)	(19,943,707)	(13,837,975)
Income tax benefit / (expense)	375,204	(6,269,297)	(3,576)	-
Loss from continuing operations after tax	(18,360,319)	(19,775,463)	(19,947,283)	(13,837,975)
Other comprehensive income	-	-	-	595,824
Total comprehensive loss for the year	(18,360,319)	(19,775,463)	(19,947,283)	(13,242,151)

Source: Annual Reports of SFG for the years ended 30 June 2017 and 2018; Interim Financial Report of SFG for the six months ended 31 December 2018; Invicta analysis.

In relation to the above, we note the following:

- the overall financial performance during the first half of the 2019 financial year shows a loss in the order of \$13.2 million, reflecting a profit from the Queensland aquaculture operations offset by the cost of fully expensing all of Project Sea Dragon development costs;
- the loss was also affected by the lower than expected 2018 Christmas crop at SFG's Queensland operations which was caused by the late delivery of broodstock and associated delays to stocking, resulting in lower yields and smaller animals. This issue further highlights the importance of the Project Sea Dragon domestication/genetic breeding program which removes the need to catch wild broodstock – a major biosecurity risk;
- the financial outcome for SFG continues to be heavily influenced by the high level of expensed investment in developing Project Sea Dragon, ongoing training of staff for Project Sea Dragon and capital invested in the Company's Queensland operations (collectively approximately \$100 million in total to date) which are primarily intended to demonstrate the fundamental operating concepts for Project Sea Dragon; and
- the Company has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to their operations and effective for the current half-year, including;
 - AASB 15 Revenue from contracts with customers; and
 - AASB 9 Financial instruments.

According to SFG, the adoption of these new standards has not had a material impact on the accounts and balances impacted by these new standards.

4.6.2 Historical Balance Sheets

Set out below are the historical consolidated balance sheets of SFG as at 30 June 2016, 2017 and 2018, and as at 31 December 2018:

Table 5: Historical Consolidated Balance Sheets

	As at 30 June			As at
	2016 (Audited)	2017 (Audited)	2018 (Audited)	31 December 2018 (Reviewed)
Current Assets				
Cash & Cash Equivalents	8,283,532	11,874,838	4,139,603	8,523,900
Trade & Other Receivables	1,558,373	1,597,295	3,962,346	7,117,217
Inventories	6,366,517	7,708,673	7,294,677	4,771,493
Current tax receivables	15,786	15,786	-	-
Other Current Assets	540,715	1,003,078	1,049,691	654,189
Accrued income	791,890	912,701	939,061	-
Biological assets	3,325,639	4,530,997	5,781,325	4,942,100
Other current financial assets	186,829	-	-	-
Total Current Assets	21,069,281	27,643,368	23,166,703	26,008,899
Non-Current Assets				
Inventories	184,923	184,923	184,923	-
Investments accounted for using the equity method	499,109	348,708	409,268	-
Property, plant and equipment	18,266,194	19,302,139	20,130,079	42,960,491
Deferred tax assets	6,269,297	-	-	-
Intangible assets	3,401,019	3,520,929	2,419,027	1,207,187
Other non-current assets	-	-	-	5,017,641
Total Non-Current Assets	28,620,542	23,356,699	23,143,297	49,185,319
TOTAL ASSETS	49,689,823	51,000,067	46,310,000	75,194,218
Current Liabilities				
Trade and other payables	6,984,506	6,026,605	8,890,367	5,228,252
Borrowings	1,271,668	447,186	2,958,701	4,887,636
Provisions	1,339,549	1,433,910	1,520,318	1,164,447
Deferred revenue	1,072,912	1,848,392	1,807,140	-
Total Current Liabilities	10,668,635	9,756,093	15,176,526	11,280,335
Non-Current Liabilities				
Borrowings	8,821,666	8,223,763	15,047,233	33,473,376
Provisions	196,914	301,591	243,438	174,803
Total Non-Current Liabilities	9,018,580	8,525,354	15,290,671	33,648,179
TOTAL LIABILITIES	19,687,215	18,281,447	30,467,197	44,928,514
NET ASSETS	30,002,608	32,718,620	15,842,803	30,265,704
Equity				
Contributed equity	79,021,152	101,512,627	103,674,332	128,653,838
Reserves	5,252,773	5,252,773	6,162,534	11,472,052
Retained earnings	(54,271,317)	(74,046,780)	(93,994,063)	(109,860,186)
TOTAL EQUITY	30,002,608	32,718,620	15,842,803	30,265,704

Source: Annual Reports of SFG for the years ended 30 June 2017 and 2018; Interim Financial Report of SFG for the six months ended 31 December 2018; Invicta analysis.

In relation to the above, we note the following:

- cash and cash equivalents amounted to \$8.5 million as at 31 December 2018, with the increase from 30 June 2018 partially reflecting capital raisings undertaken during the period 1 July 2018 to 31 December 2018;
- trade and other receivables as at 31 December 2018 increased to \$7.1 million;
- current inventories decreased to \$4.8 million as at 31 December 2018;
- biological assets of \$4.9 million as at 31 December 2018 relates to prawn livestock valued at fair value;
- property, plant and equipment of \$43.0 million as at 31 December 2018 comprised namely leasehold land of \$21.5 million, plant and equipment of \$12.3 million, ponds of \$5.2 million, freehold land of \$2.0 million, freehold buildings of \$1.6 million, leased plant and equipment of \$0.7 million and leasehold improvements of \$0.2 million;
- other non-current assets of \$5.0 million as at 31 December 2018 relates to a loan to AAM Licensees Pty Ltd provided on 12 December 2018, at an interest rate of 7% per annum, calculated on a daily basis, and due to be repaid on the 11 December 2021. The purpose of the loan is allow a Sub-lease and Co-operation Agreement to provide SFG with access to the Legune Station for the construction, development of the whole Project Sea Dragon (10,000 hectares). Further details are set out in **Section 4.7.6 below** below;
- current liabilities have decreased by from \$15.1 million to \$11.3 million, partly reflecting a repayment of creditors and the impact of the Demerger; and
- as at 31 December 2018, non-current borrowings amounted to \$33.5 million relating to:
 - new leased land under a finance lease effective 12 December 2018 (\$16.75 million);
 - loans from related parties (\$11.7 million); and
 - other non-current liabilities of \$5.023 million as at 31 December 2018 relating to a secured loan from AAM Licensees Pty Ltd provided on 12 December 2018, at an interest rate of 2% per annum above the benchmark rate quoted from time to time by the Borrower's principal banker on overdraft accommodation in excess of \$100,000, and is due to be repaid on 11 December 2021. SFG has the option to settle up to 50% of interest accruing on the loan with SFG Shares. The average interest rate on the loan during the period to 31 December 2018 was 9.12%. We infer that this loan was part of the arrangements surrounding the Sublease and Co-operation Agreement with PDT announced on 18 October 2018, unlisted options under the arrangements being issued on 12 December 2018 to LPIG Pty Ltd, an entity related to the AAM Investment Group (refer to **Section 4.7.6 below**).

4.6.3 Historical Statements of Cash Flows

Set out below are the historical consolidated statements of cash flows of SFG for the nine (9) months ended 30 June 2016, the years ended 30 June 2017 and 2018, and the half year ended 31 December 2019:

Table 6: Historical Consolidated Statements of Cash Flows

	9 Months to 30 June 2016 (Audited)	Year Ended 30 June		6 Months to 31 December 2018 (Reviewed)
		2017 (Audited)	2018 (Audited)	
Cash Flows from Operating Activities				
Receipts from customers	24,941,098	36,679,784	32,602,213	13,892,330
Payments to suppliers and employees	(34,654,732)	(50,481,890)	(47,995,748)	(30,006,120)
Interest paid	(470,768)	(1,010,193)	(1,077,166)	(925,640)
Net Cash Used Operating Activities	(10,184,402)	(14,812,299)	(16,470,701)	(17,039,430)
Cash Flows from Investing Activities				
Payments for Property, Plant & Equipment	(1,153,848)	(2,817,666)	(2,794,033)	(2,252,870)
Proceeds from other financial assets	(53,442)	313,190	-	-
Loans to related parties	(74,190)	-	-	-
Proceeds sale of non-current assets held for sale	1,280,000	-	-	-
Proceeds sale of available-for-sale financial	2,067	-	-	-
Interest received	72,888	62,754	32,809	45,884
Net Cash Used in Investing Activities	73,475	(2,441,722)	(2,761,224)	(2,206,986)
Cash Flows from Financing Activities				
Proceeds for issues of securities	9,421,234	22,491,475	2,161,705	24,979,506
Proceeds / (repayments) of borrowings	(3,058,000)	(1,646,148)	9,334,985	(1,348,793)
Net Cash Provided by Financing Activities	6,363,234	20,845,327	11,496,690	23,630,713
Net Increase / (Decrease) in Cash Held	(3,747,693)	3,591,306	(7,735,235)	4,384,297
Cash & Cash Equivalents at the Beginning of the Period	12,031,225	8,283,532	11,874,838	4,139,603
Cash & Cash Equivalents at the End of the Period	8,283,532	11,874,838	4,139,603	8,523,900

Source: Annual Reports of SFG for the years ended 30 June 2017 and 2018; Interim Financial Report of SFG for the six months ended 31 December 2018; Invicta analysis.

In relation to the above, we note the following:

- SFG has consistently generated negative operating and investing cash flows relating to continued development of Project Sea Dragon; and
- on 7 August 2018 SFG issued 249,877,657 ordinary shares to Nippon Suisan Kaisha Limited after shareholder approval was received on 16 July 2018 (2018: 41,666,666), and 276,446 options were exercised on 5 November 2018, raising \$24,979,506 (2018: \$2,190,145) net of \$35,075 (2018: \$314,856) issue costs.

4.7 Capital Structure

4.7.1 Overview

As at the date of this Report, SFG had the following securities on issue:

Table 7: SFG Securities on Issue

Security Type / Class	Number on Issue
Ordinary Shares	1,972,053,969
Unlisted Options	120,320,622
Listed Options	154,144,416
Convertible Preference Shares	30,150,189
Total Securities if all Exercised/Converted	2,276,669,196

^ Includes 249,919,097 Ordinary Shares under voluntary escrow

Source: Appendix 3B lodged by SFG on 29 May 2019

Further details regarding each of the above classes of securities can be found in the following sections.

4.7.2 Ordinary Shares on Issue

As at the date of this Report, SFG had 1,972,053,969 ordinary shares on issue. Set out below are details of the top five (5) ordinary shareholders of SFG as at the date of this Report:

Table 8: Top Five (5) Ordinary Shareholders

	#	%
Gabor Holdings Pty Ltd	454,557,889	23.05%
Nippon Suisan Kaisha Ltd	283,230,208	14.36%
UBS Nominees Pty Ltd	69,084,715	3.50%
JB Were (NZ) Nominees Limited	65,793,651	3.34%
Alocasia Pty Limited	62,021,661	3.15%
Total Top 5 Ordinary Shareholders	934,688,124	47.40%
Other Ordinary Shareholders	1,037,365,845	52.60%
Total Ordinary Shares	1,972,053,969	100.00%

Source: Management of SFG; Invicta analysis

As can be seen from the table above, entities related to Avatar Finance (i.e. captured as Gabor Holdings Pty Ltd in the table above) hold a combined 23.05% interest in all of the ordinary shares in SFG. Nippon Suisan Kaisha Ltd (i.e. Nissui), is the only other substantial holder of SFG's ordinary shares.

Please refer to **Appendix 5** for details of how the New Loan Arrangements, Debt Conversion and proposed issue of Shares to Nissui will impact on the ordinary shares of the Company.

4.7.3 Trading History

The following figure provides an overview of trading in SFG's Shares for the twenty-four (24) months to 31 May 2019:

Figure 1: SFG 24-Month Trading History



The following table provides an overview of the volume weighted average prices ("VWAP") of SFG's Shares over various time periods leading up to 31 May 2019:

Table 9: SFG VWAP History

Period	Price (Low)	Price (High)	Price VWAP	Total Value	Total Volume	% of Issued Shares
1 day	\$0.0870	\$0.0900	\$0.0895	\$233,185	2,605,647	0.13%
1 week	\$0.0870	\$0.0920	\$0.0895	\$639,094	7,144,102	0.37%
1 month	\$0.0870	\$0.0950	\$0.0906	\$1,254,871	13,854,968	0.72%
3 months	\$0.0870	\$0.1200	\$0.0949	\$4,455,127	46,947,011	2.60%
6 months	\$0.0870	\$0.1300	\$0.1019	\$7,250,179	71,162,789	4.06%
12 months	\$0.0730	\$0.1800	\$0.1090	\$26,885,051	246,717,834	15.36%

Source: Thomson Reuters; Invicta analysis

We note the following:

- SFG's Shares are generally illiquid having only turned over approximately 15% of its issued shares in the twelve (12) months to 31 May 2019 with a total value of approximately \$26.9 million; and
- on 15 June 2018, SFG announced the Demerger of CO2. This transaction was approved by Shareholders on 16 July 2018 and was subsequently completed on 23 July 2018.

4.7.4 Other Share Transactions

Placement

On 5 April 2019, SFG announced that it had completed a placement to major domestic, institutional and professional investors (“**Placement**”) whereby the Company issued 222,222,222 Shares at an issue price of \$0.09 per Share to raise \$20 million. SFG noted that the issue price of \$0.09 per Share represented a 14.29% discount to the Company’s last close price on 2 April 2019, and a 11.68% discount to the 5-day VWAP to 2 April 2019.

In its announcement, SFG noted that the proceeds from the Placement will be predominately applied to the progression of Project Sea Dragon.

In addition to funds raised under the Placement, Nissui invested a further \$2.998 million at the same price of the Placement.

Further, as part of the above announcement, SFG announced that Avatar Finance had provided a commitment to subscribe for \$3 million of new Shares via the Debt Conversion.

Share Purchase Plan

On 29 May 2019, SFG announced that it had completed the closing of a share purchase plan (“**SPP**”) whereby the Company issued 49,263,246 Shares at an issue price of \$0.09 per Share to raise \$4.43 million.

The SPP was undertaken as a means to provide existing Shareholders of SFG the opportunity to participate in the Placement.

Issue of Securities to Nissui

On 23 May 2018 SFG announced that it had finalised an extensive agreement with Nippon Suisan Kaisha (“**Nissui**”).

Nissui was formed in 1911 and has established itself as one of the world’s largest producers of seafood. Its Marine Products Business has global access to marine resources, developed expertise in fisheries, fish and prawn farming, marine research and development, extensive processing and production abilities, logistics and international marketing networks.

Nissui is one of the world’s largest seafood companies and is listed on the Tokyo Stock Exchange, constitutes a member of the Nikkei 225 Index and has a market capitalisation of approximately ¥180B (US\$1.7B). Nissui employed over 9,000 employees globally (on a consolidated basis). Its total net sales in 2017 (1 April 2017 to 31 March 2018) are at ¥683B (US\$6.39B). Nissui’s seafood sales are predominately in Japan (and Asia), but enjoys a significant presence in the US and Europe.

In summary, key points of the announcement included:

- Nissui will become one of SFG’s largest shareholders and will assist in the development of Project Sea Dragon.
- a A\$24.99 million equity investment in SFG in return for the issue of the following securities:
 - 249,877,657 Shares;

- 28,396,974 listed options granted 7 August 2018 with an exercise price of \$0.097 and expiring 17 July 2021 under a voluntary escrow period of 3 years from the date of issue (until 7 August 2021); and
- 5,320,622 unlisted options granted 7 August 2018 with an exercise price of \$0.062 and expiring on 1 June 2023 under a voluntary escrow period of 3 years from the date of issue.
- The total subscription amount for all securities was \$24,987,765.70, which implied a price of \$0.10 per Share, (if the value attributable to the options issued as part of the transaction is ignored). SFG stated that the implied price per Share of \$0.10 was a substantial premium to SFG's closing share price on 21 May 2018 of \$0.066.
- Nissui's shareholding represented a 14.99% interest in SFG at the time. Nissui has a right to participate in new issues of securities to maintain its interest in SFG (up to a maximum of 25%) (which was subject to ASX granting a waiver to permit the grant of this right, which waiver we understand has been granted).
- Nissui has been given a right of first refusal to subscribe for shares in SFG or subscribe or acquire shares in Project Sea Dragon in priority to any other Japanese seafood company.
- Nissui expects to be a long-term shareholder in the SFG group of companies and has agreed not to sell SFG securities for 3 years, subject to certain limited carve outs, including in the event of a recommended off market takeover or a shareholder approved merger.
- As part of the overall agreement, SFG entered into off-take arrangements with Nissui that will provide SFG with access to Nissui's well-established high-quality seafood distribution business in Japan (and by agreement, Asia and other international markets). Nissui will market SFG's Australian premium product black tiger prawns from SFG's Queensland prawn farming operations and Project Sea Dragon (when operational) in the Japanese markets (and such other markets as agreed) with the objective to build a high value, high quality and premium jointly branded product into these markets and may look at establishing value added product offerings as well.
- Nissui has the right and obligation to take:
 - between 10%-20% of the total annual production of Project Sea Dragon. The percentage is determined by Nissui's direct and indirect shareholdings in Project Sea Dragon; and
 - 15% of production from SFG's Queensland prawn farming operations.
- The supply and marketing arrangements are at market-based prices and continue for the duration of Project Sea Dragon.
- Nissui or its affiliate has been appointed on an exclusive basis to provide sales services in Australia and New Zealand for prawn products sourced from SFG's existing Queensland prawn farming operations and from Project Sea Dragon when operational over the long term.

- A Nissui executive will be appointed to the Board of SFG. Nissui has an ongoing right to appoint a director to the Boards of SFG, Project Sea Dragon and SFG's Queensland prawn operating subsidiaries except in limited circumstances, such as where its direct and indirect shareholding falls below 5% in the relevant entity.
- SFG has agreed to continue to hold the Queensland prawn farming business while the arrangements with Nissui continue.
- SFG has granted Nissui a call option to acquire SFG's existing Queensland prawn farming operations (through the acquisition of shares in certain subsidiaries) at fair market value which can be exercised by Nissui as a last resort following material default by SFG or its subsidiaries, if there is a failure to meet agreed latest dates for the development of Project Sea Dragon (which contain a considerable allowance from SFG proposed development timing expectations) and subject to applicable regulatory consents and approvals.
- Nissui has been granted security over the shares in the subsidiaries that hold SFG's existing Queensland prawn farming operations.

Given that the issue of Shares to Nissui was part of a broader transaction including an off-take agreement and sales, marketing and distribution services which were negotiated as a package, it is, in our view, not appropriate to consider the equity subscription component of this transaction in isolation for the purpose of assessing whether the subscription price for SFG Shares paid by Nissui was reflecting of their fair market value. We do note however that SFG announced in respect of the export marketing arrangements to Japan/ Asia (but not in relation to the provision of sales services in Australia and New Zealand) that "The supply and marketing arrangements are at market-based prices and continue for the duration of Project Sea Dragon".

The 2018 Directors Report stated that *"Nissui's investment in Seafarms followed an exhaustive due diligence process that examined all facets of Project Sea Dragon and Queensland operations."*

4.7.5 Options

4.7.6 Unlisted options

On 22 August 2017, 30,000,000 unlisted options were issued to Directors and staff. These options had an exercise price \$0.10 per option (since reduced to \$0.097 after adjustment for the CO2 Demerger) and expire on 22 August 2021. Further, on 18 January 2018, 5,000,000 unlisted options were issued to staff. The options had an exercise price \$0.10 per option (since reduced to \$0.097 after adjustment for the CO2 Demerger) and expire on 31 October 2021. All of these options were issued pursuant to the "Seafarms Group Employee Incentive Plan" as approved by the shareholders at the AGMs held on 1 February 2016 and 25 November 2016.

On 7 August 2018, 5,320,622 unlisted options were issued to Nissui. These options have an exercise price \$0.062 and expire on 1 June 2023.

On 12 December 2018, SFG issued 80 million unlisted options to LPIG Pty Ltd, an entity related to the AAM Investment Group, as follows:

- 30 million unlisted options with an exercise price of \$0.10, subject to a 12 month voluntary escrow and expiring on the earlier of the date which is 6 months after the final payment is

made under the terms of the acquisition of Legune Station and 5 years after completion of the Transaction; and

- 50 million unlisted options with an exercise price of \$0.10, subject to a 12 month voluntary escrow and expiring on the earlier of the date of repayment of a loan provided to SFG and 3 years after completion of the Transaction.

These options related to completion of the acquisition of Legune Station by AAM Licensees Pty Ltd as trustee of the Pastoral Development Property Trust (“PDT”) on that day. PDT is part of the AAM Investment Group (“AAMIG”). AAMIG is a major Australian owned diversified agricultural investment and asset manager that specialises in agricultural operations throughout Australia.

This finalisation of the Legune Station Sale Contract is an important step in the development of Project Sea Dragon because it provides SFG with the long term (90 years) land tenure certainty and increases capital efficiency for the Project Sea Dragon project. A long-term sub-lease, rather than acquisition outright by SFG, reduces the initial capital costs for the project while still providing long term tenure for the project. The portion of land not used for Project Sea Dragon will continue to be operated as a cattle station.

The Company and PDT finalised a Sublease and Co-operation Agreement (see ASX Announcement dated 18 October 2018) that provides SFG access to Legune Station for the construction, development and operation of the whole of Project Sea Dragon (up to 10,000 hectares of production ponds). The Company’s Sublease has been lodged for registration over Legune Station. Under the Agreement SFG retains an option to acquire Legune Station from PDT at a later point in time in the event that it is more advantageous for Project Sea Dragon to own the Pastoral Lease.

Development of Project Sea Dragon has already commenced with on ground earth works at Legune Station as well as the commencement of initial works program sponsored by the Northern Territory Government for the upgrade of the Keep River Road.

4.7.7 Listed options

On 17 July 2017, SFG issued 126,092,585 listed options to those participants in the June 2017 Share Placement. Shareholders who subscribed for shares in the June 2017 Share Participation Plan were eligible to participate in the June 2017 Share Placement.

The listed options were issued free of charge and have an exercise price of \$0.097 per share and expire on 17 July 2021 (after adjustment for the CO2 Demerger (initially 10 cents per share)).

On 7 August 2019 SFG issued 28,355,534 listed options to Nissui. The listed options were issued at a nil issue price and have an exercise price of \$0.097 per share and expire on 17 July 2021.

The lower total number of listed options in **Table 7** above reflects exercise(s) of listed options.

4.7.8 Convertible Preference Shares

The convertible preference shares were issued at \$0.00001. To convert to Shares each holder is required to pay \$0.06499. Conversion can occur at any time at the election of the holders. The convertible preference shares have limited voting rights as described in ASX Listing Rule 6.3 and are entitled to the payment of a dividend equal to one hundred thousandth of any dividends declared.

5. Industry Overview

5.1 Introduction

Rising seafood consumption has driven revenue growth in the Aquaculture industry over the past five years. Increasing health consciousness has encouraged many consumers to opt for sources of protein that are perceived to be healthier, such as fish and seafood.

Seafood demand in Australia has increased considerably over the last three decades. Currently, Australia's consumer demand for seafood exceeds the supply from domestic production and continues to grow. Domestic aquaculture has the potential to significantly expand to help meet domestic and international demand.

Prawn farming is a high-risk, capital-intensive industry that is site-specific and requires technical expertise. Mostly, prawns are sold from the farm as a cooked product, so an investment in processing infrastructure is necessary, in addition to production infrastructure.

Due to the capital-intensive nature of the industry, a large amount of infrastructure is required. Investing in reliable infrastructure will contribute to the production of a high-quality product.

5.2 Industry Drivers

The aquaculture industry in Australia is driven by several factors. Some of the more material factors are set out in the table below:

Table 10: Structural Risk in the Aquaculture Industry

Driver	Details
Barriers to entry	The barriers to entry into the Aquaculture industry are high and have risen over the past five years. Barriers arise due to the significant start-up costs for establishing operations, intense competition, demanding working conditions and the number of licences needed to commence farming.
Basis of competition	Industry operators face competition from within the industry and through external sources, including foreign produced imports and substitute industries. Industry competition has increased over the past five years, due to rising pressure from imported seafood.
Domestic and International markets	The large volume of fish and seafood international trade at the processing level discourages significant international trade in the Aquaculture industry. Industry operators generate a small portion of revenue through export markets but have faced increasing pressure from imported aquaculture produce over the past five years. Over the next five years, exports are expected to increase as a share of industry revenue. The expected continued depletion of global wildcaught fish stocks is likely to boost overseas demand for aquaculture products.
Industry assistance	The Aquaculture industry receives moderate industry assistance, and this has increased over the past five years.

Driver	Details
Life cycle	<p>The life cycle stage is mature;</p> <p>The industry is growing at a slower pace than the overall economy;</p> <p>Industry participation has fallen over the past five years; and</p> <p>The industry is subject to a range of new technologies designed to increase efficiency and livestock numbers.</p>
Industry volatility	<p>The Aquaculture industry exhibits moderate revenue volatility. A range of external factors, many of which are environmental, influence industry revenue volatility. Feed costs, technology changes and the exchange rate can all also cause fluctuations in revenue.</p> <p>Steady rises in seafood consumption and domestic prices have reduced revenue volatility over the past five years.</p>

Source: IBISWorld Industry Report: Aquaculture in Australia, April 2019; Invicta analysis

5.3 External Drivers

Annual industry revenue in the fish and seafood wholesale industry is forecast to grow 0.9% to \$4.6 billion in 2019-20. In comparison, revenue expanded 0.2% per year between 2016-17 and 2018-19.

The most significant external factors affecting industry performance are detailed below:

- **Seafood consumption** – Health consciousness is expected to rise, encouraging consumers to eat more fish due to the perceived nutritional benefits. Fish and other seafood are perceived to be a healthier option than other substitute products, such as red meat, as they are a lean source of protein and other nutrients, such as omega-3 fatty acids. Increased consumption of industry products will have a positive effect on revenue within the industry.
- **Domestic price of fish and other seafood** – Rising seafood consumption during the year, due to an increase in health consciousness, is expected to push retail prices upwards. Australia's involvement in international trade of fish and other seafood has influenced domestic prices over the past five years. The value of exported Australian fish and other seafood has grown solidly over the period.
- **Disposable income** – Household disposable income has a major impact on the demand for seafood. Average weekly earnings are expected to increase solidly in 2019-20. In addition, the All Ordinaries index is expected to rise strongly during the year, fuelling an increase in non-wage income.
- **Domestic price of poultry** – During poor economic conditions consumers tend to move towards lower price meat, such as poultry. This will generally weaken the demand for fish and other seafood, having a negative effect on industry revenue. It is expected that poultry prices are going to increase at a faster rate than seafood over the near future, creating scope for growth within the aquaculture industry.

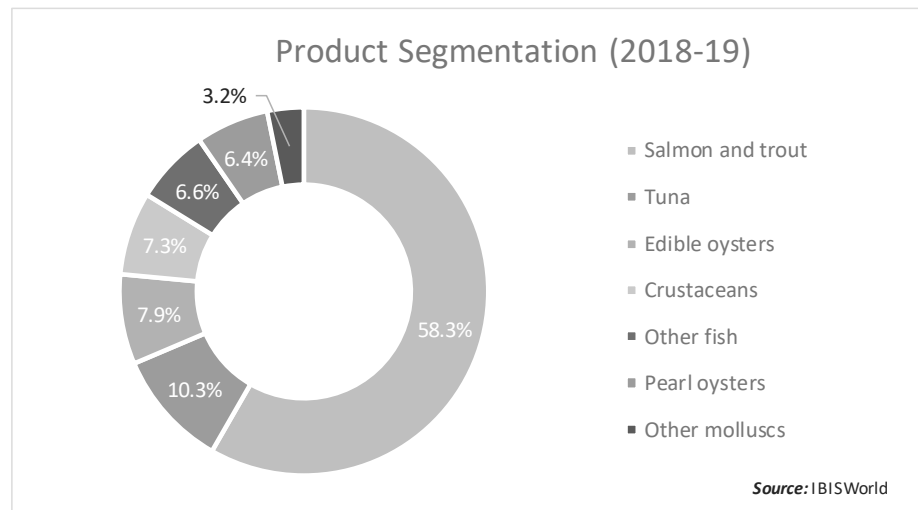
5.4 Current & Future Industry Performance

Rising seafood consumption has driven revenue growth in the aquaculture industry over the past five years. Revenue generated by the aquaculture industry in Australia is expected to increase at an annualised 3.3% over the five years through 2018-19 to total \$1.7 billion.

Industry revenue is forecast to increase at an annualised 1.2% over the five years through 2023-24, to each \$1.8 billion.

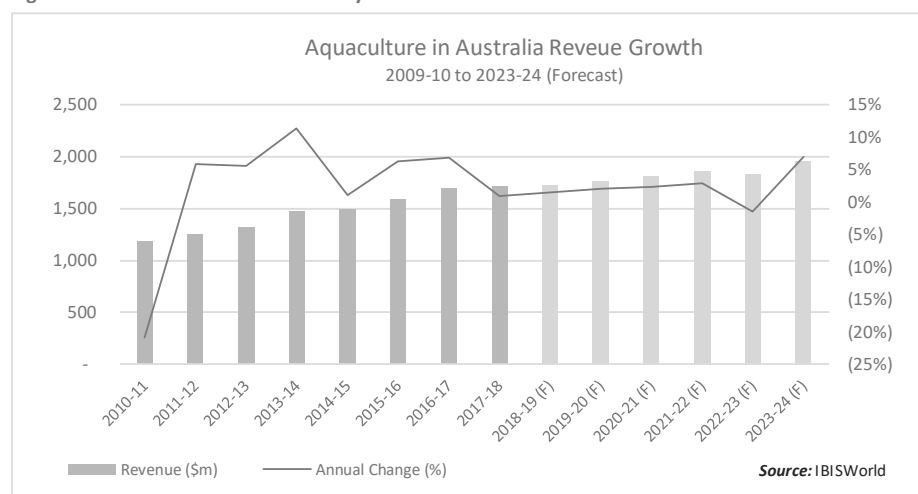
The following figure provides a breakdown of industry revenue by product type for the 2018-19 year:

Figure 2: Aquaculture Industry 2018-2019



Prawns accounts for a substantial share of the crustacean's product segment in the Aquaculture industry in 2018-2019. Most of Australia's aquaculture prawn production occurs in Queensland, with the remainder in New South Wales. The price of prawns has risen over the past five years, causing the crustacean segment to grow as a share of industry revenue over the period.

Figure 4: Historical & Forecast Industry Revenue Growth



6. Assessment of the New Loan Arrangements

6.1 Approach

6.1.1 Fair

The New Loan Arrangements will be “fair” if:

- the present value of the estimated actual Facility Payments to be made to Avatar Finance over the Extension Period plus the value of the Conversion Right;

is equal to or less than,

- the present value of the estimated Market Rate Facility Payments over the Extension Period plus the value of the consideration received for the Conversion Right.

6.1.2 Reasonable

In order to opine on whether the New Loan Arrangements are “reasonable”, we have considered if they are “fair”, and if they are not, we have considered whether there are sufficient reasons for Non-Associated Shareholders to approve the New Loan Arrangements.

This assessment has been undertaken by considering whether, in our opinion, the advantages of approving the New Loan Arrangements sufficiently outweigh the disadvantages for Non-Associated Shareholders as a whole.

6.2 Valuation of the Facility Payments

6.2.1 Overview

Our assessment of any benefit to be received by SFG is to consider the present value of the Facility Payments to Avatar Finance on the terms offered by the New Loan Arrangements, as compared with the present value of the assessed Market Rate Facility Payments arising from what would be available in the market over the extended loan period from 15 March 2021 to 15 September 2021, if negotiated today.

Based on our analysis, we have assessed the present value of the actual Facility Payments under the New Loan Arrangements to be approximately \$433,518 over Extension Period. Our calculations in this regard can be found in **Appendix 6**.

Further, based on our analysis, we have assessed the present value of the Market Rate Facility Payments to fall within the range of \$506,854 to \$653,527 over the Extension Period. Our calculations in this regard can be found in **Appendix 7** (low value) and **Appendix 8** (high value).

In summary, we have assessed the value of the Facility Payments under the New Loan Arrangements to be to the advantage of SFG when compared to the Market Rate Facility Payments over the Extension Period.

A summary of the assumptions which we have adopted in reaching the above conclusions is set out in the table below:

Table 11: Summary of Facility Payment Assumptions

Term	Section Reference	Actual Under New Loan Arrangements	Market Rates as Assessed by Invicta
Valuation Date	6.2.2	31 May 2019	31 May 2019
Facility Term	6.2.3	15 March 2021 to 15 September 2021	15 March 2021 to 15 September 2021
Facility Drawn Amount	6.2.4	\$15.2 million	\$15.2 million
Interest Rate	6.2.5	BBSY plus 4.00%	BBSY plus 5% - 7%
Line Fee	6.2.6	0.5% of Facility Limit	0.5% of Facility Limit
Discount Rate	6.2.7	2.00%	2.00%

Source: EGM; Invicta analysis

Further details regarding the assumptions adopted above can be found in **Sections 6.2.2 to 6.2.7** below.

6.2.2 Valuation Date

We have assumed that the New Loan Arrangements will become effective from 31 May 2019 and accordingly, we have adopted the same date for the valuation of the Facility Payments. There will be some small deviation from this date, but the effect will not have any material impact on our conclusions.

6.2.3 Facility Term

Noting that the term of the Avatar Facility has already been approved up to 15 March 2021, our calculations have been made with reference to the Extension Period only (i.e. 15 March 2021 to 15 September 2021).

Further, we understand that Avatar Finance and SFG may agree for SFG to redraw funds under the Facility after 15 March 2021 until 15 March 2024 (or an earlier date agreed between the parties) on the same terms (except that no line fee will be payable after 15 March 2021). We note that for the purpose of determining the maximum term of the Facility, we have not taken into account the potential redraw of the Avatar Facility.

6.2.4 Facility Drawn Amount

The amount drawn under the Avatar Facility may vary throughout the Extension Period. However, for the purpose of our assessment, we have utilised the Facility Limit amount being \$15.2 million. In this regard, we note the following:

- interest (but not line fees) payable may be capitalised by Avatar Finance and interest is payable on any such capitalised interest, but such capitalised interest is not considered to be part of the Facility Limit;

- in our calculations, we have not taken into account the potential capitalisation of interest that may cause the total interest-bearing amount under the Avatar Facility to rise above the Facility Limit of \$15.2 million.

6.2.5 Interest Rate

We have assessed the present value of the Facility Payments to be made under the Avatar Facility during the Extension Period as at Valuation Date (31 May 2019). This requires that we estimate the interest payments to be made in the six (6) month period from 15 March 2021 to 15 September 2021 (i.e. the Extension Period). This in turn requires assumptions as to the interest rate(s) that will prevail and the principal amount that will be outstanding in the Extension Period.

Actual Interest Rate

The interest margin of the Facility is fixed at 4% p.a. above the monthly BBSY.

The BBSY is a market rate and varies daily. What it will be during the Extension Period is essentially unknowable. Accordingly, for the purpose of our assessment, we have assumed that during the Extension Period, the monthly BBSY will remain constant and equal to the BBSY as at around 31 May 2019 (assessed as being 1.41 p.a.) based on data provided by the ASX.

Market Interest Payments

We have also assessed the present value of the Market Rate Facility Payments to be made during the Extension Period as at 31 May 2019. This requires that we estimate the market-based interest payments that would be made in the Extension Period. This in turn requires assumptions as to the interest rate(s) and the borrowing margin(s) that will prevail in the Extension Period.

Based on our discussions with management of SFG, we understand that SFG is unable to obtain the debt funding it requires from traditional bank sources, meaning that any debt funds would have to be sourced from other providers.

We have assessed the interest rates and margins assumed to prevail during the Extension Period by considering the interest rates paid by a range of selected companies on debt instruments reasonably comparable to the Avatar Facility. Our analysis includes:

- companies operating in the same or similar industry to SFG (refer to **Appendix 9**); and
- companies operating in different industries to SFG may be considered to have risk not dissimilar to those present in the current operations of SFG (refer to **Appendix 10**),

together the “**Reference Companies**”.

Based on our review of the debt arrangements set out in **Appendix 9**, it is our view that those Reference Companies operating in the same or similar industry to that of SFG have relatively lower business risk associated with their operations when compared to SFG. Business risks may vary for various reasons including:

- the nature of the industry in which a company operates;
- the relative size, profitability and financial strength of the company; and

- the relatively maturity of operations.

In our opinion, SFG has relatively high business risk as the Project Sea Dragon business is relatively immature, yet to commence business operations, and requires significant additional funding, which is yet to be secured.

For the purpose of our analysis we have assumed the debt facilities associated with the Reference Companies operating in different industries to that of SFG to be more indicative of terms of debt that SFG would expect to pay at arm's length at the present time, albeit, some of the loan facilities of these Reference Companies may have been taken out some time ago and we are attempting to consider what commercial rate(s) of interest would be payable during the Extension Period, which is some time into the future. In this regard, we note that the interest rates prevailing on these debt facilities range between 3.2% and 15.5%, or between 3.2% and 8.0% considering only the secured debt facilities.

We also considered the secured borrowing of \$5.023 million at 31 December 2018 from AAM Licensees Pty Ltd provided on 12 December 2018, at an interest rate of 2% per annum above the benchmark rate quoted from time to time by the Borrower's principal banker on overdraft accommodation in excess of \$100,000, and is due to be repaid on 11 December 2021. SFG has the option to settle up to 50% of interest accruing on the loan with SFG Shares. The average interest rate on the loan during the period to 31 December 2018 was 9.12%.

Based on our analysis above, in our opinion, having regard to the risks inherent in the business of SFG and the terms of the New Loan Arrangements, we consider that a reasonable range of the market interest rates to be applied to this analysis of the Debt Extension is a margin of between 5% and 7% p.a. above the monthly BBSY base rate. This compares with the 4.0% p.a. margin under the Avatar Facility.

We note that in the independent expert report dated 8 June 2018 prepared by BDO Corporate Finance (WA) Pty Ltd ("**BDO**"), BDO undertook a similar analysis and concluded: *"Based on our analysis, we consider a reasonable range of the market interest rates observed in Appendix 3 to be between 4.30% and 8.20% (credit margin above a chosen base)."*

6.2.6 Line Fee

The line fee is a fixed amount of 0.5% p.a. of the maximum amount of the Facility (\$15.2 m) and thus may be calculated accurately.

In our opinion, and based on our experience, a line fee of 0.5% is reasonable and is consistent with market practice.

6.2.7 Discount Rate

The discount rate adopted (of 2% p.a.) allows only for the time value of money over the Extension Period and does not attempt to make any allowance for additional risk.

We note that the interest rates applied in determining the amounts to be discounted are based on either the Facility Rate or market rates allowing for risks of lending to SFG and accordingly, no further allowance is needed to allow for these risks. The adopted rate is based on our assessment of forecast inflation applicable over the Extension Period.

6.3 Valuation of the Conversion Right

6.3.1 Overview

We have assessed the fair market value of the Conversion Right to fall within the range of \$3.72 million to \$5.34 million, with a mid-point of \$4.55 million.

In order to reach the above conclusion, we have adopted the Black-Scholes option valuation model noting that the Conversion Right adopts the same characteristics of an option. Further information regarding the Black-Scholes option valuation model can be found in **Appendix 4**.

An overview of the assumptions which we have adopted in reaching the above conclusions is set out in the table below:

Table 12: Summary of Conversion Right Valuation Assumptions

	Section Reference	Term / Assumption
Number of Instruments	6.3.2	135,555,555
Valuation / Grant Date	6.3.3	31 May 2019
Exercise Date	6.3.4	15 September 2021
Asset Spot Price	6.3.5	\$0.09
Exercise Price	6.3.6	\$0.09 per instrument
Risk Free Rate	6.3.7	1.20%
Dividend Yield	6.3.8	Nil
Volatility	6.3.9	50% to 75%

Source: Invicta analysis

Further details regarding the assumptions adopted above can be found in **Sections 6.3.2 to 6.3.9** below:

6.3.2 Number of Instruments

Non-Associated Shareholders are being asked to approve a Conversion Right that would allow a maximum value of \$12.2 million to be converted into Shares at an issue price of \$0.09 per Share. This equates to a maximum number of instruments calculated as follows:

$$\begin{aligned}
 \text{Maximum number of instruments} &= \$12.2 \text{ million} \div \$0.09 \\
 &= 135,555,555
 \end{aligned}$$

6.3.3 Valuation / Grant Date

We have assumed that the New Loan Arrangements will become effective from 31 May 2019 and accordingly, we have adopted the same date for the valuation / grant date. There will be some small deviation from this date, but the effect will have no material impact on our conclusions.

6.3.4 Exercise Date

The New Loan Arrangements are to terminate on 15 September 2021. That is, a period of approximately 2.3 years. For the purpose of assessing the value of the Conversion Right, we have adopted 15 September 2021 as the exercise date.

The potential maximum life of the Conversion Right as per the New Loan Arrangements is to be the termination date of the potential redraw provision under the terms of the Avatar Facility, being 15 March 2024, if that redraw provision is activated (i.e. the Final Repayment Date). Given that this redraw facility can only be activated upon the agreement of both SFG and Avatar Finance and that neither party has indicated their intentions for the purpose of our assessment, we have disregarded the Final Repayment Date in valuing the Conversion Right. In any case, we note that had we adopted 15 March 2024 as the exercise date, it would not change our overall opinion in relation to the New Loan Arrangements.

6.3.5 Asset Spot Price

For the purpose of determining the fair market value of the Conversion Right, the “Asset Spot Price” will be equal to the fair market value of the Shares as at the Valuation Date.

In order to determine value of a Share as at the Valuation Date, we have considered general market practice including the valuation methods proposed by RG 111, including:

- the discounted cash flow (“DCF”) method and the estimated realisable value of any surplus assets;
- the application of earnings multiples to the estimated future maintainable earnings or cash flows added to the estimated realisable value of any surplus assets;
- the amount which would be available for distribution on an orderly realisation of assets;
- the quoted price for listed securities; and
- any recent genuine offers received.

In our opinion, SFG’s value is driven by the perception of market participants of the prospects of Project Sea Dragon. Although SFG has land-based prawning operations based in Queensland (and before around mid-2018, had a carbon services business that was divested via a distribution in specie at that time), the Company has devoted its efforts to progressing Project Sea Dragon and has been unprofitable for many years (accumulated losses to 31 December 2018 totalled \$109,860,186). In such circumstances, there are no historical or immediately prospective maintainable earnings to capitalise. In such circumstances, recourse may be had to DCF analysis. However, the partially developed nature of Project Sea Dragon renders such analysis highly speculative and uncertain. While progress has been made on Project Sea Dragon over the past eight years and considerable sums expended (over \$100 million according to SFG), the project has yet to obtain funding to allow it to progress to fulfillment, even on a staged basis.

A net asset-based valuation method is also inappropriate as the Company's current market capitalisation (of approximately \$170 million) far exceeds the carrying value of its net assets (of approximately \$30 million as at 31 December 2018) and any determination of the value of the intangible assets would depend on some form of DCF analysis which would face the same difficulties as attempting to value the entire Company by way of DCF analysis, as explained above.

Having regard to the above discussion, in our opinion, the only reliable means of determining the market value of SFG's Shares is to consider what market participants have paid for Shares in recent transactions where material amounts of capital have been raised. In this regard, we note the following:

- the Nissui transaction in around mid-2018 that raised \$24.99 million at a Share price said to be \$0.10 but this ignores the value the two tranches of options issued to Nissui. Based on an indicative value of these options that we have calculated, we estimate that the cost per Share to Nissui (after allowing for the value of the options granted) was between approximately \$0.096 and \$0.0975. This range of estimated Share values ignores the value to Nissui of Nissui's top-up rights under the Shareholder Rights Agreement finalised in August 2018 and the offtake agreements associated with the transaction, if any; and
- the recent \$20 million Placement, associated SPP and placement to Nissui under its non-dilution rights, all at \$0.09 per Share that in total raised approximately \$27 million.

A placement is usually undertaken at a discount to the prevailing market price of the Shares. In this regard, we note the following:

- the Nissui transaction took place at an estimated range of prices in excess of the prevailing market price of around \$0.066. However, Nissui obtained a range of benefits, including board representation, the top-up rights and the offtake agreements associated with the transaction;
- the placement announced 5 April 2019 was priced at a 14.29% discount to the last traded price and a discount of 11.68% to the 5-day VWAP before the announcement, suggesting prices of \$0.105 and \$0.102, respectively. We also note that Seafarms announced an \$8 million placement on 2 June 2017 with similar discounts, viz. 10.45% to the last traded price and a discount of 13.42% to the 5-day VWAP before the announcement. However, this latter placement enjoyed an entitlement to 1 free option per share subscribed exercisable at \$0.10; expiring 17 July 2021, which would have mitigated the extent of the discount required.

We also note that the 1-week VWAP and 1-month VWAP to 31 May 2019 were \$0.0895 and \$0.906 respectively, per Share.

Fair Market Value of Share on a Minority Interest Basis

Based on the above analysis, in our opinion, the appropriate Share price to adopt as a non-controlling value per Share is \$0.09 per Share.

Fair Market Value of a Share on a Controlling Interest Basis

For the purpose of our assessment, we considered whether or not it was appropriate to apply a control premium in determining the value of a Share for the purpose of determining the fair market value of the Conversion Right.

Under normal circumstances, when a shareholder is in a controlling position or owns 100% of the shares of an entity, their shares attract a control premium. Conversely, when the shareholder is in a non-controlling position, a minority discount is typically applied.

In the context of assessing whether a takeover offer is “fair” under RG 111, ASIC requires that expert ignore the existing percentage holding of the bidder in the target (i.e. it is inappropriate to apply a discount on the basis that the shares being acquired represent a minority or ‘portfolio’ parcel of shares).

We note however, the following:

- the New Loan Arrangements do not trigger a takeover transaction (i.e. the proposed terms of the New Loan Arrangements, as they relate to the Conversion Right, only permit Avatar Finance to exercise its Conversion Right under what is known as the “creep” provisions of Section 611 Item 9 of the Corporations Act, whereby a shareholder holding at least 19% of the voting shares of a company may increase its percentage holding by 3% in any six (6) month period). Accordingly, SFG has not sought an Independent Expert’s Report opining whether or not Conversion Right is “fair” and “reasonable” to the Shareholders not associated with Avatar Finance for the purposes of Section 611 Item 7 of the Corporations Act);
- based on the current individual equity and voting interests of the top five (5) Shareholders (refer to **Appendix 5**), Avatar Finance (with its associates) does not currently have control over the Company however, it can be said that Avatar Finance (with its associates) can influence the affairs of SFG;
- based on the current capital structure of SFG, Avatar Finance’s shareholders (including its associates) could increase their voting interests in SFG from 23.05% currently, to between 28.00% and 29.12% depending on whether or not the Debt Conversion and/or issue of Shares to Nissui are also approved. Again, this will not provide Avatar Finance (with its associates) control over the Company but it will still have influence over the affairs of the Company; and
- noting the above, the number of Shares which Avatar would be able to acquire under the Conversion Right is the same which they would be able acquire on the market generally, without obtaining Shareholder approval (i.e. by making use of the “creep” provisions.

Based on the above, we have not to applied a premium for control.

For context, we note that had we chosen to apply a control premium, there would be no impact on our overall fairness opinion.

6.3.6 Exercise Price

The exercise price adopted of \$0.09 per Share is as per the terms of the New Loan Arrangements.

6.3.7 Risk Free Rate

The risk-free rate adopted has been determined as the risk-free rate over the maximum life of the Conversion Right based on a review of current yields of various Australian Government bonds.

6.3.8 Dividend Yield

Given the present status of Project Sea Dragon, the time it has taken to get to this stage of development (8 years) and the historical profitability of the Company, we have adopted a nil dividend yield.

6.3.9 Volatility

For the purposes of assessing the value of the Conversion Right, we have adopted a volatility range between 50% and 75%, with a mid-point of 62.5%. We have adopted this volatility range after considering the following factors:

- We have reviewed the volatility of the Shares over various periods since the CO2 business divestment was approved on 16 July 2018. The indicated volatility measure as at 31 July 2019 is between approximately 50% (6 months) and 75% (from 16 July 2018), depending upon the period selected. The volatility has reduced in the period of calendar 2019 to Valuation Date, that is, after the announcement of the completion of Legune Station long-term lease arrangements, which is another major milestone in the Project Sea Dragon.
- SFG's 2018 and 2017 annual reports indicate that certain share-based payments arrangements comprising unlisted staff incentive options were valued at the time of issue using volatilities of the underlying Share price of 85.6% for Unlisted options 1 and 80.11% for Unlisted options 2 (refer Note 38 in 2018 Annual Report).

These options were granted some time ago and before more recent events favourable to SFG that could be expected to have had the effect of reducing the risk attaching to SFG and the volatility of its Shares. These favourable events include several material funds raising events, the commercial arrangements with Nissui and other events of progress in the development of Project Sea Dragon. Also, the CO2 business divestment was approved on 16 July 2018 and completed on 23 July 2018. The Nissui Investment was announced on 23 May 2018 and completed on 7 August 2018. Accordingly, we are of the opinion that the above volatility measures adopted for the share-based payments arrangements are not appropriate for the purposes of this report.

6.4 Valuation of Consideration for the Conversion Right

No additional consideration (outside of any benefits being received by SFG not already captured in our assessment of the Facility Payments) is being received by SFG upon issue of the conversion right. Accordingly, we have assessed the value of the consideration for the Conversion Right to be NIL.

6.5 Fairness of the New Loan Arrangements

Based on the analysis set out above, the following table provides our assessment as to whether or not the New Loan Arrangements are “fair” to the Non-Associated Shareholders of SFG:

Table 13: Fairness Assessment

	Note / Report Reference	As at 31 May 2019		
		Low	Mid-Point	High
Value of Actual Facility Payments	6.2	433,518	433,518	433,518
Market Value of the Conversion Right	6.3	3,720,115	4,549,726	5,343,124
Total Value of the Assets to be Provided	(a)	4,153,633	4,983,244	5,776,642
Value of Market Rate Facility Payments	6.2	506,854	580,191	653,527
Market Value of Consideration for the Conversion Right	6.4	-	-	-
Total Market Value of Consideration	(b)	506,854	580,191	653,527
Excess / (Deficiency) in Market Value of the Assets to be Provided over the Total Consideration	(b) - (a)	(3,646,779)	(4,403,053)	(5,123,115)
Is the Offer Fair?		No	No	No

Source: Invicta analysis

Based on the above, we have determined that the New Loan Arrangements are **not fair** to the Non-Associated Shareholders of SFG.

6.6 Reasonableness of the New Loan Arrangements

In assessing the reasonableness of the New Loan Arrangements, we have considered the advantages and disadvantages of the New Loan Arrangements to the Non-Associated Shareholders of SFG. An analysis of these advantages and disadvantages is set out below along with an analysis of the implications for Non-Associated Shareholders of not approving the New Loan Arrangements.

6.6.1 Advantages of the New Loan Arrangements

Extension of Repayment Date

Under the New Loan Arrangements, the term of the Avatar Facility will be extended by six (6) months from 15 March 2021 to 15 September 2021.

This extension provides SFG with additional time to repay any unconverted debt by an additional six (6) months, assisting with the Company’s cash flow position (albeit, for a relatively short period of time) and providing some benefit to the Company to achieve the best possible financial outcome for Shareholders, where funding for Project Sea Dragon is not successful.

Ability to Access Favourable Debt Terms

Further to the comments above and our analysis of the terms of the Avatar Facility (which are generally, on terms more favourable to SFG compared to what they might obtain in the market generally), the extension of the repayment date provides SFG with a guaranteed ability to take advantage of these more favourable terms for a further six (6) months.

Opportunity to Source Larger Facilities

The extension of time to repay the Debt will allow SFG to continue to pursue the much-needed larger facilities required for Project Sea Dragon. This is a particularly relevant consideration given the quantum of facilities required to fund Project Sea Dragon.

Ability to Access Additional Capital

Under the terms of the New Loan Arrangements, Avatar Finance will have the ability to convert part of the Avatar Facility into Shares of SFG at a price of \$0.09 per Share at any time up to 15 September 2021. We note that any such conversion is solely at the election of Avatar Finance.

Noting the restriction of the Shareholder approvals currently being sought (i.e. Avatar Finance will only be able to convert such amount of the Avatar Facility so that they are issued with no more than 3% of the Shares of the Company within any six (6) month period) and the current capital structure of SFG, SFG will have the ability to raise up to \$5.3 million in any six month period.

6.6.2 Disadvantages of the New Loan Arrangements

Exercise at the Option of Avatar Finance Only

The exercise of the Conversion Right is solely at the option of Avatar Finance and not SFG. This limitation means that access to additional capital offered by the New Loan Arrangements is not guaranteed.

We note that as at the date of this Report, Avatar Finance have not provided any indication as to under what circumstance(s) they may or may not exercise the Conversion Right.

Possible Dilution of Non-Associated Shareholders' Equity Interests

Based on the current capital structure of SFG, Avatar Finance (including its associates) could increase its equity interests in SFG from 23.05% currently, to between 28.00% and 29.12% (and thus reducing the Non-Associated Shareholders' holdings from 76.95% currently, to between 72.00% and 70.88%) depending on whether or not the Debt Conversion and/or issue of Shares to Nissui (under item 5 of the NOM) are also approved.

This equates to a reduction in the equity interest of Non-Associated Shareholder of between 4.95% to 6.07%.

In deciding whether or not they should approve the New Loan Arrangements, Non-Associated Shareholders should carefully consider whether or not this potential dilution cost is proportionate to the benefit of the Term Extension particularly in the case where funding for Project Sea Dragon is not secured and the Company seeks alternative proposals for the future of the Company.

Adverse Impact to Liquidity

The possible increase of Avatar Finance's shareholding upon exercise of the Conversion Right may have a negative impact on the liquidity of SFG's Shares (as a percentage of the total number of Shares on issue. We note that, all other things being equal, the total number of Shares trading should not be impacted.

6.6.3 Implications of Not Approving the New Loan Arrangements

In our opinion, based on information made available to us as at the date of this Report together with representations from management of SFG, in the event that the New Loan Arrangements are not approved, Non-Associated Shareholders of SFG would be subject to the following issues:

- under the current arrangements, SFG must repay the Avatar Facility by 15 March 2021. Whilst there may be a range of options available to SFG to facilitate this repayment (which may include new debt funding or an equity capital raising), as at the date of this Report, SFG do not have in place alternative funding to facilitate this repayment. We also note that this is not unusual given that the current repayment date is approximately 18 months away from the date of this Report.

If approved, the Term Extension provides the Company with an additional six (6) months to seek alternative funding arrangements or alternative proposals for the Company. Further, the Debt Conversion and possible exercise of the Conversion Right have the ability to significantly reduce the amount owing under the Avatar Facility;

- in the case that funding is not secured for Project Sea Dragon, SFG's bargaining position, in its exploration of alternative proposals for the future of the Company, may be hindered by the shorter term of the Avatar Facility; and
- given that the resolutions to approve the Debt Conversion and the New Loan Arrangements are not conditional upon one another, Non-Associated Shareholders have the option of approving the Debt Conversion and not approving the New Loan Arrangements.

That is, Non-Associated Shareholders have the ability to obtain the benefits offered by the Debt Conversion and at the same time, not be burdened by the disadvantages (including the potential dilution of equity and voting interests upon the exercise of the Conversion Right) of the New Loan Arrangements predominately in the form of the Conversion Right, albeit they would also lose the benefit of the Term Extension.

6.6.4 Overall Reasonableness Conclusion

As set out in **Section 6.3**, we have assessed the fair market value of the Conversion Right to fall within the range of \$3.72 million to \$5.34 million, with a mid-point of \$4.55 million. Whilst the value of the Conversion Right could be considered excessive given that the benefits of the Conversion Right are in itself, not likely to have any material impact on cash needs facing the Company, we have also considered the following:

- the Company is currently operating in a short window of time in which it will have any bargaining power to renegotiate the terms of the Avatar Facility.

As detailed in **Section 1.2**, where funding for Project Sea Dragon is not secured within the next six (6) months, as at the date of this Report, there is uncertainty regarding the ongoing strategy for Project Sea Dragon and the future direction of the Company. In this scenario, SFG will need to reassess its strategy which may include continuing to fund the development of all or any stage of Project Sea Dragon including seeking any funding required for this through equity (which may be dilutive to Shareholders) or if available, debt or convertible debt, seeking joint venture partners to assist with and/or fund the development of Project Sea Dragon, refocusing

on the Company's operations in Cardwell, or some other strategy with the aim of maximising value for Shareholders and the Company.

Based on the above scenario, the additional six (6) months afforded by the Term Extension will assist the Independent Directors in achieving the best outcome for Shareholders, all matters considered.

Accordingly, it is our opinion and despite the relatively short period of time afforded by the Term Extension, that this benefit is a compelling reason for Non-Associated Shareholder to approve the New Loan Arrangements; and

- the benefit to Avatar Finance arising from the Conversion Right is reduced given that Avatar Finance has the ability in any case, to acquire up to 3% of the Shares of SFG in each six month period via the "creep" provisions of Section 611, Item 9 of the *Corporations Act*.

Based on the current capital structure of SFG, Avatar Finance could acquire a maximum of 59,161,619 Shares under the "creep" provisions. We note that this represents approximately 44% of the maximum number of Shares which could be obtained by Avatar Finance through the exercise of the Conversion Right. That is, Avatar Finance has access to a large portion of the benefit attributable to the Conversion Right whether or not the New Loan Arrangements are approved.

Having regard to the above, in our view, the New Loan Arrangements **are on balance, reasonable to the Non-Associated Shareholders**, particularly when taking into account the benefits that would arise from the Term Extension in the case that funding for Project Sea Dragon was not secured within the short term.

7. Assessment of Arm's Length Terms

7.1 Introduction

One of the exceptions in Chapter 2E of the Corporations Act to the requirement to obtain member approval for giving a financial benefit to a related party is where the benefit is given on arm's length terms (s210). Section 210 provides that member approval is not needed to give a financial benefit on terms that would be reasonable in the circumstances if the entity and the related party were dealing at arm's length, or on terms that are less favourable to the related party than these terms.

The Corporations Act does not define the term "*arm's length terms*".

7.2 ASIC Regulatory Guide 76

ASIC Regulatory Guide 76 *Related party transactions* ("**RG 76**") sets out ASIC's views on the meaning "arm's length terms". In summary, they are:

When considering whether this exception applies, public companies and responsible entities should consider all of the following factors:

- how the terms of the overall transaction compare with those of any comparable transactions on an arm's length basis;
- the nature and content of the bargaining process;
- the impact of the transaction on the company or registered scheme;
- any other options available to the entity; and
- any expert advice received by the entity.

Companies and responsible entities may determine the appropriate weight to give each factor in the relevant circumstances. There may be other factors that are also relevant.

RG 76.64 Specifically, *ASIC v Australian Investors Forum* at [456] indicates that, in determining the objective standards that would characterise arm's length terms, courts should consider the transaction terms that would result if:

- (a) the parties to the transaction were unrelated in any way (e.g. financially, or through ties of family, affection or dependence);
- (b) the parties were free from any undue influence, control or pressure;
- (c) through its relevant decision-makers, each party was sufficiently knowledgeable about the circumstances of the transaction, sufficiently experienced in business and sufficiently well advised to be able to form a sound judgement as to what was in its interests; and
- (d) each party was concerned only to achieve the best available commercial result for itself in all the circumstances.

RG 76.68 The ‘circumstances’ could include, but are not limited to:

- (a) whether there are alternative transactions open to the entity that are not with related parties (e.g. whether a related party is the only supplier of a certain component or suitable premises);
- (b) prevailing economic conditions and their impact on the parties and their relevant industries; a©(c) any special value to the transaction (e.g. synergies available to the related party, other than those arising because it is a related party, that may not be available to other purchasers).

Note: This is separate to the assessment of fair value of consideration by experts that does not take special value into account if it is only available to a particular purchaser: see Regulatory Guide 111 Content of expert reports (RG 111) at RG 111.11.

7.3 Review of Arm’s Length Considerations

The following sections provide an overview of the factors we have considered in assessing the arm’s length nature of the New Loan Arrangements.

7.3.1 What are the other options available to SFG

We have considered alternative options which may be realistically available to SFG and note the following:

SFG could seek alternative funding sources

Based on our discussions with management of SFG, subsequent to the completion of the Placement and SPP, it appears that additional and/or alternative funding arrangements are, without a significant negative financial impact on the Company and/or its Shareholders, likely exhausted.

Accordingly, as at the date of this Report, in the case SFG is not successful in securing funding for Project Sea Dragon, the Independent Directors have indicated that alternative steps will need to be taken to fund the repayment of the Avatar Facility which may, depending on the terms on which funding is raised, be highly dilutive to Shareholders.

We also note that the Company is currently operating in a short window of time in which it will have any bargaining power to renegotiate the terms of the Avatar Facility.

As detailed in **Section 1.2**, where funding for Project Sea Dragon is not secured within the next six (6) months, as at the date of this Report, there is uncertainty regarding the ongoing strategy for Project Sea Dragon and the future direction of the Company. In this scenario, SFG will need to reassess its strategy which may include continuing to fund the development of all or any stage of Project Sea Dragon including seeking any funding required for this through equity (which may be dilutive to Shareholders) or if available, debt or convertible debt, seeking joint venture partners to assist with and/or fund the development of Project Sea Dragon, refocusing on the Company’s operations in Cardwell, or some other strategy with the aim of maximising value for Shareholders and the Company.

In such a scenario, the additional six (6) months afforded by the Term Extension will assist the Independent Directors in achieving the best outcome for Shareholders, all matters considered.

In our opinion and despite the relatively short period of time afforded by the Term Extension, this benefit is a compelling reason for Non-Associated Shareholder to approve the New Loan Arrangements.

Non-Associated Shareholders could do nothing in relation to the New Loan Arrangements

If approved by Non-Associated Shareholders, the New Loan Arrangements will provide the following benefits to SFG:

- a short (six (6) month) extension to the term of the existing Avatar Facility; and
- the potential ability for SFG to raise additional capital from the conversion of the Avatar Facility up to a maximum of \$12.2 million but limited to \$5.3 million in any six-month period (based on the current capital structure of SFG). However, this benefit is significantly mitigated by the fact that conversion of any part of the Avatar Facility is solely at the election of Avatar Finance who has not provided any indication as to under what circumstance(s) they may or may not exercise the Conversion Right.

Accordingly, the option of “doing nothing” is a reasonable conclusion where Non-Associated Shareholder believe that the value of the Conversion Right (as demonstrated in **Section 6.3**) is excessive in comparison to the benefits detailed above particularly noting that the benefits do not have any material impact on the funding issues facing the Company. It is noted that Invicta does not shares this view.

7.3.2 How the terms of the overall transaction compare with those of any comparable transactions on an arm’s length basis

We have considered several recent convertible note issues by ASX listed entities as a proxy for assessing whether or not the New Loan Arrangements fall within arm’s length terms. A summary of our findings in this regard is set out in **Appendix 11**. In this regard we note the following:

- in general, the terms of the convertible note issues vary widely and there appears to be no common structure to the transactions;
- in the case of the SFG, we note that the Avatar Facility is secured. We note that of the comparable convertible note issues, approximately half of them were also secured;
- excluding Afterpay, the value of the convertible notes raised amounted to between 4.4% to 44.2% of the market capitalisation of the issuing companies. We note that in the current case, the Maximum Conversion Amount (being \$12.2 million), equates to approximately 6.9% of the market capitalisation of SFG as at 31 May 2019;
- the vast majority of the comparable companies observed had relatively short conversion period (i.e. 1 to 2 years). We note that this is comparable to the terms of the Conversion Rights which have an expiry date of approximately 2.2 years;
- the interest rates applicable to the comparable convertible note issues range between 0.0% and 15.0%. This compares to an interest rate of approximately 5.41% currently applicable to the Avatar Facility;
- the majority of the convertible note issues observed were to unrelated parties (either fully or partly);

- the conversion prices (as a percentage of the then share prices of the issuing companies) observed for the comparable convertible note issue varied greatly however we note that in approximately half of the sample, the conversion price was greater than the then current share prices. We note that in the case of the Conversion Rights, the conversion price is approximately equal to the current share price (on a minority interest basis) of SFG; and
- the transactions reviewed were generally as a result of companies wishing to resolve debt issues and/or raise additional funds.

Overall, we are of the opinion that the terms of the New Loan Arrangements (in totality) fall within the range of terms observed for comparable transactions.

However, notwithstanding the above, we note that the New Loan Arrangements do not relate to a new debt facility, but rather, only amend the terms of the existing Avatar Facility. As discussed in **Section 7.3.1** above, the proposed amendments may be considered to only offer little additional benefits to SFG in exchange for an asset (i.e. the Conversion Right) with substantial value.

7.3.3 The nature and content of the bargaining process

In **Section 1.2**, we outlined the bargaining process as advised to us and concluded that it appeared to be reasonable and that relevant decision-makers, were sufficiently knowledgeable about the circumstances of the transaction, sufficiently experienced in business and sufficiently well advised to be able to form a sound judgement as to what was in the interests of SFG and appeared to be free from any undue influence, control or pressure and concerned only to achieve the best available commercial result for SFG given all of the circumstances.

We note that that the New Loan Arrangements are not conditional upon the successful approval of the Debt Conversion. In isolation, this may indicate a certain level of weakness in the bargaining on SFG's behalf however, we have been advised by the Independent Directors that this was a conscious decision to allow Non-Associated Shareholders to assess the benefits of the Debt Conversion and the New Loan Arrangements independently and on their own merits.

7.3.4 Prevailing economic conditions and their impact on the parties and their relevant industries

In our opinion, prevailing economic conditions and their impact on the parties and their relevant industries are not considered to have any undue influence apart from the general reluctance of investors generally to fund a start-up aquaculture operation such as the Project Sea Dragon.

7.3.5 Any special value to the transaction (e.g. synergies available to the related party, other than those arising because it is a related party, that may not be available to other purchasers)

We are unaware of any such synergies associated with the New Loan Arrangements.

7.3.6 The impact of the transaction on the company

In **Section 1.3**, we reviewed the impact of the New Loan Arrangements, in particular the Conversion Right upon the capital structure of SFG.

As noted in **Section 1.3**, based on the current capital structure of SFG, Avatar Finance's shareholders (including its associates) could increase their voting interests in SFG from 23.05% currently, to between 28.00% and 29.12% depending on whether or not the Debt Conversion and/or issue of Shares to Nissui (under item 5 of the NOM) are also approved (i.e. a dilution of between 4.95% and 6.07%).

Given our views expressed in **Section 1.2**, in particular, our view that Avatar Finance is unlikely to exercise the Conversion Right unless funding for Project Sea Dragon is secured, it is our opinion that a dilution of between 4.95% and 6.07% should not in itself, be a sufficient reason for Non-Associated Shareholders not to approve the New Loan Arrangements.

7.4 Conclusion

The terms of the New Loan Arrangements fall within parameters observed for a number of comparable companies and for this reason, could be argued to be on arm's length terms. In forming our view, we have also taken into consideration factors such as SFG's ability to repay the Avatar Facility, the fact that the Independent Directors exercised some degree of bargaining power and the fact that there is at this point no other meaningful options for SFG to secure an extension or replacement of the Avatar Facility.

Based on the above analysis, in our opinion, the terms of the New Loan Arrangements are on balance, at arm's length terms.

8. Qualifications & Independence

8.1 Qualifications

Invicta is an authorised representative (Authorised Representative Number 1274408) of Kings Road Group Pty Ltd (AFSL 460940).

Mr Vince Fayad and Mr Nick Navarra are the Invicta staff responsible for the preparation of this Report.

Mr Vince Fayad B.Bus, CA, is a Director of Invicta. Mr Fayad has over 35 years' experience in a number of specialist corporate advisory activities including company valuations, due diligence investigations, preparation and review of business feasibility studies, public company floats, accounting, advising on mergers and acquisitions, the preparation of independent expert reports, the preparation of information memorandums and other corporate investigations. Mr Fayad is also a registered Business Valuation Specialist with Chartered Accountants Australia & New Zealand ("CAANZ").

Mr Nick Navarra B.Bus, CA, is a Director of Invicta. Mr Navarra has over 18 years' experience in accounting, audit and corporate advisory activities including business, company and intangible asset valuations, the preparation of independent expert reports, due diligence reviews, litigation support activities, capital raisings and the provision of advice in relation to merger, acquisition and divestment transactions. Mr Navarra is also a registered Business Valuation Specialist with CAANZ.

Mr Fayad and Mr Navarra have the appropriate experience and professional qualifications to provide the advice offered in this Report.

8.2 Independence

Invicta is not aware of any matter or circumstance that would preclude it from preparing this Report, on the grounds of independence, either under regulatory or professional requirements. In particular, we have had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and ASIC.

Invicta (including its associates) does not have any shareholdings in, or any other relationships with SFG or Avatar Finance (or any of their associates). Accordingly, Invicta considers itself to be independent with respect to RG112 and APES 225.

Invicta is entitled to receive a fee for the preparation of this Report. This fee is based on the time spent to prepare the Report and is not contingent upon the conclusions or content of this Report, nor is it contingent on the approval of the New Loan Arrangements. Except for this fee, Invicta will not receive any other benefit, either directly or indirectly, for or in connection with, this Report.

Drafts of this Report were provided to the Directors of SFG for review of factual accuracy. These drafts were provided without any of our conclusions or opinions. Certain changes were made to the Report as a result of the circulation of the draft Reports however our approach, methodologies and overall conclusions and opinions were not affected.

Appendix 1 Financial Services Guide

10 July 2019

Why are we providing this FSG to you?

Invicta Corporate Finance Pty Ltd ("**Invicta**") has been engaged by Seafarms Group Limited ("**SFG**") to prepare an Independent Expert's Report ("**Report**") in connection with proposed amendments of the current debt facility in place between Seafarms Group Limited ("**SFG**") and Avatar Finance Pty Ltd ("**Avatar Finance**") ("**New Loan Arrangements**").

Our Report provides general financial product advice to you. This FSG provides you with information regarding, the financial services we provide, the use of general financial product advice, details of our remuneration and our dispute resolution process.

Financial services we are licensed to provide.

Invicta is a corporate authorised representative (AFS Representative Number 1274408) of Kings Road Group Pty Ltd (AFSL 460940). Invicta is authorised to provide financial product advice in relation to various financial products including securities, interests in managed investment schemes, stocks, bonds and basic deposit products, to wholesale and retail clients.

General financial product advice.

Our Report provides "general advice" as it does not take into account the personal objectives, financial situation or needs of individual readers of our Report. You should consider the appropriateness of the general advice provided in our Report having regard to your own personal objectives, financial situation or needs.

Where our advice is provided in connection with the acquisition or possible acquisition of a financial product, you should also obtain and consider carefully the relevant offer documentation provided by the issuer of the financial product.

How are we remunerated?

We charge fees for the provision of reports which are usually determined on a time cost or fixed fee basis, plus reimbursements of any expense incurred in providing the reports. Our fees are agreed with and paid by, those who engage us. You are not responsible for the payment of our fees.

We will receive a fee of approximately \$32,500 (plus GST and disbursements) in relation to the preparation of our Report. This fee is not contingent upon the conclusions or content of our Report, nor the outcome of the New Loan Arrangements.

Neither Invicta or any of its directors, employees or related entities, will receive any commissions or other benefit(s) arising directly from providing our Report.

All directors and employees of Invicta receive remuneration based on their contribution to the company, but not directly in connection with the provision of any report.

We do not pay commissions or provide any benefits to any person who refers us clients in connection with reports that we are authorised to provide.

What should you do if you have a complaint?

If you have any concerns or complaints regarding our Report, please contact us using the following details and we will attend to your concern or complaint in a prompt and equitable manner:

The Compliance Officer
Invicta Corporate Finance Pty Ltd
GPO Box 2733
Sydney NSW 2001
Phone: +61 2 8023 6868
Email: enquiries@invicta.com.au

If the issue is not resolved to your satisfaction, you can lodge a dispute with the Australian Financial Complaints Authority ("**AFCA**") using the following details:

Australian Financial Complaints Authority
GPO Box 3
Melbourne VIC 3001
Phone: 1800 931 678
Fax: +61 3 9613 6399
Email: info@afca.org.au
Web: www.afca.org.au

Compensation arrangements.

Invicta holds professional indemnity insurance that covers the financial services which we provide. This insurance satisfies the compensation requirements of the *Corporations Act 2001 (Cth)*.

Appendix 2 Glossary of Terms

Table 14: Glossary of Terms

Term	Definition
AAMIG	AAM Investment Group
AASB	Australian Accounting Standards Board
AFSL	Australian Financial Services Licence
AFCA	Australian Financial Complaints Authority
APES 225	Accounting Professional & Ethical Standards Board standard 225 <i>Valuation Services</i>
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
Avatar Facility	The loan provided by Avatar Finance Pty Ltd to Seafarms Group Limited originally entered into on or around 11 March 2014, as subsequently amended
Avatar Finance	Avatar Finance Pty Ltd, a company associated with the major shareholder of Seafarms Group Limited
BBSY	Bank Bill Swap Bid Rate
CAANZ	Chartered Accountants Australia & New Zealand
CFME	Capitalisation of future maintainable earnings valuation methodology
CO2	CO2 Australia Group, previously a wholly-owned environmental services business of Seafarms Group Limited
Company	Seafarms Group Limited
Conversion Right	The right by Avatar Finance Pty Ltd to convert up to \$12.2 million owing under the Avatar Facility into ordinary shares of Seafarms Group Limited at a price of \$0.09 per ordinary share
Corporations Act	The <i>Corporations Act 2001 (Cth)</i>
DCF	Discounted cash flow valuation methodology
Debt Conversion	The conversion of the \$3.0 million owing under the Avatar Facility into ordinary shares of Seafarms Group Limited at a price of \$0.09 per ordinary share
Demerger	The sales of CO2 Australia Group by Seafarms Group Limited
Directors	Directors of Seafarms Group Limited
EBITDA	Earnings before interest, tax, depreciation and amortisation
Extended Facility Limit	The increasing of the Original Facility to \$15.2 million or around 16 July 2018
Extended Repayment Date	The extension of the repayment date on the Original Facility from 15 March 2020 to 15 March 2021, on or around 16 July 2018
Extension Period	The period between the current due date for repayment of the Avatar Facility (i.e. 15 March 2021) and the proposed new due date under the New Loan Arrangements (i.e. 15 September 2021)
Facility Payments	Interest and fees payable by Seafarms Group Ltd to Avatar Finance Pty Ltd under the Avatar Facility

Term	Definition
Final Repayment Date	The potential redraw of the Avatar Facility up to 15 March 2024, solely at the discretion of Avatar Finance Pty Ltd
FSG	Financial Services Guide
Independent Directors	The Independent Directors of Seafarms Group Limited
Interim Facility	The additional credit facility for \$3.7 million provided by Avatar Finance Pty Ltd to Seafarms Group Limited on or around 28 February 2018
Invicta, we, us or our	Invicta Corporate Finance Pty Ltd ABN 78 631 600 845 Authorised Representative Number 1274408
Management Accounts	Unaudited management accounts of Seafarms Group Limited for the period up to 30 April 2019
Market Rate Facility Payments	The estimated Facility Payments over the Extension Period assuming market-based interest rates and fees were applicable to the Avatar Facility
Maximum Conversion Amount	The maximum amount which may be converted under the Conversion Right, being \$12.2 million
New Loan Arrangements	The proposed new terms of the Avatar Facility comprising the Term Extension and the Conversion Right
Nissui	Nippon Suisan Kaisha Ltd, the second largest shareholder of Seafarms Group Limited
NOM	The Notice of Meeting to be issued by Seafarms Group Limited seeking approval, amongst other things, of the New Loan Arrangements and the Debt Conversion
Non-Associated Shareholders	Shareholders of Seafarms Group Limited whose votes are not to be disregarded in relation to the approval of the New Loan Arrangements
Original Facility	The original loan provided by Avatar Finance Pty Ltd to Seafarms Group on or around 11 March 2014, being an unsecured credit facility of \$5.0 million
PDT	Pastoral Development Property Trust
Placement	The issue of 222,222,222 ordinary shares by Seafarms Group Limited at an issue price of \$0.09 per share to raise \$20 million, completed on 5 April 2019
Prospective Financial Information	Any prospective financial information provided to Invicta Corporate Finance Pty Ltd in relation to Seafarms Group Limited
Report	This report dated 10 July 2019
RG76	ASIC Regulatory Guide 76 <i>Related Party Transactions</i>
RG111	ASIC Regulatory Guide 111 <i>Content of Expert Reports</i>
RG112	ASIC Regulatory Guide 112 <i>Independence of Experts</i>
Security Extension Transaction	The extension of security on the Original Facility on or around 16 July 2018 to include all of the assets of Seafarms Hinchinbrook Pty Ltd
SFG	Seafarms Group Limited
Shareholders	Ordinary shareholders of Seafarms Group Limited

Term	Definition
Shares	Ordinary shares of Seafarms Group Limited
SHPL	Seafarms Hinchinbrook Pty Ltd, a wholly-owned subsidiary of Seafarms Group Limited
SPP	The issue of 49,263,246 shares by Seafarms Group Limited at an issue price of \$0.09 per share to raise \$4.43 million, complete on 29 May 2019
SGPL	Seafarms Queensland Pty Ltd, a wholly-owned subsidiary of Seafarms Group Limited
Term Extension	The extension of the due date for repayment of the Avatar Facility from 15 March 2021 to 15 September 2021
Valuation Date	31 May 2019
VWAP	Volume weighted average price

Appendix 3 Sources of Information

In preparing this Report, Invicta have had access to and have relied upon the following principal sources of information:

- Audited annual reports of SFG for the years ended 30 June 2017 and 2018.
- Reviewed half-year report of SFG for the six (6) months ended 31 December 2018.
- Management accounts of SFG for the ten (10) months ended 30 April 2019 (details not disclosed in this Report but relied upon by Invicta).
- Budget of SFG for the year ending 30 June 2020 (details not disclosed in this Report but relied upon by Invicta).
- Draft Notice of Extraordinary General Meeting to be issued by SFG seeking approval, amongst other things, of the New Loan Arrangements and the Debt Conversion.
- Draft Amendment and Restatement Deed pertaining to the New Loan Arrangements.
- Information available on the website of SFG.
- IBIS World Industry Report A0200 Aquaculture in Australia, August 2018
- IBIS World A0200 Aquaculture Risk Ratings Report April 2019
- IBIS World Risk Rating Report: Fish and Seafood Wholesaling in Australia, April 2019
- IBIS World Industry Report A0410 Fishing in Australia, July 2018
- IBIS World Industry Report F3604 Fish and Seafood Wholesaling in Australia, January 2019
- Aquaculture industry in Australia, Australian Government, Department of Agriculture and Water Resources Website
- AgriFutures Australia Website, Prawns (aquaculture) 25.05.17
- Thomson Reuters.
- Discussions and correspondence with management of SFG.
- Other publicly available information in relation to SFG and industry.

Appendix 4 Valuation Methods

In assessing the fair market value of components relation to the New Loan Arrangements, Invicta has had regard to the following commonly used valuation methodologies:

Black-Scholes Valuation Methodology

The Black-Scholes model is commonly used to estimate the value of call options on shares where the following assumptions are broadly valid:

- the underlying share pays no dividends. Where dividends are paid, an adjustment is made for the value of projected dividends during the assumed term;
- the option type is European and therefore can only be exercised on expiry. Where options are American and therefore exercise can occur between two dates, the Black-Scholes model may be used where the expected term of the options, rather than the contracted term, is used in the model;
- no transaction costs or taxes apply; and
- the risk-free rate and volatility of the underlying asset are known and constant.

Net Asset Based Methodology

This methodology involves determining the value of a business or entity based on the value of its net assets. It involves separately identifying the assets and liabilities of a business or entity and ascribing a value to each of those components.

There are a number of basis on which the net assets of a business or entity can be determined including:

- ***going concern basis*** where the value of net assets is determined on an “in-use” basis and does not take into account any realisation costs;
- ***orderly realisation basis*** where the value of net assets is determined after considering the reasonable costs of disposal of the assets including taxation implications. This method assumes that the assets can be disposed of in an “orderly” manner without any further discounts to take into account a distressed or fire-sale situation; and
- ***liquidation or fire sale basis*** where the value of net assets is determined having regard to the impacts that a liquidation situation or short sale period may have on the price that is obtained for the assets. This method would typically result in values that are lower than those determined using the going concern or orderly realisation methods.

The net asset based methodology is typically used for investment or property holding entities, where an entity is not trading, or where an operating business is incurring losses.

Capitalisation of Future Maintainable Earnings Methodology

The capitalisation of future maintainable earnings methodology (“**CFME**”) involves determining the value of a business or entity based on the selection of a suitable maintainable earnings benchmark (e.g. revenue, net profit before tax, earnings before interest, tax, depreciation and amortisation (“**EBITDA**”) and multiplying it by an appropriate multiple.

In determining an appropriate multiple, regard is often had to trading multiples of listed companies which have operations comparable to the business being valued.

In the case where the securities of an entity are being valued, the valuer will also have regard to the value of surplus assets and liabilities which form part of that entity (i.e. those assets and liabilities that an entity may hold but do not contribute to the earnings of the business). Surplus assets and liabilities must be valued separately as they are considered “surplus” to the business undertaking, but nevertheless represent value that should be reflected in the overall value of the entity.

The CFME methodology is typically used to value businesses or assets with relatively stable earnings or where consistent earnings trends can be identified, and where the business or asset has an indefinite life.

Discounted Cash Flow Methodology

The discounted cash flow methodology (“**DCF**”) involves determining the value of a business or asset based on the present value of its expected future cash flows. The DCF method involves the determination of two key elements, namely:

- a. a reasonably reliably forecast of a business’ or asset’s future cash flows, usually for a period extending five (5) to ten (10) years; and
- b. a reasonable discount rate which reflects current market conditions and the specific risks inherent in the forecast cash flows.

In the case where the securities of an entity are being valued, the valuer will also have regard to the value of surplus assets and liabilities which form part of that entity (i.e. those assets and liabilities that an entity may hold but do not contribute to the earnings of the business). Surplus assets and liabilities must be valued separately as they are considered “surplus” to the business undertaking, but nevertheless represent value that should be reflected in the overall value of the entity.

The DCF methodology is typically used to value businesses or assets where:

- earnings or cash flows are expected to fluctuate significantly from year to year and may include negative earnings or cash flows;
- the business or asset has an indefinite or definite life;
- the business is in the early stages of its life;
- the assets being valued are infrastructure projects; and
- in all cases, where the business’ or asset’s future earnings and cash flows are capable of being reasonably estimated for a period of at least five (5) years.

Security Trading History

This methodology involves determining the value of an entity based on prices inherent in recent trading of the entity's securities. In this case of listed entities, this would include trading activity which has taken place through the exchange on which it is listed.

In using this methodology, the valuer is required to consider the reliability of recent trading prices taking into consideration the following:

- whether or not transactions have taken place between independent parties and on an arms-length basis; and
- the liquidity and depth of the market for the entity's securities.

Capitalisation of Future Maintainable Dividends

This methodology is similar to the CFME method in that the valuer is required to assess a suitable level of maintainable dividends and multiplying it by an appropriate multiple having regard to the quantum and likelihood of future dividends.

This methodology is typically applied to value minority interests in private and unlisted public companies, or where the subject securities have unique rights.

Appendix 5 Impact of Conversion Right & Debt Conversion on Capital Structure

The following table sets out the potential impact on the existing capital structure of SFG assuming the Maximum Conversion Amount is converted, assuming approval of the Debt Conversion, and assuming approval of the issue of Shares to Nissui under Item 5 of the NOM:

Table 15: Impact of the Conversion Right, Debt Conversion & Nissui Issue on the Capital Structure

Shareholder	Current Shareholdings		Maximum Number of Ordinary Shares to be Issued Under the Conversion Right	Post Exercise of Conversion Right		Number of Ordinary Shares to be issued under the Debt Conversion	Post Exercise of Conversion Right & Debt Conversion		Number of Shares to be Issued to Nippon Suisan Kaisha Ltd Under Item 5 of the NOM	Post Exercise of Conversion Right, Debt Conversion & Nissui Issue	
	#	%		#	%		#	%		#	%
Gabor Holdings Pty Ltd	454,557,889	23.05%	135,555,555	590,113,444	28.00%	33,333,333	623,446,777	29.12%	20,370,045	623,446,777	28.85%
Nippon Suisan Kaisha Ltd	283,230,208	14.36%		283,230,208	13.44%		283,230,208	13.23%		303,600,253	14.05%
UBS Nominees Pty Ltd	69,084,715	3.50%		69,084,715	3.28%		69,084,715	3.23%		69,084,715	3.20%
JB Were (NZ) Nominees Limited	65,793,651	3.34%		65,793,651	3.12%		65,793,651	3.07%		65,793,651	3.04%
Alocasia Pty Limited	62,021,661	3.15%		62,021,661	2.94%		62,021,661	2.90%		62,021,661	2.87%
Total Top 5 Ordinary Shareholders	934,688,124	47.40%	135,555,555	1,070,243,679	50.78%	33,333,333	1,103,577,012	51.55%	20,370,045	1,123,947,057	52.00%
Other Ordinary Shareholders	1,037,365,845	52.60%		1,037,365,845	49.22%		1,037,365,845	48.45%		1,037,365,845	48.00%
Total Ordinary Shares	1,972,053,969	100.00%	135,555,555	2,107,609,524	100.00%	33,333,333	2,140,942,857	100.00%	20,370,045	2,161,312,902	100.00%

Source: Management of SFG; Invicta analysis

Appendix 6 Present Value of Actual Facility Payments

The following table sets out our calculations in determining the value of Actual Facility Payments:

Table 16: Calculation of the Value of Actual Facility Payments

	Report Reference / Note	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Start Period	6.2.3	15/03/2021	1/04/2021	1/05/2021	1/06/2021	1/07/2021	1/08/2021	1/09/2021
End Period	6.2.3	31/03/2021	30/04/2021	31/05/2021	30/06/2021	30/07/2021	31/08/2021	15/09/2021
Days		17	30	31	30	30	31	15
Facility Drawn Amount	6.2.4	\$15,200,000	\$15,200,000	\$15,200,000	\$15,200,000	\$15,200,000	\$15,200,000	\$15,200,000
BBSY (Assumed)	6.2.5	1.41%	1.41%	1.41%	1.41%	1.41%	1.41%	1.41%
Margin	6.2.5	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Interest Rate	6.2.5	5.41%	5.41%	5.41%	5.41%	5.41%	5.41%	5.41%
Interest Payments	(a)	\$38,195	\$67,403	\$69,650	\$67,403	\$67,403	\$69,650	\$33,702
Line Fee	6.2.6	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Line Fees	(b)	\$3,540	\$6,247	\$6,455	\$6,247	\$6,247	\$6,455	\$3,123
Total Facility Payments	(a) + (b)	\$41,735	\$73,650	\$76,105	\$73,650	\$73,650	\$76,105	\$36,825
Discount Rate	6.2.7	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Discount Factor		0.9643	0.9628	0.9612	0.9596	0.9581	0.9564	0.9556
Present Value		\$40,247	\$70,909	\$73,150	\$70,675	\$70,561	\$72,786	\$35,191
Total Present Value		\$433,518						

Source: Invicta analysis

Appendix 7 Present Value of Market Rate Facility Payments – Low Value

The following table sets out our calculations in determining the value of the Market Rate Facility Payments (low value):

Table 17: Calculation of the value of Market Rate Facility Payments (Low Value)

	Report Reference / Note	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Start Period	6.2.3	15/03/2021	1/04/2021	1/05/2021	1/06/2021	1/07/2021	1/08/2021	1/09/2021
End Period	6.2.3	31/03/2021	30/04/2021	31/05/2021	30/06/2021	30/07/2021	31/08/2021	15/09/2021
Days		17	30	31	30	30	31	15
Facility Drawn Amount	6.2.4	\$15,200,000	\$15,200,000	\$15,200,000	\$15,200,000	\$15,200,000	\$15,200,000	\$15,200,000
BBSY (Assumed)	6.2.5	1.41%	1.41%	1.41%	1.41%	1.41%	1.41%	1.41%
Margin	6.2.5	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Interest Rate	6.2.5	6.41%	6.41%	6.41%	6.41%	6.41%	6.41%	6.41%
Interest Payments	(a)	\$45,255	\$79,862	\$82,524	\$79,862	\$79,862	\$82,524	\$39,931
Line Fee	6.2.6	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Line Fees	(b)	\$3,540	\$6,247	\$6,455	\$6,247	\$6,247	\$6,455	\$3,123
Total Facility Payments	(a) + (b)	\$48,795	\$86,109	\$88,979	\$86,109	\$86,109	\$88,979	\$43,054
Discount Rate	6.2.7	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Discount Factor		0.9643	0.9628	0.9612	0.9596	0.9581	0.9564	0.9556
Present Value		\$47,055	\$82,904	\$85,524	\$82,631	\$82,497	\$85,099	\$41,144
Total Present Value		\$506,854						

Source: Invicta analysis

Appendix 8 Present Value of Market Rate Facility Payments – High Value

The following table sets out our calculations in determining the value of the Market Rate Facility Payments (high value):

Table 18: Calculation of the value of Market Rate Facility Payments (High Value)

	Report Reference / Note	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Start Period	6.2.3	15/03/2021	1/04/2021	1/05/2021	1/06/2021	1/07/2021	1/08/2021	1/09/2021
End Period	6.2.3	31/03/2021	30/04/2021	31/05/2021	30/06/2021	30/07/2021	31/08/2021	15/09/2021
Days		17	30	31	30	30	31	15
Facility Drawn Amount	6.2.4	\$15,200,000	\$15,200,000	\$15,200,000	\$15,200,000	\$15,200,000	\$15,200,000	\$15,200,000
BBSY (Assumed)	6.2.5	1.41%	1.41%	1.41%	1.41%	1.41%	1.41%	1.41%
Margin	6.2.5	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Interest Rate	6.2.5	8.41%	8.41%	8.41%	8.41%	8.41%	8.41%	8.41%
Interest Payments	(a)	\$59,376	\$104,780	\$108,273	\$104,780	\$104,780	\$108,273	\$52,390
Line Fee	6.2.6	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Line Fees	(b)	\$3,540	\$6,247	\$6,455	\$6,247	\$6,247	\$6,455	\$3,123
Total Facility Payments	(a) + (b)	\$62,915	\$111,027	\$114,728	\$111,027	\$111,027	\$114,728	\$55,513
Discount Rate	6.2.7	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Discount Factor		0.9643	0.9628	0.9612	0.9596	0.9581	0.9564	0.9556
Present Value		\$60,672	\$106,895	\$110,273	\$106,543	\$106,370	\$109,725	\$53,050
Total Present Value		\$653,527						

Source: Invicta analysis

Appendix 9 Market Interest Rate Comparables – Same or Similar Industry

Set out below is a summary of interest rates paid by companies operating in the same or similar industry to SFG:

Table 19: Interest Rates Paid by Companies Operating in the Same or Similar Industry to SFG

Company	ASX Ticker	Market Cap (\$m) (Note 1)	Revenue (\$m) (Note 2)	EBITDA (\$m) (Note 2)	Less Than One Year (\$m)	More Than One Year (\$m)	Total Debt Amount (\$m) (Note 2)	Related Party Lender?	Secured?	Weighted Average Interest Rate (% p.a.)	Note
Tassal Group Limited As at 30 June 2018 <i>Fixed interest rate</i> Finance lease liabilities Bank loans Other	TGR	860.1	554.6	104.0	13.1 21.2 ns	21.3 - ns	34.3 21.2 77.9	No No No	Yes Yes Yes	4.3% 3.2% ns	3
Murray Cod Australia Limited As at 31 Decemehr 2018 Related party borrowings	MCA	79.4	3.2	-2.8	0.5	-	0.5	Yes	No	6.0%	4
Huon Aquaculture Group Ltd As at 31 December 2018 Borrowings	HUO	404.5	284.0	46.7	9.6	124.7	134.3	No	Yes	3.49%	5
Angel Seafood Holdings Ltd As at 31 December 2018 Bank Loans	AS1	16.7	3.1	-1.7	0.5	1.1	1.6	No	Yes	5.52%	6, 7
Mareterram Ltd As at 31 December 2018 Bank Facilities	MTM	26.5	44.9	3.0	4.7	15.3	20.0	No	Yes	4.92%	8, 9

Company	ASX Ticker	Market Cap (\$m) (Note 1)	Revenue (\$m) (Note 2)	EBITDA (\$m) (Note 2)	Less Than One Year (\$m)	More Than One Year (\$m)	Total Debt Amount (\$m) (Note 2)	Related Party Lender?	Secured?	Weighted Average Interest Rate (% p.a.)	Note
Ocean Grown Abalone Ltd Trade and other payables Loans and borrowings	OGA	23.8	2.3	-4.0	0.1	0.1	0.2	No	Yes	4.98%	9, 10

ns not specified

Note 1: As at or around 31 May 2019.

Note 2: As at the latest reporting date, unless otherwise indicated.

Note 3: On 14 September 2018, Tassal Group announced that its wholly owned subsidiary, De Costi Seafoods Pty Ltd (De Costi Seafoods) completed the acquisition of the land, assets and inventory of the Fortune Group prawn aquaculture business (Fortune Group). The Fortune Group comprises three prawn farms located at Yamba, New South Wales; Proserpine, Queensland; and Mission Beach, Queensland. Tassal has acquired from Fortune Group one of the largest footprint prawn farming bases in Australia. The acquisition has been funded through a newly arranged \$75 million debt facility. The acquisition price was \$31.9 million (including inventory), with \$1 million deferred to support the transition of the business. The capital investment program over the next 2-3 years is circa \$34 million. The acquisition is immediately earnings accretive for Tassal shareholders. The acquisition and investment program will be funded by a newly arranged \$75 million debt facility. Further details of the new \$75m debt facility have not been made available publicly.

Note 4: The 2018 Annual Report stated (inter alia): Note 25 "Ag Finance Specialists Pty Limited a company related to Director Ross Anderson was paid interest as per the Loan Agreement at 6%.". Note 15 indicates "key management personnel entities" provided a current, unsecured loan of \$549,092 as at 30 June 2018 and \$519,092 as at 30 June 2017.

Note 5: As at 31 December 2018 the weighted average effective interest rate on the bank loans was 3.45% per annum. Interest rates are floating.

Note 6: During the half year to 31 December 2018 the company increased its bank facility with the National Australia Bank ("NAB") from \$0.8m to \$2.8m. The added \$2m facility is for a three year term expiring 30 November 2021 and is secured by the assets of the company. A facility reduction payment of \$500,000 is due in November 2019. On 4 March 2019 the company advised the ASX that it had secured an increase of \$1.2m in its general banking facility with the NAB, so that the total debt facility available to the company will be \$4.0 million.

Note 7: The interest rate is fixed.

Note 8: The Market Cap in this case is the assessed mid-point control value as determined in an IER dated 27 February 2019 by RSM Corporate Australia Pty Limited provided in relation to a successful takeover of the company.

Note 9: The interest rate appears to be floating.

Note 11: Per HY 2019 Note 15: The Loans and borrowings comprise equipment loans.

Source: Publicly available information regarding the companies and debt transactions noted above; Invicta analysis

Appendix 10 Market Interest Rate Comparables – Different Industry

Set out below is a summary of interest rates paid by companies operating in different industries to SFG:

Table 20: Interest Rates Paid by Companies Operating in Different Industries to SFG

Company	ASX Ticker	Market Cap ² (\$m)	Revenue ¹ (\$m)	EBITDA ¹ (\$m)	Debt Amount ¹ (\$m)	Related Party Lender?	Secured?	Weighted Average Interest Rate (% p.a.)	Note
Accent Resources NL	ACS	1.1	0.0	(0.4)	6.6 4.0	Yes Yes	No No	8.20%	7
Stone Resources Ltd	SHK	1.6	0.0	(2.1)	34.2	Yes	ns	8.54%	
Crater Gold Mining Ltd	CGN	18.3	0.1	(5.4)	17.2 2.8	95% of Debt Yes	Partly ns	8.60% 8.00%	3 8
Dateline Resources Ltd	DTR	23.8	0.1	(3.4)	8.2	Yes	No	11.70%	4
Avenira Ltd	AEV	14.8	0.1	(4.4)	8.3 1.0	36% of Debt Yes	Yes No	6.80% 10.00%	5
Peak Resources Ltd	PEK	44.6	0.1	(2.4)	6.9	Yes	ns	9.90%	6
Austral Gold Ltd	AGD	34.6	169.6	20.1	USD 18.5	No	Yes	5.60%	
Afterpay Touch Group Limited	APT	5,768.0	194.5	3.5	50.0	No	Snr Unsecured	7.25%	9
Suda Limited	SUD	15.5	0.9	(0.8)	2.0	Partly	Secured	8.00%	10

ns not specified

Note 1: As at the latest reporting date & A\$m, unless otherwise indicated.

Note 2: As at or around 22 May 2019.

Note 3: 22% of the total debt attracts an interest rate of 12%.

Note 4: 78% of the total debt attracts an interest rate of \$15.06%.

Note 5: New facility announced 14 May 2019.

Note 6: 30% of the total debt (which is denominated in US dollars) attracts an interest rate of 15%.

Note 7: Subsequent to the end of the half year ended 31-12-18, the Company signed an agreement with Xingang Resources (HK) Ltd to extend the term of the existing \$4m unsecured loan from 31 December 2018 to 31 December 2021. The loan will be accruing interest six monthly at 4% (previously interest free). This will increase the above weighted average interest rate above the stated 8.2%.

Note 8: Proposed new facility announced 23 January 2019.

Note 9: Issue date 18/04/2018

Note 10: Issue date 31/03/2017. Right of conversion to equity in addition to the interest return.

Source: Publicly available information regarding the companies and debt transactions noted above; Invicta analysis

Appendix 11 Comparable Convertible Note Transactions

Set out below is a summary of comparable convertible note issues:

Table 21: Convertible Note Issues

Company	ASX Ticker	Date of Facility	Market Cap as at Date of Facility (\$m)	Revenue (\$m)	Earnings (\$m)	Share Price (\$)	Amount Raised (\$m) (Note 1, 2)	Amount Raised as a % of Market Cap	Conversion Terms	Conversion Price (Fixed Price, Market Price, Some Other Measure)	Conversion Price vs Share Price at Date of Issue	Interest rate (% p.a.)	Term	Secured / unsecured	Related Party ?	Repayment/Pre-payment	Notes
Crusader Resources Ltd	CAS.AX	11-May-18	17.96	0.08	-4.31	0.039	2.40	13.36%	Shares to be issued = approx. 47.8% of current issued shares	Convert at a conversion price of the lower of \$0.01 or the Entitlement Issue price.	Not less than 25.6%	8% fixed	1 year	Secured	62.5% of issued notes value to a related party		3
Cougar Metals	CGM.AX	6-Jun-18	4.59	0.00	-0.69	0.005	0.80	17.43%				~10% fixed	2 years				4
Afterpay	APT.AX	19-Jan-18	1,212.60	82.87	-8.97	7.490	US \$0.1	0.01%	Maximum number of Shares issued on conversion being 10% of the Company's current issued Shares	See Note 4		6% fixed	Between 5 and 7 years	Unsecured	No	Afterpay US may not prepay the Notes prior to the Maturity Date without the consent of the Majority Holders.	5
Covata	CVT.AX	30-Jan-19	10.10	1.39	-9.26	0.015	1.40	13.87%	Convertible into ordinary shares at \$0.018 per share	Must be converted at AS0.018 if the daily VWAP of trades in the Company's ordinary shares exceed AS0.047 for any five (5) consecutive days or in the event of a takeover bid at a price in excess of \$0.047 per share.	120.0%	11.0%	6 months	Secured	No	Redeemable at the election of the Company or otherwise on the earlier of the expiration of the term, the sale of the SafeShare intellectual property for an amount great than \$5 million or in the case of a default under the note documents.	6
Magnum Mining	MGU.AX	2-Nov-18	13.70	0.11	-1.39	0.049	1.25	9.12%		Conversion at election of noteholder on maturity. Conversion Price - the minimum price will be the lower of \$0.05 or 80% of the market price determined by the VWAP for the 10 trading days prior to the Conversion Notice.	Not less than 102.2%	10% fixed	1 year	Unsecured		Repayment of principal amount and interest on Maturity Date unless noteholder elects to convert.	7

Company	ASX Ticker	Date of Facility	Market Cap as at Date of Facility (\$m)	Revenue (\$m)	Earnings (\$m)	Share Price (\$)	Amount Raised (\$m) (Note 1, 2)	Amount Raised as a % of Market Cap	Conversion Terms	Conversion Price (Fixed Price, Market Price, Some Other Measure)	Conversion Price vs Share Price at Date of Issue	Interest rate (% p.a.)	Term	Secured / unsecured	Related Party ?	Repayment/Pre-payment	Notes
Otto Energy	OEL.AX	2-Aug-17	33.22	0.15	-7.05	0.027	US \$8.2	31.01%		A\$0.055 per share Reduced to A\$0.05484 as adjustment for subsequent entitlement issue.	200.3% reduced to 199.7%	14% compounded monthly; fixed	23 months + an Option to Extend for another 12 months	Secured	Yes	The company may elect to redeem convertible notes on: a) any 30 June, 30 September, 31 December and 31 March after the first anniversary of the issue date; b) the maturity date; and c) receipt of a takeover offer (including by scheme of arrangement).	8
Advanced Braking Technologies	ABV.AX	24-Dec-18	5.35	7.87	-1.66	0.018	0.23	4.38%	The Convertible Notes can be converted at any time prior to the Maturity Date at the request of the Noteholder at the Conversion Price.	0.02	111.1%	15%; fixed	6 months	Subordinated; not secured	No	Redeemed if the company gives notice and the noteholder does not convert; or automatically on maturity, if not converted previously.	9
Advanced Braking Technologies	ABV.AX	24-Dec-18	5.35	7.87	-1.66	0.018	0.50	9.35%	As above	As above	111.1%	As above	6 months	As above	Yes	As above	10
Laneway Resources	LNW.AX	30-Nov-18	10.56	0.00	-0.78	0.003	2.00	18.93%	Each Convertible Note can be converted into one fully paid Laneway share.			15%; fixed	37 months	Secured	32.3% to Related Parties		11
RBR Group	RBR.AX	4-Oct-18	4.90	0.49	-1.42	0.007	1.30	26.63%	Converted into ordinary shares at the election of the Noteholder at any time after 6 months from date of issue until maturity.	Variable: between 1.5 cents and 1.0 cents per share; plus the company shall grant to the noteholder options for nil or nominal consideration on the basis that the noteholder is entitled to 1 option of every 5 shares issued to the noteholder on conversion of the Notes.		12%; fixed	37 months	Unsecured	7.9% to related parties	Redeemed in cash at maturity if not converted. The Company may redeem the Convertible Notes prior to maturity subject to providing notice and providing additional benefits.	12

Company	ASX Ticker	Date of Facility	Market Cap as at Date of Facility (\$m)	Revenue (\$m)	Earnings (\$m)	Share Price (\$)	Amount Raised (\$m) (Note 1, 2)	Amount Raised as a % of Market Cap	Conversion Terms	Conversion Price (Fixed Price, Market Price, Some Other Measure)	Conversion Price vs Share Price at Date of Issue	Interest rate (% p.a.)	Term	Secured / unsecured	Related Party ?	Repayment/Pre-payment	Notes
Australian Mines	AUZ.AX	11-Sep-18	142.81	0.00	-5.32	0.053	Up to 12.0	Up to 8.4%		90% of the average of five daily VWAPs immediately prior to the date of issue on conversion	Unknown	nil%	2 months	Unsecured	No		13
Merlin Diamonds	MED.AX	29-Nov-18	19.83	1.14	-15.24	0.006	Up to 2.5	Up to 12.6%		Converted at option of holder at any time at a conversion price of \$0.005 per note; or the 5 day VWAP up to the day prior to conversion, whichever is lower.	Not less than 83.3%	10%; fixed	4 months	No; but terms may alter to match any more favourable terms of later issued CN or debt facility.	Yes		14
Rivers Gold	RGL.AX	7-May-19	2.30	0.04	-1.31	0.027	0.10	4.34%		Convert to shares at higher of 2.2 cents per share or 80% of 5-day VWAP on date of conversion notice	Not more than 81.5%	5%; fixed		No	Yes	Company has right to redeem at any time and must redeem on maturity any unconverted.	
Alt Resources	ARS.AX	29-Apr-19	6.65	0.00	-4.15	0.024	0.50	7.51%		Convert at greater of \$0.025 (floor price) and a 15% discount to the 30-day VWAP immediately before the date of conversion.	Not more than 104.2%	10%; fixed	5 months	Yes; first ranking	No	Company must redeem on maturity any unconverted.	
DGR Resources	DGR.AX	26-Sep-18	88.91	3.28	-0.07	0.145	10.00	11.25%	50,000,000 CN issued @ \$0.20 per CN	Convertible at any time at the holder's election into one ordinary share in DGR.		12%; fixed	2 years	Secured	No	DGR is not entitled to repay, nor redeem the CN before the maturity date, except in certain circumstances, including payment of reducing premiums of face value (14.4% to 6%) as the notes age.	15

Company	ASX Ticker	Date of Facility	Market Cap as at Date of Facility (\$m)	Revenue (\$m)	Earnings (\$m)	Share Price (\$)	Amount Raised (\$m) (Note 1, 2)	Amount Raised as a % of Market Cap	Conversion Terms	Conversion Price (Fixed Price, Market Price, Some Other Measure)	Conversion Price vs Share Price at Date of Issue	Interest rate (% p.a.)	Term	Secured / unsecured	Related Party ?	Repayment/Pre-payment	Notes
Eastern Goldfields	EGS.AX	28-Sep-18	87.61	16.15	-85.92	0.115	8.75	9.99%		Convert at a price of \$0.05 with a corresponding 1 for 4 conversion shares free attaching unlisted option (with a 4 year term) to acquire a share at an exercise price of \$0.075 per share.		8%; fixed	2 months	Secured	No	CN must be redeemed if not converted.	16; 18
Eastern Goldfields	EGS.AX	30-Apr-19	87.61	18.59	-86.71	0.115	Up to 38.7	Up to 44.2%		Will automatically convert to shares at \$0.01 per share upon shareholder approval	8.70%	10%; fixed	8 months	New CN issued to major shareholder will be secured; all other New CN will be unsecured.	Partly; related party will have ~ min.25% shareholding if recapitalisation proceeds	CN must be redeemed on maturity if not converted.	17; 18
CVC Limited	CVC.AX	7-Jun-18	312.09	49.49	30.77	2.610	60.00	19.23%	600,000 CN convertible into a minimum of 17,647,058 shares. Conversion price represents 30% premium to the VWAP of CVC Ordinary Shares traded during the 10 Business Days prior to issue of CVC Notes	Converted to shares at the holders election at any time at a price of \$3.40 per share or such lower price as determined in the trust deed (subject to adjustment for certain dilutionary and other capital transactions by CVC)	Not less than 130.3%	90-day BBSW plus margin of 3.75%	5 years	Unsecured; negative pledge	No	CN must be redeemed on maturity if not converted.	19

Notes:

Note 1: A\$ million, unless otherwise indicated.

Note 2: Amounts raised are before transaction costs.

Note 3: The interest is payable in new fully paid ordinary shares (Shares) at the 30-day volume weighted average price in Crusader (subject to a floor price equal to the lower of \$0.01 or the Entitlement Issue price). The issue of Shares on conversion of the Convertible Notes and payment of interest is subject to the receipt of prior Crusader shareholder approval (at a General Meeting to be convened in due course) for the issue of shares to a related party ("Copulos Group"). In the event that shareholder approval is not received, or certain other events occur, the principal amount of the loans and accrued interest will become immediately repayable to the investors in cash. In addition to the Convertible Notes, the company received firm commitments for a placement of 22.5 million shares ("Placement Shares") at an issue price of A\$0.01 each, to raise A\$225,000. The subscribers for the Placement Shares are existing investors in the company who are not associates of the Copulos Group.

Note 4: Convertible notes were part of a composite funding package with a face value of \$3.15m, comprising the notes and shares to be placed. Cougar will also pay a commitment fee of \$35,000 and issue to the financier 40 million unlisted options as partial consideration for entering into the funding agreement (each option is exercisable at \$0.01 and expires 3 years after the issue date). The options were valued at \$255,000 at Note 18 to the Crusader 2018 Annual Report. While the face values of the CN to be issued totalled \$50.96m, Cougar will only receive a total of \$0.80m in cash. After 90 days following execution of the agreement, Cougar has the right to buy back the Convertible Security at a 5% premium to the face value. After that period the financier will have the option to convert the convertible notes and the conversion price that will be applicable to each conversion will be 90% of the average of three consecutive daily VWAPs, chosen by the financier during the specified period prior to the conversion election, up to a maximum conversion amount of \$100,000 in any calendar month. However, the financier can also elect to convert at any time up to 50% of the face value of the Convertible Notes at a premium conversion price of 130% of the average of each of the 20 daily VWAPs immediately prior to the execution date of the funding agreement.

Note 5: Notes issued by Afterpay US. Convert based on a conversion value of up to 10% of the future value of Afterpay US in excess of US\$50 million, to be determined by independent valuation using valuation metrics, multiples and methods which the market is using to value APT at the time of conversion (Future Value Method).

Note 6: 77,777,781 CN convertible at the price under a concurrent a SPP, of 1.8c per Share, representing a discount to the 30 day VWAP of 10% or approximately 12.22% to the 5 day VWAP up to and including 29 November 2018. Convertible notes convertible at a price of \$0.018 per note. 58,620,689 attaching warrants exercisable at \$0.028 and with a term of 18 months from 22 February 2019. The Convertible Notes will be secured over the shares of Cocoon Data Holdings Pty Limited, a wholly owned subsidiary of the Company. This security is limited to the secured assets only. The Convertible Notes have a 2% establishment fee and a 2% early repayment or conversion fee.

Note 7: Automatic Conversion on the occurrence of a Material Corporate Event. A Material Corporate event means either (1) Magnum enters into any agreement for a merger with, or acquisition of, another entity or (2) a substantial proportion of the Gravelotte assets (by value) held by Magnum are sold. Convertible Notes will only be transferrable with the Company's written consent. The 2018 Annual Report (for y/e 31 December 2018) indicated in Note 14 that the effective interest rate on the host contract is 46%.

Note 8: The convertible notes are secured via a share pledge covering the shares in Otto's subsidiaries which hold its Gulf of Mexico interests including the SM 71 project but excluding the Hilcorp portfolio. There was a "success fee" payable per each convertible note variable based on "Cumulative Oil Production" from a defined field (SM 71). No accrual for payment of any fee was made in the financial statements for the half year to 31 December 2018 based on forecast production to maturity. Under the terms of the convertible notes, 50% of net proceeds from SM 71 (after all costs) are only to be used for SM 71 purposes or repayment of amounts outstanding under the convertible note until the total equals the value of the convertible notes and interest outstanding. Subsequently amended as announced on 17 December 2018.

Note 9: Noteholders will have the option to extend the Convertible Note Maturity Date for one additional six month period by giving the Company written notice no less than 14 days before the Maturity Date. During December 2018, Director, David Slack, made a \$500,000 loan facility (related party loan facility) available to the Company. The related party loan facility is repayable within 6 months following the drawdown, made on 28 December 2018 and has an interest rate of 15% pa. Subject to shareholder approval, the related party loan facility will be converted to a convertible note on the same terms as the new convertible notes.

Note 10: The company is seeking shareholder approval for the issue to a related party: see NOM 10 May 2019.

Note 11: Interest may be paid in certain circumstances at Laneway's election by the issue of further Convertible Notes. An additional 20m CN were issued in Feb 2019, seemingly pursuant to this right. The Convertible Notes have equal ranking security proportionally with the Bizzell Nominees Facility. Secured Loan from Director: Bizzell Nominees Pty Ltd a company associated with Mr Stephen Bizzell has provided a loan facility to the company. The total facility provided is for up to \$2,000,000. At the 31 December 2018 balance date the outstanding balance on the facility was \$nil. During the period ended 31 December 2018 drawdowns of \$80,000 and \$264,257 of repayments of the loan were made. The interest rate on the loan is 10%.

Note 12: The conversion price will be the lower of 1.5 cents per share or the price of any equity capital raising by the Company within the two months prior to the Noteholder's election to convert Convertible Notes, subject to a minimum of 1.0 cents per share. The Company may redeem the Convertible Notes prior to maturity subject to providing written notice and: i. Paying the Noteholder the full value of the Notes in cash; ii. Issuing options to each Noteholder for nil consideration on the basis of one (1) new option for each five (5) shares that otherwise would be issued had the Noteholder elected to convert; and iii. Paying to each Noteholder an additional amount of cash equal to 12 months interest (less any amount already paid) as at the date of the Redemption Notice.

Note 13: Advanced in three tranches of \$4m each; first 2 committed; third by "mutual consent". Conversion price will be at 90% of the average of five daily volume-weighted average prices ("VWAPs") of the Company's shares during a specified period immediately prior to the date of issuance of the shares on conversion. Investor also receives (i) fee of 3% of total investment; and (ii) 20,901,695 shares & (iii) 19.8 million 2-year options exercisable at 130% of the 20-day VWAP prior to the execution of the agreement (i.e. 11-09-18). Under the terms of the agreement Bergan was issued Options and Ordinary shares to be utilised as collateral and options were issued on 11 September 2018. to secure the Convertible Securities Subscription Agreement. The convertible securities in relation to the first tranche were issued on 14 September 2018.

Note 14: Interest on CN may be converted into shares.

Note 15: On 26 September 2018, DGR reached an agreement with Tribeca Investment Partners for amendments to the terms of the \$10 million convertible note funding arrangements initially agreed in 24-10-17. DGR subsequently drew down on the remaining amount available of \$2 million during the half year ended 31 December 2018.

Note 16: Administrators appointed 29-11-18; before meeting to approve the issue of the CN was held. Following the approval by creditors of the DOCA on 1 February 2019, conversion of the convertible notes into ordinary shares will be at the rate of one cent per share.

Note 17: Issued as part of a recapitalisation proposal designed to remove the Administrators. New Convertible Notes issued to those noteholders under the First Issue were issued with the grant of free attaching unlisted option (with a 4 year term) to acquire a share at an exercise price of \$0.075 per share. These options replace the options under the First Issue that were never issued.

Note 18: Both issues were only short term; it was proposed that they be converted to shares within a few months.

Note 19: The CN are listed on the ASX.

Source: Publicly available information relating to the transactions noted above; Invicta analysis

Lodge your vote:



Online:

www.investorvote.com.au



By Mail:

Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
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For all enquiries call:

(within Australia) 1300 798 306
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Proxy Form

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Vote online

- Go to www.investorvote.com.au or scan the QR Code with your mobile device.
- Follow the instructions on the secure website to vote.

Your access information that you will need to vote:

Control Number: 999999

SRN/HIN:

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.



 **For your vote to be effective it must be received by 11:00am (AEST) Sunday, 18 August 2019**

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,
or turn over to complete the form →**

☐

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Seafarms Group Limited hereby appoint

☐

the Chairman of the Meeting OR



PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Extraordinary General Meeting of Seafarms Group Limited to be held at Corrs Chambers Westgarth, Level 25, 567 Collins Street, Melbourne, Victoria on Tuesday, 20 August 2019 at 11:00am (AEST) and at any adjournment or postponement of that meeting.

STEP 2 Items of Business



PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

		For	Against	Abstain
Resolution 1	Ratification of Placement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Ratification of Issue of Securities to Nissui	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Ratification of Grant of Options to LPIG Pty Ltd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Approval of Debt Conversion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Approval of Proposed Issue of Securities to Nissui	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Approval of New Loan Arrangements with Avatar Finance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name

Contact Daytime Telephone

Date / /