ASX Announcement | 29 May 2020
Seafarms Group Limited (ASX:SFG)
(SFG ASX Announcement 652)

Notice of Extraordinary General Meeting

Seafarms Group Limited (ASX: SFG) (**Seafarms** or the **Company**) advises that the Company will be holding an Extraordinary General Meeting via a webcast live online at 10:00 am (Perth time) on Monday, 29 June 2020 (the **Meeting**).

In line with the Australian Government's public health restrictions on large public gatherings in response to the COVID-19 pandemic, shareholders are advised they will not be able to physically attend the Meeting.

Instead, the Company invites shareholders to attend and participate in a virtual Meeting through an online webcast powered by 'Lumi', where Shareholders will be able to watch, listen, submit written questions and vote online. Instructions on how to join the webcast and vote on the resolutions via the online platform are set out in the Online Meeting Guide enclosed with this letter and can also be found on the Company's website at www.seafarms.com.au/seafarms-group-egm/.

In accordance with temporary modifications to the Corporations Act under the *Corporations (Coronavirus Economic Response) Determination (No. 1) 2020,* the notice of meeting, accompanying explanatory statement and annexures (including an independent expert report and proxy form) (**Meeting Materials**) are being made available to shareholders electronically. This means that:

- You are able to access the Meeting Materials online at the Company's website at: www.seafarms.com.au/seafarms-group-egm/.
- A complete copy of the Meeting Materials have been posted on the Company's ASX market announcements page.
- If you have nominated an email address and have elected to receive electronic communications from the Company, you will also receive an email to your nominated email address with a link to an electronic copy of the Meeting Materials and the proxy voting form.

In addition, shareholders may lodge a proxy form online at www.investorvote.com.au by entering:

- the following 6 digit control number: 183863; and
- that shareholders' HIN/SRN and postcode to logon.

If you are unable to access the Meeting Material online, please contact our office between 9.00am and 5.00pm AWST Monday to Friday, to arrange a copy.

As a valued shareholder in the Company, we look forward to your participation in the Meeting.

The Company will provide a trading update prior to the Meeting.

Approved and authorised for release by Seafarms' Disclosure Committee.

Ends.

For further information, please contact:

Seafarms Group

Mr Harley Whitcombe
Company Secretary
P: (08) 9216 5200

About Seafarms Group

Seafarms Group Limited (ASX:SFG) is a sustainable aquaculture company, producing the premium Crystal Bay® Prawns and developing the Project Sea Dragon prawn aquaculture project in northern Australia.

Seafarms Group uses environmentally sustainable processes and is currently Australia's largest producer of farmed prawns, its Crystal Bay® Prawns and Crystal Bay® Tigers are available year round in fresh and frozen formats. To learn more please visit: www.crystalbayprawns.com.au

Seafarms Group is investing in sustainable aquaculture for export through Project Sea Dragon, a large-scale, vertically integrated, land-based, prawn aquaculture project being developed in northern Australia. The standalone marine prawn production system will be capable of annually producing over 150,000 tonnes of prawns and the high-quality, year-round volumes will target export markets. To learn more please visit: www.seafarms.com.au

For more detailed information concerning Seafarms and Project Sea Dragon please refer to the company's website – www.seafarms.com.au.

SEAFARMS GROUP LIMITED

ABN 50 009 317 846

Notice of Extraordinary General Meeting

10.00 am (Perth time), Monday, 29 June 2020

Held at Seafarms Group Limited's Perth office at 11/225 St Georges Terrace, Perth WA 6000 and via webcast live online

Seafarms Group Limited
NOTICE OF MEETING

An Extraordinary General Meeting of
Seafarms Group Limited (the **Company**)
will be held Seafarms Group Limited's Perth office at
11/225 St Georges Terrace, Perth WA 6000
and via webcast live online.

Dear Shareholder

I am pleased to invite you to participate in an Extraordinary General Meeting (**Meeting**) of the Company to be held held via webcast live online at 10.00am (Perth time), Monday, 29 June 2020.

Shareholders are advised they will not be able to physically attend the Meeting in line with the Australian Government's public health restrictions on large public gatherings in response to the COVID-19 pandemic.

The Company will webcast the Meeting live online and Shareholders will be able to listen to the proceedings, ask questions relevant to the business of the Meeting, and vote on the resolutions to be considered at the Meeting, online.

Voting on all resolutions will be conducted by a poll

Instructions on how to join the webcast, submit questions and vote on the resolutions via the online platform are set out in the enclosed Online Meeting Guide and on the Company's website (www.seafarms.com.au/seafarms-group-egm/).

The Meeting will only consist of the items of business set out in the Notice of Meeting. There will be no presentation by the Executive Directors.

The Meeting is being held for certain shareholders approvals required in connection with the Company's $12.5 million capital raising announced on 27 March 2020.

The resolutions seek to ratify those new shares already issued to institutional and sophisticated investors (raising $6.86 million (before costs)) and approve the issue of new shares to Avatar, an entity associated with the Company's largest shareholder and Executive Chairman, Mr Ian Trahar (raising any additional $5.64 million (before costs)).

The proceeds of the new issues of shares will be used to fund the development of Project Sea Dragon and general working capital purposes.

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 Resolution 2 (Approval of proposed issue of securities to Avatar) due to his interest in the outcome of this resolution.

An independent expert report has been obtained in relation to Resolution 2 (Approval of proposed issue of securities to Avatar). The opinion of the expert is that the proposed issue of securities to Avatar is "not fair but reasonable" to non-associated shareholders of the Company.

Voting on the resolutions at the Meeting is important and I encourage you to either vote at the Meeting via the online platform or 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 10.00am (Perth time) on Saturday, 24 June 2020.

Yours faithfully

Dr Chris Mitchell
Executive Director
29 May 2020

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

NOTICE OF MEETING

Items of Business	Resolution	Approval	Further Details
SPECIAL BUSINESS			
1. RATIFICATION OF ISSUE OF SECURITIES TO SOPHISTICATED AND PROFESSIONAL INVESTORS UNDER THE PLACEMENT	That, for the purposes of refreshing the Company's issue capacity, in accordance with Listing Rule 7.4, and for all other purposes, ratification is given for the issue of 228,686,667 Shares in the Company at an issue price of $0.03 per Share on 2 April 2020 to professional and sophisticated investors by way of private placement, and otherwise on the terms set out in the Explanatory Notes which accompanies and forms part of the Notice of Meeting.	Ordinary resolution	Item 1, page 6
2. APPROVAL OF PROPOSED ISSUE OF SECURITIES TO AVATAR INDUSTRIES PTY LTD UNDER THE PLACEMENT	That approval is given for the purposes of item 7 of section 611 of the *Corporations Act 2001* (Cth) and all other purposes for the Company to issue up to 187,979,999 Shares in the Company at an issue price of $0.03 per Share to Avatar Industries Pty Ltd, an entity associated with a related party of the Company, Mr Ian Trahar, by way of private placement and on the terms set out in the Explanatory Notes which accompanies and forms part of the Notice of Meeting and, as a result, for Avatar Industries Pty Ltd and its associates to acquire voting power in the Company of up to 27.9%. **The Independent Expert's Report prepared by Invicta Corporate Finance concludes that the Approval of Proposed Issue of Securities outlined in Item 2 is "not fair but reasonable" to Shareholders. Shareholders are referred to Annexure A of this Notice.**	Ordinary resolution	Item 2, page 7

Capitalised terms are defined in the attached Explanatory Notes.

VOTING

Notice Record Date

The Company's shareholders (**Shareholders**) recorded on the Company's register of members at 5.00pm (Perth time) on 29 May 2020 (**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 5.00 pm (Perth time) on 27 June 2020 (**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**).

Please note that, in accordance with recent changes to ASX guidance, all ASX Listing Rule resolutions must be decided by a poll rather than by a show of hands.

As a result of the potential health risks and government restrictions in response to the COVID-19 pandemic, it will not be possible for Shareholders to physically attend the Meeting in person.

The Company will webcast the Meeting live and Shareholders can vote on the resolutions to be considered at the Meeting, either at the Meeting via the online platform or by appointing a proxy to vote on their behalf. All voting will be conducted by poll.

Enclosed with this Notice is an online meeting guide (**Online Meeting Guide**). Instructions on how to join the webcast and vote on the resolutions via the online platform are set out in the Online Meeting Guide and can also be found on the Company's website (www.seafarms.com.au/seafarms-group-egm/).

Online registration will begin one hour before the start of the Meeting.

We encourage Shareholders who intend to appoint a proxy to submit their Proxy Forms as early as possible. Lodgement instructions (which include the ability to lodge proxies electronically) are set out in the Notice of Meeting and on the Company's website.

The Company will conduct the Meeting in accordance with prevailing government regulations including the adoption of social distancing measures. Further, Directors who ordinarily reside outside of Western Australia will not physically attend the Meeting held at the Company's Perth office.

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 pro forma proxy form (**Proxy Form**). Shareholders may lodge a proxy form online at www.investorvote.com.au by entering the following 6 digit control number: 183863 and that Shareholder's HIN/SRN and postcode to logon.

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 10.00am (Perth time) on 27 June 2020.

How to lodge Proxy Forms

You can lodge your Proxy Form with the Company by:

Electronically: at www.investorvote.com.au

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.

SHAREHOLDER QUESTIONS

Shareholders will be able to ask questions relevant to the business of the Meeting, at the Meeting. Instructions on how to a submit questions via the online platform are set out in the Online Meeting Guide and can also be found on the Company's website (www.seafarms.com.au).

Shareholders who are unable to attend the Meeting may submit written questions by emailing egmquestions@seafarms.com.au. Questions must be received by 10.00am Wednesday, 24 June 2020. The more frequently raised shareholder issues will be addressed by the Chairman during the course of the Meeting. However, there may not be sufficient time available at the meeting to address all of the questions raised. Please note that individual responses will not be sent to shareholders.

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
29 May 2020

EXPLANATORY NOTES

BACKGROUND INFORMATION

As was announced on 27 March 2020, the Company's half year 31 December 2019 report announced on 28 February 2020 disclosed the Company had been in the process of pursuing a necessary fundraising to ensure the Company would have sufficient cash flow to fund its operations during upcoming 12 months.

This report evidenced a need to raise at least at least $7 million in new funds by April 2020 to ensure that the Company could continue with the planned development of Project Sea Dragon (**PSD**).

Since the release of those half yearly accounts, the rapid developments in the global pandemic emanating from the coronavirus (COVID-19) has impacted the global economy and financial markets alike. This unprecedented public health emergency has impacted the Company's ability to execute on its planned fundraising initiatives.

In response, the Company in consultation with its financial advisors immediately sought funding to secure the Company's ongoing financial health.

This resulted in the Company securing commitments for the private placement (**Placement**), a raising which the independent directors consider is the best available fundraising structure to ensure the Company has sufficient cash reserves to immediately meet current expenditure requirements as they fall due and continue its business during what may be a prolonged period of ongoing market volatility.

The Placement seeks to raise a total of $12.5 million (before costs) comprised of two components

- a placement of 228,686,667 new Shares at $0.03 per Share (**Issue Price**) to raise $6.86 million. This component completed on 1 April 2020 (being the subject of Item 1 of this Notice of Meeting and referred to as the **Tranche 1 Issue**); and
- subject to shareholder approval, Avatar Industries Pty Ltd ACN 008 742 390 (**Avatar**), a related party of the Company (being an entity controlled by Executive Chairman Mr Ian Trahar) agreeing to subscribe for 187,979,999 Shares at the Issue Price in order to raise a further $5.64 million (being the subject of Item 2 of this Notice of Meeting and referred to as the **Tranche 2 Issue**).

Under that subscription agreement, Avatar had agreed to subscribe for up to $6.25 million of the Placement (with that amount to be scaled back at the Company's discretion as a result of demand received by the Company and other persons introduced through the placement process). This commitment was unconditional with the scale back mechanism intended to operate to ensure that if there was insufficient demand the full raising amount was achieved.

This was considered an important requirement to be able to ensure other interested investors that the full required amount would be raised.

The Placement price of A$0.03 represented a 21.05% discount to the Company's close price on Friday, 20 March 2020.

ITEM 1 RATIFICATION OF PLACEMENT

Purpose of shareholder approvals

Broadly speaking, and subject to a number of exceptions, Listing Rule 7.1 limits the amount of equity securities that a listed company can issue without the approval of its shareholders over any 12 month period to 15% of the Shares it had on issue at the start of that period.

The Tranche 1 Issue does not fit within any of these exceptions and, as it has not yet been approved by Shareholders, it effectively uses up part of the Company's 15% limit in Listing Rule 7.1 reducing the Company's capacity to issue further equity securities without Shareholder approval under Listing Rule 7.1 for the 12 month period following the issue date.

Listing Rule 7.4 allows shareholders of a listed company to approve an issue of equity securities after it has been made or agreed to be made. If they do, the issue is taken to have been approved under Listing Rule 7.1 and so does not reduce the company's capacity to issue further equity securities without shareholder approval under that rule.

The Company wishes to retain as much flexibility as possible to issue additional equity securities into the future without having to obtain Shareholder approval for such issues under Listing Rule 7.1.

To this end, Item 1 seeks Shareholder approval to the Tranche 1 Issue under and for the purposes of Listing Rule 7.4.

If Item 1 is passed, the Tranche 1 Issue will be excluded in calculating the Company's 15% limit in Listing Rule 7.1, effectively increasing the number of equity securities it can issue without shareholder approval over the 12 month period following the issue date.

If Item 1 is not approved, the Tranche 1 Issue will be included in calculating the Company's 15% limit in Listing Rule 7.1, effectively decreasing the number of equity securities it can issue without shareholder approval over the 12 month period following the issue date.

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

Number of securities issued	228,686,667 Shares were issued under the Company's Listing Rule 7.1 capacity.
Date of issue	1 April 2020
Issue price	$0.03 per Share.
Recipients	Professional and/or sophisticated investors who comprise: • *The Elsie Cameron Foundation Pty Ltd* ACN 601 660 655 (**Elsie**)*;* and • other investors identified by or introduced by third party advisers to the Company during the book build process conducted between 23 to 26 March 2020. Elsie, an entity associated with Janet Cameron, is a substantial shareholder in the Company as a result of the Tranche 1 Issue. No related party of the Company participated in the Tranche 1 Issue.
Terms of securities	Fully paid ordinary shares which rank equally with other Shares on issue.
Intended use of funds	The funds raised will be used to meet current expenditure requirements as they fall due and continue the business during what may be a prolonged period of ongoing market volatility. These funds will principally be applied to: • further expand the Exmouth Founder Stock Centre to enable a third generation animals and grow the population of specific pathogen free animals; • further develop the Bynoe Harbour Broodstock Maturation Centre; • undertake required capital works on Legune Station as agreed in the Sublease and Cooperation Agreement; • progress processing plant design and associated tender documents; • facilitate the project funding processes including negotiations with equity and debt participants and advisor costs; • meet the Company's ongoing contractual, regulatory and environmental compliance commitments relating to PSD; and • meet the costs of the capital raising and general working capital requirements.

EXPLANATORY NOTES

Summary of any relevant agreements	208,333,333 Shares under the Tranche 1 Issue were issued to Elsie pursuant to subscription commitments containing standard terms for a transaction of this nature.

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 Elsie, Janet Cameron and any person who participated in the Tranche 1 Issue, or who will obtain a material benefit as a result of, the proposed ratification of the Tranche 1 Issue (except a benefit solely by reason of being a holder of ordinary securities in the Company) or an associate of those persons.

However, this does not apply to a vote cast in favour of the resolution by:

(a) a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or

(b) the Chair of the Meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the Chair to vote on the resolution as the Chair decides; or

(c) a holder acting solely in a nominee, trustee or custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:

  (i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and

  (ii) the holder votes on the resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

ITEM 2 APPROVAL OF PROPOSED ISSUE OF SECURITIES TO AVATAR (MR IAN TRAHAR)

As stated above, the purpose of Item 2 is to approve the issue of 187,979,999 new Shares pursuant to a subscription agreement entered into between the Company and Avatar (**Avatar Subscription Agreement**).

Purpose of approval – section 611, item 7 of the Corporation Act

Section 606 of the Corporations Act contains a prohibition on a person acquiring a relevant interest in issued voting shares in a listed company through a transaction which results in the person's voting power in the company increasing from below 20% to more than 20% or from a starting point of more than 20% to a higher percentage. An acquisition is not prohibited if it has been approved by a resolution of shareholders of the listed company in accordance with item 7 of section 611 of the Corporations Act.

A "relevant interest" arises if (among other things) the person has the ability to exercise, or control the exercise of, a right to vote attached to shares. A person's "voting power" for these purposes means the total number of votes that the person and its associates have a relevant interest in, expressed as a percentage of total votes attaching to all shares in the entity (**Voting Power**).

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

Avatar 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 21.84% of the issued Shares at the date of this Notice.

Accordingly, Item 2 seeks Shareholder approval under section 611 item 7 of the Corporations Act so that the Company may issue the Tranche 2 Shares to Mr Trahar under the Placement notwithstanding that the issue of those Shares will result in Mr Trahar and his associates increasing their voting power in the Company from 21.84% to 27.9% on an undiluted basis.

For the exception in section 611 item 7 of the Corporations Act to apply, shareholders must be given all information known to the person proposing to make the acquisition or their associates, or known to the company, that is material to the decision of how to vote on the resolution. In ASIC Regulatory Guide 74, ASIC has indicated what additional information should be provided to shareholders in these circumstances. This information is set out below.

Independent Expert Report

To assist you in deciding how to vote on Item 2, the Directors other than Mr Trahar (**Non-conflicted Directors**) engaged Invicta Corporate Finance to prepare the Independent Expert's Report to provide an opinion on whether or not the proposed Tranche 2 Issue, is 'fair and reasonable' to Shareholders.

The Independent Expert's Report sets out a detailed independent examination of the proposed issue of Shares to Mr Trahar so as to enable Shareholders who are not associated with Mr Trahar (**Non-associated Shareholders**) to assess its merits and decide whether to approve Item 2.

The Independent Expert's Report concludes that the Tranche 2 Issue is "not fair but reasonable". For further details, refer to section 7 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/seafarms-group-egm/.

Key advantages and disadvantages of the Tranche 2 Issue

For the reasons set out below and based on the information available, the Non-conflicted Directors consider that on balance the advantages of the Tranche 2 Issue outweigh the disadvantages and that Shareholder approval of the Tranche 2 Issue is in the best interests of Shareholders.

The Non-conflicted Directors consider that the advantages of the Tranche 2 Issue for Shareholders are as follows:

(a) Additional funding is required to secure the Company's financial health and continue as a going concern

As stated above, the Company had an urgent need to raise new funds to immediately meet current expenditure requirements as they fall due and continue its business during what may be a prolonged period of ongoing market volatility.

The Company investigated a wide range of funding alternatives (including debt, equity and hybrid raisings at both parent company and subsidiary level), but with the rapidly changing developments in the global pandemic emanating from the coronavirus (COVID-19) and the impact on global financial markets many of these initiatives became redundant and/or unable to deliver a solution within the Company's desired funding requirements.

The two tranche placement structure was also the primary means of ensuring that funds were received by the Company within a short timeframe and in advance of expenditure requirements.

As stated above, the Tranche 2 Issue commitment was believed to be a necessity to ensure sufficient Tranche 1 commitments were received to raise the full $12.5 million.

EXPLANATORY NOTES

The Tranche 2 Issue will raise $5.64 million in immediately accessible funds. Together with the funds raised from the Tranche 1 Issue, the Tranche 2 Issue puts the Company in a healthy financial position with an estimated cash backing of approximately $17 million.

(b) Low impact on control

The Tranche 2 Issue will result in Mr Trahar and his associates increasing their voting power in the Company to 27.9% on an undiluted basis. This is a relatively modest overall increase in Mr Trahar's shareholding in the Company, considering his current ownership before announcing the Placement was 24.33%.

Mr Trahar's participation in the Placement was also structured such that his position would be scaled back if there was strong demand for the Company's Shares. His commitment was therefore a fall back mechanism for the Company to ensure the required funds were raised.

In any event, Mr Trahar could almost replicate this increase within 6 months utilising the "creep" provisions of the Corporations Act (Item 9 of section 611 provides an exception to the prohibition contained in s 606 described above where a person's voting power in the Company increases by no more than 3% in 6 months).

Mr Trahar has not sought additional representation on the Company Board as part of the Tranche 2 Issue. Therefore, on one view, Mr Trahar's "control" over the Company does not significantly change.

(c) The additional funding enables the Company to progress PSD

The funds raised by the Tranche 2 Issue will be applied in the manner set out in Item 1 above. The funds enable the Company to continue to develop PSD and in particular continue to progress the Fund-Raising Initiatives detailed in the background to this Explanatory Notes with a view to obtaining third party project finance.

Importantly, the Tranche 2 Issue will not change the Company's current strategy, including the focus on the development of PSD.

(d) Demonstrates strong ongoing support from the Company's major shareholder

The Tranche 2 Issue represents a further substantial investment by Mr Trahar and demonstrates his strong ongoing support for the Company, its operations and prospects of PSD.

This is consistent with Mr Trahar's demonstrated prior commitments to the Company such as the provision of a convertible credit facility discussed further below.

The Non-conflicted Directors consider that the disadvantages of the Tranche 2 Issue are as follows:

(a) Dilution of Non-associated Shareholder interests

The Tranche 2 Issue will result in dilution of each Non-associated Shareholders proportionate interest in the Company. The effect of Tranche 2 Issue on Mr Trahar's voting power in the Company is shown below.

However, the Non-conflicted Directors believe that the benefits outlined above outweigh the perceived disadvantages associated with the dilution of the equity interests of existing Non-associated Shareholders.

(b) Mr Trahar's level of control

The Tranche 2 Issue will increase Mr Trahar's level of control over the Company from a pre-placement level of 24.33% of the Company's issued share capital to 27.9%.

Whilst that increase is, in the view of the Non-conflicted Directors, modest, it is an increase and does provide Mr Trahar an increased capacity to impact decisions made by the Company.

Further, Mr Trahar, is associated with Avatar Finance Pty Ltd ACN 009 034 315 (**Avatar Finance**). Avatar Finance provides the Company with a convertible credit facility with a facility limit of $15.2 million (**Convertible Credit Facility**). Up to $12.2 million of the outstanding amounts due under the Convertible Credit Facility may, at Avatar Finance's election, be converted into Shares at $0.09 per Share. Accordingly, Mr Trahar may increase his voting power in the Company by 3% each 6 months without shareholder approval under the "creep" provisions described above. This may be done by the exercise by Avatar Finance of its conversion rights under the Convertible Credit Facility (rather than by the issue or acquisition of shares at market prices). The Non-conflicted Directors note that any conversion under the Convertible Credit Facility is at a substantial premium to the current market price for the Company's securities.

(c) Special resolutions

Where a Shareholder's voting interest increases above 25%, the Shareholder may block the passing of a special resolution. However, in any event, Mr Trahar's current voting power of 21.84% may be sufficient to block a special resolution given that it is unlikely that all Shareholders entitled to vote will attend a meeting or appoint a proxy.

(e) Independent Expert's Report – fairness

The Tranche 2 Issue is considered "not fair but reasonable" by the Independent Expert. The Independent Expert concluded that the Tranche 2 Issue is:

- not fair, because the fair market value range for a Share on a control basis prior to the Tranche 2 Issue is greater than the fair market value range of a Share on a minority basis (assuming the Tranche 2 Issue is completed); but
- is reasonable, taking into account that the Tranche 2 Issue was at the same issue price as Shares were issued to arm's length parties under the Tranche 1 Issue and the advantages and disadvantages of the Tranche 2 Issue as a whole.

Information required under section 611, item 7 of the Corporation Act and ASIC Regulatory Guide 74

The following additional information is provided to enable Shareholders to properly assess the Tranche 2 Issue:

(a) The identity of Mr Trahar and his associates

Avatar is controlled by Mr Trahar.

Mr Trahar is the Executive Chairman of the Company and an investor in a number of publicly listed and unlisted companies involved in a diversified range of activities covering various business sectors.

The following shareholders are also controlled by and/or associates of Mr Trahar (collectively, the **Trahar Associates**):

	Current Voting Power	
	Number of Shares	Voting Power %
Mr Trahar	1,668,191	0.07
Avatar	265,712,683	11.89
Gabor Holdings Pty Ltd ACN 009 143 364	217,701,740	9.74
Gabor Investments Pty Ltd ACN 060 675 520	828,232	0.04
Arlec Australia Pty Ltd ACN 009 322 105	795,748	0.04
Zeppelin Holdings Pty Ltd ACN 009 287 610	1,184,628	0.05

(b) Voting Power of the Trahar Associates

The Tranche 2 Issue will result in the Trahar Associates increasing their Voting Power in the Company from 21.84% to 27.9% on an undiluted basis. This represents the maximum extent of the Trahar Associates increase in Voting Power as a result of the Tranche 2 Issue.

(c) An explanation of the reasons for the Tranche 2 Issue

See detailed reasoning for the Tranche 2 Issue (and the Placement generally) above in the background section of this Explanatory Notes.

EXPLANATORY NOTES

(d) When the Tranche 2 Issue is to occur

It is intended that the Shares will be issued on Wednesday, 1 July 2020 and in any event no later than 1 month after the date of the Meeting.

(e) Material terms of the Tranche 2 Issue

See information on the material terms of the Avatar Subscription Agreement above in the background section of this Explanatory Notes.

(f) Details of relevant agreements that are conditional on the Tranche 2 Issue

There are no other contracts or proposed contracts between the Company and Mr Trahar which are conditional on (or directly or indirectly dependant on) Shareholder approval of the Tranche 2 Issue.

(g) Mr Trahar's intentions regarding the Company

Mr Trahar has confirmed to the Company that he has no intention to:

- make any changes to the business of the Company;
- inject any further capital into the Company at this time;
- make any changes to the existing employees of the Company that are inconsistent with the Board's current strategies and efforts to properly resource the Company to deliver PSD;
- transfer any of the Company's assets between the Company and Mr. Trahar or any of his associates;
- redeploy any of the Company's fixed assets; or
- change the Company's financial or dividend distribution policies.

The statements set out above are statements of the current intention of Mr Trahar only and may vary as new information becomes available or circumstances change.

(h) The interests of any director has in the Tranche 2 Issue

The Non-conflicted Directors have no interest in the Tranche 2 Issue, and therefore the outcome of this Item 2, except solely by reason of being an existing shareholder or optionholder of the Company.

Neither the Company nor the Directors are aware of any additional information not set out in this Explanatory Statement, or the Independent Expert's Report attached as **Annexure A**, that would be relevant to Shareholders in deciding how to vote on the Resolution.

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.

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 Trahar, have concluded that the terms of Tranche 2 Issue and any financial benefit received by Avatar under it, is on terms that would be reasonable in the circumstances where the Company and Avatar were dealing at arm's length or are less favourable to Avatar. This is because the terms were negotiated on an arm's length basis and reflect the same terms as were offered to Tranche 1 participants.

What if the Proposed Issue of Securities to Ian Trahar is not approved by Shareholders?

If the Tranche 2 Issue is not approved by Shareholders the Company will not have raised the necessary funding to enable the Company to progress funding and early development activities for PSD, and alternative funding solutions will need to be sought for the near to medium term which may be on terms more or less favourable to the Company.

Board recommendation

The Non-conflicted Directors consider that the Tranche 2 Issue is in the best interests of Shareholders and recommends that the Shareholders vote in favour of Item 2.

Mr Trahar declines to make a recommendation to Shareholders in relation to Item 2 due to his interest in the outcome.

In order to manage any potential or perceived conflict of interest, Mr Trahar did not participate in the Board's consideration or vote in relation to the Tranche 2 Issue.

Voting Prohibition

In accordance with item 7 of section 611 of the Corporations Act, Avatar, Mr Trahar and their associates are excluded from voting on Item 2 and the Company will disregard any votes cast on Item by Avatar, Mr Trahar or any of his associates.

ANNEXURE A

Independent Expert's Report

Seafarms Group Limited

Independent Expert's Report in Relation to the Proposed Issue of 187,979,999 Shares to Avatar Industries Pty Ltd

Independent Expert's Report

28 May 2020

Invicta
CORPORATE FINANCE

28 May 2020

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 PROPOSED ISSUE OF 187,979,999 SHARES IN SEAFARMS GROUP LIMITED TO AVATAR INDUSTRIES PTY LTD

1. Introduction

On 27 March 2020, Seafarms Group Limited ("**SFG**" or the "**Company**") announced that it had completed a placement to institutional and professional investors to raise $12.5 million ("**Placement**") at an issue price of $0.03 per each ordinary share ("**Issue Price**").

To ensure that the Placement was successful, the Company entered into a subscription agreement with Avatar Industries Pty Ltd ("**Avatar**") under which Avatar agreed to subscribe for up to $6.25 million of the Placement (with that amount to be scaled back at the Company's discretion as a result of demand received through the Placement process). As a result:

- The Elsie Cameron Foundation Pty Ltd ("**Cameron**") subscribed for 208,333,333 shares and other investors subscribed for 20,353,334 shares (together the "**Tranche 1 Issue**" and the "**Tranche 1 Shares**"); and
- Avatar's requirement is to subscribe for 187,979,999 shares ("**Tranche 2 Shares**") for a total consideration of $5.64 million ("**Tranche 2 Issue**").

We note that as at the date of this Report, the Tranche 1 Issue is complete and is not conditional upon the approval of the Tranche 2 Issue.

Avatar is a company controlled by Mr Ian Trahar, a Director of SFG and is already a substantial shareholder (via related entities, including Gabor Holdings Pty Ltd – together the "**Trahar Group**") having a 21.84% equity interest in the Company (after the Tranche 1 Issue).

As a result of the Tranche 2 Issue, Trahar Group's equity interest in the Company will increase to 27.90%. Accordingly, shareholder approval is required for the purpose of Item 7 of Section 611 of the *Corporations Act 2001 (Cth)* ("**Corporations Act**") and ASX Listing Rule 10.11.

2. Requirement for an Independent Expert's Report

This Report has been prepared by Invicta Corporate Finance Pty Ltd ("**Invicta**", "**we**", "**us**" or "**our**") 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 Tranche 2 Issue.

A detailed analysis of the regulatory requirements is set out in **Section 2.2** of this Report.

3. Summary of Conclusions

In our opinion, the Tranche 2 Issue is **not fair** but is **reasonable** to the Non-Associated Shareholders of SFG.

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

3.1 Fairness

Our assessment as to whether the Tranche 2 Issue is "fair" under RG111 has been undertaken by comparing:

- the fair market value of an SFG share on a control basis prior to the Tranche 2 Issue; with
- the fair market value of an SFG share on a minority basis assuming that the Tranche 2 Issue is completed.

We have assessed the "fairness" of the Tranche 2 Issue by selecting:

- a low value for an SFG Share being the low-end valuation determined using the net tangible asset based methodology; and
- a high value for an SFG Share being the high-end of the valuation based on recent trading prices up to 6 March 2020.

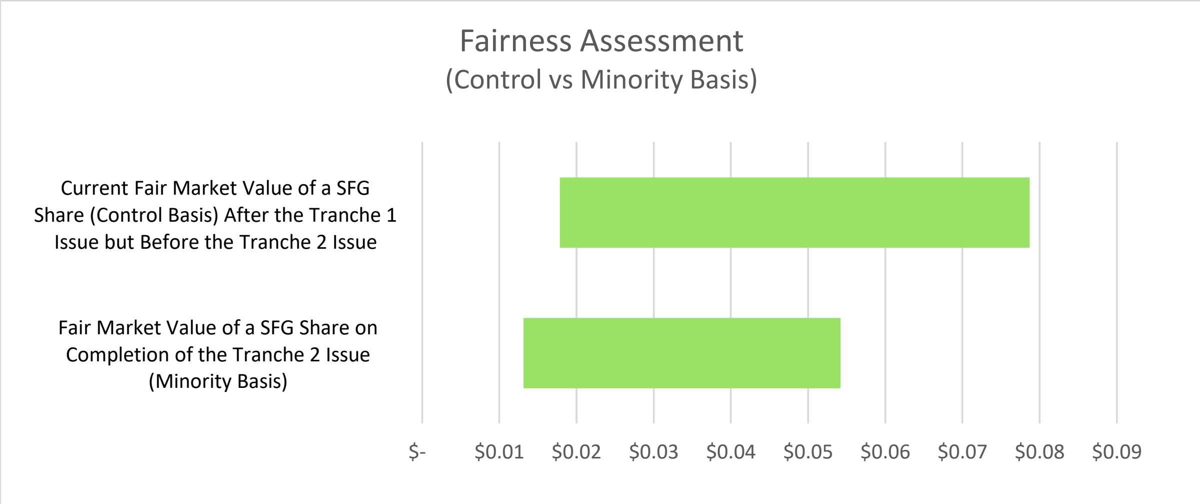
The following table and figure summarises our assessment:

Table 1: Fairness Assessment

	Note / Report Reference	As at 6 March 2020		
		Low	Mid-Point	High
Current Fair Market Value of a SFG Share (Control Basis) After the Tranche 1 Issue but Before the Tranche 2 Issue	7.1.1	0.0178	0.0483	0.0787
Fair Market Value of a SFG Share on Completion of the Tranche 2 Issue (Minority Basis)	7.1.2	0.0131	0.0337	0.0542
Variance ($)		**(0.0047)**	**(0.0146)**	**(0.0245)**
Variance (%)		**-26.3%**	**-30.3%**	**-31.2%**

Source: Invicta analysis

Figure 1: Fairness Assessment



Based on the above, the Tranche 2 Issue is "not fair" given that:

- the fair market value range of an SFG Share on a control basis prior to the Tranche 2 Issue; is greater than,
- the fair market value range of an SFG Share on a minority basis assuming that the Tranche 2 Issue is completed.

Comments on the Valuation Range

We note that the valuation range set out above in relation to the Tranche 2 Shares is large. Whilst RG 111 notes that ASIC would usually expect a range of values, it goes on to say that such a range should be as narrow as possible. However, in the present case, in our opinion, the large value range set out above is reasonable and reflects the nature of SFG's operations and inherit uncertainties, in particular:

- due to the reasons set out in **Section 6.1**, we were unable to assess the fair market value of SFG using any type of earnings or DCF-based valuation methodology. The selected two (2) methodologies (i.e. the net tangible asset-based methodology and SFG's share price trading history) have resulted in a wide range of values, which given SFG's circumstances, we believe that this result is appropriate; and
- in our opinion, SFG's value is a function of Project Sea Dragon's potential prospects, which at this point in time is highly uncertain. Accordingly, the determination of SFG's intangible value is difficult to ascertain with any level of precision.

Impact of Covid-19

Due to the significant uncertainties regarding the impact of Covid-19, global financial markets have experienced significant downward movements and have been subject to increase volatility since the beginning of March 2020. As at the Valuation Date and the date of this Report, these uncertainties remain.

No specific adjustments for the potential impacts of Covid-19 have been reflected in our fairness assessment. In the present case, early indications are that whilst the Australian aquaculture industry will be impacted by the crisis (including a significant reduction in demand from the foodservice sector), some positive trends are emerging (e.g. stable retail and export demand, changing consumer habits, etc) which are expected to mitigate the overall impacts of Covid-19. In any event, production from Project Sea Dragon is likely to commence at some time in the future, and the effects from Covid-19 on Project Sea Dragon at that time cannot be ascertained at this time.

3.2 Reasonableness

We have also considered the advantages and disadvantages of the Tranche 2 Issue to the Non-Associated Shareholders as a whole, for consideration by Non-Associated Shareholders.

In assessing the reasonableness of the Tranche 2 Issue, we have considered the following:

- that the Tranche 2 Shares (numbering 187,979,999) are to be issued at the same price as the Tranche 1 Shares (numbering 228,686,667) which were issued to arm's-length parties; and
- the advantages and disadvantages of the Tranche 2 Issue to the Non-Associated Shareholders as a whole. 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 Tranche 2 Issue.

3.2.1 Advantages of the Tranche 2 Issue

Additional Cash Reserves

As at the Valuation Date, the Company had adjusted cash (i.e. after taking into consideration the Tranche 1 Issue) of approximately $6.97 million (refer to **Section 6.2.4** for details). Of this amount, approximately $0.43 million is set aside for collateral/guarantee purposes and cannot be used. In addition, we note that SFG has approximately $4.80 million available to be drawn on the Avatar Facility providing SFG with total cash reserves of approximately $11.34 million as at the Valuation Date. The Tranche 2 Issue will have the impact of increasing these cash reserves by $5.64 million to approximately $16.98 million.

Based on our discussions with management of SFG, it is estimated that the Company currently has the ability to fund its operations (based on its current business plan and including current budgeted expenditure for Project Sea Dragon) for the period to approximately July / August 2020. The Tranche 2 Issue will provide the Company with funding to extend this out to February / March 2021. We note these time frames are estimates only and assume:

- that SFG management takes no cost reduction action where the ability to secure funding becomes a concern;
- a level of short-term impacts on sales from the Covid-19 crisis (which currently remains a significant uncertainty); and
- there will be no further impact arising from other uncertainties that are outside of the control of SFG management and the board.

As set out in **Section 4.4**, the focus for SFG is the continued development of Project Sea Dragon which requires significant additional funding. As at the date of this Report, there remains a significant uncertainty regarding the ability to secure such funding and the timing and terms of any such funding.

It is noted that where SFG is not able to secure funding for Project Sea Dragon within the next six (6) to twelve (12) months, 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 note that whilst the Tranche 2 Issue will only provide SFG with an additional nine (9) to ten (10) months of runway (i.e. a relatively short period of time) and will not assist in the repayment of the Avatar Facility, the Tranche 2 Issue will provide the Board with a material amount of additional time in which to consider and investigate a range of operational and funding options, and ultimately achieve the best possible outcome for Shareholders at that future point in time.

Having regard to the above, the Tranche 2 Issue is, in our opinion, vital to the ongoing viability of SFG.

No Change in Strategy

The Tranche 2 Issue will not impact upon SFG's current strategy, including the development of Project Sea Dragon. This is an important consideration particularly for those shareholders who consider this investment to be of long-term strategic importance to the Company.

Alternative Sources of Capital and Debt may be more Expensive

Having regard to SFG's financial position and in particular, its current working capital position assuming that the Tranche 2 Issue is not approved, any alternative sources of capital and debt is likely to be expensive with draconian obligations attaching to any such funding arrangements. Whilst the Tranche 2 Issue will be dilutive to the Non-Associated Shareholders, it will not impede the operations and development plans for Project Sea Dragon particularly.

3.2.2 Disadvantages of the Tranche 2 Issue

Increased Voting Power of Major Shareholders

In the case that the Tranche 2 Issue is approved, SFG's major shareholder (i.e. Trahar Group) will increase its equity holdings in SFG from 21.84% (after the Tranche 1 Issue) to 27.90%.

This increased level of equity holding will provide Trahar Group with an increased ability to influence the outcome of any future resolutions put forward to Shareholders. Critically, we note that the increased equity holding is greater than 25% and should the Tranche 2 Issue be approved, Trahar Group will have the ability (on its own) to block any special resolutions put forward to Shareholders.

Conversely, in the case that the Tranche 2 Issue is approved, the equity interests of Non-Associated Shareholders (collectively) will decrease from 78.16% (after the Tranche 1 Issue) to 72.10%.

Impact on Liquidity

The approval of the Tranche 2 Issue may result in a further decrease in the liquidity of SFG's shares on the ASX, which may adversely affect the future value of a SFG share.

3.2.3 Implications for Non-Associated Shareholders of Not Approving the Tranche 2 Issue

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 Tranche 2 Issue is not approved, the following will be applicable to Non-Associated Shareholders:

- noting the current level of cash reserves held by the Company and other short-term obligations (including the repayment of the Avatar Facility), in the absence of raising any further debt or equity capital (including specific to Project Sea Dragon), the future of the SFG beyond July / August 2020 is uncertain;
- as set out in **Section 1.3**, a major contributor to the Placement came from a single investor (i.e. Cameron) on the back of a commitment from Trahar Group to provide a similar contribution. In the case that the Tranche 2 Issue is not approved, SFG may find it more difficult to raise funds in the future due to a reduction in confidence of Trahar Group's ability to make any co-contributions to such future capital raisings noting that they would likely also be subject to Shareholder approval;
- the voting power of SFG's major shareholder (i.e. Trahar Group) will remain at 21.84% (after the Tranche 1 Issue) and will not increase to 27.90%. As a result, Trahar Group will not have the ability to block, by itself, any special resolutions put forward to Shareholders; and
- the voting power of Non-Associated shareholders will remain at 78.16% (after the Tranche 1 Issue) and will not decrease to 72.10%.

3.2.4 Overall Reasonableness Conclusion

We have assessed the overall factors set out above, and in our view, the advantages of the Tranche 2 Issue outweigh its disadvantages. Accordingly, in our opinion, the Tranche 2 Issue is reasonable.

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 Tranche 2 Issue 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 Tranche 2 Issue to that adopted in this Report. Accordingly, individual Non-Associated Shareholders may reach different conclusions on whether or not the Tranche 2 Issue is "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 Tranche 2 Issue.

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

5. Other Matters

5.1 Previous Independent Expert's Report

In July 2019, Invicta was engaged by SFG to prepare an Independent Expert's Report ("**IER**") in relation to the amendment of terms associated with the loan facility provided to the Company by Avatar Finance Pty Ltd (i.e. the "Avatar Facility" – refer to **Section 4.6.2** for further details).

A copy of this IER was attached to the Notice of Extraordinary Meeting distributed by the Company to Shareholders on 19 July 2019, available via the ASX.

5.2 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

Table of Contents

1. The Tranche 2 Issue

1.1 Background

On 27 March 2020, Seafarms Group Limited ("**SFG**" or the "**Company**") announced that it had completed a placement to institutional and professional investors to raise $12.5 million ("**Placement**") at an issue price of $0.03 per each ordinary share ("**Issue Price**").

To ensure that the Placement was successful, the Company entered into a subscription agreement with Avatar Industries Pty Ltd ("**Avatar**") under which Avatar agreed to subscribe for up to $6.25 million of the Placement (with that amount to be scaled back at the Company's discretion as a result of demand received through the Placement process). As a result:

- The Elsie Cameron Foundation Pty Ltd ("**Cameron**") subscribed for 208,333,333 shares and other investors subscribed for 20,353,334 shares (together the "**Tranche 1 Issue**" and the "**Tranche 1 Shares**"); and
- Avatar's requirement is to subscribe for 187,979,999 shares ("**Tranche 2 Shares**") for a total consideration of $5.64 million ("**Tranche 2 Issue**").

We note that as at the date of this Report, the Tranche 1 Issue is complete and is not conditional upon the approval of the Tranche 2 Issue.

Avatar is a company controlled by Mr Ian Trahar, a Director of SFG and is already a substantial shareholder (via related entities, including Gabor Holdings Pty Ltd – together the "**Trahar Group**") having a 21.84% equity interest in the Company (after the Tranche 1 Issue).

As a result of the Tranche 2 Issue, Trahar Group's equity interest in the Company will increase to 27.90%. A summary of the impact on SFG's capital structure as a result of the Placement (including the Tranche 2 Issue) is set out in **Appendix 5**.

1.2 Use of Proceeds from the Placement

SFG have advised that the funds raised under the Placement will be applied to:

- further expansion of Exmouth Founder Stock Centre to enable G3 (third generation) Specific Pathogen Free animals and grow the population (numbers) of such animals;
- further development of the Bynoe Harbour Broodstock Maturation Centre;
- undertaking 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;
- progressing processing plant design and associated tender documents;
- facilitating the project funding process including negotiating with equity and debt funding participants and adviser costs;
- meeting SFG's ongoing contractual, regulatory and environmental compliance commitments relating to Project Sea Dragon; and
- for the costs of the Placement and general working capital requirements.

1.3 Capital Raising Process & Additional Comments

We note or have been advised the following in relation to the Placement, including the Tranche 2 Issue:

- As at 31 December 2019, SFG had total cash reserves of $2.11 million. We note that as at 29 February 2020, cash reserves had decreased significantly to $0.47 million.
- Further to the above, as at 31 December 2019, SFG had an undrawn debt facility with Avatar in the amount of $6.33 million ("**Avatar Facility**") (refer to **Section 4.6.2** for further details regarding this facility). This has subsequently decreased to $4.80 million as at 29 February 2020.

  We note that the Avatar Facility is due to be repaid by 15 September 2021 (i.e. approximately 17 months from the date of this Report).
- In its Independent Auditor's Review Report relating to SFG's interim financial statements for the six (6) month to 31 December 2019, Deloitte included an emphasis of matter regarding a material uncertainty of SFG's ability to continue as a going concern.

  In particular, in note 1 to those same financial statements, the Company notes that it will need to raise at least $7 million through the issue of new securities by April 2020 in order to fund its operations to the period ending 28 February 2021.
- In November 2019, SFG announced that it had appointed GFI Australia as lead arranger for debt funding of Project Sea Dragon (refer to **Section 4.3** for further details regarding Project Sea Dragon). We understand that this mandate was subsequently assigned to Perrett Evans but remains led by the same individuals.

  As at the date of this Report, we are advised that negotiations with potential funders of Project Sea Dragon remain ongoing with no firm commitments received by the Company and that there remains a material uncertainty regarding the ability to secure such funding, its timing and the terms thereof.
- As a result of the above factors, the Board commenced discussions with a financial advisor ("**Placement Advisor**") regarding various capital raising options. In this regard, SFG and the Placement Advisor have advised the following:
  - discussions commenced prior to the impacts of the Covid-19 crisis becoming apparent and at that time, there was broad optimism that any capital raising initiative would be successful. However, by mid-March 2020, it became apparent that the impacts of Covid-19 had deteriorated the confidence of potential investors and would make any capital raising tasks more difficult;
  - SFG and the Placement Advisor considered numerous funding options including a share purchase plan, a convertible note issue, a rights issue and a placement. Given the significant time and cash constraints facing the Company, it was agreed that a private placement to sophisticated and professional investors would provide the most certainty for the Company whilst also meeting the short time frame required;

- marketing of the Placement resulted in only one material commitment from The Elsie Cameron Foundation Pty Ltd ("**Cameron**"), an existing material shareholder of SFG. However, such commitment came with a condition that SFG's major shareholder (i.e. Mr Ian Trahar) provide a similar commitment;
- as a result, SFG entered into a subscription agreement with Avatar (a company controlled by Mr Ian Trahar) to subscribe for up to $6.25 million in the placement, with a scale-back mechanism which enabled the Placement Advisor to identify other investors to participate in the Placement;
- the Placement Advisor was ultimately able to raise $6.86 million (including $6.25 million from Cameron) from other investors, a figure well below original expectations. We have been advised that investor feedback varied but in general, the lack of interest was mostly driven by uncertainties presented by the Covid-19 crisis; and
- the price of the Placement (i.e. $0.03) had largely been driven by the advice of the Placement Advisor and feedback from Cameron.

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 Tranche 2 Issue and to assist in making their recommendation to Non-Associated Shareholders on whether or not to approve the Tranche 2 Issue.

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 Tranche 2 Issue.

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 Tranche 2 Issue. 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 of 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 Tranche 2 Issue 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 Tranche 2 Issue, 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 Tranche 2 Issue.

2.2 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 Tranche 2 Issue.

Our analysis of the various regulatory requirements possibly applicable to the Tranche 2 Issue is set out below.

2.2.1 Corporations Act Requirements

Chapter 6 of the Corporations Act:

Section 606 ("**Section 606**") of the *Corporations Act 2001 (Cth)* ("**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%.

In the present case, we note that entities associated with Avatar currently hold an equity interest in SFG of more than 20% but less than 90%.

Item 7 of Section 611 of the Corporations Act allows for such a transaction to proceed if it is approved by a resolution passed by shareholders whose votes are not to be disregarded (i.e. the "Non-Associated Shareholders") at a general meeting of the Company.

Whilst an IER is not compulsory in relation to a vote under Item 7 of Section 611, ASIC Regulatory Guide 74 *Acquisitions Approved by Members* ("**RG74**") states that in providing all material information to members of a company, Independent Directors should provide members with an Independent Experts' Report of a Directors' Report but only if they have sufficient expertise, experience and resources to prepare such a report.

2.2.2 ASX Listing Rule Requirements

Australian Securities Exchange ("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, given that Mr Trahar is the Executive Chairman of the Company, the Tranche 2 Issue will require shareholder approval.

ASX Listing Rule 10.13 sets out the information requirements to be disclosed by a company in seeking shareholder approval under ASX Listing Rule 10.11. Whilst there is no specific requirement for SFG to obtain an IER for the purpose of ASX Listing Rule 10.11, SFG have nevertheless elected to voluntarily commission an IER for the purpose of assisting the Independent Directors in satisfying their obligations under ASX Listing Rule 10.13 and to assist the Non-Associated Shareholders in assessing whether or not to approve the Tranche 2 Issue.

2.3 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.

2.3.1 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 Tranche 2 Issue is “fair” and/or “reasonable”, it was necessary to determine the “fair market value” of SFG.

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 Tranche 2 Issue is “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 Tranche 2 Issue is “fair”, we have not adjusted our valuations for the financial distress that may be experienced by SFG if the Tranche 2 Issue is 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 Tranche 2 Issue.

2.3.2 Valuation Date

The valuation opinions set out in this Report are made as at 6 March 2020 (“**Valuation Date**”).

2.3.3 Current Market Conditions

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

2.4 Sources of Information

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

2.5 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 Placement and/or Tranche 2 Issue. 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.

2.5.1 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 2019.

We have also considered unaudited financial information of SFG provided by management of the Company for the period up to 29 February 2020 ("**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 2019; 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.

2.5.2 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.

2.6 Other Assumptions

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

- the Placement and the Tranche 2 Issue will be implemented as outlined in the NOM issued by SFG and that the legal mechanisms proposed to implement the same are valid and effective;
- information relating to the Placement and the Tranche 2 Issue 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 the context of a control transaction, paragraph 10 of RG 111 notes that ASIC expects an expert to express an opinion on whether the transactions are “fair” and “reasonable” from the perspective of the Non-Associated Shareholders. The words “fair” and “reasonable” establish two distinct criteria:

- is the Tranche 2 Issue “fair” and
- is the Tranche 2 Issue “reasonable”?

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

3.1.1 Fair

Paragraph 11 of RG 111 provides that a proposed control transaction is ‘fair’ if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the transaction. 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.

In the context of the current analysis (i.e. for the purpose of Item 7 of Section 611 of the Corporations Act), the Tranche 2 Issue will be “fair” if:

- the fair market value of an SFG Share on a control basis prior to the Tranche 2 Issue; is less than,
- the fair market value of an SFG hare on a minority basis assuming that the Tranche 2 Issue is completed.

3.1.2 Reasonable

As set out in paragraph 12 of RG111, the Tranche 2 Issue will be “reasonable” if it is “fair”. Where the Tranche 2 Issue is “not fair”, it may be “reasonable” where the expert believes there are sufficient reasons for Non-Associated Shareholders to approve the Tranche 2 Issue.

In the context of a control transaction, paragraph 13 of RG 111 indicates that when deciding whether a proposed transaction is ‘reasonable’, factors that an expert might consider include:

- Trahar Group’s pre-existing voting power in SFG;
- other significant security holding blocks in SFG;
- the liquidity of the market in the SFG’s securities;
- taxation losses, cash flow or other benefits through achieving 100% ownership of SFG;
- any special value of SFG to Trahar Group;
- the likely market price if the Tranche 2 Issue is not approved; and

- the value to an alternative bidder and likelihood of an alternative offer being made.

Paragraph 26 of RG 111 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.

3.2 Use of Technical Experts

3.2.1 Regulatory Guide 111

RG111 notes that for matters beyond an expert's expertise, they should retain the services of a specialist to advise them (e.g. to value real property or exploration mining tenements).

SFG holds a number of property assets in Queensland. In order to assist with our valuation of SFG, we have relied upon valuation reports prepared by independent property specialists. Further details are set out below.

3.2.2 Cardwell & Flying Fish Point Properties

Prior to the engagement of Invicta, SFG commissioned Hymans Valuers & Auctioneers ("**Hymans**") to prepare valuations of its Cardwell and Flying Fish Point properties for financial reporting purposes ("**Hymans Valuation Reports**").

Invicta has reviewed the Hymans Valuation Reports and note the following:

- as at 2 March 2020, Hymans assessed the market value of:
  - the Cardwell property to be $22,250,000 (excluding GST) equating to approximately $63,150 per hectare; and
  - the Flying Fish Point property to be $1,575,000 (excluding GST) equating to approximately $77,170 per hectare;

  Both of the reports are dated 27 March 2020;
- the Hymans Valuation Reports were prepared for financial reporting purposes. Accordingly, the definition of "value" adopted by Hymans is "fair value" as prescribed by Australian Accounting Standards.

  Invicta is satisfied that there would be no material difference in the valuation opinions expressed by Hymans had they adopted the definition of "fair market value" as set out in **Section 2.3.1**;
- in assessing the value of the Cardwell and Flying Fish Point properties, Hymans adopted their highest and best use, being its existing use; and

- in assessing the value of the Cardwell and Flying Fish Point properties, Hymans applied the "Direct Comparison" approach by looking at available sales evidence for properties similar in nature and within the surrounding locality. Adjustments were then made by Hymans to take into account the specific characteristics of the Cardwell and Flying Fish properties; and
- in its reports, Hymans notes the significant uncertainty presented by the Covid-19 crisis. However, we note that Hymans has not taken up any specific adjustment for this uncertainty. We note that this is consistent with our own approach in assessing the fair market value of SFG and the fairness of the Tranche 2 Issue.

In addition to and having regard to the above, we are satisfied that:

- Hymans has the appropriate qualifications, experience and competence to conduct the engagement;
- the methodologies used in its assessments are consistent with generally accepted industry practice;
- Hymans' reports contains sufficient information to support the conclusions drawn; and
- Hymans is and remains independent of SFG, Avatar and any of their associates, respectively.

Based on the above, Invicta is satisfied with the inclusion of the Hymans' results in our own valuation conclusions.

Hymans has provided its consent for the references made to them in this Report.

3.2.3 Ingham Sea Farm Property

In July 2018, SFG commissioned CBRE Valuation Pty Ltd ("**CBRE**") to prepare a valuation of its Ingham Sea Farm property for financial reporting purposes ("**CBRE Valuation Report**").

Invicta has reviewed the CBRE Valuation Report and notes the following:

- as at 27 July 2018, CBRE assessed the market value of the Ingham Sea Farm property to be $9,000,000 (excluding GST) equating to approximately $52,325 per hectare;
- the valuation date noted in the report is 27 July 2018 (i.e. approximately 19 months before the Valuation Date adopted in this Report). In their report, CBRE states that the reliance period is 90 days from the date of their valuation (i.e. CBRE's valuation opinion is no longer current);
- the CBRE Valuation Report was prepared for financial reporting purposes. The definition of "value" adopted by CBRE was "market value" being:

  "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after property marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

  In their report, CBRE also state that they had regard to the requirements of the Australian Accounting Standards Board, in particular, the definition of "fair value" contained within AASB 13 *Fair Value Measurement*.

Invicta is satisfied that there would be no material difference in the valuation opinion expressed by CBRE had they adopted the definition of "fair market value" as set out in **Section 2.3.1**;

- in assessing the value of the Ingham Sea Farm property, CBRE adopted its highest and best use, being its current use supporting a large-scale aquaculture property, developed to a prawn grow-out enterprise; and
- in assessing the value of the Ingham Sea Farm property, CBRE applied the "Direct Comparison" approach by looking at available sales evidence for properties similar in nature and within the surrounding locality. Adjustments were then made by CBRE to take into account the specific characteristics of the Ingham Sea Farm property.

In addition to the above, we are satisfied that:

- CBRE had the appropriate qualifications, experience and competence to conduct the engagement;
- the methodologies used in its assessments are consistent with generally accepted industry practice;
- CBRE's report contains sufficient information to support the conclusions drawn; and
- CBRE was and remains independent of SFG, Avatar and any of their associates, respectively.

CBRE has provided its consent for the references made to them in this Report subject to the disclaimers set out in **Appendix 8**.

Noting that the CBRE Valuation Report is no longer current, Invicta has reached an independent conclusion after considering the following factors:

- at the time of the CBRE Valuation Report (i.e. July 2018), there were increased industry wide concerns regarding the outbreak of White Spot disease in south-east Queensland leading to a heighted risk profile for the sector. This had the negative impact of farm closures and destocking but a positive impact on domestic prawn prices as supply was subdued.

  Invicta notes that since July 2018, concerns over White Spot have subsided but Invicta notes some recent reports of White Spot re-emerging in south-east Queensland;
- Tassal Group Ltd ("**Tassal Group**") has been relatively active in the region over the last two (2) years acquiring a number of established and yet-to-be developed aquaculture properties. This activity may have put upward pressure on prices for property similar to the Ingham Sea Farm property;
- further to the above, there are very few comparative transactions for which to reliably conclude any particular price trends. This is made further difficult by the unique nature of these types of properties;

- we have been advised by management of SFG that the have been no material changes or improvements to the Ingham Sea Farm property since 27 July 2018. Since that date, we have been advised that the only capital expenditure in relation to this property has been "maintenance" related rather than "improvements/value add";
- the general market commentary set out in the Hymans Valuation Reports which also contained more recent comparable transaction data; and
- after consulting with various property specialists, there is a reasonable expectation that on a per hectare basis, the value of the Ingham Sea Farm property will be less than for the Cardwell and Flying Fish Point properties on account of the following factors:
  - the Ingham Sea Farm property is an unusual shape with a large portion being undeveloped grazing land;
  - the Flying Fish Point property is a significantly small property when compared to Ingham Sea Farm (20.4 ha vs 172.0 ha). All other things being equal, we have been advised that larger properties tend to attract a lower value per hectare rate when compared to similar smaller properties; and
  - the Cardwell property in particular has far more extensive development and significant processing infrastructure.

Based on the above, we have reached the conclusion that there was unlikely to be any material movement in the fair market value of the Ingham Sea Farm property since 27 July 2018 and have therefore adopted a value of $9,000,000 for the Ingham Sea Farm property in assessing the overall fair market value of SFG as at 6 March 2020 on a net tangible asset basis.

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 $116 million as at 6 March 2020. 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 1,800 tonnes pa, which represents over 30% of the entire Australian prawn farm industry.

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. The Queensland operations support the critical biological assumptions used in the Project Sea Dragon business case, including growth rates, feed conversion and survival. Relevant cost and contribution assumptions also continue to be supported by Queensland operations. The current Queensland operations represent 40% of the size of the stage 1 Project Sea Dragon development.

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 $110 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.

Project Sea Dragon represents:

- an industrial scale, fully vertically integrated, sustainable, land-based prawn aquaculture project in Northern Australia;
- one of the world's largest aquaculture projects. The standalone marine prawn production system will be capable of annually producing over 150,000 tonnes of prawns and the high quality, year-round volumes will target export markets;
- one of the most bio secure aquaculture projects in the world – very isolated with no nearby 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 prawn product; and
- a new export industry for northern Australia.

SFG continues to advance Project Sea Dragon. Stage 1 of the project has approvals in place and preparatory tendering has been completed to enable construction to commence very soon after financing is arranged. The approvals include the aquaculture licences required for production at Exmouth, Bynoe Harbour and Legune. A program of early works was completed prior to the commencement of the 2019 Wet Season.

SFG has secured major equity ($24.99 million in July 2018 and $2.998 million in April 2019) and product offtake agreements with Asian global seafood company, Nissui. The offtake agreement is for 15% of Queensland production and between 10-20% of the total annual production of Project Sea Dragon, depending on its ownership interest. On 4 October 2019 SFG announced the completion of its first export of 33 tonnes of Black Tiger prawns to Nissui.

SFG has also secured another Project Sea Dragon offtake agreement to market approximately 15% of the project products in Europe with one of Europe's largest seafood companies, Primstar B.V., taking total Project Sea Dragon offtake of approximately 30% and up to 35% of production from the initial stage development. This agreement has a minimum term of five (5) years from the commencement of Project Sea Dragon and may be extended by a further five (5) years by agreement.

All major premium markets (Japan, Europe and Australia) for Project Sea Dragon product are now secured, with SFG continuing to work closely with its Australian marketing partner, Sealord, to secure and expand its Australian market opportunities.

On 14 April 2020, SFG announced that it had received 4-star Best Aquaculture Practice (“**BAP**”) Certification and is the only Australian aquaculture company to achieve this rating by the Global Aquaculture Alliance, the world’s leading standards. BAP Certification has been awarded across all of SFG’s Queensland facilities namely:

- Hatchery at Innisfail;
- Farms at Cardwell and Ingham; and
- Processing at Cardwell.

Additionally, SFG only uses BAP certified feed earning SFG production the highest certification of 4-stars.

4.4 Other Notes

The Independent Directors of SFG have also indicated the following:

- the current focus of SFG is the continued development of Project Sea Dragon;
- the further development of Project Sea Dragon is significantly dependant on the successful sourcing of significant funds from private and/or Government sources within the short term (i.e. within six (6) to twelve (12) 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) to twelve (12) 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) to twelve (12) 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; and
- noting the above, the Independent Directors believe that the Tranche 2 Issue provides significant benefits towards ensuring 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.

4.5 Directors

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

Table 2: Directors of SFG

Name & Position	Details
Ian Trahar **B.EC, MBA** Executive Chairman and Director Appointed 13 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.
Dr Chris Mitchell **PHD, BSC (HONS)** Executive Director Appointed 27 July 2005	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. Dr Mitchell was the Foundation Director of the Centre for Australian Weather and Climate Research.
Harley Whitcombe **B.BUS CPA** Director, CFO, Company Secretary Appointed 13 November 2001	Mr Whitcombe has had many years of commercial and finance experience, providing company secretarial services to publicly-listed companies. He is a CPA certified accountant.
Mr Paul Favretto **LL.B** Non-Executive Director Appointed 18 December 2007	Mr Favretto was previously Managing Director of Avatar Industries, that undertook consumer products distribution and manufacture and distribution of lighting products. Previously to that, he was Managing Director of KLZ Limited and prior to that he had more than 20 years of financial services experience including senior management positions at Citibank Limited and Bankers Trust Australia Limited. 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.
Hisami Sakai Non-Executive Director Nissui representative Appointed 7 August 2018	Mr Hisami Sakai was appointed as a Non-Executive Director of Seafarms Group Limited as Nippon Suisan Kaisha Limited's representative. Mr Sakai has had nearly 40 years commercial experience with Nippon Suisan Kaisha Limited (Nissui), one of the biggest global seafood companies in Japan. He is currently an Executive Officer of Nissui. His responsibilities include Business Supervisor in Europe and Oceania, in charge of the Supply Chain Management and Marine Business Strategy Departments.
Naoto Sato Alternate Director to Mr Hisami Sakai	Mr Naoto Sato is an alternate director for Mr Sakai. Mr Sato has had nearly 14 years accounting and finance experience with Nissui and is currently a Manager at Nissui.

Source: Management of SFG; 2019 Annual Report of SFG

4.6 Historical Financial Information

4.6.1 Historical Income Statements

Set out below are the historical consolidated income statements of SFG for the years ended 30 June 2017, 2018 and 2019 ("**FY17**", "**FY18**" and "**FY19**" respectively) and the half year ended 31 December 2019 ("**HY20**"):

Table 3: Historical Consolidated Income Statements

	Year Ended 30 June			6 Months to 31 December 2019 (Reviewed)
	2017 (Audited)	2018 (Audited)	2019 (Audited)	
Revenue				
Revenue from Continuing Operations	35,739,152	35,051,906	24,394,803	21,543,045
Other Gains / (Losses)	(368,179)	318,115	(12,349)	-
Fair Value Adjustment of Biological Assets	944,497	593,507	(1,485,164)	(34,906)
Net Realisable Value Adjustment of Finished Goods	430,617	(842,994)	531,275	(531,837)
Total Revenue	**36,746,087**	**35,120,534**	**23,428,565**	**20,976,302**
Expenses				
Cost of Goods Sold	(26,681,625)	(26,503,732)	(24,464,571)	(20,450,977)
Plantation Costs	(2,246,329)	(2,469,798)	-	-
Employee Benefits Expense	(6,111,125)	(7,523,661)	(6,417,104)	(2,532,157)
Consulting Expense	(2,066,813)	(2,343,888)	(4,634,729)	(855,275)
Travel	(1,943,848)	(2,338,788)	(1,835,123)	(838,947)
Rent	(433,658)	(430,673)	(278,001)	(4,064)
Legal Fees	(234,612)	(2,188,895)	(1,553,965)	(269,153)
Other Expenses	(1,719,257)	(1,906,508)	(1,755,741)	(1,782,017)
Depreciation & Amortisation Expense	(1,816,029)	(1,948,524)	(2,334,282)	(1,884,011)
Marketing	(134,755)	(201,548)	(173,358)	(48,683)
Insurance	(256,875)	(256,170)	(339,268)	(435,675)
Founder Stock Centre	-	-	(3,355,144)	(729,585)
Impairment of Intangible Assets	-	(1,016,448)	(1,207,187)	-
Research & Development	(5,485,259)	(4,919,002)	(3,900,021)	(724,819)
Finance Costs	(1,010,193)	(1,077,166)	(2,720,196)	(2,679,944)
Share of Profit from Associates	(111,875)	60,560	-	-
Loss from Continuing Operations Before Tax	**(13,506,166)**	**(19,943,707)**	**(31,540,125)**	**(12,259,005)**
Income Tax Benefit / (Expense)	(6,269,297)	(3,576)	-	-
Loss from Continuing Operations After Tax	**(19,775,463)**	**(19,947,283)**	**(31,540,125)**	**(12,259,005)**
Profit from Discontinued Operations	-	-	595,824	-
Total Comprehensive Loss for the Year	**(19,775,463)**	**(19,947,283)**	**(30,944,301)**	**(12,259,005)**

Source: Annual Reports of SFG for the years ended 30 June 2017, 2018 and 2019; Interim Financial Report of SFG for the six months ended 31 December 2019; Invicta analysis.

In relation to the above, we note the following:

- at an extraordinary general meeting held on 16 July 2018, SFG received shareholder approval for the demerger of its environmental services business, CO2 Australian Group ("**CO2**") which was subsequently completed on 23 July 2018. Results from this business have been reported as a discontinued operation in the year ended 30 June 2019;

- the overall financial performance during HY20 shows a loss in the order of $12.2 million, reflecting a profit from the Queensland aquaculture operations offset by the cost of fully expensing all of Project Sea Dragon development costs and corporate expenses;
- 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 $110 million in total to date) which are primarily intended to demonstrate the fundamental operating concepts for Project Sea Dragon; and
- in HY20, the Company has adopted the new AASB 16 *Leases* ("**AASB 16**") issued by the Australian Accounting Standards Board ("**AASB**").

  As a result, leases which had previously been classified as "operating leases" under AASB 117 *Leases*, have been recognised as a lease liability from 1 July 2019. The resulting lease liabilities have been measured at the present value of remaining lease payments using SFG's incremental borrowing rate. Corresponding right-of-use assets have also been recognised from 1 July 2019.

  SFG have elected not to restate comparative financial information in relation to the adoption of AASB 16.

4.6.2 Historical Balance Sheets

Set out below are the historical consolidated balance sheets of SFG as at 30 June 2017, 2018 and 2019, and as at 31 December 2019:

Table 4: Historical Consolidated Balance Sheets

	As at 30 June			As at 31 December 2019 (Reviewed)
	2017 (Audited)	2018 (Audited)	2019 (Audited)	
Current Assets				
Cash & Cash Equivalents	11,874,838	4,139,603	16,302,589	2,113,937
Trade & Other Receivables	1,597,295	3,962,346	2,516,486	6,602,311
Inventories	7,708,673	7,294,677	12,598,297	3,610,233
Current Tax Receivables	15,786	-	-	-
Other Current Assets	1,003,078	1,049,691	912,605	711,426
Accrued Income	912,701	939,061	-	-
Biological Assets	4,530,997	5,781,325	3,590,388	4,586,766
Total Current Assets	**27,643,368**	**23,166,703**	**35,920,365**	**17,624,673**
Non-Current Assets				
Inventories	184,923	184,923	-	-
Investments Accounted for using the Equity Method	348,708	409,268	-	-
Property, Plant and Equipment	19,302,139	20,130,079	44,153,896	25,346,444
Right of Use Asset	-	-	-	22,615,420
Intangible Assets	3,520,929	2,419,027	-	-
Other Non-Current Assets	-	-	5,000,000	5,000,000
Total Non-Current Assets	**23,356,699**	**23,143,297**	**49,153,896**	**52,961,864**
TOTAL ASSETS	**51,000,067**	**46,310,000**	**85,074,261**	**70,586,537**
Current Liabilities				
Trade & Other Payables	6,026,605	8,890,367	7,929,886	3,256,856
Borrowings	447,186	2,958,701	380,453	-
Lease Liabilities	-	-	-	1,329,673
Provisions	1,433,910	1,520,318	1,219,639	1,426,667
Deferred Revenue	1,848,392	1,807,140	-	-
Total Current Liabilities	**9,756,093**	**15,176,526**	**9,529,978**	**6,013,196**
Non-Current Liabilities				
Borrowings	8,223,763	15,047,233	36,222,388	14,060,845
Lease Liabilities	-	-	-	18,797,875
Provisions	301,591	243,438	109,440	54,431
Total Non-Current Liabilities	**8,525,354**	**15,290,671**	**36,331,828**	**32,913,151**
TOTAL LIABILITIES	**18,281,447**	**30,467,197**	**45,861,806**	**38,926,347**
NET ASSETS	**32,718,620**	**15,842,803**	**39,212,455**	**31,660,190**
Equity				
Contributed Equity	101,512,627	103,674,332	154,757,354	160,009,094
Reserves	5,252,773	6,162,534	12,017,437	12,017,437
Retained Earnings	(74,046,780)	(93,994,063)	(127,562,336)	(140,366,341)
TOTAL EQUITY	**32,718,620**	**15,842,803**	**39,212,455**	**31,660,190**

Source: Annual Reports of SFG for the years ended 30 June 2017, 2018 and 2019; Interim Financial Report of SFG for the six months ended 31 December 2019; Invicta analysis.

In relation to the above, we note the following:

- cash and cash equivalents amounted to $2.11 million as at 31 December 2019, with the decrease from 30 June 2019 predominately reflecting operating losses and acquisitions of property, plant and equipment during the period (refer to the historical cash flow statements in Section 4.6.3 below for further details);
- trade and other receivables as at 31 December 2019 increased to $7.1 million reflecting the seasonality of SFG's prawn production and sales;
- current inventories decreased to $3.6 million as at 31 December 2019 again reflecting the seasonality of SFG's prawn production and sales;
- biological assets of $4.9 million as at 31 December 2018 relates to prawn livestock.

  Biological assets are measured at fair value being the present value of expected proceeds from the disposal of livestock in an active and liquid market less expected costs to be incurred in realising the proceeds of that disposal.

  Prawn livestock with a weight of less than 1 gram (including hatchery stock) is carried at historical cost;
- property, plant and equipment totalling $25.35 million as at 31 December 2019 represent the capitalised cost, less accumulated depreciation and amortisation of the following:
  - freehold land consisting of the Cardwell, Flying Fish Point and Ingham properties ($2.01 million);
  - freehold buildings ($4.02 million);
  - ponds ($6.02 million);
  - plant and equipment ($13.28 million); and
  - leasehold improvements ($0.02 million);
- On 1 July 2019, SFG adopted the new lease accounting standard AASB 16.

  As a result, leases which had previously been classified as "operating leases" under AASB 117 *Leases*, have been recognised as a lease liability from 1 July 2019. The resulting lease liabilities have been measured at the present value of remaining lease payments using SFG's incremental borrowing rate. Corresponding right-of-use assets have also been recognised from 1 July 2019.

  The new lease liabilities and corresponding right-of-use assets in the amount of $22.62 million predominately relate to the Legune Station but also include certain leased assets including office leases, motor vehicles and smaller items of plant and equipment.

- other non-current assets of $5.0 million as at 30 June 2019 and 31 December 2019 relates to a loan to AAM Licensees Pty Ltd provided on 12 December 2018. Invicta is advised that this loan is interest free (except on any overdue monies) and repayable upon commencement of stage 1 of Project Sea Dragon.

  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);

- current liabilities have decreased from $9.5 million as at 30 June 2019 to $6.0 million as at 31 December 2019 mainly due to a reduction in trade and other payables reflecting the seasonality of SFG's prawn production. The decrease in trade and other payables was offset by an increase in lease liabilities due to the first-time adoption of AASB 16 *Leases* for the period commencing on 1 July 2019; and

- as at 31 December 2019, non-current borrowings amounted to $14.1 million comprising the following:

  - a secured loan in the amount of $5.19 million from AAM Licensees Pty Ltd ("**AAM**") provided on 12 December 2018. 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).

    This loan attracts an interest rate of 7% per annum, 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. As at 31 December 2019, this option had not been exercised;

  - a $8.9 million loan from Avatar Finance in the form of a convertible note ("**Avatar Facility**"). Key terms of the Avatar Facility are set out in the following table:

Table 5: Key Terms of the Avatar Facility

Term	Details
Facility Limit	$15.2 million
Interest Rate	BBSY + 4.00%
Line Fee	0.5% of Facility Limit
Repayment Date	15 September 2021

Source: Notice of Extraordinary General Meeting distributed by SFG to Shareholders on 19 July 2019

The amount ($8.9 million) recorded as a liability as at 31 December 2019 represents the fair value of the liability component of the Avatar Facility calculated by applying an effective interest rate of 15%. The face value of the Avatar Facility was $10.4 million as at 31 December 2019.

In relation to the above, we also note that on 20 August 2019, at an extraordinary general meeting, Shareholders approved the following in relation to the Avatar Facility:

- the conversion of $3 million of debt owed to Avatar Finance into 33,333,333 Shares with a deemed issue price of $0.09 per Share;
- the issue of a convertible security to Avatar Finance, which gives Avatar Finance the right to, at its election, convert amounts outstanding under the facility into Shares at a price of $0.09 per Share up to a maximum conversion amount of $12.2 million (135,55,555 Shares) ("**Conversion Right**"); and
- the extension of the repayment date from 15 March 2021 to 15 September 2021; and

- non-current lease liabilities amounting to $18.8 million predominately relate to property leases with a small portion (approximately $1.0 million) relating to leased plant and equipment.

4.6.3 Historical Statements of Cash Flows

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

Table 6: Historical Consolidated Statements of Cash Flows

	Year Ended 30 June			6 Months to 31 December 2019 (Reviewed)
	2017 (Audited)	2018 (Audited)	2019 (Audited)	
Cash Flows from Operating Activities				
Receipts from Customers	36,679,784	32,602,213	25,972,005	15,899,451
Payments to Suppliers and Employees	(50,481,890)	(47,995,748)	(53,314,148)	(23,957,970)
Interest Paid	(1,010,193)	(1,077,166)	(2,720,563)	(2,491,944)
Net Cash Used Operating Activities	**(14,812,299)**	**(16,470,701)**	**(30,062,706)**	**(10,550,463)**
Cash Flows from Investing Activities				
Payments for Property, Plant & Equipment	(2,817,666)	(2,794,033)	(5,006,647)	(3,344,661)
Proceeds from Other Financial Assets	313,190	-	-	-
Interest Received	62,754	32,809	111,220	-
Net Cash Used in Investing Activities	**(2,441,722)**	**(2,761,224)**	**(4,895,427)**	**(3,344,661)**
Cash Flows from Financing Activities				
Proceeds / (Payments) for Issues of Securities	22,491,475	2,161,705	51,083,022	(9,260)
Proceeds / (Repayments) of Borrowings	(1,646,148)	9,334,985	(3,961,903)	(284,268)
Net Cash Provided by Financing Activities	**20,845,327**	**11,496,690**	**47,121,119**	**(293,528)**
Net Increase / (Decrease) in Cash Held	**3,591,306**	**(7,735,235)**	**12,162,986**	**(14,188,652)**
Cash & Cash Equivalents at the Beginning of the Period	8,283,532	11,874,838	4,139,603	16,302,589
Cash & Cash Equivalents at the End of the Period	**11,874,838**	**4,139,603**	**16,302,589**	**2,113,937**

Source: Annual Reports of SFG for the years ended 30 June 2017, 2018 and 2019; Interim Financial Report of SFG for the six months ended 31 December 2019; 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;
- during the six (6) month period to 31 December 2019, SFG's cash reserved decreased by $14.2 million to $2.1 million;
- during FY19, SFG completed the following capital raising:
  - 283,188,768 ordinary shares were issued to Nippon Suisan Kaisha Limited raising total funds of $27.99 million before costs;
  - 295,035 options were exercised raising total proceeds of $28,618;
  - in April / May 2019, SFG completed a placement and share purchase plan under which the Company issued 271,485,468 Shares at an issue price of $0.09 per Share, to raise $24.4 million before costs (refer to **Section 4.7.4** for further details).

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 ^ #	2,234,282,302
Listed Options ^^	153,936,083
Unlisted Options ^^^	120,320,622
Convertible Preference Shares	30,150,189
Total Securities if all Exercised/Converted	**2,310,002,529**

^ Includes 249,919,097 ordinary shares under voluntary escrow

Includes the impact of the Placement but excluding the Tranche 2 Issue

^^ Includes 28,355,534 listed options under voluntary escrow

^^^ Included 5,320,622 unlisted options under voluntary escrow

Source: Appendix 2A lodged by SFG on 1 April 2020

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 (including the impact of the Placement but excluding the Tranche 2 Issue), SFG had 2,234,282,302 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 (including the impact of the Placement but excluding the Tranche 2 Issue):

Table 8: Top Five (5) Ordinary Shareholders – Including the Impact of the Placement but Excluding the Tranche 2 Issue

	#	%
Ian Trahar & Associates	487,891,222	21.84%
Nippon Suisan Kaisha Ltd	283,230,208	12.68%
McBain Family	81,104,377	3.63%
Jan Cameron & Associates	275,170,615	12.32%
Peter Darnell Family	60,161,661	2.69%
Total Top 5 Ordinary Shareholders	**1,187,558,083**	**53.15%**
Other Ordinary Shareholders	1,046,724,219	46.85%
Total Ordinary Shares	**2,234,282,302**	**100.00%**

Source: Management of SFG; Invicta analysis

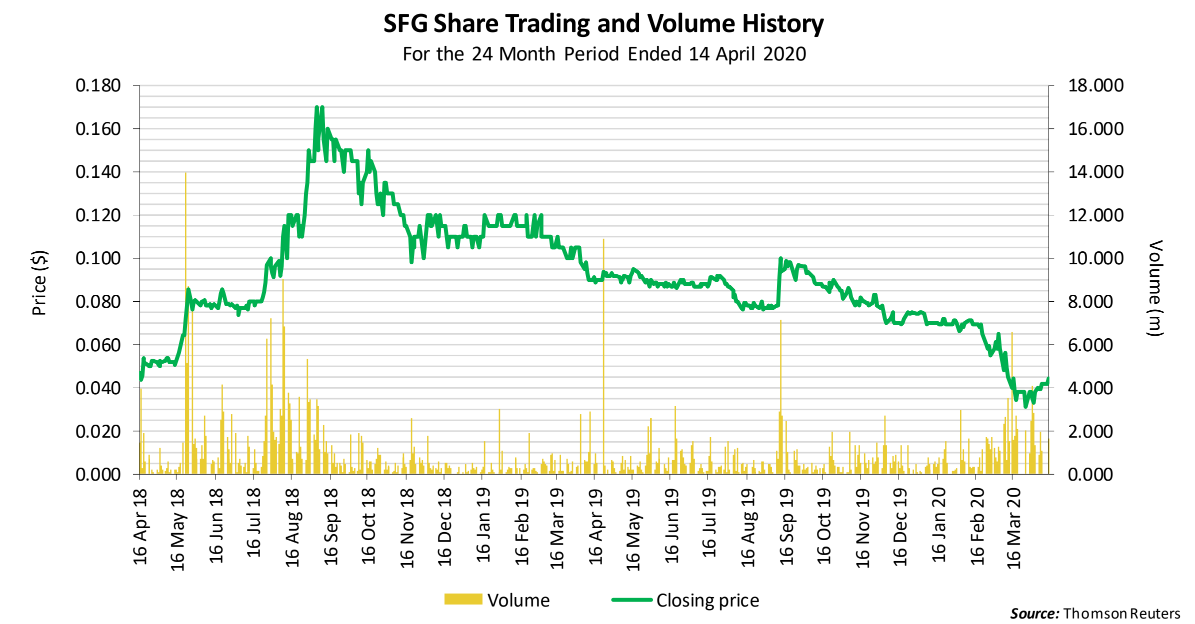
As can be seen from the table above, entities related to Mr Ian Trahar hold a combined 21.84% interest in all of the ordinary shares in SFG. Nippon Suisan Kaisha Ltd (i.e. Nissui) and Jan Cameron are the only other substantial holders of SFG's ordinary shares.

Please refer to **Appendix 5** for details of how the Placement has / 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 14 April 2020:

Figure 1: SFG 24-Month Trading History



Source: Thomson Reuters

The following table provides an overview of the volume weighted average prices ("**VWAP**") of SFG's Shares over various time periods leading up to 14 April 2020:

Table 9: SFG VWAP History – to 14 April 2020

Period	Price (Low)	Price (High)	Price VWAP	Total Value	Total Volume	% of Issued Shares
1 day	$0.0410	$0.0450	$0.0425	$70,252	1,651,792	0.07%
1 week	$0.0390	$0.0450	$0.0410	$142,784	3,486,158	0.16%
1 month	$0.0300	$0.0520	$0.0383	$1,328,555	34,711,460	1.68%
3 months	$0.0300	$0.0720	$0.0505	$3,820,124	75,584,877	3.72%
6 months	$0.0300	$0.0900	$0.0596	$6,789,865	113,850,203	5.62%
12 months	$0.0300	$0.1050	$0.0731	$15,136,249	207,104,131	10.39%

Source: Thomson Reuters; Invicta analysis

For the purpose of our valuation of SFG's shares, we also set out the VWAP of SFG's Shares over various time periods leading up to 6 March 2020:

Table 10: SFG VWAP History – to 6 March 2020

Period	Price (Low)	Price (High)	Price VWAP	Total Value	Total Volume	% of Issued Shares
1 day	$0.0580	$0.0630	$0.0604	$66,199	1,096,362	0.05%
1 week	$0.0530	$0.0660	$0.0594	$290,507	4,892,017	0.24%
1 month	$0.0500	$0.0720	$0.0622	$1,154,065	18,553,153	0.93%
3 months	$0.0500	$0.0780	$0.0668	$2,791,164	41,803,458	2.08%
6 months	$0.0500	$0.1050	$0.0777	$7,293,864	93,825,011	4.68%
12 months	$0.0500	$0.1150	$0.0837	$14,920,715	178,206,173	9.16%

Source: Thomson Reuters; Invicta analysis

We note the following:

- SFG's Shares are generally illiquid having only turned over approximately 10% of its issued shares in the twelve (12) months to 14 April 2020 with a total value of approximately $15.1 million; and
- under the placement, SFG completed the issue of 228,686,667 ordinary shares on or around 1 April 2020.

4.7.4 Other Share Transactions

May 2018 - Issue of Securities to Nissui

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

In summary, key points of the announcement included:

- Nissui would 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 $24,987,766, 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).
- 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).
- 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 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.

April 2019 - Placement

On 5 April 2019, SFG announced that it had completed a placement to major domestic, institutional and professional investors ("**April 2019 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 April 2019 Placement will be predominately applied to the progression of Project Sea Dragon.

In addition to funds raised under the April 2019 Placement, Nissui invested a further $2.998 million at the same price of the April 2019 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 a debt conversion.

May 2019 - 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.

August 2019 – Debt Conversion

On 30 August 2019, SFG completed a debt-to-equity conversion whereby Avatar Finance was issued with 33,333,333 Shares at $0.09 per share to reduce the Avatar Facility by $3 million.

September / October 2019 – Exercise of Options

In September and October 2019, a total of 208,333 options were exercised at a price of $0.10 per Share.

April 2020 – Placement

On 1 April 2020, SFG announced that it had issued 228,686,667 Shares under the Placement (excluding the Tranche 2 Shares being the subject of this Report.

Further details of the Placement can be found in **Section 1.1**.

4.7.5 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. These options are subject to voluntary escrow until 7 August 2021.

The lower total number of listed options in **Section 4.7.1** above reflects exercise(s) of listed options.

4.7.6 Unlisted options

On 22 August 2017, 30,000,000 unlisted options were issued to Directors and staff. These options have an exercise price $0.10 per option (since reduced to $0.097) and expire on 22 August 2021. On 18 January 2018, 5,000,000 unlisted options were issued to staff. These options have an exercise price $0.10 per option (since reduced to $0.097) 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. These options are subject to voluntary escrow until 7 August 2021.

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 ("**AAM**") 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.

4.7.7 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

Industry operators breed and farm fish, molluscs and crustaceans. The black tiger prawn (Penaeus monodon) is a fast-growing tropical to subtropical species suited to warm, brackish waters. The black tiger prawn is one of three (3) prawn species farmed, and the main species farmed in Australia.

Purpose-built earthen ponds, constructed on coastal lands or adjacent to the estuarine parts of river systems, are used for the intensive culture of marine prawns. Successful prawn farming requires a sustainable and clean coastal resource. The industry is regulated by local, state and, in some areas, commonwealth laws to ensure a high standard of protection for the environment.

Prawns are harvested early in the year (up to May), and also on demand. Most of the black tiger prawn crop is sold on the domestic market. 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.

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.

The capital-intensive nature of the industry, combined with the high level of internal and external competition, may make it difficult for newer operators to attain a sufficient level of profitability, which is a potential deterrent to entering the market.

Global concern about sustainable fisheries, combined with a strong consumer demand for seafood, has seen aquaculture industries expand around the world, dominated by Asia, particularly China. However, in Australia, the combination of high capital costs and lengthy approval processes for new developments has limited the growth of prawn aquaculture. Aquaculture operators have increased production over the past five years, benefiting from rising demand generally and also for premium products, such as Atlantic salmon and abalone.

An inherent risk in aquaculture production is the potential for disease outbreaks, which can cause significant declines in production and revenue. Adding to the relatively high risk of the industry are the demanding working conditions required for monitoring, feeding and maintaining optimal growing conditions. Finally, numerous licences and approvals must be obtained to farm fish and other products. These differ among states in Australia and add to the cost and time required to set up aquaculture operations. The absence of a uniform framework for licences and environmental restrictions also makes it difficult for individual operators to manage multiple establishments across state borders.

5.2 Industry Drivers

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

- **Seafood consumption:** 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. The industry has benefited from increasingly strict regulations in the wild-caught fishing industry, which limit wild caught fish volumes. Health consciousness is expected to rise in the future, encouraging consumers to eat more fish due to the perceived nutritional benefits and have a positive effect on revenue within the industry.

The Aquaculture industry relies on domestic demand for seafood products. Subject to an expected decline in 2020-21 due to the impact of COVID-19, real household disposable income is expected to grow over the next 5 years, potentially benefiting seafood consumption as fish and seafood products are typically more expensive than substitute products like poultry. IBISWorld forecasts per capita seafood consumption to rise by an annualised 0.6% over the five years through 2024, to total 25.9 kilograms.

In 2020-21 IBISWorld forecasts real household disposable income to decline 0.7% over the previous year. The COVID-19 epidemic is expected to result in the unemployment rate rising sharply. The unemployment rate is expected to peak in early 2020-21, limiting income earned over the year. However, a general uptick in economic activity is expected to boost earnings over the second half 2020-21.

- **Import market:** Imports account for a significant share of the overall fish and seafood market. Strong import penetration across the overall domestic fish and seafood market has limited industry growth over the past five years. Processed imports from countries such as China and Thailand have limited demand for domestic produce from key downstream markets, such as seafood processing establishments and retailers. These Asian countries generally have lower operating costs and can offer produce at a much lower price compared with domestic operators.
- **Export markets:** Exports account for a minor share of industry revenue. While export earnings grew modestly over the past five years, as a proportion of total revenue, they represented only 1.1-1.2% of industry revenue over the period. Free-trade agreements signed with China, Japan and South Korea will have a positive effect over the next five years. These agreements will improve access to these markets through reduced or eliminated tariffs for Australian exporters of numerous agricultural products, including fish and other seafood. This will reduce the cost of Australian fish and other seafood in these key export markets, which is likely to boost export demand. Over the next five years, exports are expected to increase as a share of industry revenue. The expected continued depletion of global wild caught fish stocks is likely to boost overseas demand for aquaculture products.
- **Domestic price of fish and other seafood:** Australia's involvement in the international trade of fish and other seafood has influenced domestic prices over the past five years. However, a substantial increase in seafood prices can reduce demand, as consumers substitute seafood for cheaper sources of protein.
- **Domestic price of poultry:** Poultry is a substitute product for fish and seafood. 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.

- **High 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.
- **Research and development:** In 2001, the Australian prawn farming industry became the first Australian seafood sector to implement a compulsory federal levy based on production, to fund research and development. This helps raise approximately $350,000 annually for investment in prawn aquaculture research and development.

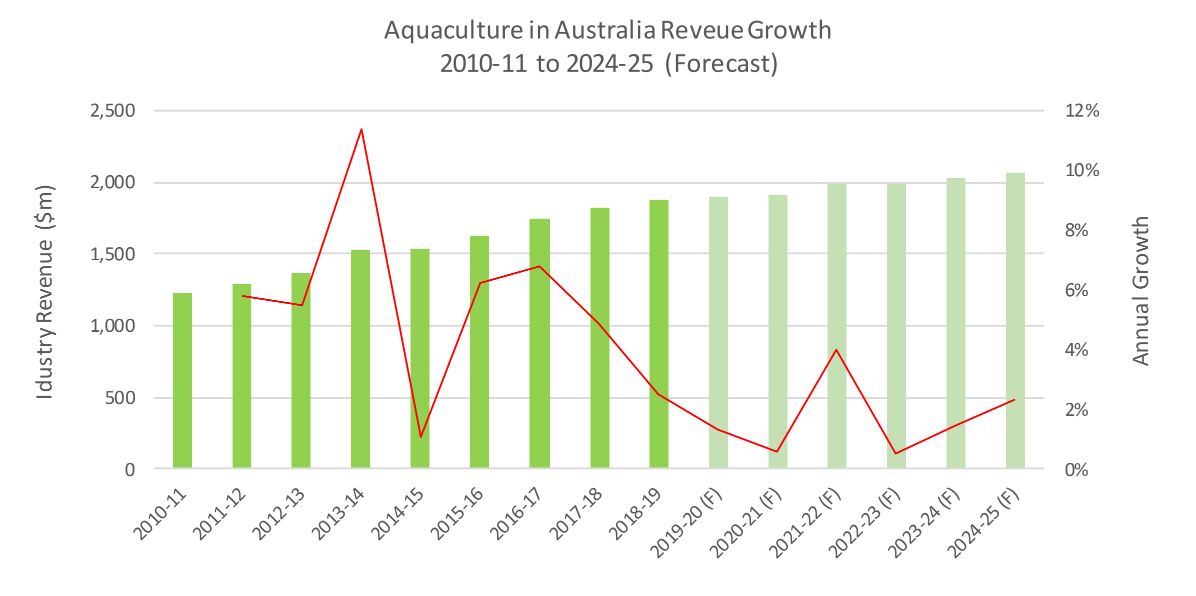
5.3 Current & Future Industry Performance

Industry revenue is expected to increase at an annualised 4.3% over the five years through 2019-20, to total $1.9 billion. However, while larger companies that farm premium products ultimately destined for export markets have benefited from increased prices and profitability, industry-wide profitability has declined over the past five years. Reduced profitability and intensifying competition have caused many small-scale operators to exit the industry over the past five years.

The industry is anticipated to post slower revenue growth over the next five years through to 2024-25. A projected rise in health consciousness will likely support increased seafood consumption over the period. Furthermore, disposable incomes are anticipated to rise and boost demand for premium products, such as edible oysters. However, pressure from imports and substitute sources of protein, such as poultry, are forecast to limit industry revenue growth. Industry revenue is forecast to increase at an annualised 1.8% over the five years through 2024-25, to reach $2.1 billion.

The following figure sets out historical and forecast revenues for the industry:

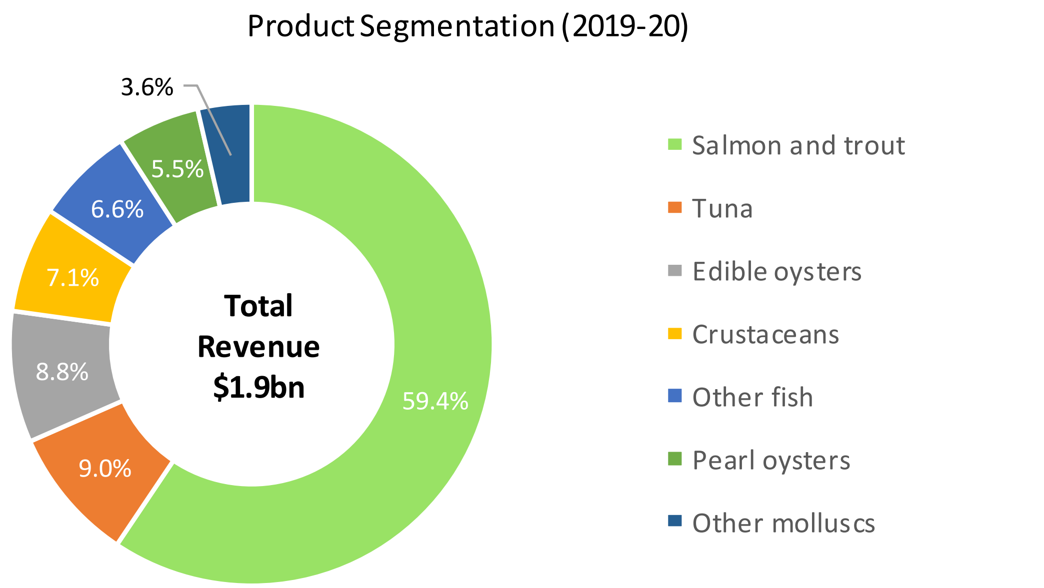
Figure 4: Historical & Forecast Industry Revenue



Source: IBISWorld

The following figure provides a breakdown of forecast industry revenue by product type for the 2019-20 year:

Figure 2: Aquaculture Industry 2019-2020



Source: IBISWorld

Prawns accounts for a substantial share of the crustacean's product segment in the Aquaculture industry in 2019-2020. 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.

5.4 Current Prawn Aquaculture Farms

The Australian prawn farming industry now produces over 4,600 tonnes (2018-19) of product annually with a value estimated at approximately $83.8 million (2018-19) and currently provides up to 300 full time equivalent jobs. The industry is currently undergoing expansion. The table below indicates that the vast majority of production in 2018-19 was based in Queensland.

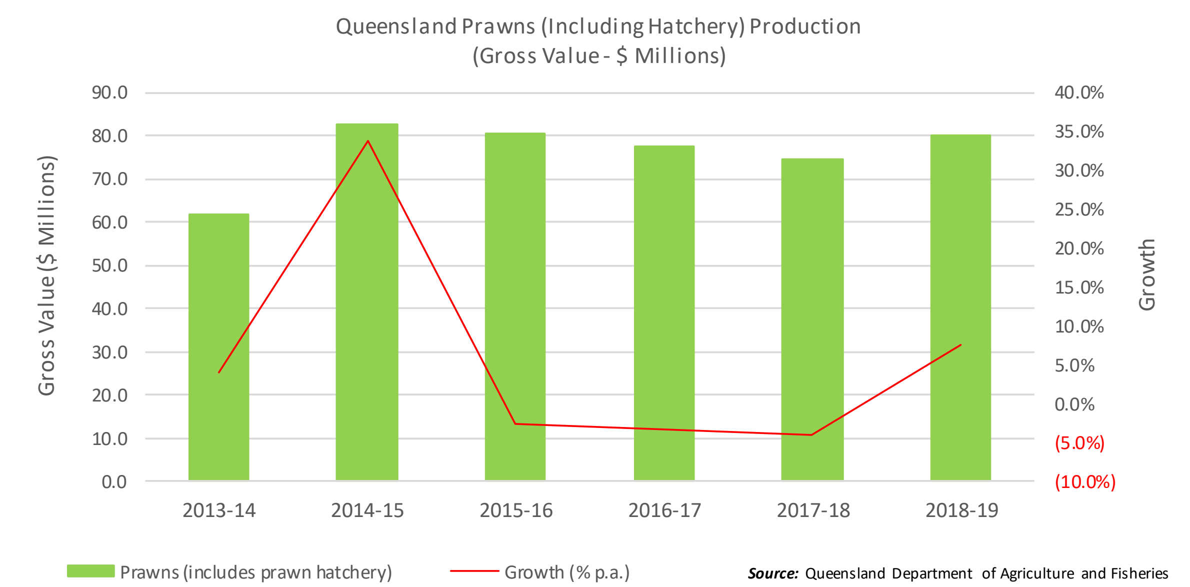
Table 11: Prawn Production & Values – 2018-19

2018-19	Production (Tonnes)	Average Price	Value ($m)
NSW Black Tiger Prawn	164.3	$20.54	$3.37
Queensland Black Tiger, Banana a& Eastern King	4,630.0	$17.37	$80.40

Source: NSW Department of Primary Industries, *Aquaculture Production Report 2018-2019* ; Queensland Department of Agriculture & Fisheries, *2018-19 Aquaculture Production Summary Report*

The following figure sets out annual Queensland prawn (including hatchery) production (gross value) for the 2013-14 to 2018-29 years:

Table 12: Queensland Prawn (Including Hatchery) Production—Gross Value ($ million)



Source: Queensland Department of Agriculture and Fisheries

5.5 Northern Australian Outlook[1]

The global seafood outlook suggests considerable opportunities for local producers. The Australian aquaculture industry has unveiled plans for a significant expansion in northern Australia over the next decade, in particular for prawn production.

Tassal Group Limited (ASX ticker: TGR) ("**Tassal Group**"), an ASX-listed salmon farming company and the largest aquaculture (and fishery) operator and seafood producer in Australia, recently released a major prawn farming/production strategy (*Acceleration of Prawn Growth Strategy* – 20 August 2019). Tassal Group purchased and is redeveloping a prawn farm in Proserpine, and has plans to develop another major farm near Mackay. Tassal Group intends to accelerate a circa $105 million investment in infrastructure, to enable prawn production capacity of approximately 6,000 t p.a. by FY2022 and, with the expansion of the Mackay farming assets, is expected to support an overall long-term production target of approximately 20,000 t p.a. This volume is currently four times the (FY2018) prawn aquaculture production and is over one-third of Australia's total prawn consumption.

Pacific Bio's (formerly Pacific Reef Fisheries) Guthalungra farm is also being developed in 2019 (Pacific Reef, 2014; Whitsunday Times, 2018), while Seafarms are proposing the staged development of prawn farms and supporting facilities across the NT and WA as part of Project Sea Dragon producing up to 100,000 t of prawns per annum once fully developed (Truss, 2015).

Assuming planned projects for the prawn sector in northern Australia progress, over 100,000 t per annum of production is estimated in coming years. This would result in a 20-fold increase on the

[1] ***Source:*** Editors: Jennifer Cobcroft, Robert Bell, Jess Fitzgerald, Amy Diedrich and Dean Jerry Northern Australia Aquaculture Industry Situational Analysis, Project A.1.1718119, Stage 1 Report, Cooperative Research Centre for Developing Northern Australia (CRCNA), pages 28 & 29.

existing Australian aquaculture prawn market and a 30-fold expansion of northern Australia's prawn production. This represents a significant expansion of domestic prawn production and would equate to a 1.5% increase in the global wild caught and aquaculture prawn market (FAO, 2017).

5.6 Covid-19 Impact

In late January 2020, in response to the Covid-19 outbreak, China placed a ban on seafood imports. Seafood exports in the wild-caught fishing industry account for over half of industry revenue. Approximately 45% of export revenue is generated from China, with a further 11% coming from Hong Kong. As a result, many operators in the wild-caught fishing industry have already started feeling the effects of the ban.

Rock lobsters are the largest export item, with over 95% of the catch in Western Australia and South Australia destined for China and countries in the Asian region. In addition, 99% of Queensland's coral trout is exported to China.

The Australian Aquaculture industry is expected to be only lightly affected by the outbreak of Covid-19. While seafood exports to China have been increasing, this has largely come from the wild-caught fishing industry, with Aquaculture industry exports accounting for below 5% on a value basis. Furthermore, while China's share of imports is valued at 46.7%, total imports are only expected to account for 3.0% of Chinese domestic demand.

6. Fair Market Value of SFG Shares

6.1 Selection of Valuation Methodology

In selecting an appropriate valuation methodology to apply in assessing the fair market value of SFG, we have considered widely accepted valuation methodologies (as outlined in **Appendix 4**) and common market practice.

We note that due to the nature of SFG's operations and their inherit uncertainties, and other reasons detailed below, it is difficult to assess the fair market of SFG with a high degree of certainty. Accordingly, in our opinion, it is most appropriate to:

- apply a net tangible asset-based methodology to ascertain the low fair market value of SFG; and
- assess a fair market value based on recent trading history of the Company's shares, in order to ascertain the high fair market value of SFG.

We note that the above approach results in a significant valuation range for SFG which is not ideal. However, in our opinion, this range is reflective of the uncertainties applicable to SFG's operations.

We have reached this view after considering the factors discussed below:

- in our opinion, SFG's share traded value is driven by market participants' assessment of the likely 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. As evidenced in **Section 4.6.1**, Project Sea Dragon has been unprofitable for many years (and this partly explains the accumulated losses to 31 December 2019 of $140 million) (refer to **Section 4.6.2**). As such, Invicta has considered and concluded that the following approaches would not be appropriate:
    - *Capitalisation of maintainable earnings:* based on our review of historical and other prospective information, there are no immediate or prospective maintainable earnings to capitalise.
    - *Discounted cash flow ("**DCF**") analysis:* the partially developed (and currently, unfunded) 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 $110 million according to SFG), the project has yet to obtain funding to allow it to progress to fulfillment, even on a staged basis. Accordingly, Invicta considers that undertaking a DCF analysis is likely to lead to results which may not be appropriately supportable and for this reason, we have not considered this approach in assessing the fair market value of SFG;
    - *net asset-based valuation:* this approach (as opposed to a net ***tangible*** asset-based valuation) is also inappropriate given the Company's market capitalisation (of approximately $116.3 at 6 March 2020) which exceeds the carrying value of its net assets and as such, the market has implied some value to the Company's intangible

assets which as previously noted, cannot be reliably determined using methodologies such as a DCF analysis;

- *capital raising prices:* recent capital raisings (with the exception of the Placement) (as detailed in **Section 4.7.4**) have been followed by a significant decrease in the Company's share price and are currently outdated based on the current share price.

  Further to the above, in our opinion, it is also not appropriate to solely rely on the Issue Price of the Placement given that it appears to have been heavily impacted by the Covid-19 crisis; and

- in normal circumstances, and in accordance with RG 111, the low liquidity of SFG shares on the ASX (refer to **Section 4.7.3** for details) would not necessarily be a benchmark for assessing SFG's value. However, in the present circumstances, and in the absence of a more reliable method, it is in our opinion, an appropriate basis (after adjusting for significant influence) upon which to establish a range of value for SFG, particularly having regard to the potential value of intangible assets (such as customer contracts, intellectual property, goodwill and any other relevant assets) which are held by SFG.

6.2 Net Assets of SFG as at the Valuation Date

We have assessed the fair market value of SFG's net tangible assets as at 29 February 2020 by first adopting SFG's reviewed balance sheet as at 31 December 2019 and making certain adjustments to reflect material movements up to 29 February 2020.

We have adopted the net tangible assets of SFG as at 29 February 2020 for practical reasons (i.e. it is the closest date to the Valuation Date that also corresponds to a internal financial records cut-off date). We consider this date to be sufficiently close to the Valuation Date for the purpose of our analysis.

Further details are set out below.

6.2.1 Adjustments to 31 December 2019 Balance Sheet

Set out below is a summary of our adjustments to SFG's reviewed balance sheet as at 31 December 2019 in order to arrive at the fair market value of SFG's net tangible assets as at 29 February 2019:

Table 13: Adjustments to 31 December 2019 Balance Sheet

	Note / Report Reference	As at 31 December 2019 (Reviewed)	Adjustments	Fair Market Value as at 29 February 2020
Current Assets				
Cash & Cash Equivalents	6.2.4	2,113,937	4,855,253	6,969,190
Trade & Other Receivables	6.2.5	6,602,311	(2,673,518)	3,928,793
Inventories	6.2.2	3,610,233	(99,496)	3,510,737
Other Current Assets	6.2.2	711,426	(145,917)	565,509
Biological Assets	6.2.6	4,586,766	1,383,946	5,970,712
Total Current Assets		**17,624,673**	**3,320,268**	**20,944,941**
Non-Current Assets				
Property, Plant and Equipment	6.2.7	25,346,444	12,801,607	38,148,051
Right-of-Use Asset	6.2.8	22,615,420	(262,256)	22,353,164
Other Non-Current Assets	6.2.3	5,000,000	-	5,000,000
Total Non-Current Assets		**52,961,864**	**12,539,351**	**65,501,215**
TOTAL ASSETS		**70,586,537**	**15,859,619**	**86,446,156**
Current Liabilities				
Trade & Other Payables	6.2.2	3,256,856	75,778	3,332,634
Lease Liabilities	6.2.2	1,329,673	106,806	1,436,479
Provisions	6.2.3	1,426,667	-	1,426,667
Total Current Liabilities		**6,013,196**	**182,584**	**6,195,780**
Non-Current Liabilities				
Borrowings	6.2.9	14,060,845	3,131,891	17,192,736
Lease Liabilities	6.2.2	18,797,875	(644)	18,797,231
Provisions	6.2.3	54,431	-	54,431
Total Non-Current Liabilities		**32,913,151**	**3,131,246**	**36,044,397**
TOTAL LIABILITIES		**38,926,347**	**3,313,830**	**42,240,177**
NET ASSETS		**31,660,190**	**12,545,788**	**44,205,978**

Source: Interim Financial Report of SFG for the six months ended 31 December 2019; Unaudited management accounts of SFG for the eight (8) months ended 29 February 2020; Management of SFG; Invicta analysis

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

6.2.2 General Movements

These adjustments represent general movements in assets and liabilities between the period 31 December 2019 and 29 February 2019.

6.2.3 No Movements

No material movements in these assets and liabilities were noted for the months of January 2020 and February 2020.

In relation to non-current assets in the amount of $5 million, we note that this relates to a loan made by SFG to AAM. We are advised that this loan is interest free. On the basis that this loan is with an arm's-length party, and was provided as part of a broader arrangement surrounding the Sub-Lease and Co-operation Agreement with PDT announced on 18 October 2018 (refer to **Sections 4.6.2** and **4.7.6** for further details), we have assumed that this loan was provided on arm's-length terms and requires no further adjustment.

6.2.4 Cash & Cash Equivalents

A reconciliation of movements in cash and cash equivalents between 31 December 2019 and 29 February 2019 is set out below:

Table 14: Movements in Cash & Cash Equivalents

	$
Cash & Cash Equivalents as at 31 December 2019	2,113,937
EBITDA Losses & Movements in Working Capital	(1,591,362)
Capital Expenditure	(24,065)
Interest Paid	(212,258)
Other Movements	182,978
Impact of the Tranche 1 Issue	6,499,959
Adjusted Cash as at 29 February 2020	**6,969,190**
Book Value as at 31 Decemeber 2019	2,113,937
Adjustment Required	**4,855,253**

Source: Management of SFG; Invicta analysis

6.2.5 Trade & Other Receivables

Trade and other receivables decreased by $2.7 million between 31 December 2019 and 29 February 2020 due to the collection (during the months of January 2020 and February 2020) of large pre-Christmas sales.

6.2.6 Biological Assets

As set out in **Section 4.6.2**, biological assets are measured at fair value being the present value of expected proceeds from the disposal of livestock in an active and liquid market less expected costs to be incurred in realising the proceeds of that disposal. Movements in biological assets between 31 December 2019 to 29 February 2020 represent the net of:

1. costs incurred in the further development of biological assets (e.g. feed, pond running costs, etc) during January 2020 and February 2020; and
2. the value of biological assets harvested and transferred to inventory.

6.2.7 Property, Plant & Equipment

SFG's property, plant and equipment comprise a number of property assets located in Queensland. Amounts recognised in the balance sheet as at 31 December 2019 represent capitalised costs of acquiring and improving these property assets, less any accumulated depreciation. We have replaced the book value of SFG's Queensland properties with their fair market value (refer to **Section 3.2** for further details).

Based on the above and details set out in **Section 3.2**, we have taken up an adjustment in the amount of $12.80 million, calculated as follows:

Table 15: Fair Market Value Adjustment for Queensland Properties

	Cardwell Queensland	Flying Fish Point Queensland	Ingham Queensland	Total
Book Value as at 29 February 2020	14,719,776	2,805,861	2,497,756	20,023,393
Fair Market Value as at 29 February 2020	22,250,000	1,575,000	9,000,000	32,825,000
Adjustment Required	**7,530,224**	**(1,230,861)**	**6,502,244**	**12,801,607**

Source: Unaudited management accounts of SFG for the eight (8) months ended 29 February 2020; Management of SFG; Hymans Valuation Reports; Invicta analysis

6.2.8 Right-of-Use Asset

As set out in **Section 4.6.2**, right of use assets predominately comprise of the Legune Station but also include certain leased assets including office leases, motor vehicles and smaller items of plant and equipment. Movements between 31 December 2019 and 29 February 2020 represent depreciation on those assets for the months of January 2020 and February 2020.

6.2.9 Borrowings

As set out in **Section 4.6.2**, borrowings totalling $14.1 million as at 31 December 2019, comprise the following:

- a secured loan in the amount of $5.19 million from AAM; and
- the Avatar Facility.

The loan from AAM is from a non-associated third party. Details of this loan are set out in **Section 4.6.2**. No adjustments have been made in relation to this liability on the basis that it is on arm's length terms.

The Avatar Facility however, is provided by an entity of the Trahar Group. Noting that this facility takes the form of a convertible note, for accounting purposes, the Avatar Facility is split into a liability component and an equity component (i.e. relating to the Conversion Right). For the purposes of assessing the fair market value of SFG however, we have assessed the fair market value of Avatar Facility (including the Conversion Right) as a single liability as follows:

Fair Market Value of the Avatar Facility – Loan Component

In order to assess the fair market value of the Avatar Facility (Loan Component), we determined the present value of the facility payments of the term of the facility. A summary of the assumptions which we have adopted in assessing the fair market value of the Avatar Facility (Loan Component) is set out in the table below:

Table 16: Summary of Facility Payment Assumptions

Term	Note	Assumption(s) Adopted
Valuation Date	Note 1	29 February 2020
Facility End Date	Note 2	15 September 2021
Facility Drawn Amount	Note 3	$10,400,000
Interest Rate	Note 4	BBSY plus 4.00%
Line Fee	Note 5	0.5% of Facility Limit
Discount Rate	Note 6	6.84%

Source: Notice of Extraordinary General Meeting issued by SFG on 19 July 2019; Interim Financial Report of SFG for the six months ended 31 December 2019; Management of SFG; Invicta analysis

Note 1: Valuation Date

The valuation date for the purposes of assessing the fair market value of the Avatar Facility is 29 February 2020 (i.e. the same date as the Management Accounts).

Note 2: Facility End Date

We have adopted a facility end date of 15 September 2021, as approved by Shareholders on 20 August 2019 (refer to **Section 4.6.2**).

We note that under the Avatar Facility, Avatar Finance and SFG may agree to redraw further funds 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). Avatar Finance's approval is required for each drawdown after 15 March 2021 and the repayment for such drawdown may differ. We note that for the purpose of determining the fair market value of the Avatar Facility, we have only taken into account the amount currently drawn-down (and its repayment date) and have not taken into account the potential redraw.

Note 3: Facility Drawn Amount

Being the actual amount outstanding as at 29 February 2020.

Note 4: Interest Rate

The interest rate of the Avatar Facility is fixed at 4.00% p.a. above the monthly BBSY.

The BBSY is a market rate and varies daily. What it will be during the facility term is essentially unknowable. Accordingly, for the purpose of our assessment, we have assumed that during the facility term, the monthly BBSY will remain constant and equal to the BBSY as at around 29 February 2019 (assessed as being 0.84%) based on date provided by the ASX.

Note 5: Line Fee

The line fee is a fixed amount of 0.50% p.a. of the maximum amount of the Avatar Facility (being $15.2 million) and thus may be calculated accurately.

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

Note 6: Discount Rate

In assessing the fair market value of the Avatar Facility, the discount rate to be adopted should reflect market rates for a similar facility, allowing for risks of lending to SFG (but ignoring and financial distress that may be unique to SFG).

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

We have assessed the interest rate applicable to the Avatar Facility 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 6**); and
- companies operating in different industries to SFG but which may be considered to have risk not dissimilar to those present in the current operations of SFG (refer to **Appendix 7**),

together the “**Reference Companies**”.

Based on our review of the debt arrangements set out in **Appendix 6**, 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 the company operates;
- the relative size, profitability and financial strength of the company; and
- the relative 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 be slightly outdated to consider what commercial rate(s) of interest would be payable during the facility term from 29 February 2020. In this regard, we note that the interest rates prevailing on these debt facilities range between 2.10% and 20.06%, or between 2.1% and 8.33% for secured debt facilities only.

We also considered the secured borrowing of $5.19 million at 31 December 2019 from AAM Licensees Pty Ltd provided on 12 December 2018, at an interest rate of 7% per annum, which is due for repayment on 11 December 2021. SFG has the option to settle up to 50% of interest accruing on the loan with SFG Shares.

Based on our analysis above, in our opinion, having regard to the risks inherent in the business of SFG and the terms of the Avatar Facility, 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 actual rate of a 4.0% p.a. margin under the Avatar Facility.

We note that in our independent expert report dated 10 July 2019 (as attached to the Notice of Extraordinary Meeting distributed by the Company to Shareholders on 19 July 2019), we undertook a similar analysis and concluded that a margin of between 5% and 7% above the month BBSY base rate was also appropriate at that time, noting a valuation date of 31 May 2019. In our opinion this is reasonable given that there appears to have been no material change in the risks inherit in the business of SFG, the terms of the Avatar Facility.

Fair Market Value of the Avatar Facility – Conversion Right Component

In order to assess the fair market value of the Avatar Facility (Conversion Right Component), 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 have been adopted in assessing the fair market value of the Avatar Facility (Conversion Right Component) is set out in the table below:

Table 17: Summary of Conversion Right Valuation Assumptions

	Section Reference	Term / Assumption
Number of Instruments	Note 1	115,555,555
Valuation Date	Note 2	29 February 2020
Exercise Date	Note 3	15 September 2021
Asset Spot Price	Note 4	$0.0745
Exercise Price	Note 5	$0.09 per instrument
Risk Free Rate	Note 6	0.53%
Dividend Yield	Note 7	Nil
Volatility	Note 8	55.0%

Source: Invicta analysis

Note 1: Number of Instruments

The Conversion Right allows Avatar Finance to convert the Avatar Facility into Shares at an issue price of $0.09 per Share. A maximum value of $12.2 million may be converted however for the current purpose, we have calculated the number of instruments which may be converted based on the current balance of the Avatar Facility (i.e. $10.4 million). This equates to 115,555,555 Shares (i.e. $10.4 million / $0.09).

Note 2: Valuation Date

The valuation date for the purposes of assessing the fair market value of the Avatar Facility is 29 February 2020 (i.e. the same date as the Management Accounts).

Note 3: Exercise Date

The Avatar Facility is due to be repaid on 15 September 2021 and we have selected this date as the exercise date for the purpose of assessing the value of the Conversion Right.

The potential maximum life of the Conversion Right 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.

Note 4: Asset Spot Price

For the purpose of determining the fair market value of the Conversion Right, the "Asset Spot Price" has been assessed with reference to the trading prices of SFG shares and adding a control premium (noting that any exercise of the Conversion Right will only further increase the voting power held by Traher Group). It is noted that the value under the net tangible asset method is not appropriate for the purposes of this calculation given that itself is dependent on the value of the Conversion Right.

For the purpose of this assessment, we have selected the 1-week VWAP of SFG's Shares as at 6 March 2020, on a control basis (mid-point) as determined in **Section 6.3** below).

Note 5: Exercise Price

The exercise price adopted of $0.09 per Share is as per the terms of the Avatar Facility.

Note 6: 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.

Note 7: Dividend Yield

Given the present status of Project Sea Dragon, the time it has taken to get to this stage of development (nearly 9 years) and the historical profitability of the Company, we have adopted a nil dividend yield.

Note 8: Volatility

For the purposes of assessing the value of the Conversion Right, we have adopted a volatility of 55%. We have adopted this volatility range after considering 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 29 February 2020 is between approximately 43% (1-year) and 62% (from 16 July 2018), depending upon the period selected. We note that the 6-month volatility sits in between at 49% (i.e. volatility appears to have increased slightly in recent times).

6.2.10 Value of SFG's Shares Based on Net Tangible Assets

Using a net tangible asset-based methodology, we have assessed the value of SFG 's Shares as at 29 February 2020 to fall within the range of \$0.0178 to \$0.0187 per Share (on a control basis), calculated as follows:

Table 18: Value of SFG's Shares Using a Net Tangible Asset-Based Methodology (Control Basis)

	Note / Report Reference	As at 6 March 2020		
		Low	Mid-Point	High
Value of Net Tangible Assets as at 29 February 2020	6.2.1	44,205,978	44,205,978	44,205,978
Less: Capitalised Corporate Costs	Note 1	(4,400,000)	(3,850,000)	(3,300,000)
Add: Fair Market Value of Tax Losses	Note 2	-	440,000	880,000
Value of 100% of the Shares of SFG (Control Basis)		**39,805,978**	**40,795,978**	**41,785,978**
Number of Ordinary Shares on Issue (Including the Impact of the Tranche 1 Issue)	Appendix 5	2,234,282,302	2,234,282,302	2,234,282,302
Value of the Shares of SFG (Per Share - Control Basis)		**0.0178**	**0.0183**	**0.0187**

Source: Invicta analysis

Note 1: Capitalised Corporate Costs

A net tangible asset-based valuation methodology does not take into account any ongoing and recurring corporate costs that SFG will incur going forward so as to support the business. Accordingly, we have made an appropriate allowance for ongoing and recurring corporate costs in order to assess the value of SFG on a going concern basis using the net tangible asset-based valuation methodology.

We have been advised by management of SFG that ongoing and recurring corporate costs are expected to amount to approximately \$2.2 million per annum. These include costs for the following items:

- accounting, tax advisory and audit fees;
- ASX listing fees, ASIC fees, company secretarial, share registry costs and AGM/EGM expenses;
- directors' fees (but excluding executive directors' normal remuneration);
- corporate insurances;

- head office rent and employment expenses; and
- general administration expense such as printing, postage and travel.

For clarity, these costs do not include any costs associated with the ongoing aquaculture activities undertaken by SFG, nor interest costs associated with any borrowings.

In assessing the appropriate capitalisation rate to apply to the annual corporate costs, we would usually have regard to market evidence with respect to the earnings multiples of comparable companies. However, we note that in the case of SFG, having regard to the nature of the Company's operations (particularly its focus on the development of Project Sea Dragon) we are of the view that an appropriate capitalisation rate to apply to the estimated ongoing corporate costs of SFG is between 1.5 to 2.0 times.

The following table summarises our calculation of capitalised corporate costs:

Table 19: Calculation of Capitalised Corporate Costs

	As at 6 March 2020		
	Low	Mid-Point	High
Estimated Ongoing Corporate Costs	2,200,000	2,200,000	2,200,000
Capitalisation Multiple	2.00	1.75	1.50
Capitalised Corporate Costs	**4,400,000**	**3,850,000**	**3,300,000**

Source: Management of SFG; Invicta analysis

Note 2: Fair Market Value of Tax Losses

As at the Valuation Date, SFG had approximately $88.0 million in accumulated income tax losses.

In certain circumstances, it may be appropriate to attribute value to such tax losses when assessing the fair market value of a company's shares. However, there is minimal guidance or available benchmarking data to calculate such value. Accordingly, it is up to the valuer to apply professional judgement taking into account the particular circumstances of the company being valued.

In the present case, we have attributed a value of between nil cents to 1 cent for each dollar of SFG's accumulated income tax losses. The selected valuation range takes into account the following factors:

- SFG is not expected to generate profits in the short term against which its accumulated tax losses could be used to offset any income tax liability;
- the ability of SFG to generate profits is contingent on profitable aquaculture activities and the future impact of Project Sea Dragon, for both of which there are significant inherit uncertainties; and
- the ability to utilise such tax losses will be dependent upon SFG satisfying certain tests at the time the Company seeks to utilise these tax losses.

As a cross check, we have calculated the implied discount rate resulting from the assessed value of these tax losses, with respect to the maximum tax savings that could be obtained by the Company (assuming a 30% income tax rate).

Using the high-end of our assessed value range (i.e. 1 cent for each dollar of SFG's accumulated tax losses), assuming that these tax savings are realised at the end of 5 and 10 years, the implied discount rate equates to 97.4% and 40.5% respectively. In our opinion, these implied discount rates are reasonable having consideration to the points listed above.

Note 3: Control Premium

In the current case, we have assessed the fair market value of SFG using a net-asset based method. We have not added any additional premium for control on the basis that the net-asset methodology already takes into account any such premium.

6.3 Value of SFG's Shares Based on Recent Trading Prices

For the purpose of our assessment, we have selected the 1-week volume weighted average price of SFG's shares up to 6 March 2020 as being reflective of the value of SFG's Shares. We have reached this view after taking into account the following:

- on 28 February 2020, SFG released its half-year financial statements for the period ended 31 December 2019. Subsequent to this release, there were five (5) trading days up to 6 March 2020; and
- subsequent to 6 March 2020, equity markets began to be impacted by the Covid-19 crisis.

In summary, we have selected a date of 6 March 2020 as it reflects a point in time where the market had sufficient time to consider the latest information released by the Company, and is before the Covid-19 crisis began impacting equity markets.

We have then made certain adjustments to take into account the impact of the Tranche 1 Issue to arrive at value for SFG's Shares to fall within the range of $0.0703 to $0.0787 per SFG Share (on a control basis), calculated as follows:

Table 20: Value of SFG's Shares Based on Recent Trading Prices (Control Basis)

	Note / Report Reference	As at 6 March 2020		
		Low	Mid-Point	High
SFG Share Price as at 6 March 2020 (1 Week VWAP)	4.7.3	0.0594	0.0594	0.0594
Shares on Issue Prior to the Tranche 1 Issue	Appendix 5	2,005,595,635	2,005,595,635	2,005,595,635
SFG Market Capitalisation Prior to the Tranche 1 Issue		**119,132,381**	**119,132,381**	**119,132,381**
Add: Net Cash Proceeds from the Tranche 1 Issue	6.2.4	6,499,959	6,499,959	6,499,959
SFG Market Capitalisation After the Tranche 1 Issue		**125,632,340**	**125,632,340**	**125,632,340**
Shares on Issue After the Tranche 1 Issue	Appendix 5	2,234,282,302	2,234,282,302	2,234,282,302
Adjusted SFG Share Price as at 6 March 2020 (Minority Basis)		**0.0562**	**0.0562**	**0.0562**
Add: Control Premium	Note 1	25.0%	32.5%	40.0%
Adjusted SFG Share Price as at 6 March 2020 (Control Basis)		**0.0703**	**0.0745**	**0.0787**

Source: Invicta analysis

Note 1: Control Premium

The trading prices of SFG's shares represent minority interests in the Company. For the current purpose, we are required to assess the fair market value of SFG's Shares on a control basis.

Where a single shareholder is said to exercise control over a company, that shareholder will enjoy certain benefits not available to minority shareholders including the ability to:

- control of the board of directors;
- alter the constitution of the company;
- appoint and remove management of the entity and set their basis for remuneration;
- change financial and operating policies of the entity;
- access financial information and other information required for decision making;
- acquire and dispose of assets and businesses within the entity;
- undertake borrowings on behalf of the entity;
- access the entity's cash flows, including the payment of dividends; and
- integrate the entity's business, operations, distribution and products with those of the investor.

The above benefits do not attach to minority interest investments. Accordingly, on a per-share basis, a controlling interest is generally considered more valuable than a minority interest.

Accordingly, we have adjusted the valuation conclusion reached for a minority value by an appropriate control premium in the range of 25% to 40%.

6.4 Conclusion

Based on the analysis set out above, we have assessed the fair market value of SFG's Shares, on a control basis, to fall within the range of:

a. a low value of $0.0178 per Tranche 2 Share, being the low end valuation determined using the net tangible asset based methodology as set out in **Section 6.2.10**; and

b. a high value of $0.0787 per Tranche 2 Share, being the high-end valuation based on recent trading prices up to 6 March 2020 as set out in **Section 6.3**.

We note that the valuation range set out above is relatively large. Whilst RG 111 notes that ASIC would usually expect a range of values, it goes on to say that such a range should be as narrow as possible. However, in the present case, in our opinion, the large value range set out above is reasonable and reflects the nature of SFG's operations and inherit uncertainties, in particular:

- due to the reasons set out in **Section 6.1**, we were unable to assess the fair market value of SFG using any type of earnings or DCF-based valuation methodology. This has resulted in the selection of the next best two (2) methodologies available (i.e. a net tangible asset-based methodology and a methodology based on recent trading history of SFG's share). These two methods have resulted in a wide range of values for SFG; and
- in our opinion, SFG's share traded price is driven by the perception of market participants of the prospects of Project Sea Dragon and that such value includes a level of speculative risk of success, in particular in relation to Project Sea Dragon.

7. Assessment of Tranche 2 Issue

7.1 Fairness of the Tranche 2 Issue

The Tranche 2 Issue will be “fair” if:

- the fair market value of an SFG Share on a control basis prior to the Tranche 2 Issue; is less than,
- the fair market value of an SFG Share on a minority basis assuming that the Tranche 2 Issue is completed.

Our assessment in this regard is set out below.

7.1.1 Fair Market Value of SFG Shares on a Control Basis Prior to the Tranche 2 Issue

Control Value of SFG Shares Using the Net Tangible Assets Approach

Using a net tangible asset-based methodology, we have assessed the value of a SFG Share as at 29 February 2020 to fall within the range of $0.0178 to $0.0187. This value range reflects a control value.

Refer to **Section 6.2.10** for details.

Control Value of SFG Shares Based on Recent Trading Prices

For the reasons set out in **Section 6.3** above, we have selected the 1-week volume weighted average price of SFG’s shares up to 6 March 2020 as being reflective of the value of SFG’s shares.

Using recent trading prices for SFG’s Shares, we have assessed the value of a SFG Share as at 6 March 2020 to fall within the range of $0.0703 to $0.0787. This value range reflects a control value.

Refer to **Section 6.3** for details.

7.1.2 Fair Market Value of SFG Shares on a Minority Basis Assuming that the Tranche 2 Issue is Completed

Minority Value of SFG Shares Using the Net Tangible Assets Approach

Using a net tangible asset-based methodology, we have assessed the minority value of a SFG Share as at 29 February 2020 to fall within the range of $0.0131 to $0.0157 calculated as follows:

Table 21: Minority Value of SFG Shares Using the Net Tangible Assets Approach

	Note / Report Reference	As at 6 March 2020		
		Low	Mid-Point	High
Value of 100% of the Shares of SFG Before the Tranche 2 Issue (Control Basis)	6.2.10	39,805,978	40,795,978	41,785,978
Add: Net Cash Proceeds from the Tranche 2 Issue	1.1	5,639,400	5,639,400	5,639,400
Value of 100% of the Shares of SFG After the Tranche 2 Issue (Control Basis)		**45,445,378**	**46,435,378**	**47,425,378**
Shares on Issue After the Tranche 2 Issue	Appendix 5	2,422,262,301	2,422,262,301	2,422,262,301
Value of the Shares of SFG (Per Share) After the Tranche 2 Issue (Control Basis)		**0.0188**	**0.0192**	**0.0196**
Less: Minority Discount	Note 1	-30.0%	-25.0%	-20.0%
Value of the Shares of SFG (Per Share) After the Tranche 2 Issue (Minority Basis)		**0.0131**	**0.0144**	**0.0157**

Source: Invicta analysis

Note 1: Minority Discount

The minority discount reflects the discount from control value for a listed SFG Share, having regard to the liquidity of the Shares and the lack of control that can be exercised over SFG by a Non-Associated Shareholder.

Minority Value of SFG Shares Based on Recent Trading Prices

Using recent trading prices for SFG's Shares, we have assessed the value of a SFG Share as at 6 March 2020 to be $0.0542. This value range reflects a minority interest value and has been calculated as follows:

Table 22: Minority Value of SFG Shares Based on Recent Trading Prices

	Note / Report Reference	As at 6 March 2020		
		Low	Mid-Point	High
Adjusted SFG Share Price as at 6 March 2020 (Minority Basis)	6.3	0.0562	0.0562	0.0562
Shares on Issue After the Tranche 1 Issue but Before the Tranche 2 Issue	Appendix 5	2,234,282,302	2,234,282,302	2,234,282,302
SFG Market Capitalisation Prior to the Tranche 2 Issue (Minority Basis)		**125,632,340**	**125,632,340**	**125,632,340**
Add: Net Cash Proceeds from the Tranche 2 Issue	1.1	5,639,400	5,639,400	5,639,400
SFG Market Capitalisation After the Tranche 2 Issue (Minority Basis)		**131,271,740**	**131,271,740**	**131,271,740**
Shares on Issue After the Tranche 2 Issue	Appendix 5	2,422,262,301	2,422,262,301	2,422,262,301
Value of the Shares of SFG (Per Share) After the Tranche 2 Issue (Minority Basis)		**0.0542**	**0.0542**	**0.0542**

Source: Invicta analysis

7.1.3 Fairness of the Tranche 2 Issue

Based on the analysis set out above, we have assessed the "fairness" of the Tranche 2 Issue after selecting:

a. a low value for an SFG Share, being the low end valuation determined using the net tangible asset based methodology; and

b. a high value for an SFG Share, being the high end of the valuation based on recent trading prices up to 6 March 2020.

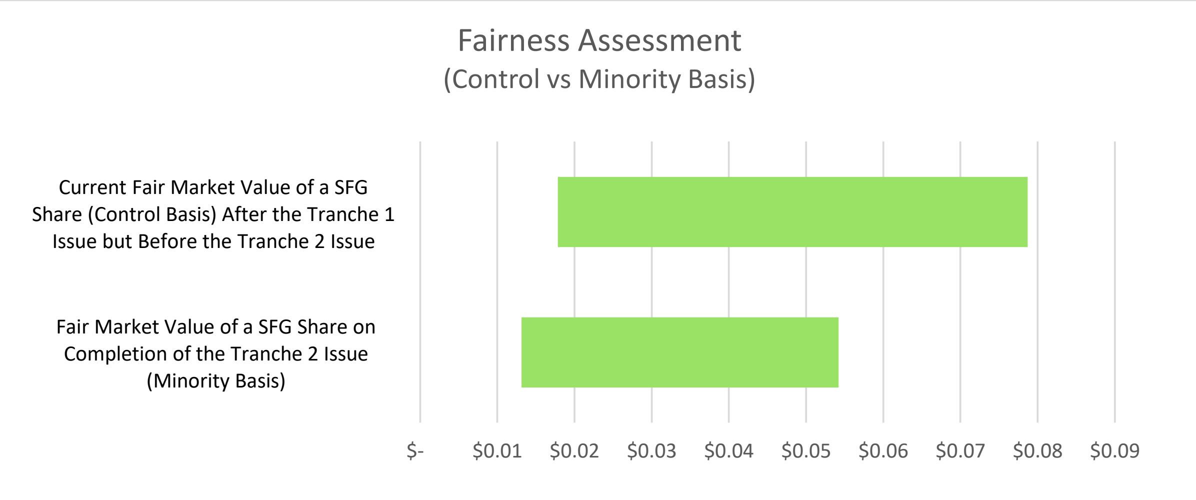
The following table and figure summarise our assessment:

Table 23: Fairness Assessment

	Note / Report Reference	As at 6 March 2020		
		Low	Mid-Point	High
Current Fair Market Value of a SFG Share (Control Basis) After the Tranche 1 Issue but Before the Tranche 2 Issue	7.1.1	0.0178	0.0483	0.0787
Fair Market Value of a SFG Share on Completion of the Tranche 2 Issue (Minority Basis)	7.1.2	0.0131	0.0337	0.0542
Variance ($)		**(0.0047)**	**(0.0146)**	**(0.0245)**
Variance (%)		**-26.3%**	**-30.3%**	**-31.2%**

Source: Invicta analysis

Figure 3: Fairness Assessment



Based on the above, the Tranche 2 Issue is "not fair" given that:

- the fair market value range of an SFG share on a control basis prior to the Tranche 2 Issue; is greater than
- the fair market value range of an SFG share on a minority basis assuming that the Tranche 2 Issue is completed.

7.2 Reasonableness of the Tranche 2 Issue

We have also considered the advantages and disadvantages of the Tranche 2 Issue to the Non-Associated Shareholders as a whole, for consideration by Non-Associated Shareholders.

In assessing the reasonableness of the Tranche 2 Issue, we have considered the following:

- that the Tranche 2 Shares (numbering 187,979,999) are to be issued at the same price as the Tranche 1 Shares (numbering 228,686,667) which were issued to arm's-length parties; and
- the advantages and disadvantages of the Tranche 2 Issue to the Non-Associated Shareholders as a whole. 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 Tranche 2 Issue.

7.2.1 Advantages of the Tranche 2 Issue

Additional Cash Reserves

As at the Valuation Date, the Company had adjusted cash (i.e. after taking into consideration the Tranche 1 Issue) of approximately $6.97 million (refer to **Section 6.2.4** for details). Of this amount, approximately $0.43 million is set aside for collateral/guarantee purposes and cannot be used. In addition, we note that SFG has approximately $4.80 million available to be drawn on the Avatar Facility providing SFG with total cash reserves of approximately $11.34 million as at the Valuation Date. The Tranche 2 Issue will have the impact of increasing these cash reserves by $5.64 million to approximately $16.98 million.

Based on our discussions with management of SFG, it is estimated that the Company currently has the ability to fund its operations (based on its current business plan and including current budgeted expenditure for Project Sea Dragon) for the period to approximately July / August 2020. The Tranche 2 Issue will provide the Company with funding to extend this out to February / March 2021. We note these time frames are estimates only and assume:

- that SFG management takes no cost reduction action where the ability to secure funding becomes a concern;
- a level of short-term impacts on sales from the Covid-19 crisis (which currently remains a significant uncertainty);
- there will be no further impact arising from other uncertainties that are outside the control of SFG management and the board.

As set out in **Section 4.4**, the focus for SFG is the continued development of Project Sea Dragon which requires significant additional funding. As at the date of this Report, there remains a significant uncertainty regarding the ability to secure such funding and the timing and terms of any such funding.

Where SFG is not able to secure funding for Project Sea Dragon within the next six (6) to twelve (12) months, 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 note that whilst the Tranche 2 Issue will only provide SFG with an additional nine (9) to ten (10) months of runway (i.e. a relatively short period of time) and will not assist in the repayment of the Avatar Facility, the Tranche 2 Issue will provide the Board with a material amount of additional time in which to consider and investigate a range of operational and funding options, and ultimately achieve the best possible outcome for Shareholders at that future point in time.

Having regard to the above, the Tranche 2 Issue is, in our opinion, vital to the ongoing viability of SFG.

No Change in Strategy

The Tranche 2 Issue will not impact upon SFG's current strategy, including the development of Project Sea Dragon. This is an important consideration particularly for those shareholders who consider this investment to be of long term strategic importance to the Company.

Alternative Sources of Capital and Debt may be more Expensive

Having regard to SFG's financial position and in particular, its current working capital position assuming that the Tranche 2 Issue is not approved, any alternative sources of capital and debt is likely to be expensive with draconian obligations attaching to any such funding arrangements. Whilst the Tranche 2 Issue will be dilutive to the Non-Associated Shareholders, it will not impede the operations and development plans for Project Sea Dragon particularly.

7.2.2 Disadvantages of the Tranche 2 Issue

Increased Voting Power of Major Shareholders

In the case that the Tranche 2 Issue is approver, SFG's major shareholder (i.e. Trahar Group) will increase its equity holdings in SFG from 21.84% (after the Tranche 1 Issue) to 27.90%.

This increased level of equity holding will provide Trahar Group with an increased ability to influence the outcome of any future resolutions put forward to Shareholders. Critically, we note that the increased equity holding is greater than 25% and should the Tranche 2 Issue be approved, Trahar Group will have the ability (on its own) to block any special resolutions put forward to Shareholders.

Conversely, in the case that the Tranche 2 Issue is approved, the equity interests of Non-Associated Shareholders (collectively) will decrease from 78.16% (after the Tranche 1 Issue) to 72.10%.

Impact on Liquidity

The approval of the Tranche 2 Issue may result in a further decrease in the liquidity of SFG's shares on the ASX, which may adversely affect the future value of a SFG share.

7.2.3 Implications of Not Approving the Tranche 2 Issue

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 Tranche 2 Issue is not approved, the following will be applicable to Non-Associated Shareholders:

- noting the current level of cash reserves held by the Company and other short-term obligations (including the repayment of the Avatar Facility), in the absence of raising any further debt or equity capital (including specific to Project Sea Dragon), the future of the SFG beyond July / August 2020 is uncertain;
- as set out in **Section 1.3**, a major contributor to the Placement came from a single investor (i.e. Cameron) on the back of a commitment from Trahar Group to provide a similar contribution. In the case that the Tranche 2 Issue is not approved, SFG may find it more difficult to raise funds in the future due to a reduction in confidence of Trahar Group's ability to make any co-contributions to such future capital raisings noting that they would likely also be subject to Shareholder approval;
- the voting power of SFG's major shareholder (i.e. Trahar Group) will remain at 21.84% (after the Tranche 1 Issue) and will not increase to 27.90%. As a result, Trahar Group will not have the ability to block, by itself, any special resolutions put forward to Shareholders; and
- the voting power of Non-Associated shareholders will remain at 78.16% (after the Tranche 1 Issue) and will not decrease to 72.10%.

7.2.4 Overall Reasonableness Conclusion

We have assessed the overall factors set out in **Sections 7.2.1** to **7.2.3** above, and in our view, the advantages of the Tranche 2 Issue outweigh its disadvantages. Accordingly, in our opinion, the Tranche 2 Issue is reasonable.

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 19 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.

In July 2019, Invicta was engaged by SFG to prepare an Independent Expert's Report ("**IER**") in relation to the amendment of terms associated with the Avatar Facility. A copy of this IER was attached to the Notice of Extraordinary Meeting distributed by the Company to Shareholders on 19 July 2019, available via the ASX.

Invicta (including its associates) does not have any shareholdings in, or any other relationships with SFG or Avatar (including 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 Tranche 2 Issue. 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

28 May 2020

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 the proposed issue of 187,979,999 ordinary shares to Avatar Industries Pty Ltd ("**Avatar**") ("**Tranche 2 Issue**").

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 issue 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 $40,000 (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 Tranche 2 Issue.

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 connect 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 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 24: Glossary of Terms

Term	Definition
AAM	AAM Licensees Pty Ltd
AAMIG	AAM Investment Group
AASB	Australian Accounting Standards Board
AASB 16	AASB 16 *Leases*
AFSL	Australian Financial Services Licence
AFCA	Australian Financial Complaints Authority
APES 225	Accounting Professional & Ethical Standards Board standard 225 *Valuation Services*
April 2019 Placement	The issue of 222,222,222 Shares by Seafarms Group Ltd to major domestic, institutional and professional investors at an issue price of $0.09 per Share to raise $20 million, completed on 5 April 2019
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
Avatar	Avatar Industries Pty Ltd, a company associated with the major shareholder of Seafarms Group Limited, Trahar Group
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, Trahar Group
BBSY	Bank Bill Swap Bid Rate
CAANZ	Chartered Accountants Australia & New Zealand
BAP	Best Aquaculture Practice
Cameron	The Elsie Cameron Foundation Pty Ltd
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 *Corporations Act 2001 (Cth)*
DCF	Discounted cash flow valuation methodology
Directors	Directors of Seafarms Group Limited
EBITDA	Earnings before interest, tax, depreciation and amortisation

Invicta
CORPORATE FINANCE

Term	Definition
FSG	Financial Services Guide
FY17	Financial year ended 30 June 2017
FY18	Financial year ended 30 June 2018
FY19	Financial year ended 30 June 2019
HY20	Half year ended 31 December 2019
Hymans	Hymans Valuers & Auctioneers
Hymans Valuation Reports	The property valuation reports prepared by Hymans, dated 27 March 2020, in relation to the Cardwell and Flying Fish Point properties held by Seafarms Group Ltd
IER	Independent Expert's Report
Independent Directors	The Independent Directors of Seafarms Group Limited
Invicta, we, us or our	Invicta Corporate Finance Pty Ltd ABN 78 631 600 845 Authorised Representative Number 1274408
Issue Price	The issue price of the Placement, being $0.03 per Share.
Management Accounts	Unaudited management accounts of Seafarms Group Limited for the period up to 29 February 2020
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 Tranche 2 Issue
Non-Associated Shareholders	Shareholders of Seafarms Group Limited whose votes are not to be disregarded in relation to the approval of the Tranche 2 Issue
PDT	Pastoral Development Property Trust
Placement	The issue of 416,666,666 ordinary shares by Seafarms Group Limited at an issue price of $0.03 per share to raise $12.5 million, as announced on 27 March 2020
Placement Advisor	The financial advisor engaged by Seafarms Group Limited to co-ordina
Prospective Financial Information	Any prospective financial information provided to Invicta Corporate Finance Pty Ltd in relation to Seafarms Group Limited
Report	This report dated 28 May 2020
RG 74	ASIC Regulatory Guide 74 *Acquisitions Approved by Members*
RG76	ASIC Regulatory Guide 76 *Related Party Transactions*
RG111	ASIC Regulatory Guide 111 *Content of Expert Reports*
RG112	ASIC Regulatory Guide 112 *Independence of Experts*

Term	Definition
SFG	Seafarms Group Limited
Shareholders	Ordinary shareholders of Seafarms Group Limited
Shares	Ordinary shares of Seafarms Group Limited
Tassal Group	Tassal Group Limited (ASX: TGR)
Trahar Group	Mr Ian Trahar and his associated entities including Gabor Holdings Pty Ltd, Avatar Industries Pty Ltd and Avatar Finance Pty Ltd
Tranche 1 Issue	The issue of 228,686,667 Shares to institutional and professional investors under the Placement
Tranche 2 Issue	The proposed issue of 187,979,999 Shares to Avatar Industries Pty Ltd, a company associated with the major shareholder of Seafarms Group Limited, Trahar Group, under the Placement
Tranche 1 Shares	228,686,667 Shares issued under the Tranche 1 Issue
Tranche 2 Shares	187,979,999 Shares to be issued under the Tranche 2 Issue
Valuation Date	6 March 2020
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, 2018 and 2019.
- Reviewed half-year report of SFG for the six (6) months ended 31 December 2019.
- Management accounts of SFG for the eight (8) months ended 29 February 2020 (full details not disclosed in this Report but relied upon by Invicta).
- Projections for SFG up to 31 December 2021 (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 Tranche 2 Issue.
- Information available on the website of SFG.
- IBISWorld Industry Report A0200 *Aquaculture in Australia*, August 2019.
- IBISWorld Industry Report A0200 *Aquaculture in Australia – Covid 19 (Coronavirus) Impact Update*, March 2020.
- IBIS World Industry Risk Rating Report A0200 *Aquaculture in Australia*, March 2020.
- Information available on the website of the Australian Government Department of Agriculture, Water and the Environment, www.agriculture.gov.au;
- Information available on the website of the Queensland Department of Agriculture and Fisheries, www.daf.qld.gov.au;
- Queensland Department of Agriculture & Fisheries, *2018-19 Aquaculture Production Summary Report*
- NSW Department of Primary Industries, *Aquaculture Production Report 2018-2019.*
- Information available on the website of Fisheries Research & Development Corporation. www.frcd.com.au;
- Information available on the website of AgriFutures Australia, www.agrifutures.com.au;
- CRNCA Stage 1 Report: Northern Australia Aquaculture Industry Situational Analysis.
- Thomson Reuters.
- Discussions and correspondence with management of SFG.
- Discussions and correspondence with specialist property valuation experts.
- Other publicly available information in relation to SFG and industry.

Appendix 4 Valuation Methods

In assessing the fair market value of SFG, Invicta has had regard to the following commonly used valuation methodologies:

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 inherit 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 reasonable 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 inherit 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.

Black-Scholes Option 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 underlying asset does not pay a return (e.g. a dividend) or 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.

Appendix 5 Impact of the Placement

The following table sets out the impact of the Placement on the existing capital structure of SFG:

Table 25: Impact of the Placement on the Capital Structure

Shareholder	Shareholdings (Prior to the Placement)		Impact of the Placement					
			Impact of the Tranche 1 Issue			Impact of the Tranche 2 Issue		
	#	%	# to be Issued	Closing #	Closing %	# to be Issued	Closing #	Closing %
Trahar Group	487,891,222	24.33%	-	487,891,222	21.84%	187,979,999	675,871,221	27.90%
Nippon Suisan Kaisha Ltd	283,230,208	14.12%	-	283,230,208	12.68%	-	283,230,208	11.69%
McBain Family	81,104,377	4.04%	-	81,104,377	3.63%	-	81,104,377	3.35%
Jan Cameron & Associates	66,837,282	3.33%	208,333,333	275,170,615	12.32%	-	275,170,615	11.36%
Peter Darnell Family	60,161,661	3.00%	-	60,161,661	2.69%	-	60,161,661	2.48%
Total Top 5 Ordinary Shareholders	**979,224,750**	**48.82%**	**208,333,333**	**1,187,558,083**	**53.15%**	**187,979,999**	**1,375,538,082**	**56.79%**
Other Ordinary Shareholders	1,026,370,885	51.18%	20,353,334	1,046,724,219	46.85%	-	1,046,724,219	43.21%
Total Ordinary Shares	**2,005,595,635**	**100.00%**	**228,686,667**	**2,234,282,302**	**100.00%**	**187,979,999**	**2,422,262,301**	**100.00%**

Source: Management of SFG; Invicta analysis

Appendix 6 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 a similar industry to SFG:

Table 26: Interest Rates Paid by Companies Operating in the Same or Similar Industry to SFG

Company	ASX Ticker	Market Cap ($m) (Note 1)	FY19 Revenue ($m)	FY19 EBITDA ($m)	Less Than One Year ($m) (Note 2)	More Than One Year ($m) (Note 2)	Total Debt Amount ($m) (Note 2)	Related Party Lender?	Secured?	Weighted Average Interest Rate (% p.a.)	Note
Tassal Group Limited	TGR	798.4	560.8	114.9							
As at 30 June 2019:											
Finance lease liabilities					11.02	15.57	26.58	No	Yes	4.44%	
Bank loans					12.22	-	12.22	No	Yes	1.26%	
Cash advance					0.00	164.43	164.43	No	Yes	1.26%	3
Murray Cod Australia Limited	MCA	67.0	6.4	-3.3							
As at 30 June 2019:											
Lease liabilities					0.21	-	0.21	No	Yes	ns	
Credit card facilities					0.03	1.09	1.12	No	ns	ns	
Huon Aquaculture Group Ltd	HUO	373.8	282.0	47.3							
As at 31 December 2019:											
Bank loans					7.40	147.73	155.14	No	Yes	2.54%	
Other borrowings					0.00	0.05	0.05	ns	No	ns	
Angel Seafood Holdings Ltd	AS1	19.8	4.3	1.2							
As at 31 December 2019:											
Bank Loans					1.06	2.70	3.76	No	Yes	4.42%	
Vendor finance liabilities					0.54	-	0.54	No	Partly	ns	
Lease liabilities					0.21	2.09	2.30	No	Yes	Note 4	
Ocean Grown Abalone Ltd	OGA	24.1	3.1	2.8							
As at 31 December 2019:											
Equipment loans					0.88	0.30	1.18	No	Yes	Note 5	

ns	not specified
Note 1:	As at or around 29 February 2020.
Note 2:	As at the latest reporting date where sufficient information was available, unless otherwise indicated.
Note 3:	On 14 September 2018, De Costi Seafoods Pty Ltd (De Costi), a wholly-owned subsidiary of Tassal Group, completed the acquisition of the Fortune Group prawn acquaculture business in exchange for consideration of $31.95 million. In addition, Tassal Group announces a capital investment program over the next 2-3 years of approximatly $34 million. The acquisition and capital investment program was/is to be funded by a newely arranged $75 million debt facility.
Note 4:	Interest rate details not disclosed at 31 December 2019. In its FY19 Annual Report, Angel Seafoods Holdings Ltd noted that "Lease liabilities are secured by the respective leased assets and incur interest at fixed rates between 5% and 9%".
Note 5:	Interest rate details not disclosed at 31 December 2019. In its FY19 Annual Report, Ocean Group Abalone Ltd noted that equipment loans incur interest at ranges ranging between 3.99% for leases commencing in May 2019 and 5.2%/4.82% for leases commencing in July 2015/November 2015 respectivly.

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

Appendix 7 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 27: Interest Rates Paid by Companies Operating in Different Industries to SFG

Company	ASX Ticker	Market Cap ($m) (Note 1)	FY19 Revenue ($m)	FY19 EBITDA ($m)	Less Than One Year ($m) (Note 2)	More Than One Year ($m) (Note 2)	Total Debt Amount ($m) (Note 2)	Related Party Lender?	Secured?	Weighted Average Interest Rate (% p.a.)	Note
Accent Resources NL	ACS	0.9	0.01	-2.09							
As at 31 December 2019:											
Borrowings					-	3.92	3.92	Yes	No	10.00%	
Convertible note					-	3.12	3.12	Yes	No	6.00%	3
Stone Resources Ltd	SHK	0.8	0.21	-0.80							
As at 31 December 2019:											
Loan					34.16	-	34.16	Yes	ns	8.53%	Note 4
Loan					0.63	-	0.63	Yes	ns	8.53%	Note 4
Convertible loan					0.50	-	0.50	Yes	ns	9.31%	Note 4
Crater Gold Mining Ltd	CGN	12.3	0.33	-5.66							
As at 31 December 2019:											
Loans					1.27	-	1.27	Yes	Yes	0.00%	
Interest bearing liabilities					7.03	-	7.03	Yes	Yes	8.33%	
Interest bearing liabilities					0.80	-	0.80	No	Yes	2.10%	
Other (Post 31 December 2019):											
Interest bearing liabilities					Up to $2 million			Yes	No	8.00%	Note 5
Dateline Resources Ltd	DTR	16.4	0.11	-3.40							
As at 31 December 2019:											
Related Party Loan					0.25	-	0.25	Yes	No	0.00%	
Related Party Loan					0.78	-	0.78	Yes	No	20.06%	Note 6
Related Party Loan					1.18	-	1.18	Yes	No	20.06%	Note 6

Company	ASX Ticker	Market Cap ($m) (Note 1)	FY19 Revenue ($m)	FY19 EBITDA ($m)	Less Than One Year ($m) (Note 2)	More Than One Year ($m) (Note 2)	Total Debt Amount ($m) (Note 2)	Related Party Lender?	Secured?	Weighted Average Interest Rate (% p.a.)	Note
Austral Gold Ltd	AGD	67.1	102.21	33.55							Note 7
As at 31 December 2019:											
Finance leases					3.05	6.30	9.35	No	Assume Yes	ns	Note 7
Promissory note					1.96	-	1.96	No	ns	0.00%	Note 7, 8
Loan Facilities					3.75	2.08	5.83	No	ns	5.85%	Note 7
Vendor loan					0.29	-	0.29	No	No	0.00%	Note 7
Kangaroo Islant Plantation Timbers Ltd	KPT	110.6	0.22	1.64							
As at 31 December 2019:											
Bank Loan (Fixed Rate)					29.70	-	29.70	Yes	No	4.78%	

ns not specified

Note 1: As at or around 29 February 2020.

Note 2: As at the latest reporting date where sufficient information was available, unless otherwise indicated.

Note 3: The convertible note has a maturity date of 6 December 2022, can be converted at 6 monthly intervals and for the full amount of the face value at that time. It is convertible into ordinary shares of the company at a price of $0.02 per share (share price at date of approval, being 29 November 2019, was $0.005).

Note 4: Liabilities are at call.

Note 5: On 6 March 2020, Crater Gold Mining Ltd announced that it had executed a new loan agreement with its major shareholder, Freefire Technology Ltd. The loan facility allows for the drawdown of up to $2 million and is repayable one (1) from the date of the first draw down. The funds are to used for the continued development of the company's Crater Mountain Project in Papua New Guinea.

Note 6: Includes a 5.00% line fee.

Note 7: All amounts are in US Dollars.

Note 8: Renewed on 9 January 2020 at 4.47%.

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

Appendix 8 CBRE Disclaimers

CBRE has provided its consent for the references made to them in this Report, subject to the following:

Important Warning – References to CBRE Valuation Report

- CBRE has and does not authorise, approve or condone any statement whatsoever in this expert's report concerning the property or the value of the property subsequent to the valuation date.

Additional Assumptions and Disclaimers

- CBRE is not operating under an Australian Financial Services Licence. Our CBRE Valuation Report or references to our CBRE Valuation Report do not constitute financial product advice. Investors should consider obtaining independent advice from their financial advisor before making any decision in relation to the Tranche 2 Issue.
- References to the CBRE Valuation Report are strictly limited to the matters contained within that document, and are not to be read as extending, by implication or otherwise, to any other matter in Invicta's Report, including Invicta's opinion of current value.
- CBRE prepared its CBRE Valuation Report relying on and referring to information provided by third parties including financial and market information ("**Information**"). CBRE assumes that the Information is accurate, reliable and complete and it has not tested the Information in that respect.
- References to the property's value in 2018 within Invicta's Report have been extracted from the CBRE Valuation Report. The CBRE Valuation Report drew attention to the key issues and considerations impacting value and provided a detailed assessment and analysis as well as key critical assumptions, general assumptions, disclaimers, limitations and qualifications and recommendations. The valuation was completed (and assumes) on a "Going Concern" basis. The value in our 2018 valuation intrinsically linked to the successful operation of a business on the property. Any change, deterioration or cessation of the business practices as per our assumptions would have a detrimental impact on the property's value. The valuation report was a complex document. Commercial investments of this nature are inherently complex and the market conditions have changed and/or have been uncertain in recent times, Our valuation was subject to these important and complex assumptions, limitations, disclaimers and qualifications. Investor caution is advised in this regard.
- No responsibility is accepted for any loss or damage arising as a result of reliance upon references to the CBRE Valuation Report to any third party whatsoever.
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Online Meeting Guide

Getting Started

If you choose to participate online you will be able to view a live webcast of the meeting, ask the Directors questions online and submit your votes in real time and you will need to either:

a) Visit https://web.lumiagm.com on your smartphone, tablet or computer. You will need the latest versions of Chrome, Safari, Internet Explorer 11, Edge and Firefox. Please ensure your browser is compatible; or

b) Download the Lumi AGM app from the Apple App or Google Play Stores by searching for Lumi AGM.

Meeting ID: 338-687-652

To log in, you must have the following information:

Australian Residents

Username (SRN or HIN) and Password (postcode of your registered address)

Overseas Residents

Username (SRN or HIN) and Password (three-character country code) e.g. New Zealand - NZL; United Kingdom - GBR; United States of America - USA; Canada - CAN. A full list is provided at the end of this guide.

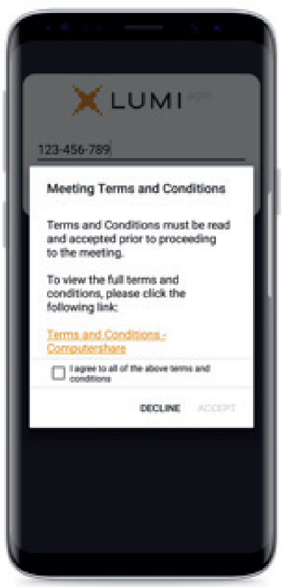
Appointed Proxy

To receive your username and password, please contact Computershare Investor Services on +61 3 9415 4024 during the online registration period which will open 1 hour before the start of the meeting.

Online registration will open 1 hour before the start of the meeting

1 To participate in the meeting, you will be required to enter the unique 9 digit Meeting ID provided above.

2 To proceed into the meeting, you will need to read and accept the Terms and Conditions.



OR

264198_01_V1

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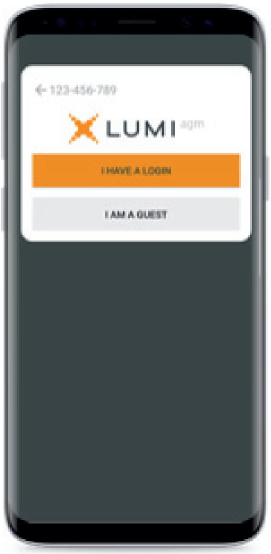
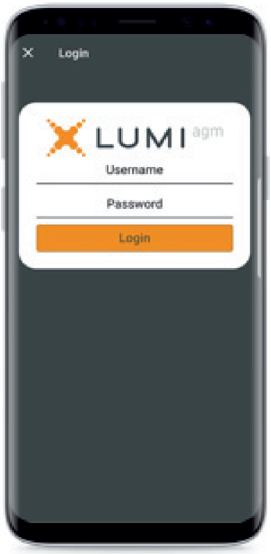
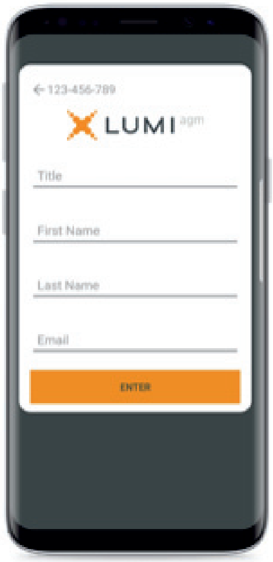
3 To register as a securityholder, select 'I have a login' and enter your username (SRN or HIN) and password (postcode or country code).

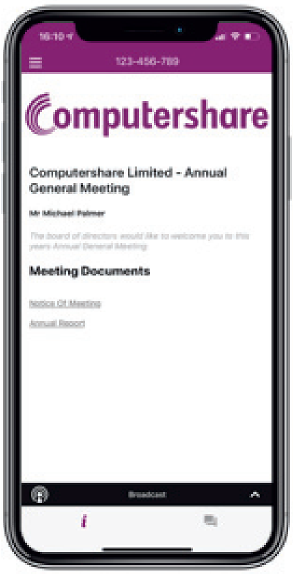




3a If you are a visitor, select 'I am a guest' and enter your name and email details. Please note, visitors will not be able to ask questions or vote at the meeting.



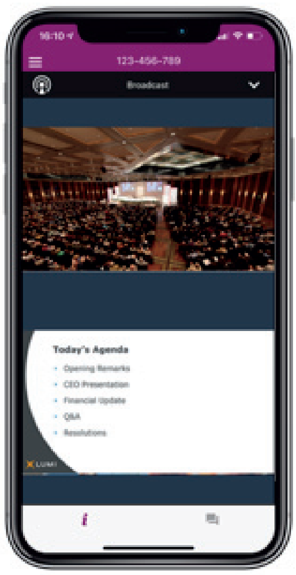
4 Once logged in, you will see the home page, which displays the meeting documents and information on the meeting. Icons will be displayed in different areas, depending on the device you are using.



5 View the webcast

To view proceedings you must tap the broadcast arrow [Broadcast ^] on your screen. Video and/or slides of the meeting will appear after approx. 30 seconds*. Toggle between the up or down arrow [Broadcast v] to view another screen.

(*Dependant on the speed of your internet)



Broadcast	The broadcast bar allows you to view and listen to the proceedings
i	Home page icon, displays meeting information
	Questions icon, used to ask questions
	Voting icon, used to vote. Only visible when the chairman opens poll

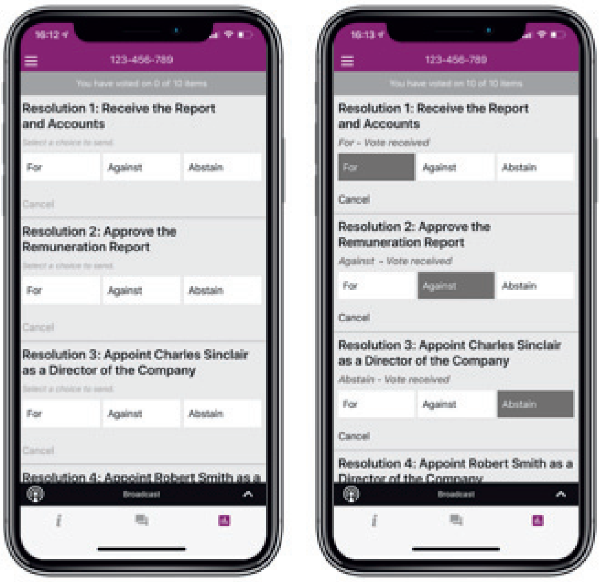
6 To Vote

When the Chairman declares the poll open:

- A voting icon will appear on your device and the Meeting Resolutions will be displayed.
- To vote tap one of the voting options. Your response will be highlighted.
- To change your vote, simply press a different option to override.

The number of items you have voted or yet to vote on, is displayed at the top of the screen.

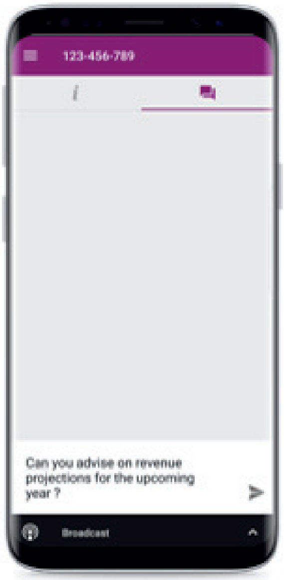
Votes may be changed up to the time the chairman closes the poll.



7 To Ask Questions

Tap on the Questions icon to submit a question, type your question in the chat box at the bottom of the screen and then select the send icon.

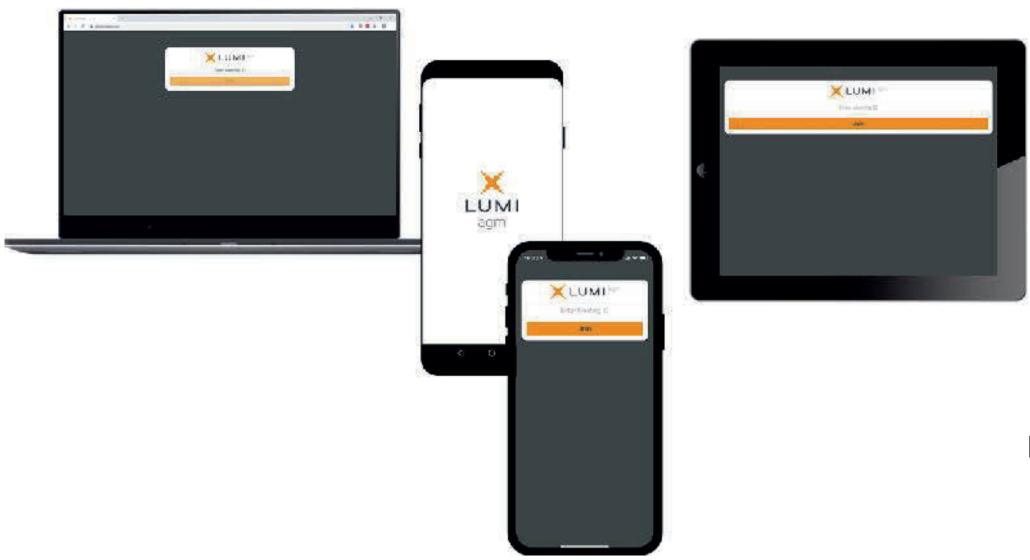
Confirmation that your message has been received will appear.



On some devices, to vote, you may need to minimise the webcast by selecting the arrow in the broadcast bar, audio will still be available. To return to the webcast after voting, select the arrow again.

For Assistance

If you require assistance prior to or during the Meeting, please call +61 3 9415 4024



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BLR BELARUS
CAF CENTRAL AFRICAN REPUBLIC
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CCK COCOS (KEELING) ISLANDS
CHE SWITZERLAND
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COG CONGO PEOPLES REPUBLIC OF
COK COOK ISLANDS
COL COLOMBIA
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EGY EGYPT
ERI ERITREA
ESH WESTERN SAHARA
ESP SPAIN
EST ESTONIA
ETH ETHIOPIA
FIN FINLAND
FJI FIJI
FLK FALKLAND ISLANDS (MALVINAS)
FRA FRANCE
FRO FAROE ISLANDS
FSM MICRONESIA
GAB GABON
GBR UNITED KINGDOM
GEO GEORGIA
GGY GUERNSEY
GHA GHANA
GIB GIBRALTAR
GIN GUINEA
GLP GUADELOUPE
GMB GAMBIA
GNB GUINEA-BISSAU
GNQ EQUATORIAL GUINEA
GRC GREECE
GRD GRENADA
GRL GREENLAND
GTM GUATEMALA
GUF FRENCH GUIANA
GUM GUAM
GUY GUYANA
HKG HONG KONG
HMD HEARD AND MCDONALD ISLANDS
HND HONDURAS
HRV CROATIA
HTI HAITI
HUN HUNGARY
IDN INDONESIA
IMN ISLE OF MAN
IND INDIA
IOT BRITISH INDIAN OCEAN TERRITORY
IRL IRELAND
IRN IRAN ISLAMIC REPUBLIC OF
IRQ IRAQ
ISL ICELAND
ISM BRITISH ISLES
ISR ISRAEL
ITA ITALY
JAM JAMAICA
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KWT KUWAIT
LAO LAO PDR
LBN LEBANON
LBR LIBERIA
LBY LIBYAN ARAB JAMAHIRIYA
LCA ST LUCIA
LIE LIECHTENSTEIN
LKA SRI LANKA
LSO LESOTHO
LTU LITHUANIA
LUX LUXEMBOURG
LVA LATVIA
MAC MACAO
MAF ST MARTIN
MAR MOROCCO
MCO MONACO
MDA MOLDOVA REPUBLIC OF
MDG MADAGASCAR
MDV MALDIVES
MEX MEXICO
MHL MARSHALL ISLANDS
MKD MACEDONIA FORMER YUGOSLAV REP
MLI MALI
MLT MALTA
MMR MYANMAR
MNE MONTENEGRO
MNG MONGOLIA
MNP NORTHERN MARIANA ISLANDS
MOZ MOZAMBIQUE
MRT MAURITANIA
MSR MONTSERRAT
MTQ MARTINIQUE
MUS MAURITIUS
MWI MALAWI
MYS MALAYSIA
MYT MAYOTTE
NAM NAMIBIA
NCL NEW CALEDONIA
NER NIGER
NFK NORFOLK ISLAND
NGA NIGERIA
NIC NICARAGUA
NIU NIUE
NLD NETHERLANDS
NOR NORWAY
NPL NEPAL
NRU NAURU
NZL NEW ZEALAND
OMN OMAN
PAK PAKISTAN
PAN PANAMA
PCN PITCAIRN ISLANDS
PER PERU
PHL PHILIPPINES
PLW PALAU
PNG PAPUA NEW GUINEA
POL POLAND
PRI PUERTO RICO
PRK KOREA DEM PEOPLES REPUBLIC OF
PRT PORTUGAL
PRY PARAGUAY
PSE PALESTINIAN TERRITORY OCCUPIED
PYF FRENCH POLYNESIA
QAT QATAR
REU REUNION
ROU ROMANIA
RUS RUSSIAN FEDERATION
RWA RWANDA
SAU SAUDI ARABIA KINGDOM OF
SCG SERBIA AND MONTENEGRO
SDN SUDAN
SEN SENEGAL
SGP SINGAPORE
SGS STH GEORGIA & STH SANDWICH ISL
SHN ST HELENA
SJM SVALBARD & JAN MAYEN
SLB SOLOMON ISLANDS
SLE SIERRA LEONE
SLV EL SALVADOR
SMR SAN MARINO
SOM SOMALIA
SPM ST PIERRE AND MIQUELON
SRB SERBIA
STP SAO TOME AND PRINCIPE
SUR SURINAME
SVK SLOVAKIA
SVN SLOVENIA
SWE SWEDEN
SWZ SWAZILAND
SYC SEYCHELLES
SYR SYRIAN ARAB REPUBLIC
TCA TURKS AND CAICOS ISLANDS
TCD CHAD
TGO TOGO
THA THAILAND
TJK TAJIKISTAN
TKL TOKELAU
TKM TURKMENISTAN
TLS EAST TIMOR DEMOCRATIC REP OF
TMP EAST TIMOR
TON TONGA
TTO TRINIDAD & TOBAGO
TUN TUNISIA
TUR TURKEY
TUV TUVALU
TWN TAIWAN
TZA TANZANIA UNITED REPUBLIC OF
UGA UGANDA
UKR UKRAINE
UMI UNITED STATES MINOR OUTLYING
URY URUGUAY
USA UNITED STATES OF AMERICA
UZB UZBEKISTAN
VAT HOLY SEE (VATICAN CITY STATE)
VCT ST VINCENT & THE GRENADINES
VEN VENEZUELA
VGB BRITISH VIRGIN ISLANDS
VIR US VIRGIN ISLANDS
VNM VIETNAM
VUT VANUATU
WLF WALLIS AND FUTUNA
WSM SAMOA
YEM YEMEN
YMD YEMEN DEMOCRATIC
YUG YUGOSLAVIA SOCIALIST FED REP
ZAF SOUTH AFRICA
ZAR ZAIRE
ZMB ZAMBIA
ZWE ZIMBABWE

seafarms

ABN 50 009 317 846

Need assistance?

Phone:
1300 850 505 (within Australia)
+61 3 9415 4000 (outside Australia)

Online:
www.investorcentre.com/contact

YOUR VOTE IS IMPORTANT

For your proxy appointment to be effective it must be received by **10:00am (Perth time) Saturday, 27 June 2020.**

Proxy Form

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.

Lodge your Proxy Form:

XX

Online:

Lodge your vote online at www.investorvote.com.au using your secure access information or use your mobile device to scan the personalised QR code.

Your secure access information is

Control Number: 183863

SRN/HIN:

For Intermediary Online subscribers (custodians) go to www.intermediaryonline.com

By Mail:

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

By Fax:

1800 783 447 within Australia or
+61 3 9473 2555 outside Australia

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

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 via webcast on Monday, 29 June 2020 at 10:00am (Perth time) 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
1	Ratification of issue of Securities to Sophisticated and Professional Investors under the Placement	☐	☐	☐
2	Approval of Proposed issue of Securities to Avatar Industries Pty Ltd under the Placement	☐	☐	☐

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.

Step 3 Signature of Securityholder(s)

This section must be completed.

Individual or Securityholder 1	Securityholder 2	Securityholder 3	
			/ /
Sole Director & Sole Company Secretary	Director	Director/Company Secretary	Date

Update your communication details *(Optional)*

By providing your email address, you consent to receive future Notice of Meeting & Proxy communications electronically

Mobile Number

Email Address