



Our Ref: SFG ASX Announce EGM Notice June 18 (559)

15 June 2018

ANNOUNCEMENT 559

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

By ASX Online
Number of pages: 86
(including this page)

Dear Sir

Re: Seafarms Group Notice of Extraordinary General Meeting & Proxy

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

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

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

The Company's Extraordinary General Meeting will be held in Melbourne on Monday 16 July 2018 at 10.00am AEST.

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

Yours faithfully

Seafarms Group Limited

A handwritten signature in black ink, appearing to read "Harley Whitcombe".

Harley Whitcombe
Company Secretary

ENC

Seafarms Group Limited
ABN 50 009 317 846

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Perth WA 6000 Australia
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Perth WA 6850 Australia

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W seafarms.com.au

About Seafarms Group

Seafarms Group Limited (ASX: SFG) is an ASX listed holding company with separate subsidiary businesses operating in nonconventional commodities: aquaculture and carbon. Seafarms Operations Pty Ltd operates aquaculture assets and CO2 Australia Limited the carbon and environmental operations.

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

About Seafarms Operations Pty Ltd.

Seafarm – a Australian agri-food company – operates, builds and invests in sustainable aquaculture production platforms producing high-quality seafood. Seafarms is currently the largest producer of farmed prawns –growing, processing and distributing the well-known Crystal Bay Prawns™ premium brand. The company is one of Australia's largest aquaculture enterprises.

About Project Sea Dragon

Seafarms Group is developing Project Sea Dragon – a large scale, integrated, land based prawn aquaculture project in northern Australia designed to produce high-quality, year-round reliable volumes for export markets.

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

SEAFARMS GROUP LIMITED

ABN 50 009 317 846

Notice of Extraordinary General Meeting

10.00am (AEST), Monday, 16 July 2018

At PwC

Level 21, 2 Riverside Quay, Southbank VIC 3006

Seafarms Group Limited

IMPORTANT NOTICE AND DISCLAIMER

General

SFG Shareholders should read this Notice and accompanying Explanatory Memorandum in full before making a decision as to how to vote on the Items to be considered at the Meeting.

Purpose of the Explanatory Memorandum

The Explanatory Memorandum sets out the effect of the proposed Items, certain information required by law and all other information known to SFG and SFG's directors (**Directors**) (other than information previously disclosed to SFG Shareholders) which is material to the decision of SFG Shareholders on whether or not to approve the Items in this Notice. A copy of the Notice and Explanatory Memorandum will be distributed to all SFG Shareholders and is also available in electronic form on SFG's website at www.seafarms.com.au.

Responsibility Statement

The Explanatory Memorandum has been prepared by SFG and the Board as at the date of the Explanatory Memorandum. SFG and the Board are responsible for the Explanatory Memorandum.

Foreign Shareholders

The release, publication or distribution of the Notice and Explanatory Memorandum in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions. Persons outside of Australia who come into possession of the Notice and Explanatory Memorandum should seek advice on and observe any such law or restrictions.

The Notice and Explanatory Memorandum have been prepared in accordance with Australian law and are subject to Australian disclosure requirements. The information contained in the Notice and Explanatory Memorandum may not be the same as that which would have been disclosed if the Notice and Explanatory Memorandum had been prepared in accordance with the laws and regulations of a jurisdiction outside of Australia. Financial information in this Explanatory Memorandum has been prepared in accordance with the classification and measurement principles of the Australian Accounting Standards and is presented in an abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the *Corporations Act 2001* (Cth) (**Corporations Act**).

SFG Shareholders who are Ineligible Overseas Shareholders will not receive CO2 Australia Shares under the Demerger. CO2 Australia Shares that would otherwise be transferred to those SFG Shareholders under the Demerger will be sold by SFG, with the proceeds of such sale to be paid to the Ineligible Overseas Shareholders. Please see **section 7** for further information.

Investment decisions – considering the Demerger

The Notice and Explanatory Memorandum are important and require your immediate attention. It should be read in its entirety before making a decision on whether or not to vote in favour of the Demerger. The Notice and Explanatory Memorandum are intended for all Eligible Shareholders collectively and do not take into account the investment objectives, financial situation and particular needs of each individual Eligible Shareholder or any other person. This Notice and Explanatory Memorandum should not be relied upon as the sole basis for any investment decision in relation to the Demerger. Before making any investment decision in relation to these matters you should consider, preferably with the assistance of a professional adviser, whether that decision is appropriate in the light of your particular investment needs, objectives and financial circumstances. If you are in any doubt, you should seek independent financial and taxation advice before making any investment decision in relation to the Demerger.

Except for statutory liability which cannot be excluded, each of SFG and CO2 Australia, their directors, officers, employees, advisers and agents expressly disclaim any responsibility for the accuracy, fairness, sufficiency or completeness of the material contained in this document, or any opinions or beliefs contained in this document, and excludes all liability whatsoever (including in negligence) for any loss or damage which may be suffered by any person as a consequence of any information in this document or any error or omission there from.

Forward looking statements

Certain statements in the Notice and Explanatory Memorandum relate to the future, including forward looking statements relating to SFG and CO2 Australia's financial position and strategy. These forward-looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievements of SFG or CO2 Australia to be materially different from future results, performance or achievements expressed or implied by such statements. Such risks, uncertainties, assumptions and other important factors include, among other things, the considerations and risks described in **sections 2 and 11** of the Explanatory Memorandum. Actual events or results may differ materially from the events or results expressed or implied in any forward-looking statement and deviations are both normal and to be expected.

Other than required by law, neither SFG nor CO2 Australia, their officers nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements will actually occur. You are cautioned not to place undue reliance on those statements.

Subject to any continuing obligations under applicable law or the Listing Rules, SFG and CO2 Australia expressly disclaim any obligation to give any updates or revisions to any forward-looking statements to reflect any change in events, conditions or circumstances on which any such statement is based.

The forward-looking statements in the Explanatory Memorandum reflect views held only immediately before the date of the Explanatory Memorandum.

Estimates

All references to, and derivations of, estimates are references to estimates and derivations by SFG management, unless otherwise indicated. Management estimates and derivations are based on views at the date of the Explanatory Memorandum, and actual facts or outcomes may be materially different from those estimates.

Privacy

SFG may collect personal information in the process of implementing the Demerger. This information may include the names, contact details and security holdings of Eligible Shareholders and the names of persons appointed by Eligible Shareholders to act as proxy, corporate representative or attorney at the Meeting. The primary purpose of collecting this information is to assist SFG in conducting the Meeting and to enable the Demerger to be implemented by SFG in the manner described in the Explanatory Memorandum. Personal information may be disclosed to CO2 Australia, Computershare, print and mail service providers, authorised securities brokers, securities authorities and to related bodies corporate of SFG or CO2 Australia. Eligible Shareholders have the right to access personal information that has been collected. An Eligible Shareholder who wishes to access personal information should contact Computershare and/ or SFG.

Seafarms Group Limited

NOTICE OF MEETING

An Extraordinary General Meeting of
Seafarms Group Limited (SFG)

will be held at

PwC, Level 21, 2 Riverside Quay, Southbank, Victoria at 10.00am (AEST), Monday, 16 July 2018.

Dear Shareholder

I am pleased to invite you to attend an extraordinary general meeting of SFG to be held at PwC, Level 21, 2 Riverside Quay, Southbank, Victoria on Monday, 16 July 2018 at 10.00am (AEST).

The Meeting is being held primarily to seek approval for the demerger of CO2 Australia Group from the Seafarms Group. Under the proposed demerger, SFG will undertake an equal capital reduction through the pro-rata *in specie* distribution of all CO2 Australia Shares to SFG Shareholders registered on the record date (**Demerger**).

For some time now, SFG has been focussed on its aquaculture business, including:

- operating Australia's largest prawn farming and export business in northern Queensland; and
- Project Sea Dragon—an integrated, large-scale prawn aquaculture development project in northern Australia,

(the **Aquaculture Business**).

Notwithstanding, the Seafarms Group continues to carry on a market-leading environmental services business that specialises in carbon project management (in Australia, New Zealand and Vietnam), the provision of environmental advisory services (in ecosystem offsets and carbon farming projects) and trading environmental credits (**Environmental Services Business**). The Environmental Services Business is currently operated independently of the Aquaculture Business and is managed by a separate management team.

Accordingly, SFG has for some time been considering a divestment of its Environmental Services Business to allow each business to better focus on and more efficiently allocate resources toward their respective operations.

In light of this, SFG has agreed for the divestment to be a key condition to Nippon Suisan Kaisha Limited's (**Nissui's**) \$24.99 million equity investment into SFG (announced on 23 May 2018).

SFG considers the most appropriate divestment options to be either a sale of the Environmental Services Business or the Demerger. SFG's Board has not yet received a suitable offer for the purchase of the Environmental Services Business and is therefore seeking shareholder approval to implement the Demerger. If a suitable offer is received before the Meeting, SFG may withdraw the resolution and proceed with the sale.

Under the Demerger, SFG Shareholders will continue to hold all of their existing SFG Shares and, in addition, will receive CO2 Australia Shares. This will allow SFG Shareholders to deal with their interests in each business separately.

Following the Demerger, SFG will remain listed on ASX and CO2 Australia will be a public unlisted company.

The Demerger will not affect the Aquaculture Business but for the expectation that it will facilitate SFG's funding plans for the development of Project Sea Dragon.

It is recommended that you seek independent taxation advice in respect of the Demerger.

In addition to the Item 1 in relation to the Demerger, the following Items will also be put to SFG Shareholders at the Meeting:

- ratification of the proposed issue of securities to Nissui on the terms set out in the Explanatory Memorandum to refresh SFG's new issue capacity; and
- approval of the New Loan Arrangements with Avatar Finance Pty Ltd (**Avatar Finance**).

I encourage you to read the Explanatory Memorandum carefully, and in its entirety, as it sets out important information in relation to the Items (including important considerations and risks regarding the Demerger (see **sections 2 and 11**)). If you are unsure how to vote, we recommend you speak with your investment or professional adviser.

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

Please ensure you forward the Proxy Form to SFG's share registry, Computershare Investor Services Pty Limited, so

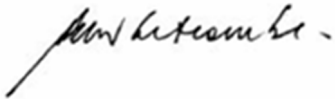
Seafarms Group Limited

NOTICE OF MEETING

that it is received by 10.00am (AEST) on Saturday,
14 July 2018.

If you appoint a proxy, corporate representative or attorney
at the Meeting, you should inform that person of the matters
outlined in this document.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Harley Whitcombe', written in a cursive style.

Harley Whitcombe
Company Secretary

15 June 2018

Seafarms Group Limited

NOTICE OF MEETING

Items of Business	Resolution	Approval	Further Details
SPECIAL BUSINESS			
1. APPROVAL OF CO2 AUSTRALIA DEMERGER	That the Demerger be implemented by way of capital reduction and payment of an <i>in specie</i> distribution pursuant to and in accordance with sections 256B(1) and section 256C(1) of the Corporations Act, pursuant to which the share capital of SFG will be reduced by the Capital Reduction Amount and that such reduction be effected and satisfied by SFG transferring on the Distribution Date to each SFG Shareholder registered at the Record Date, one (1) CO2 Australia Share for every one (1) SFG Share held.	Ordinary resolution	Item 1, page 6
2. RATIFICATION OF ISSUE OF SECURITIES TO NISSUI	That, for the purposes of refreshing the Company's issue capacity, in accordance with the provisions of Listing Rule 7.1 and for all other purposes, SFG be authorised to issue up to 249,877,657 SFG Shares, 28,396,974 Listed Options and 5,320,622 Unlisted Options to Nissui, on the terms set out in the Explanatory Memorandum.	Ordinary resolution	Item 2, page 14
3. APPROVAL OF NEW LOAN ARRANGEMENTS WITH AVATAR FINANCE	That, for the purposes of ASX Listing Rule 10.1, the New Loan Arrangements with Avatar Finance be approved on the terms set out in the Explanatory Memorandum. The Independent Expert's Report prepared by BDO Corporate Finance (WA) Pty Ltd (BDO) concludes that the New Loan Arrangements outlined in Item 3 are fair and reasonable to SFG Shareholders not associated with Avatar Finance. SFG Shareholders are referred to Annexure A of this Notice.	Ordinary resolution	Item 3, page 15

Capitalised terms are defined in the attached Explanatory Memorandum.

Seafarms Group Limited

NOTICE OF MEETING

VOTING

Voting Entitlement

SFG Shareholders recorded on SFG's register of members at 7.00pm (AEST) on Saturday, 14 July 2018 (**Voting Entitlement Date**) will be entitled to vote on the Items at the Meeting.

Becoming a Shareholder

Persons who become registered SFG 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 SFG 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

SFG Shareholders should read the Explanatory Memorandum carefully before voting on the Items.

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

SFG Shareholders can vote in one of two ways:

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

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

Voting Restrictions

The voting prohibitions under the Corporations Act and the voting exclusions under the Listing Rules for each Item are set out in the Explanatory Memorandum.

PROXY FORMS

Proxy Form

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

If you hold fully paid SFG Shares in more than one capacity, please complete the Proxy Form that is relevant to each holding.

Appointing proxies

SFG 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 an SFG Shareholder.

An SFG 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 SFG Shareholder's votes. If you wish to appoint two proxies, please call 1300 798 306 (within Australia) or +61 3 9415 4830 (outside Australia).

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

Undirected proxies

The Chair intends to vote all valid undirected proxies for in favour of the Items contained in this Notice.

Power of attorney and corporate representatives

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

To vote by attorney, the attorney must have a duly executed power of attorney, specifying the name of the SFG Shareholder, the attorney, the meeting at which the appointment may be used and that the power of attorney applies in relation to SFG. The appointment may be a standing one and the attorney need not be an SFG Shareholder.

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, which complies with the requirements of Section 250D of the Corporations Act must be lodged with, or presented to, SFG 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

All SFG Shareholders are invited and encouraged to attend the Meeting or, if they are unable to attend in person, to sign and return the Proxy Form to SFG in accordance with the instructions set out on the Proxy Form. Proxy Forms must be received by 10.00am (AEST) on Saturday, 14 July 2018.

How to lodge Proxy Forms

You can lodge your Proxy Form with SFG's share registry, Computershare Investor Services Pty Ltd (**Computershare**), by:

Mail: to GPO Box 242, Melbourne Victoria 3001.

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

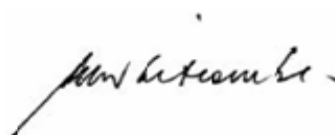
Facsimile: 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia).

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

ENQUIRIES

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

By order of the Board



Harley Whitcombe
Company Secretary

15 June 2018

Seafarms Group Limited

EXPLANATORY MEMORANDUM

ITEM 1 - APPROVAL OF CO2 AUSTRALIA DEMERGER

SFG has for some time been considering a divestment of its Environmental Services Business to allow the Aquaculture Business and the Environmental Services Business to better focus on and more efficiently allocate resources toward their respective operations. The two key divestment options are for SFG to sell the Environmental Services Business or for it to undertake the Demerger on the terms set out below.

As at the date of this Notice, SFG's Board has not received a suitable offer for the purchase of the Environmental Services Business that would recognise any potential upside for SFG Shareholders. If a suitable offer is received before the Meeting, SFG may withdraw this Item from consideration and proceed with the sale.

1. Demerger Overview

SFG seeks shareholder approval for the demerger of the CO2 Australia Group from the Seafarms Group. Under the proposed demerger, SFG will undertake an equal capital reduction through the pro-rata *in specie* distribution of all CO2 Australia Shares to SFG Shareholders registered on the record date (**Demerger**).

Under the Demerger, SFG Shareholders will continue to hold all of their existing SFG Shares and, in addition, will receive CO2 Australia Shares (i.e. shares in the company that will conduct the Environmental Services Business).

Prior to the Demerger, SFG will undertake a restructure of the Seafarms Group so that all the companies and assets related to the Environmental Services Business are held by CO2 Australia and all the companies and assets related to the Aquaculture Business are held by SFG and/ or entities involved in the Aquaculture Business (**Restructure**). **Charts A and B in Schedule 3** illustrate the pre- and post-Restructure corporate structure of the Seafarms Group and CO2 Australia Group.

Following the Demerger, SFG will remain listed on ASX and CO2 Australia will be a public unlisted company.

Charts B and C in Schedule 3 illustrate the pre- and post-Demerger corporate structures of the Seafarms Group and CO2 Australia Group.

2. Rationale for Demerger

For some time now, the Seafarms Group has been focussed on its Aquaculture Business. SFG's recent investors have invested in anticipation of the opportunities that the Aquaculture Business will provide and the vast majority of SFG management's time has been spent on the Aquaculture Business.

While the Environmental Services Business has been operated efficiently, and largely independently, it is no longer considered to be a core business for the Seafarms Group.

As at the date of this Notice SFG's Board has not received a suitable offer to purchase the Environmental Services Business that would recognise any potential upside for SFG Shareholders (e.g. value that may arise if there is a positive change in domestic and international climate and emissions' legislation). Subject to receiving such an offer, the Board considers that the Demerger is the most appropriate method of divesting the Environmental Services Business.

The Board considers that separating the Aquaculture Business and Environmental Services Business will provide a number of potential benefits for SFG and SFG Shareholders.

The Demerger gives SFG Shareholders the opportunity to continue to participate in the operations and future growth of the Environmental Services Business.

Importantly, the impact of the Demerger does not change the proportionate interests SFG Shareholders hold in the Aquaculture Business or Environmental Services Business. SFG Shareholders will continue to hold all of their existing SFG Shares and, in addition, will receive CO2 Australia Shares (the company which will conduct the Environmental Services Business) in the same proportion to their existing holding in SFG. Therefore, instead of having an indirect interest in the Environmental Services Business through a holding in SFG, SFG Shareholders will also hold a direct interest in the Environmental Services Business through shares in CO2 Australia.

The Demerger will also satisfy a key condition to Nissui's \$24.99 million equity investment into SFG (announced on 23 May 2018) which requires SFG to divest the Environmental Services Business. The proposed investment by Nissui is a significant development for SFG and Project Sea Dragon. Through the arrangements with Nissui, SFG will secure new funds and a business partner with extensive experience in the global seafood industry.

The Board considers:

- the Demerger is fair and reasonable to SFG Shareholders as a whole. Each SFG Shareholder is treated equally as the terms of the Demerger are the same for all SFG Shareholders (note the treatment of Ineligible Overseas Shareholders which is explained in **section 7** below).
- although the Demerger will reduce SFG's total equity, it will not prejudice SFG's ability to pay its creditors.

Some of the factors that the Board considered in reaching its views include:

- (**investment**) given the primary focus of SFG is aquaculture, it has been challenging for the Environmental Services Business to grow and source capital for that growth. As a stand-alone entity, investors with an appetite for investment in the Environmental Services Business may do so without also being required to invest in the Aquaculture Business. As a general comment, it is sometimes more difficult to access debt or equity funding as an unlisted entity;
- (**flexibility**) the Demerger will provide SFG Shareholders with greater flexibility in dealing with their investment. SFG Shareholders may deal with their investment in the Environmental Services Business (e.g. by trading CO2 Australia Shares) while retaining their investment in the Aquaculture Business. However, as CO2 Australia will be a public unlisted company following the Demerger, CO2 Australia Shares may not have a liquid market and may be difficult to sell;
- (**valuation**) given the small scale of the Environmental Services Business as compared to the Aquaculture Business, it is likely that its full value is not fully reflected in SFG's share price. The Demerger will enable each business to be valued and dealt with separately. Notwithstanding, it cannot be predicted how the market will react to the Demerger and, accordingly, whether there will be any effect on the price of SFG Shares;
- (**no subsidisation**) the Seafarms Group is operated as a single, integrated consolidated group and, therefore, while its operations are segmented, profits from the Aquaculture Business are used to fund the Environmental Services Business and vice versa from time to time. The Demerger will ensure that the Aquaculture Business and Environmental Services Business operate separately and do not subsidise each other;

Seafarms Group Limited

EXPLANATORY MEMORANDUM

- **(reduced regulation)** as an unlisted company, CO2 Australia will not be subject to the compliance costs and operational restrictions that apply to listed companies (including relief from some reporting and disclosure requirements). Restrictions on the issue of shares imposed by ASX will also not apply to CO2 Australia, nor will requirements concerning significant changes to CO2 Australia's activities. CO2 Australia will not be required to comply with the ASX Corporate Governance Principles and Recommendations. Balancing these costs savings is the fact that some shareholders (particularly minority shareholders) consider these continued restrictions provide protections for shareholders;
- **(costs)** some additional costs may be incurred by CO2 Australia as a result of the need to maintain its own board of directors, share register, corporate and administrative functions;
- **(tax)** there may be tax consequences for SFG Shareholders (refer to **section 6** below for additional information); and
- **(advisory fees)** SFG will incur costs for legal and other advisory expenses in conducting the Demerger.

3. Demerger process

3.1 Process

The Demerger will involve the following stages:

- implementation of the Restructure;
- conversion of CO2 Australia Shares into a larger number under section 245H of the Corporations Act so that there are as many CO2 Australia Shares as the number of SFG Shares on issue on the Record Date (to enable the distribution proposed below) (**Share Split**);
- approval by SFG Shareholders of the Demerger; and
- distribution of one (1) CO2 Australia Share for every one (1) SFG Share held by Eligible Shareholders.

See **section 7** below for treatment of Ineligible Overseas Shareholders.

3.2 Share Split

There is currently one CO2 Australia Share on issue, which is held by SFG. To facilitate the Demerger, it is proposed that SFG will approve a shareholder resolution to allow CO2 Australia to convert this share into a sufficient number of shares to allow for the distribution of CO2 Australia Shares to Eligible Shareholders in accordance with the ratio set out in **section 3.1** above.

3.3 Capital Reduction

The Demerger involves an equal capital reduction under section 256B of the Corporations Act. Under that section, a company may reduce its share capital if the reduction:

- is fair and reasonable to shareholders as a whole;
- does not materially prejudice the company's ability to pay its creditors; and
- is approved by an ordinary resolution of shareholders under section 256C of the Corporations Act.

Under rule 16.9(d) of the SFG Constitution, if Item 1 is passed, all SFG Shareholders (including those who did not vote or who did not vote in favour of Item 1) will be taken to have consented to becoming a member of CO2 Australia and to being bound by the constitution adopted by CO2 Australia (**CO2 Australia Constitution**).

4. Board discretion to proceed

The Board retains discretion on whether to proceed with the Demerger. Even if SFG Shareholders approve Item 1, the Board may still not proceed with the Demerger should SFG receive a suitable offer to acquire the Environmental Services Business, or market conditions and other factors impacting SFG, CO2 Australia or the Demerger cause the Board to believe that proceeding would not be in SFG Shareholders' best interests.

5. Demerger timetable

The Demerger is expected to take place in accordance with the following timetable:

Demerger timetable

Meeting	16 July 2018
Record Date	19 July 2018
Distribution Date	23 July 2018

The above timetable is indicative only, and may be changed at SFG's discretion (subject to the Listing Rules or as may be required by ASX).

Option holders that wish to participate in the Demerger should exercise their options within a reasonable time prior to the Record Date.

6. Tax Implications

SFG believes the distribution will constitute a disposal of the CO2 Australia Shares for capital gains tax purposes and that any capital gain arising from the disposal will be fully offset by carry forward tax losses.

SFG believes the taxation implications to SFG Shareholders will be a reduction in the cost base of their SFG Shares equal to the value of the CO2 Australia Shares distributed to them. Should the value of the CO2 Australia Shares distributed exceed this cost base, then an assessable capital gain may result based on the number of CO2 Australia Shares being distributed and the value at which SFG Shares have traded since listing on ASX. SFG believes this is unlikely to be the case. SFG Shareholders should consult their own professional advisors to confirm these implications as they may vary depending on individual circumstances and taxation positions.

SFG has not sought any class ruling from the Australian Taxation Office (ATO) as to the tax implications of the return of capital to SFG Shareholders. For specific taxation advice, SFG Shareholders should consult their own taxation adviser so that their particular circumstances are taken into consideration.

7. Sale Facility

7.1 Ineligible Overseas Shareholders

The distribution of CO2 Australia Shares to overseas SFG Shareholders under the Demerger will be subject to the legal and regulatory requirements in their relevant overseas jurisdictions. SFG has decided that it is unreasonable to distribute CO2 Australia Shares to Ineligible Overseas Shareholders (those overseas SFG Shareholders with a registered address outside of the Eligible Countries), due to the substantial costs of complying with the legal and regulatory requirements in the various overseas jurisdictions.

Seafarms Group Limited

EXPLANATORY MEMORANDUM

As such, CO2 Australia Shares to which Ineligible Overseas Shareholders in certain circumstances would otherwise be entitled will be sold by SFG on their behalf and, subject to **section 7.2** below, the proceeds of such a sale will be remitted to them as soon as practicable after the sale (**Sale Facility**).

7.2 Other information on Sale Facility

As part of the Demerger, CO2 Australia Shares to be sold via the Sale Facility will be sold by SFG:

- immediately prior to the *in-specie* distribution of CO2 Australia Shares under the Demerger; and
- to SFG Shareholders who have agreed to acquire those CO2 Australia Shares at a fixed price based on a valuation to be conducted for tax purposes at or around the time of the Distribution Date.

8. Effect of the Demerger on SFG

The Demerger is not expected to have a material impact on the operations of the Aquaculture Business or the Seafarms Group other than as set out below.

8.1 Demerger effects on financial position

The principal effects of the Demerger on the financial position of the Seafarms Group is expected to be as follows:

- cash reserves of the Seafarms Group will decrease by the amount of: (i) cash retained in CO2 Australia at the Distribution Date; and (ii) any relevant tax payments and transaction costs;
- net assets will decrease by the Capital Reduction Amount; and
- share capital will reduce by the Capital Reduction Amount.

A pro forma balance sheet prepared by SFG to demonstrate the potential impact of the Demerger on the financial position of the Seafarms Group is set out at **Schedule 1**. It is provided for illustrative purposes only and is prepared on the assumption that the Demerger was implemented on 30 April 2018. It should be read in conjunction with the notes set out in that schedule. If approved, SFG expects the Demerger to be implemented on or about 23 July 2018. The pro forma balance sheet is not intended to and does not illustrate the financial position that may be contained in SFG's future financial statements as a result of the Demerger.

The financial information set out at **Schedule 1** should be read in conjunction with the risk factors set out in **section 11** and other information in this Explanatory Memorandum. SFG Shareholders should note that past results are not a guarantee of future performance.

8.2 Deed of Cross Guarantee

The CO2 Australia Group entities are currently parties to a deed of cross guarantee (**DOCG**) relating to the Seafarms Group. The DOCG provides relief for wholly-owned subsidiaries from the obligation to lodge separate accounts and also allows the liabilities of any party to the DOCG to be satisfied from the assets of any other party.

Entities in the CO2 Australia Group will be removed from the DOCG following the Demerger. However, that process will not be finalised for several months and, until then, the DOCG provisions will remain in force. Accordingly, during that period, there is a risk that entities in the CO2 Australia Group may become responsible for debts of the entities involved in the Aquaculture Business and vice versa.

8.3 Effect on capital structure

SFG's capital structure will not change as a result of the Demerger other than for an adjustment to the terms of the listed and unlisted Options and Preference Shares currently on issue. Please refer to the table below for further information.

	Current (as at the date of this Notice)	Post-Demerger
SFG Shares	1,417,084,698	No change*
Listed Options	126,042,477 <i>(exercisable at \$0.10, expiring 17 July 2021)</i>	<i>The exercise price of each Listed Option will be reduced in accordance with Listing Rule 7.22.3 by the same amount as the amount returned to SFG Shareholders in relation to each SFG Share.</i>
Unlisted Options	30,000,000 <i>(exercisable at \$0.10, expiring 22 August 2021)</i> 5,000,000 <i>(exercisable at \$0.10, expiring 31 October 2021)</i>	<i>The exercise price of each Unlisted Option will be reduced in accordance with Listing Rule 7.22.3 by the same amount as the amount returned to SFG Shareholders in relation to each SFG Share.</i>
Preference Shares	30,150,189 <i>(convertible at \$0.06499)</i>	<i>There will no adjustment to or variation of the rights attaching to the Preference Shares as a result of the Demerger.</i>

* The number of SFG Shares on issue Post-Demerger may change if any Options or preference shares are converted to Shares prior to the Record Date.

8.4 No other material changes expected

The Board and the management of the Aquaculture Business will remain unchanged following the Demerger and there will be no other material changes to the operations of Seafarms Group (other than as set out in this Explanatory Memorandum).

9. CO2 Australia

9.1 Effect of the Demerger on CO2 Australia

CO2 Australia has strong brand recognition, independent of SFG. CO2 Australia has marketed its services and conducted its day-do-day operations with a high level of independence from SFG for over three years. Accordingly, the Demerger is not expected to materially alter the operations or marketing of the Environmental Services Business.

CO2 Australia will remain a public unlisted company following the Demerger.

Seafarms Group Limited

EXPLANATORY MEMORANDUM

9.2 Brief History

CO2 Australia is an environmental services company that has been delivering projects within Australia since 2004. CO2 Australia was one of the earliest Australian entrants to the carbon and ecosystems services market-place. At foundation, the businesses focus was greenhouse emissions management, carbon project development and carbon offsetting.

Since then, the business has progressively added new services lines and expanded into other market segments, including in the areas of land management, revegetation, environmental consulting, biodiversity offsetting and environmental approvals. Its customer base has included a wide variety of clients, across the private and public sector.

9.3 Current operations and capabilities

CO2 Australia manages approximately 26,000 hectares of carbon sink plantings under long-term services agreements with a range of large industrial clients, providing ongoing cash flows.

CO2 Australia continues to evolve its carbon services offering, which has expanded to include a wide variety of greenhouse emissions reducing activities—from landfill gas management through to regrowth vegetation management in grazing enterprises. These carbon services are mainly conducted in connection with the Australian Emissions Reduction Fund (ERF).

CO2 Australia has successfully bid in all ERF auctions held to date, allowing it to secure long-term (typically 10 year) Carbon Abatement Contracts with the Australian Government, further supporting long-term cash flow certainty.

CO2 Australia has become one of Australia's most experienced providers of major revegetation, land management and land restoration projects. The Environmental Services Business continues to secure clients in this area, including under multi-year contracts with government agencies.

The Environmental Services Business continues to experience strong interest in its consulting services and is successfully expanding its service offerings and the customer base.

The Environmental Services Business recently led the advisory component of a major program of environmental impact assessments and related environmental approvals for Project Sea Dragon. This has significantly strengthened its capabilities and has generated valuable IP and know-how that can be applied in other engagements.

CO2 Australia has offices in Queensland, New South Wales, Victoria, Western Australia and the ACT, combined with a highly effective network of sub-contract and sub-consulting relationships, giving it the capacity to deliver projects Australia-wide and internationally.

9.4 Restructure Agreement and transitional services

SFG and CO2 Australia will enter into an agreement (**Restructure Agreement**) pursuant to which all the assets and entities relating to the Environmental Services Business will be transferred to CO2 Australia. The Restructure Agreement will also include provisions under which the Seafarms Group will hold, for the benefit of CO2 Australia, any assets that are material to the Environmental Services Business from the date of the Restructure until those transfers can be completed.

The parties will also provide each other with certain transitional services following the Demerger. SFG will provide CO2 Australia with the services necessary to facilitate the transfer and continued operation of the Environmental Services Business. It is expected that the transitional period will be for a period of approximately 12 months unless terminated by CO2 Australia earlier.

The services to be provided during the transitional period will include general office administrative functions, as well as HR, accounting and treasury assistance. SFG will also provide IT hardware and software together with on-going technical support. CO2 Australia will benefit from serviced office facilities and related support provided by SFG.

The services will be charged on a cost recovery basis.

Except in the case of negligence or wilful acts or omissions, each party indemnifies the other party for any losses, costs or damages incurred by the other party. The maximum liability of each party under the Restructure Agreement is the fees received by that party for the relevant service provided by it. Each party is not liable for any loss of profits or indirect or consequential loss in relation to the provision of the services.

Either party may terminate the transitional services arrangements for an un-remedied breach by the other if an insolvency event occurs in relation to the other party or by mutual agreement.

9.5 Board and management

There are no planned changes to the CO2 Australia Board at this stage and it is likely to remain as follows after the Demerger:

Name	Position	Description
James Bulinski	Managing Director	As part of the executive management team, Mr Bulinski has assisted with and successfully delivered a series of environmental services engagements with an aggregate value of over \$100 million.
Aaron Soanes	Director	With a career spanning more than 20 years, Mr Soanes has been responsible for the delivery of extensive carbon plantation and revegetation programs.
Ian Trahar	Director	Executive Chairman of SFG. Extensive experience in resources and financial services, across multiple industries and organisations. Previous roles include joint CEO of Avatar Industries, Chairman of Ranger Minerals and executive roles at Shell Australia and Citibank.
Dr Christopher Mitchell	Director	Over 20 years' experience in Australian and international climate change research, holding both senior and executive roles, including Foundation Director of the Centre for Australian Weather and Climate Research.

Seafarms Group Limited

EXPLANATORY MEMORANDUM

9.6 Management

It is not expected that CO2 Australia's current management team will change following the Demerger. The Management team comprises:

Name	Position	Description
James Bulinski	Managing Director	Please refer to Mr Bulinski's profile in the table above.
Aaron Soanes	Director Operations & Projects	Please refer to Mr Soane's profile in the table above.
Rebecca Enright	Senior Manager	Ms Enright has a senior managerial role that includes client relationship management, business development and project management of services engagements.
Kate McBean	Senior Manager (Environmental Approvals)	Ms McBean has a senior managerial role that includes leading environmental approvals related services.

9.7 CO2 Australia Financial Position

A snapshot of CO2 Australia's pro forma financial position as at 30 April 2018 is set out below.

Item	Amount (A\$'000)
Cash	419
Net assets	3,860
Debt	0

A pro forma balance sheet that has been prepared by SFG to demonstrate the potential impact of the Demerger on the financial position of CO2 Australia and its subsidiaries is set out in **Schedule 2** below. It is provided for illustrative purposes only and is prepared on the assumption that the Demerger was implemented on 30 April 2018. It should be read in conjunction with the notes set out in that schedule. If approved, SFG expects the Demerger to be implemented on 23 July 2018. The pro forma is not intended to and does not illustrate the financial position that may be contained in future financial statements of CO2 Australia as a result of the Demerger.

The financial information set out at **Schedule 2** should be read in conjunction with the risk factors set out in **section 11** and other information in this Explanatory Memorandum. SFG Shareholders should note that past results are not a guarantee of future performance.

9.8 Capital structure

At the date of this Notice, and following the Share Split, CO2 Australia will have 1,417,084,698 CO2 Australia Shares on issue (assuming no Options or Preference Shares are converted to SFG Shares prior to the Record Date). There will be no change to CO2 Australia's capital structure as a result of the Demerger.

9.9 Ownership structure

Assuming all current SFG Shareholders participate, CO2 Australia will have approximately 4251 shareholders following completion of the Demerger.

It is anticipated that the actual number of shareholders will be less than this number given the number of Ineligible Overseas Shareholders participating in the Sale Facility.

Substantial shareholders in SFG are expected to be the largest shareholders in CO2 Australia following the Demerger. Details of those substantial shareholders are set out below.

Entity	SFG Shares	Percentage held
Gabor Holdings Pty Ltd (and associates)*	453,391,227	31.99%

* This entity is controlled by Ian Trahar, the Executive Chairman of SFG.

As an unlisted public company following the Demerger, the substantial shareholder notification requirements that apply to listed companies will not apply to shareholders in CO2 Australia.

Please refer to SFG's annual report for the year ended 30 June 2017 for further details on its top 20 shareholders (as at 31 July 2017), available from www.asx.com.au.

10. Rights of CO2 Australia Shares

If the Demerger is approved, the CO2 Australia Constitution will be of a kind usually adopted by a public unlisted company on the Distribution Date. A summary of the rights and liabilities attaching to CO2 Australia Shares under the CO2 Australia Constitution is set out below. The summary is qualified by the full terms of the CO2 Australia Constitution (copies of the CO2 Australia Constitution may be inspected at the registered office of SFG during normal business hours by appointment with SFG's Company Secretary). These rights and liabilities can involve complex questions of law arising from an interaction of the CO2 Australia Constitution with statutory and common law requirements. This summary is not intended to be exhaustive.

10.1 Rights attaching to CO2 Australia Shares

(a) Voting

At a general meeting of CO2 Australia every member present in person, or by proxy, attorney or representative on a show of hands has one vote and upon a poll has one vote for every CO2 Australia Share held by him or her.

(b) Meeting of members

Each CO2 Australia shareholder is entitled to receive notice of, attend and vote at general meetings of CO2 Australia.

(c) Dividends

CO2 Australia Shares rank equally with all other issued shares in the capital of CO2 Australia and, subject to the Corporations Act, the CO2 Australia Board may declare that a dividend is payable from time to time.

(d) Dividend reinvestment plan

The CO2 Australia Constitution authorises directors, at their discretion, to establish a dividend reinvestment plan (under which shareholders are given the option to elect that the dividend payable by CO2 Australia to which they are entitled is instead reinvested in CO2 Australia through a subscription of securities).

Seafarms Group Limited

EXPLANATORY MEMORANDUM

(e) *Winding up*

Upon paying all application moneys in respect of CO2 Australia Shares, CO2 Australia shareholders will have no further liability to make payments to CO2 Australia in the event of the company being wound up in accordance with the Corporations Act.

(f) *Transfer of CO2 Australia Shares*

Generally, CO2 Australia Shares will be freely transferable. The CO2 Australia Board may decline to register any transfer of CO2 Australia Shares but only where permitted to do so under the CO2 Australia Constitution.

(g) *Proportional takeover bids*

Transfers of CO2 Australia Shares under a proportional takeover bid are restricted unless the bid is approved by resolution passed at a general meeting.

(h) *Issue of further shares*

Subject to the Corporations Act and any rights and restrictions attached to a class of shares, CO2 Australia may issue, or grant options in respect of, further CO2 Australia Shares on such terms and conditions as the CO2 Australia Board resolves.

(i) *Variation of class rights*

At present, CO2 Australia's only class of shares on issue are ordinary shares. Subject to the Corporations Act and the terms of issue of a class of shares, the rights attaching to any class of shares may be varied or cancelled:

- with the consent in writing of holders of 75% of the issued shares included in that class; or
- by a special resolution passed at a separate meeting of holders of those shares.

(j) *Directors – appointment and removal*

No non-executive director may retain office without re-election every three years. The directors may appoint a director, either in addition to existing directors or to fill a casual vacancy, who then holds office until the next annual general meeting. CO2 Australia may elect a person as a director by resolution passed at a general meeting.

(k) *Directors – fees and remuneration*

The directors are paid for their services such fees as the directors determine not exceeding in aggregate a maximum sum that is from time to time approved by the company's members present and voting at a general meeting.

(l) *Alteration of CO2 Australia Constitution*

The CO2 Australia Constitution may only be amended by special resolution passed by at least 75% of the company's members present and voting at a general meeting.

10.2 CO2 Australia dividend policy

The payment of dividends will be determined by the CO2 Australia Board from time to time at its discretion, dependent on profitability, costs and leverage of the Environmental Services Business and its financial position.

Decisions relating to dividend policy will have regard to CO2 Australia's strategic priorities and will be reviewed annually.

11. Business risk factors

11.1 Business risk factors common to SFG and CO2 Australia

The Aquaculture Business and Environmental Services Business are subject to risks. Many of the circumstances giving rise to these risks are beyond the control of SFG and CO2 Australia.

The following list of risks should be considered as a guide only and is not intended to be exhaustive in any way:

(a) *Division of assets*

Under the Demerger, SFG will cease to hold an interest in the Environmental Services Business held by CO2 Australia, and CO2 Australia will no longer be part of the Seafarms Group holding the Aquaculture Business. Accordingly, SFG Shareholders need to be aware that any investment made in SFG should be undertaken in the knowledge that SFG (or its subsidiaries) will not be holding the Environmental Services Business. However, SFG Shareholders on the Record Date will receive CO2 Australia Shares and so will continue to have an ownership interest in the Environmental Services Business for so long as they retain those CO2 Australia Shares.

(b) *Environment*

The Aquaculture Business and Environmental Services Business are subject to laws and regulations in relation to environmental matters. As a result, there is the risk that SFG and CO2 Australia may incur liability under these laws and regulations. SFG and CO2 Australia propose to comply with applicable laws and regulations and conduct their programs in a responsible manner with regard to the environment.

(c) *Additional requirements for capital*

The Aquaculture Business and Environmental Services Business require substantial expenditure. There can be no guarantees that funds held by SFG or CO2 Australia will be sufficient to successfully achieve all of the business objectives of SFG or CO2 Australia. Any equity financing will dilute shareholdings and debt financing, if available, may involve restrictions on financing and operating activities. If SFG or CO2 Australia are unable to obtain additional financing as needed, they may be required to reduce the scope of their operations and development plans. In addition, SFG's or CO2 Australia's ability to continue as a going concern may be diminished. There is no guarantee that SFG or CO2 Australia will be able to secure any additional funding or be able to secure funding on favourable terms. Such circumstances would adversely affect SFG or CO2 Australia and their activities.

(d) *Reliance on Key Personnel*

The success of the Aquaculture Business and Environmental Services Business are dependent on their directors', managers' and consultants' abilities. A number of factors, including the departure of senior management of SFG or CO2 Australia or a failure to attract or retain suitably qualified key employees, could adversely affect the Aquaculture Business or Environmental Services Business.

(e) *Insurance*

SFG and CO2 Australia intend to adequately insure their operations in accordance with industry practice and applicable laws in the jurisdiction(s) in which they operate (mainly Australia). However, in certain circumstances SFG or CO2 Australia may not be able to obtain adequate insurance cover (or at all). As such, the occurrence of an event that is not covered by insurance could adversely affect the Aquaculture Business or Environmental Services Business.

Seafarms Group Limited

EXPLANATORY MEMORANDUM

(f) *Economic*

Factors such as inflation, currency fluctuations, interest rates, supply and demand, industrial disruption, government policy and legislation have an impact on operating costs, cash flows, and the parameters in which SFG or CO2 Australia operate.

(g) *Industrial*

Industrial disruptions, work stoppages and accidents in the course of SFG or CO2 Australia's operations could result in losses and delays, which may adversely affect the Aquaculture Business or Environmental Services Business' profitability.

(h) *Management actions*

The SFG Board and CO2 Australia Board will, to the best of their knowledge, experience and ability (in conjunction with management) endeavour to anticipate, identify and manage the risks inherent in the Aquaculture Business and Environmental Services Business, but without assuming any personal liability for the same, with the aim of eliminating, avoiding and mitigating the impact of risks on the performance of SFG or CO2 Australia and their securities.

(i) *Government policy and legislative changes*

Changes in government policy that are beyond the control of SFG and CO2 Australia may materially adversely affect SFG or CO2 Australia and the value of their securities. Both SFG and CO2 Australia's activities are subject to various legislation, regulation and approvals. The introduction of any new legislation, be it amendments, the application of developments in existing common law or policies or the interpretation of those laws or policies could adversely affect the Aquaculture Business or Environmental Services Business. Changes in government regulations may adversely affect the financial performance or the current and proposed operations generally of SFG and CO2 Australia and the value of their securities.

In addition, SFG and CO2 Australia's projects may require from time to time various licences, regulatory renewals or government approvals for their operations and accordingly must comply with those approvals, applicable laws, regulations, guidelines and policies.

There is a risk that SFG and CO2 Australia may not obtain, or may be delayed in obtaining the necessary licences, renewals and approvals in relation to their operations. This may affect the timing and scope of the Aquaculture Business or Environmental Services Business and may have a material adverse effect on SFG and CO2 Australia.

(j) *Taxation*

SFG and CO2 Australia are subject to various Federal and State taxes such as income tax, GST, stamp duty and payroll taxes. The laws are complex and subject to change periodically as is their interpretation by the courts and revenue authorities. There is a risk that the courts, ATO and other revenue authorities may not agree with the opinion or tax or duty positions taken by the companies.

(k) *Contractual arrangements*

SFG and CO2 Australia are parties to a number of material contracts and may be advanced in the finalisation of other contracts. Failure by any other party to a contract with SFG or CO2 Australia to comply with their obligations could have a material adverse effect on the Aquaculture Business or Environmental Services Business. Additionally, the failure by SFG or CO2 Australia to finalise and execute contracts presently under negotiation or to finalise conditions arising under existing conditional material contracts could have a material adverse effect on the Aquaculture Business or Environmental Services Business.

11.2 Risk factors specific to CO2 Australia and the Environmental Services Business

(a) *Change of control provisions*

CO2 Australia is party to a number of material contracts and may be advanced in the finalisation of other contracts. Some of these contracts include notification requirements in the event of a change of control or ownership and, in some cases, change of control or ownership can create a trigger for early termination of the contracts.

(b) *Regulatory risks*

The national and international carbon market is largely a function of agreements between governments, national legislation, sub-national legislation and regulations, including environmental legislation. Accordingly, CO2 Australia and carbon market participants generally are subject to regulatory risk. In general terms, key risks are associated with relaxations of the environmental compliance requirements for Australian organisations, which would have the effect of lessening CO2 Australia's ability to effectively market its current service offerings. CO2 Australia closely monitors public statements by political parties and has a deliberate strategy of managing these risks through the continued diversification of its service offerings across a number of market segments, customer types and jurisdictions.

(c) *Market risks*

Aside from the above regulatory risk, the Environmental Services Business carries normal commercial and market risks. These include commodity price risk (for example, carbon credit pricing), which is largely a function of market supply and demand. As with any other commodity or service offering, and in any other industry, CO2 Australia competes with other suppliers to the market. Counterparty risk is managed by CO2 Australia undertaking careful assessment of counterparties and contractual terms.

(d) *Agricultural risks*

Within its contractual arrangements, the Environmental Services Business' clients typically take on agricultural risk (e.g. for carbon projects, these agricultural risks include weather and climate risk, fire risk and pests and disease). In a few cases, the CO2 Australia Group entities will bear agricultural risks in respect of carbon projects that they have established from their own balance sheet investments and which they continue to own and operate. In addition to well-developed and proven operational protocols, insurance policies are used to manage agricultural risks through the establishment phase.

12. Additional information

12.1 Corporations Act and ASX Listing Rule requirements

(a) *Corporations Act*

Pursuant to section 256C(4) of the Corporations Act, this Explanatory Memorandum sets out all information known to SFG that is material to the decision on how to vote on Item 1 (except where it would be unreasonable to do so because SFG has previously disclosed the information to SFG Shareholders). In accordance with section 256C(5) of the Corporations Act, SFG has also lodged a copy of the Notice and accompanying Explanatory Memorandum with ASIC prior to sending them to SFG Shareholders.

Neither ASIC nor its officers take any responsibility for the contents of the Notice and Explanatory Memorandum.

Seafarms Group Limited

EXPLANATORY MEMORANDUM

(b) ASIC relief

Sections 707(2) to (5) of the Corporations Act restrict:

- SFG from transferring CO2 Australia Shares to Eligible Shareholders by way of the proposed Demerger; and
- Eligible Shareholders from on-selling any CO2 Australia Shares that they receive pursuant to the proposed Demerger for 12 months,

without SFG or CO2 Australia, as applicable, issuing a compliance prospectus.

The Board is of the view that the disproportionately high costs involved in preparing a compliance prospectus are not justified, and consider that those costs would outweigh any benefit to SFG Shareholders in receiving a compliance prospectus.

As a result, the Board submitted an application to ASIC for standard relief from the requirement to issue a compliance prospectus (**ASIC Application for Relief**), in accordance with ASIC Regulatory Guide 188 which provides that relief is possible in the context of a capital reduction via *in-specie* distribution, where there is no significant change to shareholders' overall investment, so that members are not making a new investment decision when voting on the capital reduction.

At the time of writing, ASIC is in the process of reviewing the ASIC Application for Relief. The Board expects ASIC to grant the relief before the Meeting. The Board will announce the outcome of the ASIC Application for Relief to SFG Shareholders prior to the Meeting.

With that relief, all information required by the Corporations Act in relation to the Demerger will have been disclosed in this Explanatory Memorandum. SFG will not need to also issue a compliance prospectus. This will avoid the unnecessary expenditure by SFG on fees to produce, print and post a compliance prospectus.

If ASIC does not grant the relief, the Board reserves the right not to proceed with the Demerger and consider options for the sale of the Environmental Services Business.

(c) ASX Listing Rules

ASX has granted SFG a waiver of Listing Rule 7.25 in relation to the Demerger.

Neither ASX nor any of its officers take any responsibility for the contents of the Notice and Explanatory Memorandum.

12.2 Preference shareholders' acknowledgements

Holders of Preference Shares have acknowledged that:

- (a) any rights attaching to their Preference Shares will be exercised in favour of the Demerger; and
- (b) they have no rights resulting from the Demerger to either:
 - (i) an adjustment to the conversion price of the Preference Shares or the issue of further Preference Shares; or
 - (ii) any form of dividend.

Holders of Preference Shares have agreed to appoint the Chair as their proxy who will vote in favour of Item 1 on their behalf.

12.3 Directors' interest in Demerger

The Directors who are SFG Shareholders will receive CO2 Australia Shares as part of the Demerger. The Directors' shareholdings in SFG prior to the Demerger and the number of CO2 Australia Shares they are likely to have an interest in if the Demerger is implemented are set out below:

Director	SFG Shares	CO2 Australia Shares to be received
Ian Trahar (and associates)	453,391,227	453,391,227
Paul Favretto	37,750,000	37,750,000
Harley Whitcombe	18,048,259	18,048,259
Dr Christopher Mitchell	10,993,936	10,993,936

12.4 Consents

This Notice and accompanying Explanatory Memorandum contains statements made by or statements based on statements made by SFG, CO2 Australia and their directors. SFG, CO2 Australia and their directors have consented to the inclusion of:

- each statement made by SFG, CO2 Australia or their Directors; and
- each statement which is based on a statement made by SFG, CO2 Australia or their directors,

in the form and context in which the statement appears, and have not withdrawn their consent.

Corrs has given, and has not withdrawn, its written consent to be named as SFG's legal adviser in the form and context in which it is named in this Explanatory Memorandum. To the maximum extent permitted by law, Corrs expressly disclaims and takes no responsibility for any part of this Notice and Explanatory Memorandum, other than a reference to its name.

Computershare has given, and has not withdrawn, its written consent to be named as SFG and CO2 Australia's share registry in the form and context in which it is named in the Notice and this Explanatory Memorandum. To the maximum extent permitted by law, Computershare expressly disclaims and takes no responsibility for any part of this Notice and Explanatory Memorandum, other than a reference to its name.

Other than as specifically outlined above, Corrs and Computershare have not caused or authorised the issue of this Notice and Explanatory Memorandum and do not make or purport to make any statement in them.

12.5 Continuous Disclosure

As a company listed on ASX and a disclosing entity under the Corporations Act, SFG is subject to regular reporting and disclosure obligations. Broadly, these reporting and disclosure obligations require SFG to announce price sensitive information as soon as it becomes aware of the information, subject to exceptions for certain confidential information.

SFG's recent announcements are available from www.asx.com.au. Further announcements concerning developments at SFG will continue to be made available on that website after the date of this Notice.

Seafarms Group Limited

EXPLANATORY MEMORANDUM

SFG is required to prepare and lodge with ASIC and ASX both annual and half yearly financial statements accompanied by a statement and report from the Board and an audit or review report. SFG also lodges quarterly activity reports with ASX.

Copies of these and other documents lodged with ASIC and ASX may be obtained from ASIC and are accessible from ASX's website at www.asx.com.au. Copies of these documents will also be made available free of charge by request made at any time before the Distribution Date to SFG's Company Secretary at Seafarms Group Limited, Level 11, 225 St Georges Terrace, Perth, Western Australia 6000.

12.6 Other material information

Except as disclosed in this Explanatory Memorandum, and having regard to the information already disclosed to SFG Shareholders, there is no other material information known to SFG which is material to the making of the decision by SFG Shareholders as to whether to vote in favour of Item 1.

13. Board Recommendations

The Board unanimously recommends SFG Shareholders vote in favour of Item 1.

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

14. Voting exclusion statement

SFG will disregard any votes cast in favour of Item 1 by or on behalf of:

- a person who participated in the issue of securities the subject of this Item 1; and
- any associate of those persons.

However, SFG need not disregard a vote if:

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

ITEM 2 – RATIFICATION OF ISSUE OF SECURITIES TO NISSUI

Background

As announced on 23 May 2018, Nissui has agreed to undertake a \$24.99 million equity investment in SFG subject to the satisfaction of certain conditions.

If those conditions are satisfied, SFG will be required to issue the following securities to Nissui (**New Securities**):

- 249,877,657 SFG Shares;
- 28,396,974 listed options with an exercise price of \$0.10 and expiry date of 17 July 2021 (**Listed Options**); and
- 5,320,622 unlisted options with an exercise price of \$0.065 and expiry date of 1 June 2023 (**Unlisted Options**).

SFG seeks SFG Shareholder approval for the purpose of Listing Rule 7.1 to issue the New Securities to Nissui without utilising its issue capacity under Listing Rules 7.1 and 7.1A.

Purpose of Approval

Listing Rule 7.1 provides that SFG must not issue equity securities in excess of its 15% issue capacity within a 12 month period unless a specified exception applies or the issue is made with prior SFG Shareholder approval.

Listing Rule 7.1A provides an additional 10% issue capacity to issue shares without shareholder approval for certain pre-approved purposes provided shareholders have approved that additional capacity at an AGM, the company is not included in the S&P/ ASX 300 Index and the company's market capitalisation is less than \$300 million. SFG Shareholders approved the additional 10% issue capacity at SFG's 2017 AGM held on 24 November 2017.

Equity securities issued with SFG Shareholder approval under Listing Rule 7.1 do not count towards the 15% issue capacity under Listing Rule 7.1 or the additional 10% issue capacity under Listing Rule 7.1A.

SFG Shareholder approval of Item 2 will allow SFG to issue the New Securities to Nissui in accordance with its obligations under the subscription agreement between SFG and Nissui whilst preserving its 15% issue capacity under Listing Rule 7.1 and the additional 10% issue capacity under Listing Rule 7.1A. This will provide SFG additional flexibility to raise further funds by issuing equity securities over the next 12 months.

The New Securities can be issued utilising SFG's existing capacity under Listing Rules 7.1 and 7.1A. Accordingly, this issue will proceed even if Shareholders do not approve Item 2. Approval for Item 2 is being sought solely to refresh SFG's issue capacity.

Details of the investment

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

Maximum number of securities	(a) 249,877,657 SFG Shares;
	(b) 28,396,974 Listed Options; and
	(c) 5,320,622 Unlisted Options.

Date of Issue	Issue of the New Securities is subject to satisfaction of certain conditions in the subscription agreement between SFG and Nissui.
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If the conditions are satisfied, it is expected that the New Securities will be issued on or around July 2018 and, in any event, no later than three months following the Meeting (or such later date as permitted by an ASX Waiver or modification of the Listing Rules).

Issue price	SFG Shares will be issued for \$0.10 per SFG Share.
	Listed Options and Unlisted Options will be issued for nil consideration.

Proposed allottees	Nissui, a sophisticated investor that is not a related party of SFG.
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Seafarms Group Limited

EXPLANATORY MEMORANDUM

Issue terms	<p>All SFG Shares will rank equally with the SFG Shares currently on issue.</p> <p>The Listed Options have an exercise price of \$0.10 and expire on 17 July 2021. The full terms and conditions of the Listed Options are set out at Schedule 4, Part A.</p> <p>The Unlisted Options have an exercise price of \$0.065 and expire on 1 June 2023. The full terms and conditions of the Unlisted Options are set out at Schedule 4, Part B.</p> <p>SFG Shares issued on exercise of Listed Options and Unlisted Options will rank equally with SFG Shares on issue.</p>
Intended use of funds	<p>SFG intends to use the proceeds raised through the issue of New Securities to assist with funding the development of Project Sea Dragon.</p>

Voting exclusion statement

SFG will disregard any votes cast in favour of Item 2 by or on behalf of:

- a person who participated in the issue of securities the subject of this Item 2; and
- any associate of those persons.

However, SFG need not disregard a vote if:

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

Board Recommendation

The Board unanimously recommends that SFG Shareholders vote in favour of Item 2.

The Chair intends to vote undirected proxies in favour of Item 2.

ITEM 3 - APPROVAL OF NEW LOAN ARRANGEMENTS WITH AVATAR FINANCE PTY LTD

The Independent Expert's Report prepared by BDO concludes that the New Loan Arrangements outlined in Item 3 are fair and reasonable to SFG Shareholders not associated with Avatar Finance. SFG Shareholders are referred to Annexure A of this Notice.

Overview of Current Loan Arrangements

At SFG's 2016 AGM, SFG Shareholders approved a credit facility agreement (**Primary Facility Agreement**) with Avatar Finance, a related party of SFG. Under the Primary Facility Agreement, Avatar Finance made available to SFG a rolling credit facility of \$8.5 million, repayable on 31 January 2019.¹

Seafarm Queensland Pty Ltd (**SQPL**), a wholly-owned subsidiary of SFG, granted a security over all of its assets to Avatar Finance.

In February 2018, SFG obtained a waiver from Listing Rule 10.1 to extend the repayment date under the Primary Facility Agreement by six weeks to 15 March 2019.

The total fees and interest paid to Avatar Finance under the Primary Facility Agreement from 25 November 2016 up to the date of this Notice is approximately \$670,987.

As at the date of this Notice, there is an additional credit facility agreement between SFG and Avatar Finance in respect of a \$6.7 million rolling credit facility repayable on 15 March 2020 (**Secondary Facility Agreement**).

The credit facility under the Secondary Facility Agreement was granted on the basis that no interest or fees are payable and no security may be granted in respect of it unless and until shareholder approval under Listing Rule 10.1 is obtained. Accordingly, no interest or fees have been paid to Avatar Finance in respect of the Secondary Facility Agreement as at the date of this Notice. If SFG Shareholder approval for this Item 3 is obtained, approximately \$93,025 will become payable to Avatar Finance under the Secondary Facility Agreement.

The Primary Facility Agreement and the Secondary Facility Agreement together are the **Current Loan Arrangements**.

A summary of the terms of the Current Loan Arrangements is set out in the second column of the table in **Schedule 5 Part A**.

At the date of this Notice, SFG has drawn down \$14.5 million under the Current Loan Arrangements.

New Loan Arrangements

The Board has assessed the Seafarm Group's funding requirements and determined that funding from Avatar Finance will be required until early 2021 for working capital purposes in relation to Seafarm Group's northern Queensland prawn farming operations.

The Board considers it desirable for SFG to have the flexibility to borrow further funds from Avatar Finance beyond early 2021 on terms that reflect (or are more favourable for SFG than) the prevailing market terms without having to seek further shareholder approval.

¹ Funds were first made available by Avatar Finance to SFG in March 2014. Details in relation to the credit facility arrangements between March 2014 and November 2016 are set out in the notice for SFG's 2016 AGM lodged with ASX on 26 October 2016.

Seafarms Group Limited

EXPLANATORY MEMORANDUM

Accordingly, SFG and Avatar Finance have agreed to the following new loan arrangements (New Loan Arrangements), subject to SFG Shareholder approval:

- (a) the facility under the Secondary Facility Agreement will be rolled into the Primary Facility Agreement by:
- SFG repaying the outstanding amounts under the Secondary Facility Agreement (including the accrued interests and fees of approximately \$93,025 and the parties terminating that agreement; and
 - the facility limit under the Primary Facility Agreement being increased by \$6.7 million to \$15.2 million;

- (b) in light of the increased facility limit under the Primary Facility Agreement, Seafarm Hinchinbrook Pty Ltd (**SHPL**), a wholly-owned subsidiary of SFG will also grant to Avatar Finance a security over all of its assets. Accordingly, the New Loan Arrangements will be secured over the assets of both SHPL and SQPL (**Security**);

SQPL and SHPL hold the Group's northern Queensland prawn farming assets. In the event SFG obtains funding from an external financier for working capital purposes or for funding Project Sea Dragon, Avatar Finance has agreed to subordinate its security interests to such external financier. For further details regarding the Security to be provided to Avatar Finance under the New Loan Arrangements, see **Schedule 5 Part B**;

- (c) the interest rate and line fee will remain unchanged under the New Loan Arrangements;
- (d) the repayment date under the New Loan Arrangements will be extended to 15 March 2021 (**Initial Repayment Date**) and all sums owing to Avatar Finance must be repaid in full by SFG on or before this date; and
- (e) Avatar Finance and SFG may agree for SFG to redraw funds under the facility after the Initial Repayment Date 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 the Initial Repayment Date. Any redraw arrangements agreed between the parties will be capable of being terminated prior to 15 March 2024 by mutual agreement.

Given the Board has the discretion as to whether or not to redraw funds, the Board may consider different funding arrangements prior to any new drawdown after the Initial Repayment Date.

For clarity and ease of reference, the third column of the table in **Schedule 5 Part A** indicates the changes to the Current Loan Arrangements proposed under the New Loan Arrangements.

Purpose of Approval - ASX Listing Rule 10.1

Under Item 3, SFG is seeking shareholder approval of the New Loan Arrangements pursuant to Listing Rule 10.1.

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

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

A 'substantial asset' is an asset valued at more than 5% of the equity interests as set out in the latest accounts given to ASX (currently being a threshold of approximately \$1.25 million for SFG).

SFG had obtained shareholder approval under Listing Rule 10.1 for the Current Loan Arrangements at its 2016 AGM. However, given that:

- (a) the New Loan Arrangements involve an expansion of the scope of the security (as SHPL will also grant security over its assets to Avatar Finance); and
- (b) the increased facility limit and extension of the repayment date under the New Loan Arrangements will result in additional fees and interests becoming payable to Avatar Finance compared to the amount previously approved by SFG Shareholders,

the Board seeks SFG Shareholder approval for the New Loan Arrangements for the purposes of Listing Rule 10.1.

Approval not required under Corporations Act Chapter 2E

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

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

An exception from the requirement to obtain shareholder approval under the Corporations Act applies where the giving of the financial benefit is on terms that would be reasonable in the circumstances where the public company and the related party were dealing at arm's length or if the terms are less favourable to the related party than arm's length terms.

Prior to entering into the Primary Facility Agreement, the Secondary Facility Agreement and amendments to those agreements, the Board considered the terms of the agreement and determined they were on arm's length or better terms for SFG.

The Board has now assessed the terms of the New Loan Arrangements and is confident that they are on arm's length or better terms for SFG. In arriving at this determination, the Board considered the attractive commercial terms of the New Loan Arrangements in comparison with the terms being offered by arm's length third party banks, including that:

- (a) the interest rate and fees for the New Loan Arrangements are comparable to the market rates for comparable facilities;
- (b) the terms and scope of the Security are more advantageous to SFG than those which would typically be required by banks. In particular, Avatar Finance has agreed to subordinate its security interests in favour of any external financier providing funding to SFG for working capital purposes or for funding Project Sea Dragon;
- (c) SFG is entitled to prepay the facility under the New Loan Arrangements at any time without payment of any fees/ penalty while any prepayment under the terms provided by banks involves a substantial fee;
- (d) the New Loan Arrangements require SFG to provide very limited warranties and covenants; and

Seafarms Group Limited

EXPLANATORY MEMORANDUM

(e) the events of default under the New Loan Arrangements are limited and narrow in scope,

(together, the **Arm's Length Considerations**).

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

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

Independent Expert Report

To assist you in deciding how to vote on Item 3, the Board engaged BDO to prepare the Independent Expert's Report to provide an opinion on whether or not the New Loan Arrangements are 'fair and reasonable' to SFG Shareholders who are not associated with Avatar Finance.

The Independent Expert's Report prepared by BDO concludes that the New Loan Arrangements are fair and reasonable to SFG Shareholders not associated with Avatar Finance.

The Independent Expert's Report also confirms that the New Loan Arrangements are on arm's length terms. For further details, refer to section 10 of the Independent Expert's Report at **Annexure A**.

SFG Shareholders may request a hard copy of the Independent Expert's Report from SFG at no cost by contacting the Company Secretary on +61 8 9216 5200. A complete copy of the Independent Expert's Report is provided in **Annexure A** to this Notice and is also available on SFG's website, www.seafarms.com.au.

Non-conflicted Directors' rationale for supporting New Loan Arrangements

The Directors (other than Mr Ian Trahar, who has a material personal interest in the New Loan Arrangements and accordingly did not attend any board meetings, participate in any board discussions or vote on any matters in relation to the New Loan Arrangements) (**Non-conflicted Directors**) have considered the New Loan Arrangements in depth and support the New Loan Arrangements for the reasons set out below.

(a) **Debt funding:** Despite sustained efforts, the Board has been unable to secure working capital funding from external financiers on terms that are more attractive than those under the New Loan Arrangements.

Based on the Arm's Length Considerations, the Non-conflicted Directors consider that on balance the terms of the New Loan Arrangements are more advantageous compared to those which may be offered by external financiers for a similar facility.

(b) **Capital raisings:** Given SFG's focus on developing Project Sea Dragon, the Non-conflicted Directors are of the view that there is more benefit to SFG Shareholders if any funds obtained through capital raisings are spent on the development and expansion of Project Sea Dragon rather than for repayment of debt, particularly given Avatar Finance has agreed to extend the repayment obligation on slightly different yet attractive terms. In the current circumstances, as suitable debt from Avatar Finance is available, the Non-conflicted Directors consider that the benefit of a further capital raising to obtain funds for working capital purposes is outweighed by the dilution that would occur of SFG Shareholders' shareholding.

(c) **Comparison of Current Loan Arrangements and New Loan Arrangements:** The extended repayment date under the New Loan Arrangements will provide the required working capital for Seafarm Group's northern Queensland prawn farming operations. The Non-conflicted Directors consider that this is beneficial to SFG and outweighs the disadvantage of SHPL granting security over its assets.

Additionally, the Non-conflicted Directors consider that the grant of the Security is unlikely to have a material impact on SFG because:

- the Non-conflicted Directors have no material concerns regarding the ability of SFG to repay the amounts under the New Loan Arrangements in accordance with its terms and accordingly consider the risk of Avatar Finance being required to enforce the Security as low;
- in the unlikely event that SFG is unable to repay all amounts under the New Loan Arrangements in accordance with its terms, Avatar Finance's entitlement in relation to the Security is limited to the amount of the outstanding principal and capitalised interest; and
- as Avatar Finance has agreed to subordinate its interest in the Security to any external financier providing funding to SFG for working capital purposes or for Project Sea Dragon, in the given circumstances, the grant of the Security appears unlikely to have a material impact on the ability of SFG to secure further or alternative debt finance from non-related third parties.

The New Loan Arrangements require SFG to pay interest and fees accrued under the Secondary Facility Agreement and on the increased amount of the aggregate facility limit (i.e. the additional \$6.7 million) until the Initial Repayment Date. Under the Current Loan Arrangements, no interest or fees are payable in respect of the Secondary Facility Agreement. However, the Board considers that the benefit of the extended repayment date outweighs the disadvantage of paying the additional interest and fees. Additionally, the arrangement with Avatar Finance that no interest or fees would be payable under the Secondary Facility Agreement without compliance with Listing Rule 10.1 was based on the understanding that SFG would seek shareholder approval for the New Loan Arrangements in the short term.

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

If the New Loan Arrangements are not approved by SFG Shareholders:

- (a) SFG will need to divert funding from Project Sea Dragon to repay the facility under the Primary Facility Agreement and the Secondary Facility Agreement on the applicable dates (i.e. 15 March 2019 or 15 March 2020, respectively) or will require further funding at that stage to repay the debt to Avatar Finance. As mentioned above, SFG may not be able to secure external funding to repay the debt to Avatar Finance;
- (b) SHPL will not be required to grant security over its assets to Avatar Finance;
- (c) SFG will not have the flexibility to redraw funds under the New Loan Arrangements after 15 March 2021 (if permitted to do so by Avatar Finance); and
- (d) the Current Loan Arrangements will remain on foot.

Seafarms Group Limited

EXPLANATORY MEMORANDUM

Key advantages and disadvantages of the New Loan Arrangements

Set out below are some advantages of entering into the New Loan Arrangements:

- (a) SFG will have access to \$15.2 million of working capital funding until 15 March 2021 (as opposed to 15 March 2019 for the Primary Facility Agreement or 15 March 2020 under the Secondary Facility Agreement);
- (b) the New Loan Arrangements do not involve any dilution of SFG Shareholder's equity interest in SFG while any capital raising is likely to result in some dilution of the holdings of existing SFG Shareholders; and
- (c) if SFG is able to secure funding on terms more favourable than the New Loan Arrangements, SFG has the flexibility to prepay the facility under the New Loan Arrangements (without the payment of any fees/ penalty) and obtain funding on more favourable terms.

The disadvantages of entering into the New Loan Arrangements include:

- (a) in addition to the grant of Security by SQPL to Avatar Finance under the Current Loan Arrangements, the New Loan Arrangements require security over both SQPL and SHPL. If SFG is unable to repay all amounts under the New Loan Arrangements in accordance with its terms, Avatar Finance may enforce the Security and sell assets comprising the Security;
- (b) despite Avatar Finance subordinating its interest in the Security in favour of a third party debt provider (as mentioned above), the granting of the Security may create some level of disincentive to any future debt provider; and
- (c) SFG will be required to pay approximately \$93,025 to Avatar Finance in accrued interest and fees under the Secondary Facility Agreement. In addition, under the Current Loan Arrangements, interests and fees are payable in respect of \$8.5 million only. However, under the New Loan Arrangements, interest and fees are payable in respect of the increased facility limit (i.e. \$15.2 million).

Additional Disclosures

The following additional information is provided to SFG Shareholders to enable them to assess the New Loan Arrangements.

Further details on Avatar Finance	Avatar Finance is controlled by a director of SFG, Ian Trahar, and is accordingly a related party of SFG.
	Avatar Finance is also a wholly owned-subsiidiary of Avatar Industries Pty Ltd, a substantial shareholder of SFG.
	Avatar Finance does not hold any SFG Shares.

Nature of benefit The benefit to be received by Avatar Finance under the New Loan Arrangements are:

- the aggregate interest and fees payable to Avatar Finance. The aggregate interest and fees paid to Avatar Finance under the Current Loan Arrangements between 25 November 2016 and the date of this Notice is approximately \$670,987. A further \$44,867 is expected to become payable to Avatar Finance in fees and interest for the period between the date of this Notice and the Meeting.

If the New Loan Arrangements are approved:

- the aggregate interest and fees payable to Avatar Finance from the Meeting to 15 March 2021 (i.e. the extended repayment date) will be approximately \$2,520,780²; and
- SFG will be required to pay Avatar Finance approximately \$93,025 in accrued interest and fees under the Secondary Facility Agreement;
- the ability to exercise the security over the assets of both SQPL and SHPL if SFG is unable to repay all amounts under the New Loan Arrangements in accordance with its terms.

Impact of the New Loan Arrangements on SFG

If the New Loan Arrangements are approved, SFG will have access to \$15.2 million working capital funding for Seafarm Group's northern Queensland prawn farming operations till 15 March 2021. SFG will also have the flexibility to redraw the funds after this date if agreed by Avatar Finance.

SHPL will have to grant Security to Avatar Finance.

Alternative options available to SFG

As mentioned above, the Board has not been able to secure working capital debt funding from external financiers on terms that are more attractive than those under the New Loan Arrangements.

As set out above, given the availability of suitable debt from Avatar Finance, the Board considers that the benefit of raising funds through another capital raising is outweighed by the costs and the potential for equity dilution of the existing SFG Shareholders.

Directors' interest in the outcome

Mr Ian Trahar has a material personal interest in the outcome of Item 3 by virtue of his controlling Avatar Finance.

The Non-conflicted Directors do not have an interest in the outcome of Item 3.

Other information

This Notice, the Explanatory Memorandum and the Independent Expert's Report contain all the information reasonably required by SFG Shareholders to decide whether or not to approve Item 3.

² Assumes BBSY + 4% is 5.715% and that the facility under the New Loan Arrangements remains fully drawn from the date of the Meeting and is not repaid prior to maturity on 15 March 2021.

Seafarms Group Limited

EXPLANATORY MEMORANDUM

Board recommendation

After carefully considering all aspects of the New Loan Arrangements (including the advantages and disadvantages set out above), the Independent Expert's Report and the alternatives available (as set out above), each Non-conflicted Director considers that the New Loan Arrangements are in the best interests of SFG Shareholders.

Accordingly, each Non-conflicted Director recommends that the SFG Shareholders vote in favour of Item 3. The Chair intends to vote undirected proxies in favour of Item 3.

Mr Ian Trahar declines to make a recommendation to SFG Shareholders in relation to Item 3 due to his interest in the outcome of Item 3 by virtue of his controlling Avatar Finance.

In order to manage any potential or perceived conflict of interest, Mr Ian Trahar has abstained from making a recommendation and did not participate in the Board's consideration or vote in relation to the New Loan Arrangements.

Voting exclusion statement

SFG will disregard any votes cast in favour of Item 3 by or on behalf of Avatar Finance and any of its associates (including Ian Trahar).

However, SFG need not disregard a vote if:

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

Seafarms Group Limited

EXPLANATORY MEMORANDUM

Interpretation

AGM means an annual general meeting of SFG;

Aquaculture Business has the meaning on **page 2**;

ASIC means the Australian Securities and Investments Commission;

ASX means ASX Limited;

ASX Listing Rules or **Listing Rules** means the official Listing Rules of the ASX;

ATO means the Australia Taxation Office;

Avatar Finance means Avatar Finance Pty Ltd ACN 009 034 315;

BDO means BDO Corporate Finance (WA) Pty Ltd ACN 124 031 045;

Board means the board of directors of SFG;

Capital Reduction has the meaning on **page 2**;

Capital Reduction Amount means the amount of the capital of SFG that is to be reduced in accordance with the Demerger under Item 1, which amount is to be determined by the Board with reference to the value of the CO2 Australia Group. For reference purposes only, the pro forma book value of CO2 Australia Group's net assets as at 30 April 2018 is \$3,860,000;

Chair means the chair of the Meeting;

Closely Related Parties means the closely related parties of Key Management Personnel (including a spouse, dependent or other close family members, as well as any companies they control);

CO2 Australia means CO2 Australia Limited ACN 102 990 803;

CO2 Australia Board means the CO2 Australia board of directors;

CO2 Australia Constitution means the constitution of CO2 Australia to be adopted on implementation of the Demerger;

CO2 Australia Group means CO2 Australia and its proposed subsidiaries as set out in **Schedule 3**;

CO2 Australia Share means a fully paid ordinary share in the capital of CO2 Australia;

Computershare means Computershare Investor Services Pty Ltd ACN 078 279 277;

Corporations Act means the *Corporations Act 2001* (Cth);

Deloitte means Deloitte Touche Tohmatsu ACN 490 121 060;

Demerger means the proposed demerger of CO2 Australia from the Seafarms Group by way of the Capital Reduction, as referred to on **page 2**;

Directors means the directors of SFG;

Distribution Date means 23 July 2018;

Eligible Countries means Australia, New Zealand and such other jurisdictions as the Directors consider reasonable to extend the distribution of CO2 Australia Shares to through the Capital Reduction;

Eligible Shareholder means a person registered as the holder of SFG Shares and who has a registered address in the Eligible Countries on the Record Date;

Entitlement means the entitlement to receive CO2 Australia Shares (which applies regardless of whether SFG Shareholders actually receive CO2 Australia Shares or, in the case of Ineligible Overseas Shareholders, cash in lieu of said CO2 Australia Shares);

Environmental Services Business has the meaning on **page 2**;

Explanatory Memorandum means this explanatory memorandum;

Incentive Plan means the employee incentive plan approved by SFG Shareholders at SFG's AGM on 25 November 2016;

Independent Expert's Report means a report prepared by BDO with respect to the Demerger;

Ineligible Overseas Shareholder means an SFG Shareholder with a registered address outside of the Eligible Countries on the Record Date;

Item means an item contained in this Notice and Explanatory Memorandum;

Meeting means the extraordinary general meeting to be held on 16 July 2018 to seek approval of resolutions contained in Item 1 to Item 4 of this Notice and as convened by the Notice;

New Loan Arrangements has the meaning on **page 15**;

New Securities has the meaning on **page 14**;

Nissui means Nippon Suisan Kaisha Limited;

Non-conflicted Directors has the meaning on **page 17**;

Notice means the notice of meeting accompanying this Explanatory Memorandum, which notifies SFG Shareholders of the Meeting;

Option means an option to subscribe for SFG Shares;

Performance Right means a performance right issued in accordance with SFG's Incentive Plan;

Preference Share means a convertible preference share issued in accordance with the terms outlined in the Schedule to the SFG Constitution;

Primary Facility Agreement means SFG's \$8.5 million credit facility agreement with Avatar Finance;

Project Sea Dragon means the integrated, large-scale prawn aquaculture development project in northern Australia by Seafarms Group;

Proxy Form means the proxy form enclosed with this Notice;

Record Date means 19 July 2018;

Restructure means the restructure of the assets and companies related to the Environmental Services Business, to provide CO2 Australia with 100% ownership and control of those assets and companies.

Restructure Agreement means the agreement entered into between SFG and CO2 Australia effecting the Restructure, including transitional services arrangements;

Sale Facility means the share sale process managed by SFG for Ineligible Overseas Shareholders, as referred to in **section 7**;

Seafarms Group means SFG and its subsidiaries as set out in **Schedule 3**;

SFG means Seafarms Group Limited ACN 009 317 846;

SFG Constitution means the constitution of SFG;

SFG Shareholder means holders of SFG Shares;

SFG Share means a fully paid ordinary share in the capital of SFG;

SFG Shareholder means holders of SFG Shares;

SHPL means Seafarm Hinchinbrook Pty Ltd ACN 601 432 946;

SQPL means Seafarm Queensland Pty Ltd ACN 167 090 539; and

Voting Entitlement Date means 7.00pm (AEST) on Saturday, 14 July 2018.

Seafarms Group Limited

SCHEDULE 1

SFG Financial Information

The financial information contained in this section has been prepared by SFG in connection with the Demerger. The financial information for SFG includes the pro forma consolidated balance sheet (**SFG Pro Forma Balance Sheet**) showing the impact of the Demerger as at 30 April 2018 (the **SFG Financial Information**).

The SFG Financial Information presented in this section should be read in conjunction with the risk factors set out in **section 11** and other information in this Explanatory Memorandum. SFG Shareholders should note that past results are not a guarantee of future performance.

All amounts disclosed in this section are presented in Australian dollars.

Basis of preparation and presentation

The Directors are responsible for the preparation and presentation of the SFG Financial Information. The SFG Financial Information included in this Explanatory Memorandum is intended to present SFG Shareholders with information to assist them in understanding the historical financial position of SFG.

The SFG Financial Information is presented in an abbreviated form and does not include all of the presentation, disclosures, statements and comparative information as required by Australian Accounting Standards (**AAS**) applicable to general-purpose financial reports prepared in accordance with the Corporations Act.

SFG Pro Forma Historical Balance Sheet

The SFG Pro Forma Balance Sheet has been prepared in accordance with the recognition and measurement principles prescribed in AAS issued by the Australian Accounting Standards Board (**AASB**), which is consistent with International Financial Reporting Standards (**IFRS**) and interpretations issued by the International Accounting Standards Board (**IASB**).

In preparing the SFG Pro Forma Balance Sheet, SFG's accounting policies have been applied.

The SFG Pro Forma Balance Sheet has been derived from audited general-purpose financial statements of SFG for 31 December 2017, adjusted to show potential effects of the Demerger on SFG. Deloitte previously audited the general-purpose financial statements in accordance with Australian Auditing Standards. Deloitte issued an unqualified audit opinion on those financial statements.

Further information on SFG Pro Forma Balance Sheet

Further information on basis of preparation

The SFG Pro Forma Balance Sheet is provided for illustrative purposes only and was prepared on the assumption that the Demerger was implemented on 30 April 2018. If approved, SFG expects the Demerger to be implemented on 23 July 2018. The SFG Pro Forma Balance Sheet does not illustrate the financial position that may be contained in future financial statements of SFG as a result of the Demerger.

As alluded to above, the SFG Pro Forma Balance Sheet has been prepared in accordance with the recognition and measurement, but not all of the disclosure requirements, of the AAS other than that it includes adjustments which have been prepared in a manner consistent with AAS that reflect the impact of certain transactions contemplated to occur as part of the Demerger as if they occurred as at 30 April 2018.

In preparing the SFG Pro Forma Balance Sheet, no adjustments have been made for potential changes in cost or operating structure resulting from the Demerger of CO2 Australia from the Seafarms Group. However, adjustments have been made for capital restructures that will take place as a result of the Demerger.

Impact of the Demerger on Accounting

Accounting for demerger transactions is addressed in the AASB Interpretation 17 'Distributions of Non-cash Assets to Owners'. That interpretation requires that any obligations for distributions made by a company to its shareholders should be recognised once declared and, where required, approved by the shareholders. Furthermore, the distribution payable must be measured at the fair value of the assets to be distributed.

The distribution payable is charged to equity. In this regard, the fair value of the distribution payable will be allocated to share capital.

On the Record Date, SFG will recognise a distribution payable based on the fair value of CO2 Australia Shares, which is expected to exceed the carrying value of CO2 Australia's assets and liabilities. This liability will be settled through the transfer of the CO2 Australia Shares. At that time, the difference between the historic cost of the net assets distributed and the fair value of the distribution payable will be recognised in SFG's income statement.

Pro forma adjustments

The pro forma adjustments are on the following page.

Seafarms Group Limited

SCHEDULE 1

	SFG before demerger 30 April 2018 unaudited (\$'000)	Adjustments to exclude CO2 Australia (\$'000)	Pro forma SFG following demerger (\$'000)
Cash and Equivalents	844	(419)	425
Trade and other receivables	2,275	(948)	1,327
Inventories	5,599	(185)	5,414
Biological Assets	5,805	-	5,805
Accrued Income	919	(919)	-
Other current assets	996	(459)	537
Total Current Assets	16,438	(2,930)	13,508
Intangible assets	3,447	(2,240)	1,207
Investments in associates	236	(236)	-
Property, plant and equipment	19,867	(1,107)	18,760
Total Non-Current Assets	23,550	(3,583)	19,967
Total Assets	39,988	(6,513)	33,475
Trade and other payables	4,462	(799)	3,663
Deferred income	1,506	(1,506)	-
Provisions	1,421	(285)	1,136
Borrowings	1,366	(6)	1,360
Total Current Liabilities	8,755	(2,596)	6,159
Non Current Borrowings	11,346	-	11,346
Long Term Provisions	59	(27)	32
Lease Liabilities	220	(30)	190
Total non-current liabilities	11,625	(57)	11,568
Total Liabilities	20,380	(2,653)	17,727
Net Assets	19,608	(3,860)	15,748
Retained Earnings	(89,344)	-	(89,344)
Reserves	5,250	-	5,250
Issued capital	103,702	(3,860)	99,842
Total Equity	19,608	(3,860)	15,748

Seafarms Group Limited

SCHEDULE 2

CO2 Australia Financial Information

The financial information contained in this section has been prepared by SFG for CO2 Australia in connection with the Demerger. This includes an historical pro forma consolidated balance sheet (**CO2 Australia Pro Forma Balance Sheet**) as at 30 April 2018 (**CO2 Australia Financial Information**).

The CO2 Australia Financial Information presented in this section should be read in conjunction with the risk factors and other considerations set out in **section 11**, and other information in this Explanatory Memorandum. SFG Shareholders should note that past results are not a guarantee of future performance.

All amounts disclosed in this section are presented in Australian dollars.

Basis of preparation and presentation

The Directors are responsible for the preparation and presentation of the CO2 Australia Financial Information. The CO2 Australia Financial Information included in this Explanatory Memorandum is intended to present SFG Shareholders with information to assist them in understanding the historical financial position of CO2 Australia.

The CO2 Australia Financial Information is presented in an abbreviated form and does not include all of the presentation, disclosures, statements and comparative information as required by AAS applicable to general-purpose financial reports prepared in accordance with the Corporations Act.

The CO2 Australia Pro Forma Balance Sheet has been prepared in accordance with the recognition and measurement principles prescribed in AAS issued by the AASB, which is consistent with IFRS and interpretations issued by the IASB.

In preparing the CO2 Australia Pro Forma Balance Sheet, SFG's accounting policies have been applied³.

The CO2 Australia Pro Forma Balance Sheet has been derived from consolidated management accounts of CO2 Australia as at 30 April 2018, which are unaudited as at the date of this Notice. The management accounts have been adjusted to show potential effects of the Demerger on CO2 Australia.

Further information on CO2 Australia Pro Forma Balance Sheet

Further information on basis of preparation

The CO2 Australia Pro Forma Balance Sheet is provided for illustrative purposes only and is prepared on the assumption that the Demerger was implemented on 30 April 2018. It does not illustrate the consolidated financial position that may be contained in future financial statements of CO2 Australia as a result of the Demerger.

The CO2 Australia Pro Forma Balance Sheet has been prepared in accordance with the recognition and measurement, but not all of the disclosure requirements, of the AAS other than that it includes adjustments which have been prepared in a manner consistent with AAS that reflect the impact of certain transactions contemplated to occur as part of the Demerger as if they occurred as at 30 April 2018.

In preparing the CO2 Australia Historical Financial Information, no adjustments have been made for potential changes in cost or operating structure resulting from the Demerger of CO2 Australia from the Seafarms Group. However, adjustments have been made for capital restructures that will take place as a result of the Demerger.

Pro forma adjustments

The pro forma adjustments are on the following page.

³ Such policies are materially consistent with the policies of SFG (refer to SFG's most recent accounts lodged on ASX).

Seafarms Group Limited

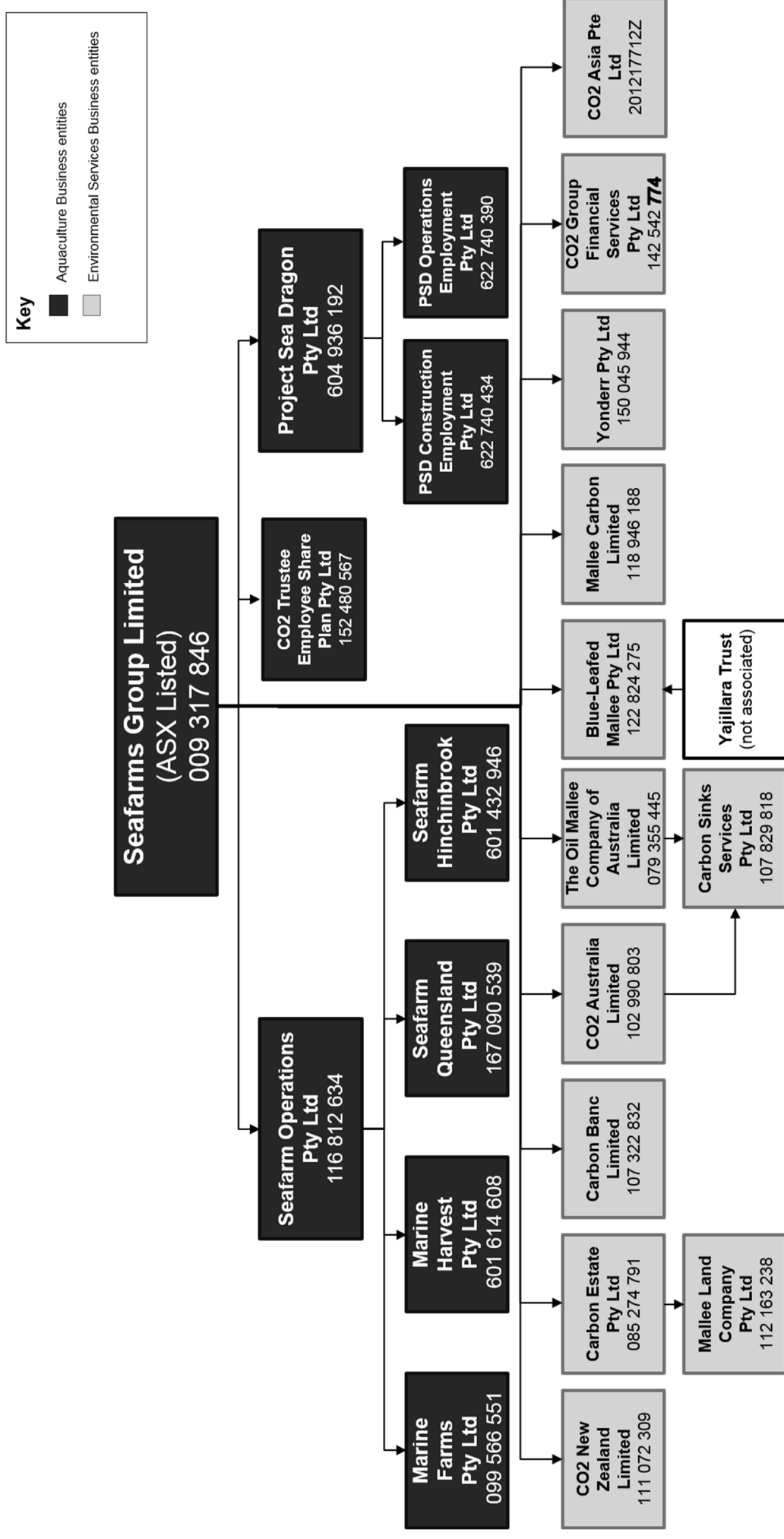
SCHEDULE 2

CO2 Australia Pro Forma Balance Sheet	
As at 30 April 2018	
	\$'000
+ Cash and Cash Equivalents	419
+ Trade and other receivables	948
+ Inventories	185
+ Biological assets	-
+ Accrued Income	919
+ Other current assets	459
Total Current Assets	2,930
+ Intangible assets	2,240
+ Investments in associates	236
+ Property, plant and equipment	1,107
Total Non-Current Assets	3,583
Total Assets	6,513
+ Trade and other payables	799
+ Deferred income	1,506
+ Provisions	285
+ Borrowings	6
Total Current Liabilities	2,596
+ Non Current Borrowings	-
+ Long Term Provisions	27
+ Lease Liabilities	30
Total non-current liabilities	57
Total Liabilities	2,653
Net Assets	3,860
- Retained Earnings	-
+ Reserves	
+ Issued capital	3,860
Total Equity	3,860

Seafarms Group Limited SCHEDULE 3

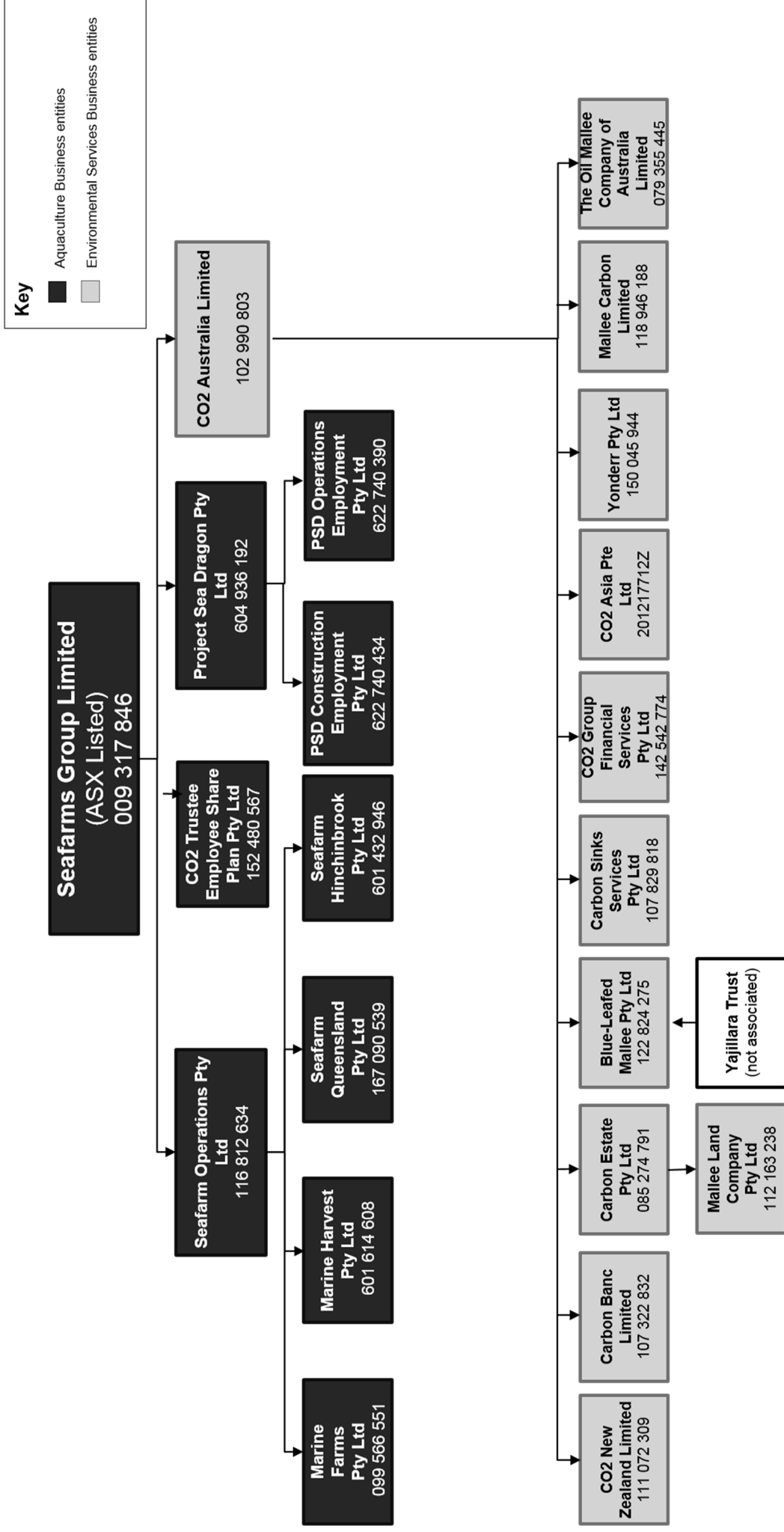
Corporate structure charts

A: Pre-Restructure corporate structure



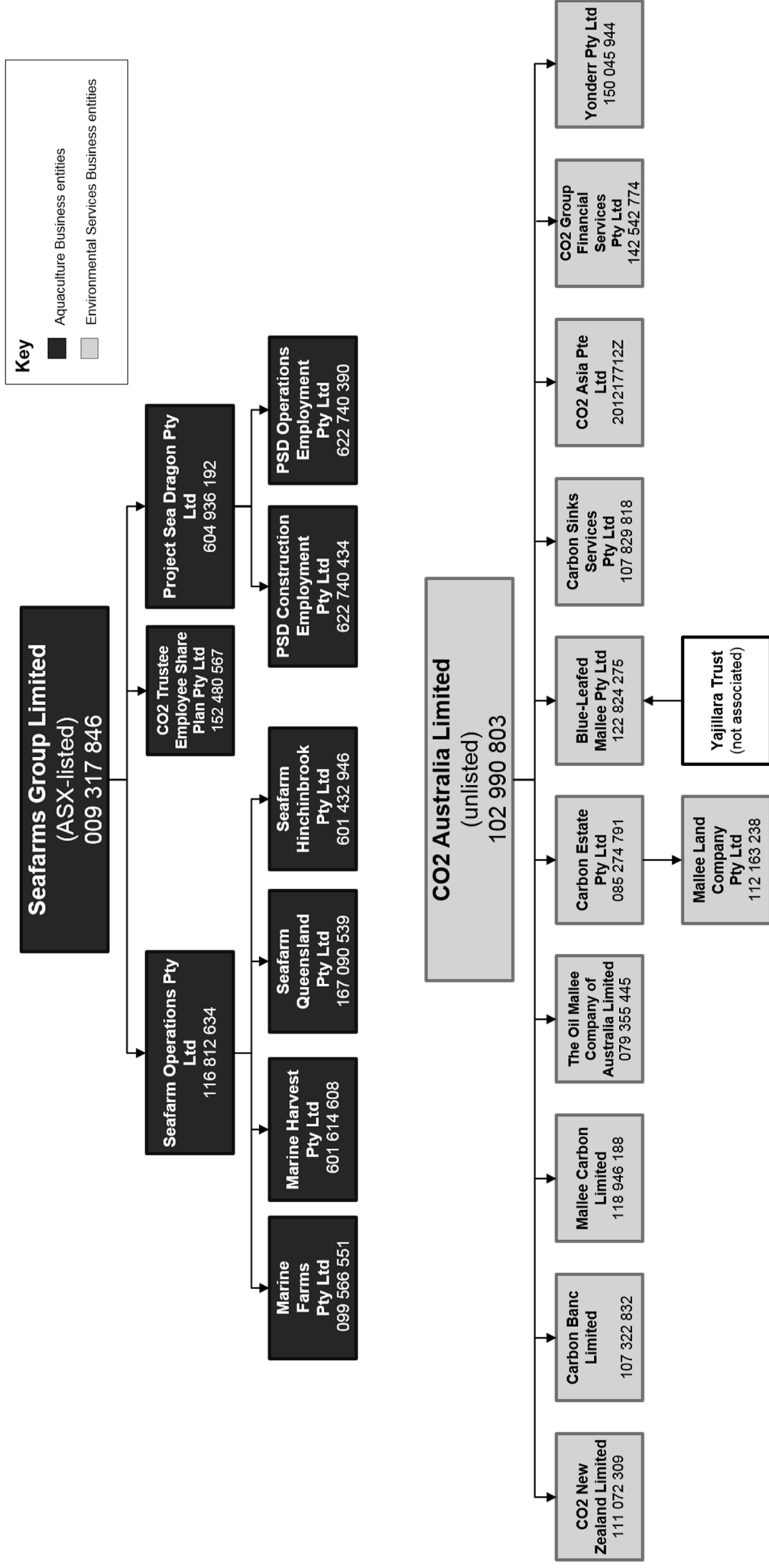
Seafarms Group Limited SCHEDULE 3

B: Post-Restructure and Pre-Demerger corporate structure



Seafarms Group Limited SCHEDULE 3

C: Post-Demerger corporate structures



Seafarms Group Limited

SCHEDULE 4

Terms and Conditions of the Listed Options and Unlisted Options

Part A: Listed Options

1.1 Entitlement

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

1.2 Exercise Price

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

1.3 Expiry Date

The Listed Options automatically expire at 5.00 pm (AWST) on 17 July 2021 (**Expiry Date**).

1.4 Quotation

The Listed Options will be quoted on ASX.

1.5 Holding Statement

SFG must give the holder of each Listed Option a holding statement stating:

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

1.6 Exercise

Holders may exercise the Listed Options at any time up to the Expiry Date. Any Listed Option not exercised, automatically expires on the Expiry Date.

1.7 Notice of Exercise

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

1.8 Issue of Shares on Exercise

SFG will allot the SFG Shares to which a holder is entitled following exercise of Listed Options and deliver a holding statement with respect to such SFG Shares within the timeframe required by the Listing Rules.

1.9 Partial Exercise

- (a) The exercise of only some Listed Options will not affect the rights of the holder to the balance of the Listed Options held by them.
- (b) If the holder of the Listed Options exercises less than the total number of Listed Options registered in the holder's name, SFG must issue the holder of Listed Options a new holding statement for the remaining number of Listed Options held by the holder.

1.10 No Dividends

Listed Options will not confer an entitlement to receive dividends declared and paid by SFG, nor an entitlement to vote at general meetings of SFG unless the holder of the Listed Options has exercised the Listed Options before the Exercise Date and participates as a result of holding SFG Shares.

Seafarms Group Limited

SCHEDULE 4

1.11 Shares on Exercise

All SFG Shares issued on exercise of a Listed Option will:

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

1.12 Quotation

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

1.13 Bonus Issues

- (a) A holder of Listed Options does not have the right to participate in bonus issues or new issues of securities offered to shareholders until SFG Shares are allotted to the holder pursuant to the exercise of the Listed Options.
- (b) If SFG makes a bonus issue to existing shareholders and no SFG Share has been issued in respect of that Listed Option before the record date for determining entitlements to the issue, then the number of SFG Shares over which that Listed Option is exercisable will be increased in the manner permitted by the Listing Rules applying at the time of the bonus issue.

1.14 Reorganisation of Capital

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

1.15 Pro Rata Issues

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

1.16 Registered Holders

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

Part B: Unlisted Options

1.1 Entitlement

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

1.2 Exercise Price

Each Unlisted Option is exercisable at A\$0.065 (**Exercise Price**).

1.3 Expiry Date

The Unlisted Options automatically expire at 5.00 pm (AWST) on 1 June 2023 (**Expiry Date**).

1.4 Certificate

SFG must give the holder of the Unlisted Option a certificate stating:

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

Seafarms Group Limited

SCHEDULE 4

1.5 Transfer of Unlisted Options

The holder must not transfer the Unlisted Options without the consent of SFG.

1.6 Exercise

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

1.7 Notice of Exercise

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

1.8 Issue of SFG Shares on Exercise

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

1.9 Partial Exercise

- (a) The exercise of only some Unlisted Options will not affect the rights of the holder to the balance of the Unlisted Options held by them.
- (b) If the holder of the Unlisted Options exercises less than the total number of Unlisted Options registered in the holder's name, SFG must issue the holder of Unlisted Options a new certificate for the remaining number of Unlisted Options held by the holder.

1.10 No Dividends

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

1.11 SFG Shares on Exercise

All SFG Shares issued on exercise of an Unlisted Option will, from the date of issue:

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

1.12 Quotation

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

1.13 Bonus Issues

- (a) A holder of Unlisted Options does not have the right to participate in bonus issues or new issues of securities offered to shareholders until SFG Shares are allotted to the holder pursuant to the exercise of the Unlisted Options.
- (b) If SFG makes a bonus issue to existing shareholders and no SFG Share has been issued in respect of that Unlisted Option before the record date for determining entitlements to the issue, then the number of SFG Shares over which that Unlisted Option is exercisable will be increased in the manner permitted by the Listing Rules applying at the time of the bonus issue.

Seafarms Group Limited

SCHEDULE 4

1.14 Reorganisation of Capital

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

1.15 Pro Rata Issues

If SFG makes a pro-rata issue (other than a bonus issue) to existing shareholders and no SFG Share has been issued in respect of the Unlisted Option before the record date for determining entitlements to the issue, no change to the Exercise Price or the number of SFG Shares over which it can be exercised will be made.

1.16 Registered Holders

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

Seafarms Group Limited

SCHEDULE 5

Key Terms of Current Loan Arrangements and New Loan Arrangements

Part A: Comparison of Current Loan Arrangements and New Loan Arrangements

Provision	Current Loan Arrangements	New Loan Arrangements
Entitles involved	<p>SFG</p> <p>Avatar Finance</p> <p>Seafarm Queensland Pty Ltd (for the Primary Facility Agreement only)</p>	<p>SFG</p> <p>Avatar Finance</p> <p>Seafarm Queensland Pty Ltd (SQPL)</p> <p>Seafarm Hinchinbrook Pty Ltd (SHPL)</p>
Grant of Facility and Facility Limit	<p>Avatar Finance must advance principal amounts (of at least A\$100,000 or an integral multiple of that amount) as and when requested by SFG.</p> <p>The total amount of the outstanding principal must not exceed the facility limit of A\$8.5 million under the Primary Facility Agreement, and \$6.7 million under the Secondary Facility Agreement</p>	<p>Avatar Finance must advance principal amounts (of at least A\$100,000 or an integral multiple of that amount) as and when requested by SFG.</p> <p>The total amount of the outstanding principal must not exceed the facility limit of A\$15.2 million.</p>
Interest Rate	<p>For the Primary Facility Agreement, SFG must pay interest on the outstanding principal at the interest rate set out below.</p> <p>The interest rate payable is the aggregate of:</p> <ul style="list-style-type: none"> the BBSY i.e. the rate percentage per annum which is equal to the average 'bid rate' quoted on the 'BBSY' page of the Reuters Monitor System at or about 10.00am (Sydney time) on that day for bank accepted bills of exchange of a tenor of 30 days; and a margin of 4% per annum. <p>Interest is payable on the last day of each month. Avatar Finance may capitalise any interest not paid on its due date on a monthly or any other periodic basis it determine. Interest is payable on capitalised interest.</p> <p>No interest is payable in respect of the Secondary Facility Agreement.</p>	<p>Interest will be payable on the \$15.2 million facility at the same rate as under the Primary Facility Agreement.</p> <p>SFG will be required to pay approximately \$93,025 to Avatar Finance in accrued interest and fees to discharge the Secondary Facility Agreement.</p>
Line Fee	<p>For the Primary Facility Agreement, SFG is required to pay a line fee of 0.50% per annum (calculated on the facility limit of \$8.5 million) payable in arrears on the last day of each month and on the repayment date (i.e. 15 March 2019).</p> <p>No line fee is payable in respect of the Secondary Facility Agreement.</p>	<p>Line fee of 0.50% per annum is payable on the facility limit of \$15.2 million.</p> <p>As above, SFG will be required to pay approximately \$93,025 to Avatar Finance in accrued interest and fees to discharge the Secondary Facility Agreement.</p>
Repayment Date	<p>The repayment date under the Primary Facility Agreement is 15 March 2019.</p> <p>The repayment date under the Secondary Facility Agreement is 15 March 2020.</p>	<p>The repayment date under the New Loan Arrangements is 15 March 2021 (Initial Repayment Date).</p>

Seafarms Group Limited

SCHEDULE 5

Provision	Current Loan Arrangements	New Loan Arrangements
Potential redraw	Not available.	<p>Avatar Finance and SFG may agree for SFG to redraw funds under the facility after the Initial Repayment Date until 15 March 2024 (or an earlier date agreed between the parties) on the same terms (except that no line fee will be payable after 15 March 2021).</p> <p>Avatar Finance's approval will be required for each drawdown after the Initial Repayment Date and the repayment date for each such drawdown may differ (subject to the final repayment date of 15 March 2024).</p> <p>Any redraw arrangements agreed between the parties will be capable of being terminated prior to 15 March 2024 by mutual agreement.</p>
Prepayment	<p>SFG may prepay any part of the outstanding principal in multiples of \$100,000 on any Business Day i.e. any day other than a Saturday, Sunday or bank or public holiday in Perth, Western Australia.</p> <p>Any prepaid amount may be re-borrowed in accordance with the terms of the agreement.</p>	No change.
Negative pledge	SFG must not without the prior approval of Avatar Finance, mortgage, charge or grant any other form of security (including a security interest as defined in the <i>Personal Property Securities Act 2009</i> (Cth), other than a security interest created in the ordinary course of SFG's ordinary business) to any person.	No change.
Use of funds	The amounts advanced may only be used for working capital purposes.	The amounts advanced may only be used for working capital purposes or for repaying existing loans.
Compliance with applicable law	SFG must not pay any interest or fees under the agreement in breach of any applicable law, including any requirement to obtain shareholder approval under the Listing Rules. SFG must take all steps necessary to obtain the relevant regulatory approvals.	No change.
Events of Default	<p>Key Events of Default include:</p> <ul style="list-style-type: none"> • Non-compliance: SFG not complying with any obligation under the agreement (including failure to pay any amount due for payment under the agreement) and that default is not rectified within 5 Business Days after its occurrence; • Void document: the agreement is void, voidable or otherwise unenforceable by Avatar Finance or is claimed to be so by SFG; • Authorisation ceasing: an authorisation from a government body necessary to enable (i) SFG to comply with its obligations under the agreement or to carry on its principal business or activity or; (ii) Avatar Finance to exercise its rights under the agreement is withheld or ceases to be in full force and effect; 	No change.

Seafarms Group Limited

SCHEDULE 5

Provision	Current Loan Arrangements	New Loan Arrangements
	<ul style="list-style-type: none"> • Material Adverse Effect: an event or series of events, including any material adverse change in the property or financial condition of SFG, occurs which is likely to have a material adverse effect on either the ability of SFG to comply with its obligations under the agreement or the effectiveness or enforceability of the agreement; or • Insolvency: an insolvency event occurs in respect of SFG. <p>If any Event of Default occurs, Avatar Finance may at any time by notice to SFG (i) cancel the facility or any part of it as specified in the notice; and/ or (ii) make all amounts owing to Avatar Finance under the agreement payable on demand or immediately due for payment.</p>	
Change of control	No change of control provision.	<p>If there is a change in the persons who control, or if one or more persons acquire control of:</p> <ul style="list-style-type: none"> • SFG; • SQPL; or • SHPL, <p>Without Avatar Finance's prior consent, Avatar Finance may at any time by notice to SFG: (i) cancel the facility or any part of it specified in the notice; and/ or (ii) make all amounts owing to Avatar Finance under the agreement payable on demand or immediately due for payment.</p>
Security and guarantee	<p>SQPL, a wholly-owned subsidiary of SFG granted security to Avatar Finance under the Primary Facility Agreement over all of the assets of SQPL. Further details in relation to the Security are provided in Part B below.</p> <p>SQPL also guarantees the payment to Avatar Finance of all amounts owing under the Primary Facility Agreement.</p> <p>The Secondary Facility Agreement is unsecured and no guarantee is provided by SQPL as to its repayment.</p>	<p>In addition to SQPL, SHPL, a wholly-owned subsidiary of SFG, will also grant security to Avatar Finance over all of its assets. Further details in relation to the Security are provided in Part B below.</p> <p>In addition to SQPL, SHPL will also guarantee the payment to Avatar Finance of all amounts owing under the New Loan Arrangements.</p>
Indemnities	<p>SFG has indemnified Avatar Finance on demand against any liability, loss, cost or expense caused or contributed to be an 'Event of Default' (described above) or the exercise or attempted exercise of any right by Avatar Finance under this agreement. The provision regarding indemnity survive the termination of the agreement.</p> <p>Additionally, SQPL indemnifies Avatar Finance against any liability or loss incurred by Avatar Finance if either SFG or SQPL do not, are not obliged to, or are unable to, make payments to Avatar Finance in accordance with the terms of the arrangements.</p>	<p>Indemnity provisions under the New Loan Arrangements continue to operate.</p> <p>Additionally, SHPL also provides an indemnity to Avatar Finance (on terms similar to the one provided by SQPL under the Current Loan Arrangements).</p>
Governing law and jurisdiction	The arrangements are governed by and will be construed in accordance with the laws applicable in Western Australia and Avatar Finance and SFG irrevocably and unconditionally submit to the non-exclusive jurisdiction of the courts exercising jurisdiction in Western Australia.	No change.

Seafarms Group Limited

SCHEDULE 5

Part B: Security

Term	Details
General Security Agreement	<p>SQPL will continue to provide a first registered security interest to Avatar Finance to secure the payment of all amounts owing to Avatar Finance under the New Loan Arrangements. The security interest being provided will include all present and future property owned by SQPL (but does not include any land/property owned by SQPL).</p> <p>SHPL will provide a first registered security interest to Avatar Finance to secure the payment of all amounts owing to Avatar Finance under the New Loan Arrangements. The security interest being provided will include all present and future property owned by SHPL (but does not include any land/property owned by SHPL).</p>
Registered Mortgage	<p>SQPL will continue to provide a first registered mortgage over SQPL's property located in Queensland to secure the payment of all amounts owing to Avatar Finance under the New Loan Arrangements.</p> <p>SHPL will provide a first registered mortgage over SHPL's property located in Queensland to secure the payment of all amounts owing to Avatar Finance under the New Loan Arrangements.</p> <p>The mortgaged properties consist of the whole of the land and any fixtures on the land.</p>

Seafarms Group Limited
ANNEXURE A

Independent Expert's Report



SEAFARMS GROUP LIMITED
Independent Expert's Report

**OPINION: Fair and reasonable to
Shareholders**

8 June 2018



Financial Services Guide

8 June 2018

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 ('we' or 'us' or 'ours' as appropriate) has been engaged by Seafarms Group Limited ('Seafarms') to provide an independent expert's report on the proposal to amend the terms of the Credit Facility by extending the interest expense cap on the Credit Facility and extending security over the Credit Facility. You will be provided with a copy of our report as a retail client because you are a shareholder of Seafarms.

Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ('FSG'). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- ◆ Who we are and how we can be contacted;
- ◆ The services we are authorised to provide under our Australian Financial Services Licence, Licence No. 316158;
- ◆ Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- ◆ Any relevant associations or relationships we have; and
- ◆ Our internal and external complaints handling procedures and how you may access them.

Information about us

BDO Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice.

Fees, commissions and other benefits that we may receive

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately \$18,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Other Assignments -

BDO were engaged by Seafarms to complete an Independent Expert's Report in October 2016 for a fee of \$30,000.

Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from Seafarms for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ('FOS'). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter. Our FOS Membership Number is 12561. Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Free call: 1800 367 287
Facsimile: (03) 9613 6399
Email: info@fos.org.au

Contact details

You may contact us using the details set out on page 1 of the accompanying report.



TABLE OF CONTENTS

1.	Introduction	1
2.	Summary and Opinion	3
3.	Scope of the Report	5
4.	Outline of the Transactions	8
5.	Profile of Seafarms	9
6.	Profile of Avatar Finance	18
7.	Economic Analysis	18
8.	Industry Analysis	20
9.	Valuation approach adopted	22
10.	Market rate of debt on Credit Facility	23
11.	Valuation of consideration paid and benefit received	24
12.	Are the Transactions fair?	25
13.	Are the Transactions reasonable?	26
14.	Conclusion	28
15.	Sources of information	29
16.	Independence	29
17.	Qualifications	30
18.	Disclaimers and consents	30
	Appendix 1 - Glossary and copyright notice	
	Appendix 2 - Valuation Methodologies	
	Appendix 3 - Company Debt Facilities Data	
	Appendix 4 - Company Descriptions	
	Appendix 5 - Interest Payments	



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38 Station Street
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8 June 2018

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

Dear Directors

INDEPENDENT EXPERT'S REPORT

1. Introduction

On 11 March 2014, Seafarms Group Limited ('Seafarms' or 'the Company') entered into an unsecured \$5.0 million credit facility agreement ('Credit Facility') with one of its directors, Ian Trahar ('Mr Trahar'), through Avatar Finance Pty Ltd ('Avatar Finance').

At Seafarms' 2016 annual general meeting, its shareholders approved an increase in the Credit Facility to \$8.5 million, repayable on 31 January 2019 and secured over all the assets of Seafarms Queensland Pty Ltd ('SQPL'). Subsequently, the repayment date was extended to 15 March 2019. Interest and fees have been paid by Seafarms to Avatar Finance in respect of the Credit Facility.

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

The following amendments are proposed to be made to the current Credit Facility arrangements:

- Rolling the Interim Facility into the Credit Facility, by increasing the limit of the Credit Facility from \$8.5 million to \$15.2 million ('Extended Facility Limit');
 - Extension of the repayment date from 15 March 2019 to 15 March 2021 ('Extended Repayment Date');
- (together referred to as the 'Facility Extension Transaction')
- Extending the scope of the security to include all the assets of Seafarms Hinchinbrook Pty Ltd ('SHPL') ('Security Extension Transaction'); and

- Including a provision that while all outstanding amounts under the Credit Facility are to be repaid on the Extended Repayment Date:
 - Avatar Finance may, at its absolute discretion and subject to any conditions it deems fit, allow Seafarms to redraw the facility until 15 March 2024 (**'Final Repayment Date'**) on the same terms; and
 - If Avatar Finance agrees to allow for the Avatar Loan to be redrawn after the Extended Repayment Date, Seafarms and Avatar Finance may agree to terminate the loan arrangements prior to the Final Repayment Date.

Interest and payments have been paid by Seafarms to Avatar Finance over the period from 11 March 2014 to date. The existing Credit Facility expires and must be repaid on 15 March 2019 in the absence of an extension from Avatar Finance. The existing Credit Facility contains an interest payment cap clause which prevents the Company from paying any interest or fees beyond 15 March 2019 that would cause a breach of any applicable law or regulation. Avatar Finance has indicated that it will not extend the term of the Credit Facility unless requisite approvals are obtained to enable the applicable interest and fees to be paid.

Obtaining shareholders' approval under Australian Securities Exchange (**'ASX'**) Listing Rule 10.1 will allow Seafarms to continue paying interest or fees under the Credit Facility when the repayment date is extended. The approval is required as the aggregate interest payments (including fees) (**'Aggregate Payments'**) paid or payable to Avatar Finance exceed 5% or more of Seafarms' equity, and therefore any extension over the terms of the Avatar Loan (previously approved for loan repayment on 15 March 2019) will require shareholder approval to satisfy Listing Rule 10.1.

Avatar Finance has also required that it be provided security over all the assets of SHPL (in addition to the current security over all of the assets of SQPL, a wholly owned subsidiary of Seafarms that holds the Seafarms group's Northern Queensland prawn farming assets). This also requires shareholders' approval under ASX Listing Rule 10.1.

The Facility Extension Transaction and the Security Extension Transaction are collectively referred to as (**'the Transactions'**).

2. Summary and Opinion

2.1 Requirement for the report

The directors of Seafarms have requested that BDO Corporate Finance (WA) Pty Ltd ('BDO') prepare an independent expert's report ('our Report') to express an opinion as to whether or not the Transactions are fair and reasonable to the non-associated shareholders of Seafarms ('Shareholders').

Our Report is prepared pursuant to ASX listing rule 10.1 and is to be included in the Notice of Meeting and Explanatory Memorandum for Seafarms in order to assist the Shareholders in their decision whether to approve the Transactions.

2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission ('ASIC') Regulatory Guide 111 'Content of Expert's Reports' ('RG 111') and Regulatory Guide 112 'Independence of Experts' ('RG 112').

In arriving at our opinion, we have assessed the terms of the Transactions as outlined in the body of this report. We have considered:

- How the value of the assets being acquired compares to the value of the consideration to be paid for the assets;
- The likelihood of an alternative offer being made to Seafarms;
- Other factors which we consider to be relevant to the Shareholders in their assessment of the Transactions; and
- The position of Shareholders should the Transactions not be approved.

2.3 Opinion

We have considered the Transaction in two components:

- The Facility Extension Transaction; and
- The Security Extension Transaction.

We have considered the terms of the Facility Extension Transaction as outlined in the body of this Report and have concluded that, in the absence of an alternate offer, the Facility Extension Transaction is fair and reasonable to Shareholders.

We have considered the terms of the Security Extension Transaction as outlined in the body of this Report and have concluded that, in the absence of an alternate offer, the Security Extension Transaction is fair and reasonable to Shareholders.

2.4 Fairness

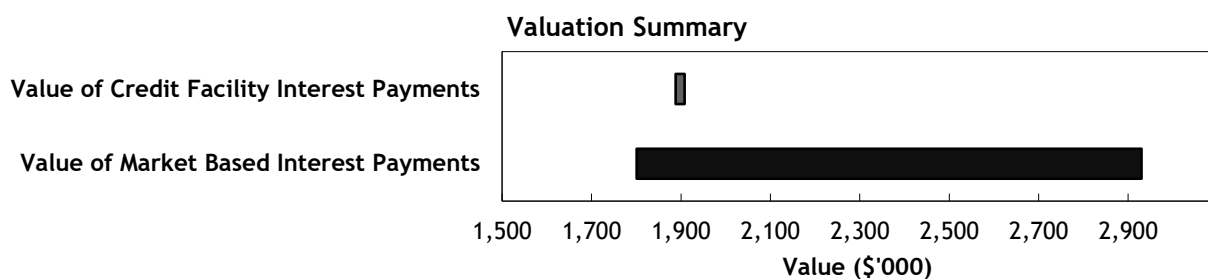
In section 12 we determined the fairness of the Facility Extension Transaction by comparing the value of the interest repayments on the Credit Facility to be made to Avatar Finance over the period from 1 July 2018 to 15 March 2021 ('Credit Facility Interest Payments') and the value of the benefit to be received by Seafarms, being the value of the interest payments on a debt facility with a market rate of debt over the period from 1 July 2018 to 15 March 2021 ('Market Based Interest Payments').

The value of the Credit Facility Interest Payments and the Market Based Interest Payments are compared below:

	Ref	Low \$	Preferred \$	High \$
Value of Credit Facility Interest Payments	11.1	1,898	1,898	1,898
Value of Market Based Interest Payments	11.2	1,801	2,366	2,930

Source: BDO analysis

The above valuation ranges are graphically presented below:



The above pricing indicates that the value of the Credit Facility Interest Payments is lower than the value of the benefit to be received by Seafarms, over the range of values and on a preferred basis. Therefore, in the absence of an alternative proposal, the Facility Extension Transaction is fair for Shareholders.

We also concluded that the value of the proceeds of the sale of the security that would be provided to Avatar Finance under the security documents in relation to the Credit Facility in the event of the default is equivalent or lower than the value of the liabilities that would be settled. This is discussed in section 12 of our Report. Therefore, in the absence of any other relevant information, this indicates that the Security Extension Transaction is fair to Shareholders.

2.5 Reasonableness

We have considered the analysis in section 13 of this report, in terms of both

- advantages and disadvantages of the Transactions; and
- other considerations, including the position of Shareholders if the Transactions do not proceed and the consequences of not approving the Transactions.

In our opinion, the position of Shareholders if the Transactions are approved is more advantageous than the position if the Transactions are not approved. Accordingly, in the absence of any other relevant information and/or an alternate proposal we believe that:

- the Facility Extension Transaction is reasonable for Shareholders; and
- the Security Extension Transaction is reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
Facility Extension Transaction			
13.1.1	The Facility Extension Transaction is fair. RG 111 states that an offer is reasonable if it is fair.	13.2.1	Additional interest costs
13.1.2	Ensures that the business of SQPL remains a going concern without material reductions in operating profile		
13.1.3	Cost of alternative sources of funding		
13.1.4	No dilution of Shareholders' interest		
13.1.5	No change to current operating arrangements		
Security Extension Transaction			
13.1.6	The Security Extension Transaction is fair. RG 111 states that an offer is reasonable if it is fair.	13.2.2	Some limited restrictions placed on SQPL's and SHPL's ability to deal with its assets without Avatar Finance's consent
13.1.7	Supports debt funding		

Other key matters we have considered include:

Section	Description
13.3.1	Alternative proposal
13.3.2	Benefits received from Credit Facility

3. Scope of the Report

3.1 Purpose of the Report

ASX Listing Rule 10.1 requires that a listed entity must obtain shareholders' approval before it acquires or disposes of a substantial asset from a related party of the company, a substantial shareholder (i.e. shareholder holding 10% or more of the shares in the company) or an associate of a related party or substantial shareholder, when the consideration to be paid for the asset or the value of the asset being disposed constitutes more than 5% of the equity interest of that entity at the date of the last audited accounts.

The following amendments are proposed to be made to the current Credit Facility arrangements:

- Rolling the Interim Facility into the Credit Facility, by increasing the limit of the Credit Facility from \$8.5 million to \$15.2 million;
- Extension of the repayment date from 15 March 2019 to 15 March 2021;
- Extending the scope of the security to include all the assets of SHPL; and
- Including a provision that while all outstanding amounts under the Credit Facility are to be repaid on the Extended Repayment Date:
 - Avatar Finance may, at its absolute discretion and subject to any conditions it deems fit, allow Seafarms to redraw the facility until 15 March 2024 on the same terms; and
 - If Avatar Finance agrees to allow for the Avatar Loan to be redrawn after the Extended Repayment Date, Seafarms and Avatar Finance may agree to terminate the loan arrangements prior to the Final Repayment Date.

Interest and payments have been paid by Seafarms to Avatar Finance over the period from 11 March 2014 to date. The existing Credit Facility expires and must be repaid on 15 March 2019 in the absence of an extension from Avatar Finance. The existing Credit Facility contains an interest payment cap clause which prevents the Company from paying any interest or fees beyond 15 March 2019 that would cause a breach of any applicable law or regulation. Avatar Finance has indicated that it will not extend the term of the Credit Facility unless requisite approvals are obtained to enable the applicable interest and fees to be paid.

Obtaining shareholders' approval under Australian Securities Exchange Listing Rule 10.1 will allow Seafarms to continue paying interest or fees under the Credit Facility when the repayment date is extended. The approval is required as the aggregate interest payments (including fees) paid or payable to Avatar Finance exceed 5% or more of Seafarms' equity, and therefore any extension over the terms of the Avatar Loan (previously approved for loan repayment on 15 March 2019) will require shareholder approval as per Listing Rule 10.1.

The grant of security over the Credit Facility is considered to be a disposal of a 'substantial asset' under ASX Listing Rule 10.1.

Listing Rule 10.1 also applies where the vendor or acquirer of the relevant assets is a related party of the listed entity. Avatar Finance is a related party owned by Mr Trahar who is the current Chairman of Seafarms. Further, Avatar Finance is a wholly-owned subsidiary of Avatar Industries Pty Ltd, which currently has a 16.39% shareholding interest in the Company. Mr Trahar, through entities including Avatar Industries Pty Ltd and Gabor Holdings Pty Ltd, has a 31.99% shareholding interest in the Company.

Listing Rule 10.10.2 requires the Notice of Meeting for shareholders' approval to be accompanied by a report by an independent expert expressing their opinion as to whether the transaction is fair and reasonable to the shareholders whose votes are not to be disregarded in respect of the transaction non-associated shareholders.

Accordingly, an independent experts' report is required for the Transactions. The report should provide an opinion by the expert stating whether or not the terms and conditions in relation thereto are fair and reasonable to non-associated shareholders of Seafarms.

3.2 Regulatory guidance

Neither the Listing Rules nor the Corporations Act defines the meaning of ‘fair and reasonable’. In determining whether the Transactions are fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

This regulatory guide suggests that, where an expert assesses whether a related party transaction is ‘fair and reasonable’ for the purposes of ASX Listing Rule 10.1, this should not be applied as a composite test—that is, there should be a separate assessment of whether the transaction is ‘fair’ and ‘reasonable’, as in a control transaction. An expert should not assess whether the transaction is ‘fair and reasonable’ based simply on a consideration of the advantages and disadvantages of the proposal.

We do not consider the Transactions to be control transactions. As such, we have used RG 111 as a guide for our analysis but have considered the Transactions as if they were not control transactions.

3.3 Adopted basis of evaluation

RG 111.57 states that a related party transaction is fair if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length.

For the Facility Extension Transaction, the benefit provided by the entity (Seafarms) to the related party (Avatar Finance) takes the form of the interest payments and fees arising on the Credit Facility over the extended loan period from 15 March 2019 to 15 March 2021. The consideration being provided to Seafarms is continued access to the Credit Facility over the extended loan period from 15 March 2019 through to 15 March 2021 on terms that are more favourable than Seafarms would be able to secure from other funding sources.

For the Security Extension Transaction, the benefit provided by Seafarms is cash or assets up to the equivalent cash amount sufficient to repay the outstanding liability to Avatar Finance in the case of a default under the Credit Facility. The consideration being provided to Seafarms is continued access to the Credit Facility for the extended loan period.

Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being ‘not fair’ the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regard to the above, BDO has completed this comparison in two parts:

- a comparison between the value of the interest payable by Seafarms to Avatar Finance under the Credit Facility with the interest that would be payable by Seafarms to an alternative credit provider (fairness - see Section 12 ‘Are the Transactions Fair?’);
- a comparison between the value of the proceeds from the sale of the security that would be provided to Avatar Finance under the security documents in relation to the Credit Facility in the event of the default with the value of the liabilities that would be settled (fairness - see Section 12 ‘Are the Transactions Fair?’); and
- an investigation into other significant factors to which Shareholders might give consideration, prior to approving the resolution, after reference to the value derived above (reasonableness - see Section 13 ‘Are the Transactions Reasonable?’).

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' ('APES 225').

A Valuation Engagement is defined by APES 225 as follows:

'an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer 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 Valuer at that time.'

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

4. Outline of the Transactions

On 11 March 2014, the Company entered into an 18-month unsecured \$5 million Credit Facility with Avatar Finance, a company controlled by one of its Directors, Mr Trahar. The funds have been used by SQPL for working capital purposes to expand production capacity and efficiency.

At Seafarms' 2016 annual general meeting, its shareholders approved an increase in the Credit Facility to \$8.5 million, repayable on 31 January 2019 and secured over all the assets of SQPL. Subsequently, the repayment date was extended to 15 March 2019. Interest and fees have been paid by Seafarms to Avatar Finance in respect of the Credit Facility.

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

The following amendments are proposed to be made to the current Credit Facility arrangements:

- Rolling the Interim Facility into the Credit Facility, by increasing the limit of the Credit Facility from \$8.5 million to \$15.2 million ('**Extended Facility Limit**');
- Extension of the repayment date from 15 March 2019 to 15 March 2021 ('**Extended Repayment Date**');
(together referred to as the '**Facility Extension Transaction**')
- Extending the scope of the security to include all the assets of SHPL ('**Security Extension Transaction**').
- Including a provision that while all outstanding amounts under the Credit Facility are to be repaid on the Extended Repayment Date:
 - Avatar Finance may, at its absolute discretion and subject to any conditions it deems fit, allow Seafarms to redraw the facility until 15 March 2024 ('**Final Repayment Date**') on the same terms;
 - If Avatar Finance agrees to allow for the Avatar Loan to be redrawn after the Extended Repayment Date, Seafarms and Avatar Finance may agree to terminate the loan arrangements prior to the Final Repayment Date; and

Interest and payments have been paid by Seafarms to Avatar Finance over the period from 11 March 2014 to date. The existing Credit Facility expires and must be repaid on 15 March 2019 in the absence of an extension from Avatar Finance. The existing Credit Facility contains an interest payment cap clause which prevents the Company from paying any interest or fees beyond 15 March 2019 that would cause a breach of any applicable law or regulation. Avatar Finance has indicated that it will not extend the term of the Credit Facility unless requisite approvals are obtained to enable the applicable interest and fees to be paid.

The proposed disposal of a substantial asset, being the Aggregate Payments on the Credit Facility, to Avatar Finance is subject to approval by Shareholders. If Shareholders' approval is not granted for the Facility Extension Transaction, the repayment date of the Credit Facility will not be further extended. Then the Credit Facility will become due and payable on 15 March 2019. If the Facility Extension Transaction is approved, Avatar Finance will agree to an extension to the term of the Credit Facility to 15 March 2021. If Shareholders do not approve the Facility Extension Transaction, Seafarms will need to acquire alternative sources of funding for the continued working capital requirements of SQLP.

The proposed grant of security over all the assets of SHPL is also subject to Shareholders' approval.

5. Profile of Seafarms

5.1 History

Seafarms is an Australian agri-food company, with its head office located in Perth, Western Australia. The Company, formerly known as Commodities Group Limited and CO2 Group Limited, listed on the Australian Securities Exchange ('ASX') on 14 June 1990.

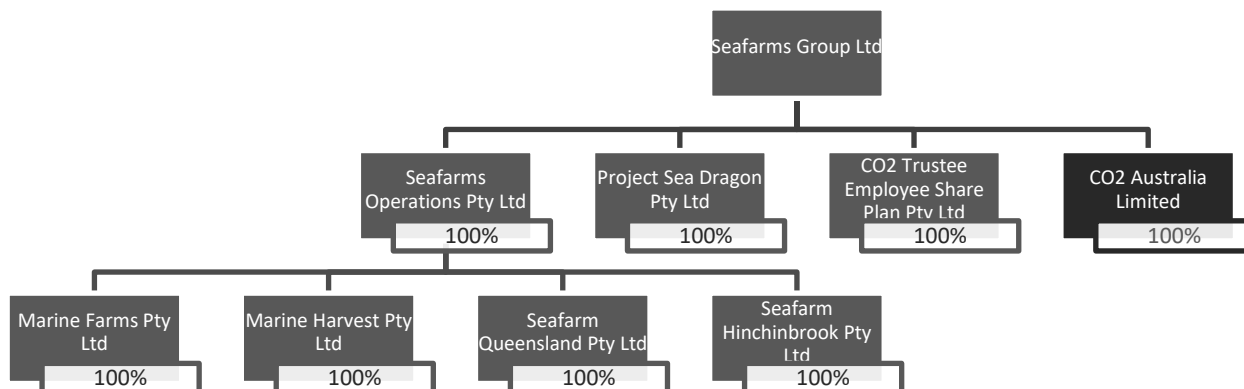
Seafarms' principal operations include aquaculture project development, aquaculture operations, carbon project management, provision of environmental services and trading environmental credits. Currently, Seafarms' environmental services and aquaculture operations function independent of each other and are managed by separate management teams. In May 2018, Seafarms announced that the divestment of its subsidiary CO2 and all environmental services is a condition to Nissui's \$24.99 million investment in Seafarms. A proposed demerger of CO2 and all environmental services is the subject of another resolution at the extraordinary general meeting to be held in July 2018.

The Company's most recent capital raising was a debt conversion completed on 5 July 2017, in which Seafarms issued 41.67 million shares to Avatar Finance to convert \$2.5 million of outstanding debt to equity. In June 2017, \$8.0 million was raised through the issue of 133.33 million shares at \$0.06 through a placement to institutional and professional investors, with a further \$4.7 million raised under a share purchase plan in which 77.9 million shares were issued. The funds raised will contribute to the progression of Seafarm's Project Sea Dragon.

The Company's current board members and senior management are shown below:

- Ian Trahar - Executive Chairman and Director;
- Harley Whitcombe - Director, Chief Financial Officer and Company Secretary;
- Dr Chris Mitchell - Executive Director; and
- Paul Favretto - Non-Executive Director.

Seafarms owns a number of wholly owned subsidiaries set out below:



Source: Current corporate structure in Schedule 3 Chart A of the Notice of Meeting

5.2 Queensland Prawn Operations

SQPL aquaculture prawn operations have been in operation since 1988. Existing operations comprise three farms located at Cardwell and Ingham, and a hatchery at Innisfail. The business has recently increased production from 600 tonnes annually to almost 1,800 tonnes, elevating its status to the largest producer of farmed prawns in Australia. Seafarms produces two types of prawns: bananas and black tigers, sold under the Crystal Bay Prawns brand. Products are available in supermarkets, seafood outlets and wholesalers, and cater to both domestic and export markets.

5.3 Project Sea Dragon

Project Sea Dragon ('PSD') is a land-based prawn aquaculture project under proposed development in northern Western Australia ('WA') and the Northern Territory ('NT'). The project is wholly owned by Seafarms through their subsidiary Seafarms Queensland Pty Ltd.

Feasibility studies for the project are well advanced and a number of environmental approvals and licences have recently been granted. In June 2017, capital raisings of \$8.0 million and \$4.7 million were completed, with funds raised to contribute to ongoing development of the project while a complete funding package is negotiated.

The project will comprise a Founder Stock Centre and Quarantine Centre in Exmouth WA, Core Breeding Centre and Broodstock Maturation Centre in Darwin NT, a Hatchery at Gunn Point NT, Grow-out facility at Legune Station NT, and Processing Plant in Kununurra WA. At full production the planned output of the project is 150,000 tonnes per annum, across 10,000 hectares of production ponds.

Major events of Seafarms' prawn operations are summarised in the following table:

Year	Events
2012	<p>On 6 September 2012, Seafarms announced that it had successfully completed the off market takeover bid for all shares in Western Australian Resources Limited ('WARL'), an Australian aquaculture development company.</p>
2013	<p>In February 2013, Seafarms announced the establishment of PSD an industrial-scale land based prawn farming operation, located in Northern Australia. PSD is designed to produce approximately 100,000,000 kg of prawn per annum of high quality Black Tiger Prawns to the international market, primarily Asia.</p> <p>On 29 April 2013, Seafarms completed a Concept Study on the proposed PSD development of 10,000 hectares prawn production enterprise.</p> <p>A pre-feasibility report undertaken by WARL on PSD was completed on 18 June 2013.</p> <p>On 9 September 2013, Seafarms announced that WARL had successfully acquired Marine Farms Pty Ltd ('Marine Farms') aquaculture sites located in Exmouth Gulf, Western Australia. The Marine Farms aquaculture sites were identified as potential greenfield Bloodstock Facility sites for PSD, which are required to be geographically separated by the hatchery and grow out facilities.</p>
2014	<p>On 6 January 2014, Seafarms announced that WARL had successfully acquired the business and business assets Seafarm Pty Ltd, a Queensland prawn aquaculture company. The acquisition of Seafarm Pty Ltd enabled WARL to become one of the largest prawn producers in Australia. Subsequent to the acquisition, WARL changed its name to Seafarms Group Limited.</p> <p>The Company changed its name from CO2 Group Limited to Commodities Group Limited on 12 March 2014.</p> <p>On 3 November 2014, Seafarms announced that Seafarms Group Limited had successfully completed the acquisition of Coral Seafarms Pty Ltd ('Coral Seafarms'). The acquisition of Coral Seafarms provided an increase of approximately 25% in annual prawn production.</p>
2015	<p>On 16 February 2015, Seafarms Group Limited signed an Access and Option Agreement ('AOA') over Legune Station, an 180,000 hectare operating cattle station located in the East Kimberly region of the Northern Territory, Australia for the development of PSD. The AOA has a term of three years and provides Seafarms Group Limited with:</p> <ul style="list-style-type: none"> • the right to commence applications for land tenure for aquaculture, environmental approvals and all licenses and other approvals required for the development and operation of PSD; • access to Legune Station for the purpose of carrying out studies, tests and assessments for the licenses and approvals and for the completion of a bankable feasibility study ('BFS') for PSD; and • an option to purchase Legune Station at a pre-determine price at any time during the three-year term of the AOA. <p>The Company changed its name from Commodities Group Limited to Seafarms Group Limited ('Seafarms') on 16 March 2015.</p> <p>On 27 July 2015, Northern Territory Chief Minister Adam Giles and the Deputy Prime Minister Warren Truss announced the granting of 'Major Project Status' to Seafarms' PSD. The granting of Major Project Status enables the Company to work with governments to secure export and trade opportunities being created</p>

Year	Events
	<p>through both the Northern Territory and Commonwealth Government initiatives such as the Free Trade Agreements and other trade related agreements.</p> <p>On 16 September 2015, the Western Australian Government also granted PSD with ‘major project of strategic importance to Western Australia’ status.</p>
2016	<p>The Australian Government committed to a \$40 million upgrade to Keep River Road on 20 June 2016. The upgrade is a vital piece of enabling infrastructure for PSD. The Keep River Road, which is located on Legune Station near the Northern Territory’s border with Western Australia approximately 110 km from Kununurra, is a key link in the transport logistics of PSD.</p> <p>On 8 July 2016, Seafarms 100% wholly owned entity Seafarms Queensland Pty Ltd secured its first export contract, allowing Seafarms to commence international distribution of its Crystal Bay Tiger Prawns.</p> <p>On 12 July 2016, Seafarms commenced the first stage of upgrading the Prawn Quarantine and Founder Stock Facility located in Exmouth, Western Australia. The facility will be used to introduce, hold, rear, test and screen wild broodstock animals for any economically important pathogens. Exmouth was selected as the location for this facility due to its geographical isolation from all other aquaculture activities including the Company’s own hatchery and grow out facilities.</p> <p>On 29 July 2016, Seafarms announced that it had secured a five year lease agreement for the Garrjang Accommodation Village, located in Kununurra, Western Australia. Garrjang Accommodation Village is a fully equipment camp capable of accommodation approximately 230 people.</p> <p>On 9 August 2016, Seafarms successfully completed an earthworks trial at Legune Station. The trial confirmed the sustainability of Legune Station to host the grow-out ponds for PSD.</p> <p>On 7 October 2016, Seafarms announced that it had released its Environmental Impact Statement for Stage 1 of the Project at Legune Station.</p>
2017	<p>The feasibility study and environmental investigations were completed, and heritage clearance and a long-term lease agreement was obtained for the processing plant in Kununurra.</p> <p>On 1 September 2017, a Project Development Agreement with the NT Government was executed, providing tenure certainty for a number of PSD sites. The agreement also commits the NT Government to upgrading key public infrastructure to enable effective PSD logistics.</p> <p>On 11 December 2017, Seafarms was granted an aquaculture licence by the NT Government for its Core Breeding Centre and Broodstock Maturation Centre near Darwin.</p> <p>During the period, PSD also commissioned the first stage of the refurbished Quarantine and Founder Stock Centre at Exmouth and commenced operations, with the second generation of prawns to be processed throughout 2018.</p>
2018	<p>On 21 February 2018, Seafarms received planning approvals for all facilities at the proposed Hatchery at Gunn Point in the NT.</p> <p>On 23 May 2018, Seafarms announced finalisation of an agreement with Japanese seafood giant, Nippon Suisan Kaisha, which includes a \$24.99 million equity investment in Seafarms which will contribute to the ongoing development of PSD.</p>

5.4 CO2 Australia (100%)

Founded in 2002, CO2 Australia Limited ('CO2 Australia'), is a fully owned subsidiary of Seafarms, offering environmental services. The company provides tailored solutions for businesses in carbon offsetting, carbon reduction projects under the Australian Government's Emissions Reduction Fund, large-scale revegetation projects, ecological surveying and monitoring programs and environmental impact assessments and approvals.

In 2015, CO2 Australia secured a number of significant contracts with the Commonwealth Government. CO2 Australia was appointed as a large-scale provider to the Commonwealth's 20 Million Trees Program, a funding initiative designed to protect and restore the environmental and make agriculture more sustainable and productive. CO2 Australia also secured two Carbon Abatement Contracts through the Commonwealth's Emissions Reduction Fund auction. Under these contracts, Australian Carbon Credit Units ('ACCUs') will be supplied to the Commonwealth over a 10 year period. In 2016, CO2 secured further new contracts with the Commonwealth's 20 Million Trees Program. CO2 also led the environmental impact assessments for Project Sea Dragon completed in 2017.

A proposed demerger of CO2 and all environmental services is the subject of another resolution to be approved at the shareholder meeting scheduled for July 2018.

5.5 Historical Balance Sheet

Statement of Financial Position	Audited as at 31-Dec-17 \$	Audited as at 30-Jun-17 \$	Audited as at 30-Jun-16 \$
CURRENT ASSETS			
Cash and cash equivalents	2,425,339	11,874,838	8,283,532
Trade and other receivables	4,892,360	1,597,295	1,558,373
Inventories	5,278,938	7,708,673	6,366,517
Current tax receivables	15,012	15,786	15,786
Other current assets	1,052,373	1,003,078	540,715
Accrued income	367,456	912,701	791,890
Biological assets	2,461,182	4,530,997	3,325,639
Other current financial assets	-	-	186,829
TOTAL CURRENT ASSETS	16,492,660	27,643,368	21,069,281
NON-CURRENT ASSETS			
Inventories	184,923	184,923	184,923
Investments accounted for using the equity method	236,169	348,708	499,109
Property, plant and equipment	20,290,310	19,302,139	18,266,194
Deferred tax assets	-	-	6,269,297
Intangible assets	3,461,576	3,520,929	3,401,019
TOTAL NON-CURRENT ASSETS	24,172,978	23,356,699	28,620,542
TOTAL ASSETS	40,665,638	51,000,067	49,689,823
CURRENT LIABILITIES			
Trade and other payables	4,061,883	6,026,605	6,984,506
Borrowings	2,743,635	447,186	1,271,668
Provisions	1,413,495	1,433,910	1,339,549
Deferred revenue	1,440,058	1,848,392	1,072,912
TOTAL CURRENT LIABILITIES	9,659,071	9,756,093	10,668,635
NON-CURRENT LIABILITIES			
Borrowings	5,793,101	8,223,763	8,821,666
Provisions	271,124	301,591	196,914
TOTAL NON-CURRENT LIABILITIES	6,064,225	8,525,354	9,018,580
TOTAL LIABILITIES	15,723,296	18,281,447	19,687,215
NET ASSETS	24,942,342	32,718,620	30,002,608
EQUITY			
Contributed equity	103,702,772	101,512,627	79,021,152
Reserves	5,252,773	5,252,773	5,252,773
Retained earnings	(84,013,203)	(74,046,780)	(54,271,317)
TOTAL EQUITY	24,942,342	32,718,620	30,002,608

Source: reviewed financial statements for the period ended 31 December 2017 and audited financial statements for the year ended 30 June 2016 and nine months ended 30 June 2016.

We note that Seafarms' auditors issued a clean review opinion with no qualifications for the half year ended 31 December 2017. We also note that Seafarms' auditor issued a clean audit report with no qualifications for the year ended 30 June 2017 and nine months ended 30 June 2016.

Commentary on Historical Balance Sheet

We note the following in relation to the Company's historical balance sheet:

- Cash and cash equivalents decreased from \$11.87 million as at 30 June 2017 to \$2.43 million at 31 December 2017. A majority of the decrease can be attributed to the operating loss of \$9.97 for the half year, while all other movements in balance sheet items were generally offset, resulting in an otherwise insignificant movement in the cash balance.
- Current inventories of \$5.28 million at 31 December 2017 comprise finished goods of \$3.52 million and feed and consumables of \$1.76 million.
- Biological assets of \$2.46 million at 31 December 2017 relate to prawn livestock valued at fair value.
- Property, plant and equipment ('PPE') of \$20.29 million at 31 December 2017 comprised namely freehold land of \$2.72 million, freehold buildings of \$1.34 million, ponds of \$5.54 million, plant and equipment of \$9.20 million, leasehold improvements of \$0.06 million, leased plant and equipment of \$0.39 million and carbon sinks of \$1.04 million.
- Intangible assets of \$3.46 million at 31 December 2017 consisted primarily of development costs of \$2.08 million, goodwill of \$1.21 million and NGAC accreditation of \$0.17 million.
- At 31 December 2017, non-current borrowings of \$5.79 relate to drawings from a secured \$8.5 million credit facility with Avatar Finance. In February 2018, the existing facility was extended to be repayable on 15 March 2019 and an additional \$3.7 million was made available through the Interim Facility.

5.6 Historical Statement of Comprehensive Income

Statement of Comprehensive Income	Audited for the 6 months ended 31-Dec-17 \$	Audited for the year ended 30-Jun-17 \$	Audited for the 9 months ended 30-Jun-16 \$
Revenue			
Revenue from continuing operations	19,919,584	35,739,152	23,529,286
Other gains/(losses)	70,543	(368,179)	449,814
Fair value adjustment of biological assets	(65,747)	944,497	(623,668)
Fair value adjustment of finished goods	(2,050,335)	430,617	-
Expenses			
Costs of goods sold	(15,894,259)	(26,681,625)	(20,211,159)
Plantation costs	(1,008,515)	(2,246,329)	(1,621,273)
Employee benefits expense	(3,013,165)	(6,111,125)	(4,436,370)
Consulting expense	(1,372,578)	(2,066,813)	(4,469,263)
Travel	(1,394,909)	(1,943,848)	(1,223,014)
Rent	(208,373)	(433,658)	(314,034)
Legal fees	(488,527)	(234,612)	(287,430)
Other expenses	(975,909)	(1,719,257)	(1,203,524)
Depreciation and amortization expense	(992,424)	(1,816,029)	(1,412,484)
Marketing	(81,352)	(134,755)	(109,604)
Insurance	(127,649)	(256,875)	(200,633)
Impairment of PPE	-	-	(905,461)
Impairment of intangible assets	-	-	(267,886)
Research and development	(1,683,562)	(5,485,259)	(4,981,817)
Finance costs	(495,662)	(1,010,193)	(470,768)
Share of profit from associates	(112,540)	(111,875)	23,765
Loss from continuing operations before income tax	(9,975,379)	(13,506,166)	(18,735,523)
Income tax benefit/(expense)	(3,576)	(6,269,297)	375,204
Loss from continuing operations after income tax	(9,978,955)	(19,775,463)	(18,360,319)
Other comprehensive income	-	-	-
Total comprehensive loss for the year	(9,978,955)	(19,775,463)	(18,360,319)

Source: reviewed financial statements for the period ended 31 December 2017 and audited financial statements for the year ended 30 June 2016 and nine months ended 30 June 2016.

We note that Seafarms' auditors issued a clean review opinion with no qualifications for the half year ended 31 December 2017. We also note that Seafarms' auditor issued a clean audit report with no qualifications for the year ended 30 June 2017 and nine months ended 30 June 2016.

Commentary on Historical Statement of Comprehensive Income

We note the following in relation to the Company's statement of comprehensive income:

- Revenue of \$19.84 million for the six months ended 31 December 2017 primarily related to aquaculture revenue of \$16.36 million. The balance comprises \$2.85 million in carbon services revenue and \$0.71 million in other revenue. Total revenue decreased 24.62% from \$26.32 million for the corresponding half year period ended 31 December 2016. The decrease was primarily

attributable to reduced production in the aquaculture segment, resulting from an outbreak of the YHV7 virus.

- Costs of goods sold of \$15.89 million for the six months ended 31 December 2017 and \$26.68 million for the year ended 30 June 2017 relate primarily to the cost of prawns sold. A small component also comprised variable selling expenses and the cost of environmental credits sold.
- Research and development costs of \$1.68 million for the six months ended 31 December 2017 and \$5.49 million for the year ended 30 June 2016 related primarily to Project Sea Dragon.

5.7 Capital Structure

The share structure of Seafarms as at 30 April 2018 is outlined below:

	Number
Total Ordinary Shares on Issue	1,403,584,698
Top 20 Shareholders	756,947,653
Top 20 Shareholders - % of shares on issue	53.93%

Source: Seafarms management

The range of shares held in Seafarms as at 30 April 2018 is as follows:

Range of Shares Held	No. of Ordinary Shareholders	No. of Ordinary Shares	% Issued Capital
1 - 1,000	216	57,236	0.00%
1,001 - 5,000	459	1,401,003	0.10%
5,001 - 10,000	583	4,803,467	0.34%
10,001 - 100,000	1,830	77,044,555	5.49%
100,001 - and over	1,094	1,320,278,437	94.06%
TOTAL	4,182	1,403,584,698	100.00%

Source: Seafarms management

The ordinary shares held by the most significant shareholders as at 30 April 2018 are detailed below:

Name	No of Ordinary Shares Held	Percentage of Issued Shares (%)
Gabor Holdings Pty Ltd	453,391,227	32.30%
JB Were (NZ) Nominees Limited	65,793,651	4.69%
Alocasia Pty Ltd	64,344,996	4.58%
Pinnacle Superannuation P/L	37,750,000	2.69%
Subtotal	621,279,874	44.26%
Others	782,304,824	55.74%
Total ordinary shares on Issue	1,403,584,698	100.00%

Source: Seafarms management

6. Profile of Avatar Finance

Avatar Finance is a wholly owned subsidiary of Avatar Industries Pty Ltd ('Avatar Industries'), a private company owned by Ian Trahar. Mr Trahar is the Executive Chairman of both Avatar Industries and Seafarms.

Avatar Industries distributes and markets electrical, hardware, and other consumer products to retail markets in Australia, Europe and North America. Avatar Industries was incorporated in 2002 and is based in Chatswood, Australia.

7. Economic Analysis

7.1 Global

Conditions in the global economy remain positive. Available information suggests the global economy has continued to expand into the March quarter of 2018. A number of advanced economies are growing at an above-trend rate and unemployment rates are low. Growth picked up in the Asian economies in 2017, partly supported by increased international trade.

Growth in China was strong through 2017, however it has eased slightly in the recent quarter, reflecting the Chinese authorities' objective of more sustainable growth. In March 2018, the Chinese Government released a gross domestic product ('GDP') growth target of approximately 6.5 percent for 2018, down from its published GDP growth rate of 6.9% in 2017, suggesting some tolerance for a gradual slowing of growth. Investment in infrastructure and residential property remains strong, with demand from these sectors supporting modest growth in crude steel production, which in turn has supported demand for iron ore and coking coal.

The pick-up in the global economy has contributed to a rise in oil and other commodity prices over the past year. Even so, Australia's terms of trade are expected to decline over the next few years, but remain at a relatively high level.

Globally, inflation remains low, although it has increased in some economies and further increases are imminent given the tight labour markets. As conditions have improved in the global economy, a number of central banks have withdrawn some monetary stimulus and further steps in this direction are to be expected.

Both Chinese and United States of America authorities recently announced trade protectionist measures. The US increased import tariffs on certain items including steel and aluminium. The effect of the US tariffs on other economies is expected to be small, with many countries being granted temporary exemptions. The Chinese economy will be little affected as steel and aluminium exports to the US are only a small share of Chinese production. In response to the US tariffs on steel and aluminium, the Chinese authorities imposed tariffs on US\$3 billion of US goods. With both countries foreshadowing further tariffs, there is a risk that trade protectionism could escalate, harming global growth significantly. Rising geopolitical risks, including tensions in the Korean Peninsula could also dampen confidence and create bouts of financial market volatility.

7.2 Australia

Domestic growth

The Australian economy grew by 2.4 per cent over 2017. The Reserve Bank of Australia ('RBA') is expecting faster growth in the next couple of years, with forecasts suggesting that average growth in 2018 and 2019 will be above 3%. Business conditions are positive, with overall business investment expected to continue growing over the next few years, as non-mining business investment increases. Mining investment is expected to slightly decline as construction on large liquefied natural gas projects concludes. Public spending is also supporting domestic economic activity. Public consumption has been growing strongly, in part supported by spending on the National Disability Insurance Scheme. Stronger growth in exports is expected after temporary weakness at the end of 2017. Household spending picked up in the December quarter of 2017, and recent indicators suggest that household consumption growth has remained steady into early 2018, however low growth in household income and high debt levels remains a key risk to the outlook for household consumption.

Unemployment

Employment grew by 3.5% over the past year, with employment figures rising in all states. The strong growth in employment has been accompanied by a significant rise in labour force participation, particularly by women and older Australians. Indicators of labour demand, including job vacancies continue to point to above average growth in employment over the next six months. The unemployment rate has declined slightly over recent years, but from mid-2017 has remained relatively unchanged, at around 5.5%. Conventional measures of full employment suggest the current unemployment rate is around 0.5% above full employment, implying spare capacity in the labour market. The various forward-looking indicators continue to point to strong growth in employment in the period ahead, with a further gradual reduction in the unemployment rate expected. Wages growth has picked up slightly, but remains low. The RBA cites spare capacity in the labour market, low inflation and continuing adjustments to the economy following the mining investment boom, as reasons for low wages growth. Low wages growth is likely to continue for a while yet, although the stronger economy should see some lift in wage growth over time.

Inflation

Inflation remains low and stable. Headline inflation and underlying inflation were both close to 0.5% for the March quarter, and around 2% over the year. Inflation is likely to remain low for some time, reflecting spare capacity in the economy, low wages growth and strong competition in retailing. Inflation is expected to be around 2.25% over the next year, and long term inflation expected to be around 2.5%.

Currency movements

Since the start of the year, the Australian dollar has depreciated against the US dollar and on a trade weighted basis, however it remains within its narrow range of the past two years. The decline was a result of lower bulk commodity prices and narrowing interest rate differentials. An appreciating exchange rate would be expected to result in a slower pick-up in economic activity and inflation.

Source: www.rba.gov.au Statement by Philip Lowe, Governor: Monetary Policy Decision 1 May 2018, Statement on Monetary Policy - May 2018, World Bank

8. Industry Analysis

8.1 Aquaculture Industry

Industry Overview

The aquaculture industry in Australia is expected to generate revenue of approximately \$1.6 billion in 2017-18 and encompasses industry operators who breed and farm fish, molluscs and crustaceans. The industry has experienced annual revenue growth of 4.7% over the past five years as demand for farmed fish has increased. The increase in demand has been driven primarily by growing health consciousness and higher disposable incomes amongst consumers, boosting seafood consumption in Australia and globally.

Rising pressure from imports within the industry has offset increased demand and overall prices increases, and is expected to slow industry growth rate in coming years. Competition from substitute sources of protein is also a factor in limiting industry growth.

External Drivers

Demand from seafood processing sectors and overall seafood consumptions are the primary drivers of demand in the aquaculture industry. Increased consumption of industry products will have a positive effect on revenue within the industry. Demand from the seafood processing industry and overall consumption are expected to increase in 2017-18, presenting growth opportunities for the industry.

The price of seafood is another key demand determinant within the industry. In general an increase in seafood prices will boost industry revenue however, if prices rise above an affordable level, consumers begin to substitute the product for cheaper meats or poultry, reducing demand. It is expected that the price of domestic seafood will rise in the near future.

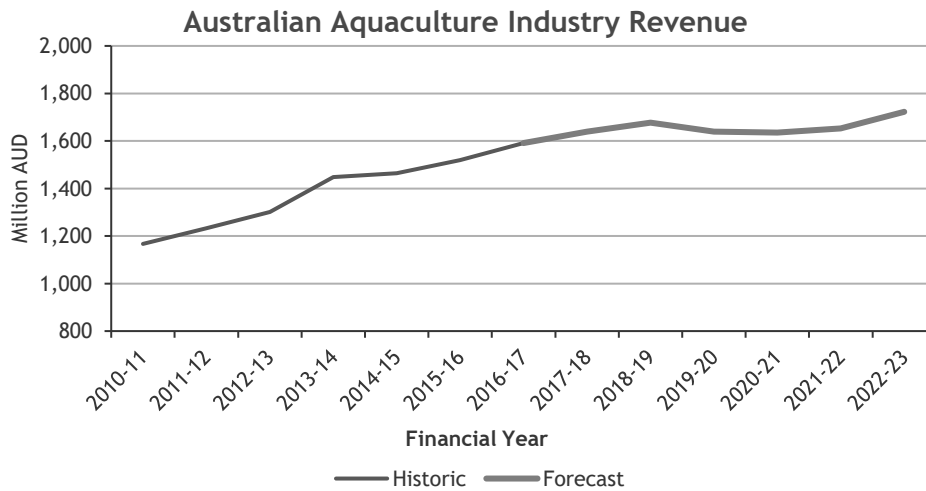
The level of disposable income in domestic households has a major impact on the demand for seafood. Due to rising disposable income over the past five years the industry has potential for significant growth, as consumers are willing to spend more on seafood. The rise in disposable income has helped offset the increase in prices over the period. Disposable income is expected to rise throughout 2017-18.

The price of poultry within Australia has a profound effect on the demand of the industry's products. During poor economic conditions consumers tend to move towards lower price meats, such as poultry. This will generally weaken the demand for fish and other seafood, having a negative effect on industry revenue. It is expected that poultry prices are going to increase at a faster rate than seafood over the near future, creating scope for growth within the aquaculture industry.

Performance

The aquaculture industry has experienced moderate growth over recent years. The industry has thrived from an increase in domestic demand for seafood and from its sustainability in the face of falling wild fish stocks. However, the rising pressure from imports in aquaculture and wild-caught fishing industries around the globe have subdued growth and production volume over the period. The high value of the Australian dollar over the past five years has threatened industry growth, increasing demand for imported seafood. It has also had a negative impact on the industry through constrained export earnings, as products become relatively more expensive and less competitive within the foreign markets.

Industry revenue grew 3.0% on the previous year to reach approximately \$1.6 billion in 2017-18. Growth is forecast to continue over the next five years, although at slower rate, as depicted in the graph below.

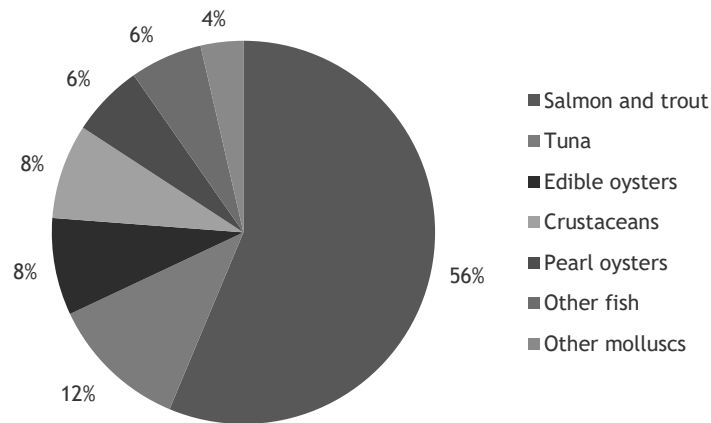


Source: IBISWorld

Crustaceans (industry in which Seafarms specifically operates)

The crustaceans segment of the aquaculture industry includes prawns, yabbies, marron, crayfish and other species. Prawns account for the majority of the segment, with most of Australia’s aquaculture prawn production occurring in Queensland. An increase in the price of prawns has enhanced revenue within this segment area over the past five years, causing the crustaceans segment to grow as a share of industry revenue. A breakdown of the share of industry revenue by segment is demonstrated below.

Products and services segmentation 2017-2018



Source: IBISWorld

Industry Outlook

It is projected that the aquaculture industry will continue to grow over the next five years, as demand for farmed fish and sustainable fishing practices grows in the face of diminishing wild-fish stocks. Continued growth in health consciousness among consumers and a projected rise in disposable income are also expected to boost demand for industry products, although continued price competition from imports will negatively impact profit margins over the period. Overall, industry revenue is forecast to grow at an annualised 1.0% through to 2022-23 to reach \$1.7 billion.

Source: IBISWorld

9. Valuation approach adopted

9.1 Fairness approach adopted

As stated in RG 111.57, a proposed related party transaction is ‘fair’ if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity.

Facility Extension Transaction

As stated in section 3.3 of our Report, the fairness assessment requires a comparison between the value of the consideration provided and the value of the benefit received. In the case of Seafarms, the consideration provided to the related party is the interest and fees payments to be made by the Company to Avatar Finance over the extended loan period from 15 March 2019 to 15 March 2021. The value of the benefit received by the Company is the assessed market value of the interest repayments of the Credit Facility provided by Avatar Finance to Seafarms over the extended loan period from 15 March 2019 to 15 March 2021.

We consider any perceived cost saving by Seafarms making interest payments to Avatar Finance on the terms offered by the Credit Facility, relative to what would be offered in the market over the extended loan period from 15 March 2019 to 15 March 2021, as our assessment of the benefit received by Seafarms.

To quantify this perceived saving in interest payments, and hence value for Shareholders, we have analysed a range of companies with debt facilities to find a market rate of debt that is evidenced in the market that we consider Seafarms would need to accept if the Company was forced to source debt funding from avenues other than the Credit Facility.

Security Extension Transaction

Under the Security Extension Transaction, we have assessed how the value of the proceeds of the sale of the secured assets that would be provided to Avatar Finance to secure the repayment of monies owed under the Credit Facility, in the event of a default, compares to the value of the liabilities that would be settled.

In the case of the Security Extension Transaction, the value of the financial benefit to be provided by the entity to the related party is the value of the proceeds of the sale of secured assets that would be provided as settlement of amounts payable to Avatar Finance in the event of a default (**‘Security Provided’**).

The value of the consideration being provided to the entity is the amounts payable to Avatar Finance that would be settled by the sale of the secured assets, including the principal amount drawn down and related interest accrued (**‘Liabilities Settled’**).

The Security Extension Transaction is fair if the value of the Security Provided to Avatar Finance is equal to or less than the value of the Liabilities Settled by this security in the event of default.

9.2 Valuation approach adopted

There are a number of methodologies which can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings (**‘FME’**)
- Discounted cash flow (**‘DCF’**)

- Quoted market price basis ('QMP')
- Net asset value ('NAV')
- Market based assessment

A summary of each of these methodologies is outlined in Appendix 2.

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information.

9.2.1. Quantification of fairness assessment of Credit Facility

If the Facility Extension Transaction is approved, Avatar Finance has agreed to extend the repayment date of the Credit Facility from 15 March 2019 to 15 March 2021. If the Facility Extension Transaction is not approved, Seafarms will be required to source other means of debt funding for ongoing working capital requirements of SQPL. For reasons outlined above, we have analysed a range of companies with debt facilities to determine a market rate of debt that Seafarms would seek to obtain should the Credit Facility expire on 15 March 2019.

Given that the Credit Facility is currently available until 15 March 2019, our fairness assessment entails comparison of the present value of the interest payments under the terms of the Credit Facility over the period from 15 March 2019 to 15 March 2021 against the present value of the interest payments under a market rate of debt over the period from 15 March 2019 to 15 March 2021.

10. Market rate of debt on Credit Facility

The companies outlined in Appendix 3 and Appendix 4 have been selected as we consider them to have debt instruments comparable to the Credit Facility. They exhibit a range of business activities from a range of industries ('the Companies').

We consider each company to have relatively lower business risk associated with the operations of each respective business compared to that of Seafarms for the following reasons:

- The operations of the Companies are larger and more diversified than the prawn farming operations of SQPL;
- Seafarms is revenue producing with respect to the prawn farming operations of the business, however this is still at an early stage as the business is yet to make a profit while it is still inputting significant funding into Project Sea Dragon. This indicates the 'start-up' nature of Seafarms. The Companies are relatively mature, when compared to Seafarms, with strong history of earnings;

The analysis above shows that a rate of debt that Seafarms would be able to demand in the market would be, conservatively, on par with the interest rates that the Companies demand, or most likely at a higher interest rate given that the risk of the business operations of Seafarms are higher than the business risk of the Companies.

For the purpose of our analysis we will assume the debt facilities associated with the Companies to be indicative of terms of debt that Seafarms would expect to pay at arm's length. We consider a reasonable range of the market rates of debt observed in Appendix 3 to be between 4.30% and 8.20% (credit margin above a chosen base).

We have assessed that Seafarms is unable to obtain the funding it requires from traditional bank sources meaning that any alternative source of funds would be from non-bank lenders. Note that this range is indicative for the purposes of our fairness assessment, however we consider the analysis above shows that the interest rate terms of the Credit Facility are below what Seafarms could otherwise demand in the market (if the Credit Facility was not available).

Therefore, we consider the terms of the Credit Facility to be at arm's length or less favourable to the related party, Avatar Finance.

11. Valuation of consideration paid and benefit received

As set out in Section 9, we consider the value of the benefit received by Seafarms, in lieu of the interest repayments made on the Credit Facility over the extended loan period from 15 March 2019 to 15 March 2021, is the assessed value of the interest payments on a debt facility with a market rate of debt over the extended loan period from 15 March 2019 to 15 March 2021.

11.1 Valuation of Credit Facility Interest Payments

We have valued the interest payments to be made under the Credit Facility as at 1 July 2018. This entails the forecast interest payments to be made in the period from 15 March 2019 to expiry on 15 March 2021 discounted to 1 July 2018.

The value of the interest payments under the Credit Facility as at 1 July 2018 is \$1.90 million.

Details of the value of the interest payments under the Credit Facility are set out in Appendix 5.

11.2 Valuation of Market Based Interest Payments

We have valued the interest payments that would be made based on the assessed market rate of debt as at 1 July 2018. This entails the forecast interest payments that would be made in the period from 15 March 2019 to expiry on 15 March 2021 discounted to 1 July 2018.

The value of the interest payments under the assessed market rate of debt as at 1 July 2018 is in the range of \$1.80 million and \$2.93 million.

Details of the value of the interest payments under the assessed market rate of debt are set out in Appendix 5.

12. Are the Transactions fair?

Facility Extension Transaction

We determined the fairness of the Facility Extension Transaction by comparing the value of the Credit Facility Interest Payments and the value of the benefit to be received by Seafarms, being the value of the Market Based Interest Payments.

The values of the Credit Facility Interest Payments and the Market Based Interest Payments are compared below:

	Ref	Low \$000s	Preferred \$000s	High \$000s
Value of Credit Facility Interest Payments	11.1	1,898	1,898	1,898
Value of Market Based Interest Payments	11.2	1,801	2,366	2,930

We note from the table above that the benefit received by Seafarms is greater than the Credit Facility Interest Payments made, over a range of values and on a preferred basis. Therefore, we consider that the Facility Extension Transaction is fair.

Security Extension Transaction

As stated in section 9.1, the Security Extension Transaction is fair if the value of the security provided is equal to or less than the value of the liabilities settled in the event of default.

In the scenario that the value of the secured assets is greater than or equal to the amounts owed to Avatar Finance, and there is an event of default, then Avatar Finance would only be entitled to recover the principal and interest outstanding under the Credit Facility.

In a scenario that the value of secured assets is less than the amounts owed to Avatar Finance, in an event of default, then the secured assets would be sold and the proceeds provided to Avatar Finance. This can be summarised as follows:

Scenario			Consequence			Fairness
Secured Assets	>	Liabilities to be settled	Security provided	=	Liabilities Settled	Fair
Secured Assets	=	Liabilities to be settled	Security provided	=	Liabilities Settled	Fair
Secured Assets	<	Liabilities to be settled	Security provided	<	Liabilities Settled	Fair

Source: BDO analysis

Therefore on the terms of the Credit Facility, specifically if there is an event of default, then Avatar Finance is only entitled to be repaid the principal and interest outstanding under the Credit Facility, we consider that the Security Extension Transaction is fair in all scenarios.

Conclusion on fairness

In our opinion:

- the Facility Extension Transaction is fair to Shareholders; and
- the Security Extension Transaction is fair to Shareholders.

13. Are the Transactions reasonable?

13.1 Advantages of Approving the Transactions

We have considered the following advantages when assessing whether the Transactions are reasonable.

Facility Extension Transaction

13.1.1. The Facility Extension Transaction is fair

As set out in section 12, the Facility Extension Transaction is fair. RG 111 states that an offer is reasonable if it is fair.

13.1.2. Ensures that the business of SQPL remains a going concern without material reductions in operating profile

If Shareholders' approval is not granted for the Facility Extension Transaction, the repayment date of the Credit Facility will not be further extended. In which case the Credit Facility will become due and payable on 15 March 2019. If the Facility Extension Transaction is approved, Avatar Finance will agree to an extension to the term of the Credit Facility.

In the event that the Transaction does not proceed and given that the Company does not expect to derive any significant cash flows from PSD in the near future, the Company will need to secure additional sources of finance to meet its working capital requirements and to repay the amounts owing under the Credit Facility.

With little support from other business ventures, Seafarms has been, and continues to be, unsuccessful in its attempts to secure debt financing from large reputable commercial banks on terms that are more attractive than those proposed under the Transactions. Therefore, Seafarms will be required to seek debt funding from alternative sources, such as venture capitalists who demand high interest rates. Further, while funds were raised from institutional and professional investors through share placements, we understand that it was conditional that the funds could not be used to repay the debts owing under the Credit Facility nor for the working capital requirements of SQPL.

In the event that the Company is unable to secure alternative sources of funding, its ability to operate as a going concern will be at risk.

The directors have confirmed that previous multiple extensions of the repayment date for the Credit Facility have been the result of going concern issues raised by the Company's auditors.

13.1.3. Alternative sources of funding may need to be convertible debt

In the event that Shareholder approval is not granted, Avatar Finance has advised the Company that the loan will become payable at expiry on 15 March 2019. As discussed above, the directors of Seafarms believe that they have exhausted all reasonable avenues of finance for SQPL.

For similar stage companies in the mining sector, explorers have obtained convertible debt to fund their exploration activities as they are unable to obtain commercial debt. Similarly, the Company may need to seek convertible debt as an alternative external source of funding if the Facility Extension Transaction is not approved.

However, prima facie, the terms of the Credit Facility provided appear more favourable than other sources of potential debt finance in that:

- there is no debt-to-equity conversion feature which has the potential to dilute the interests of existing shareholders;
- there are no debt covenants on the Credit Facility; and
- despite the level of risk that Avatar Finance is exposed to, a facility was obtained without any conversion feature.

13.1.4. No dilution of Shareholders' interest

Under the terms of the Transactions, the proposed amendments to the Credit Facility do not contain the provision/option for Avatar Finance to convert any or part of the Credit Facility to shares/equity of Seafarms. If a conversion option was present, it would result in the potential dilution of existing shareholders' interest in the Company.

13.1.5. No changes to current operating arrangements

We are not aware of any operational changes that Avatar Finance wishes to introduce if the Transactions were approved and there has been no indication from Avatar Finance that they intend to change Seafarms' business as conducted by the current management team.

Security Extension Transaction

13.1.6. The Security Extension Transaction is fair

As set out in section 12, the Security Extension Transaction is fair. RG 111 states that an offer is reasonable if it is fair.

13.1.7. Supports debt funding

The provision of security enables SQPL to obtain the debt funding that it requires. If Seafarms seeks alternative funding through bank debt, it is most likely that there will be a requirement by bank lenders to request the provision of security to secure the bank debt it seeks. Therefore, the provision of security for debt funding purposes is not unusual.

13.2 Disadvantages of Approving the Transaction

If the Transaction is approved, in our opinion, the potential disadvantages to Shareholders include those listed below:

Facility Extension Transaction

13.2.1. Additional interest costs

As at the date of our Report, Avatar Finance has committed to the terms of the Credit Facility where interest will not be paid beyond 15 March 2019.

If the Transaction is approved, Seafarms will be required to pay more interest beyond the current expiry date. This is assuming that the current equity of the Company does not deteriorate.

Security Extension Transaction

13.2.2. Some limited restrictions placed on SQPL's and SHPL's ability to deal with its assets without Avatar Finance's consent

The provision of security over all assets in SHPL, in addition to SQPL, by Seafarms to Avatar Finance under a general security deed, and common to most security deeds, place restrictions on the Company's ability to deal with its assets.

13.3 Other considerations

13.3.1. Alternative Proposal

We are unaware of any alternative proposals that might offer the Shareholders of Seafarms a premium over the value, resulting from the Transaction.

13.3.2. Benefit received from the Credit Facility

The Company's strategy of building the operations of SQPL was, in addition to the business being commercially successful and profitable in its own right, to serve as a 'pilot' operation for PSD to undertake research programmes in a number of areas regarding stocking rates and feeding regimes. This involved costs being sunk into SQPL, which triggered the need for additional capital.

The Credit Facility was entered into by Seafarms to fund the additional working capital requirements of SQPL to help improve and increase operations. To date, the Credit Facility has provided working capital to increase production from 600 tonnes to 1,500 tonnes per year/season.

The Credit Facility has contributed to the funding of the pilot operation, which has equipped Seafarms with valuable advances in (i) production (ii) operating (iii) marketing and (iv) experience, as inputs into the concept, pre-feasibility and bankable feasibility studies, and ultimately, the operation of PSD, which is projected to be on a larger scale to the current operations of SQPL.

Without the funds from the Credit Facility to fund the working capital requirements of the operations of SQPL, the ability for Seafarms to grow the operations of SQPL to current levels and progress the development of PSD to its current level, may not have been possible. Accordingly, the Credit Facility has been a critical source of funding for the Company.

14. Conclusion

We have considered the terms of the Transactions as outlined in the body of this report and have concluded that, in the absence of a superior offer, the:

- Facility Extension Transaction is fair and reasonable to Shareholders; and
- Security Extension Transaction is fair and reasonable to Shareholders.

We have assessed the Facility Extension Transaction as being fair because the value of the Credit Facility Interest Payments is lower than the value of the benefit to be received by Seafarms, being the value of the Market Based Interest Payments.

We have assessed the Facility Extension Transaction to be reasonable because we consider the advantages of approving the Facility Extension Transaction outweigh the disadvantages of approving the Facility Extension Transaction.

We have assessed the Security Extension Transaction as being fair because value of the proceeds of the sale of the secured assets that would be provided to Avatar Finance to secure the repayment of monies owed under the Credit Facility in the event of a default is equivalent or lower than the value of the liabilities that would be settled.

We have assessed the Security Extension Transaction to be reasonable because we consider the advantages of approving the Security Extension Transaction outweigh the disadvantages of approving the Security Extension Transaction.

15. Sources of information

This report has been based on the following information:

- Draft Notice of General Meeting and Explanatory Statement on or about the date of this report;
- Audited financial statements of Seafarms for the year ended 30 June 2017 and the nine months ended 30 June 2016;
- Reviewed financial statements of Seafarms for the half year ended 31 December 2017
- Credit Facility Agreement
- Share registry information;
- Reserve Bank of Australia website;
- IBISWorld industry research; and
- Discussions with Directors and Management of Seafarms

16. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$18,000 (excluding GST and reimbursement of out of pocket expenses). The fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by Seafarms in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by Seafarms, including the non-provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Seafarms and Avatar Finance and any of their respective associates with reference to ASIC Regulatory Guide 112 'Independence of Experts'. In BDO Corporate Finance (WA) Pty Ltd's opinion it is independent of Seafarms and Avatar Finance and their respective associates.

A draft of this report was provided to Seafarms and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

BDO is the brand name for the BDO International network and for each of the BDO Member firms.

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17. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Fellow of Chartered Accountants Australia & New Zealand. He has over 30 years' experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 300 public company independent expert's reports under the Corporations Act or ASX Listing Rules and is a CA BV Specialist. These experts' reports cover a wide range of industries in Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Chairman of BDO in Western Australia, Corporate Finance Practice Group Leader of BDO in Western Australia and the Global Natural Resources Leader for BDO.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 20 years in the Audit and Assurance and Corporate Finance areas. Adam is a CA BV Specialist and has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

18. Disclaimers and consents

This report has been prepared at the request of Seafarms for inclusion in the Notice of Meeting and Explanatory Memorandum which will be sent to all Seafarms Shareholders. Seafarms engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider the proposal to amend the terms of the Credit Facility to increase the interest rate cap on the Credit Facility and to increase security to Avatar Finance over the Credit Facility.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Notice of Meeting and Explanatory Memorandum. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Notice of Meeting and Explanatory Memorandum other than this report.

We have no reason to believe that any of the information or explanations supplied to us is false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to Avatar Finance. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

The forecasts provided to BDO Corporate Finance (WA) Pty Ltd by Seafarms and its advisers are based upon assumptions about events and circumstances that have not yet occurred. Accordingly, BDO Corporate Finance (WA) Pty Ltd cannot provide any assurance that the forecasts will be representative of results that will actual be achieved. BDO Corporate Finance (WA) Pty Ltd disclaims any possible liability in respect of these forecasts. We note that the forecasts provided do not include estimates as to the effect of any future emissions trading scheme should it be introduced as it is unable to estimate the effects of such a scheme at this time.

Yours faithfully

BDO CORPORATE FINANCE (WA) PTY LTD



Sherif Andrawes

Director



Adam Myers

Director

Appendix 1 - Glossary of Terms

Reference	Definition
ACCUs	Australian Carbon Credit Units
The Act	The Corporations Act 2001 Cth
AEDP	Asia Energy Development Partners
Aggregate Payments	Aggregate interest and fee payments under the Credit Facility
AOA	Access and Option Agreement
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Avatar Finance	Avatar Finance Pty Ltd
Avatar Industries	Avatar Industries Pty Ltd
BDO	BDO Corporate Finance (WA) Pty Ltd
BFS	Bankable Feasibility Study
BLM	Blue Leafed Mallee Pty Ltd
CDM	Clean Development Mechanism
Christmas Period	Three months ending December
CO2 Asia	CO2 Asia Pte Ltd
CO2 Australia	CO2 Australia Limited
CO2 New Zealand	CO2 New Zealand Limited
The Company	Seafarms Group Limited
Coral Seafarms	Coral Seafarms Pty Ltd
Corporations Act	The Corporations Act 2001 Cth

Reference	Definition
Credit Facility	Secured credit facility from Avatar Finance with a current balance of \$8.5 million
DCF	Discounted Future Cash Flows
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Facility Extension Transaction	The proposal to extend the repayment date on the Credit Facility from 15 March 2019 to 15 March 2021
FME	Future Maintainable Earnings
JORC Code	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves
Liabilities Settled	Amounts payable to Avatar Finance that would be settled by the sale of the secured assets, including the principal amount drawn down and related interest accrued
Marine Farms	Marine Farms Pty Ltd
Mr Trahar	Ian Trahar
NAV	Net Asset Value
NGACs	NSW Greenhouse Abatement Certificates
NSWGGAS	New South Wales Greenhouse Gas Abatement Scheme
PSD	Project Sea Dragon
QMP	Quoted market price
RBA	Reserve Bank of Australia
Regulations	Corporations Act Regulations 2001 (Cth)
Our Report	This Independent Expert's Report prepared by BDO
RG 111	Content of expert reports (March 2011)
RG 112	Independence of experts (March 2011)
Seafarms	Seafarms Group Limited
SHPL	Seafarms Hinchinbrook Pty Ltd

Reference	Definition
SQPL	Seafarms Queensland Pty Ltd
Security Provided	The value of the proceeds of the sale of secured assets that would be provided as settlement of amounts payable to Avatar Finance in the event of a default
Security Extension Transaction	The proposal to grant security over all the assets in SHPL the Credit Facility
Shareholders	Shareholders of Seafarms not associated with Avatar Finance and Mr Trahar
The Transactions	The Facility Extension Transaction and the Security Extension Transaction collectively
Valuation Date	1 July 2018
Valuation Engagement	An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer 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 Valuer at that time.
VWAP	Volume Weighted Average Price
WARL	Western Australian Resources Limited

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The Directors

BDO Corporate Finance (WA) Pty Ltd

38 Station Street

SUBIACO, WA 6008

Australia

Appendix 2 - Valuation Methodologies

Methodologies commonly used for valuing assets and businesses are as follows:

1 *Net asset value ('NAV')*

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

2 *Quoted Market Price Basis ('QMP')*

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a liquid and active market in that security.

3 *Capitalisation of future maintainable earnings ('FME')*

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ('EBIT') or earnings before interest, tax, depreciation and amortisation ('EBITDA'). The capitalisation rate or 'earnings multiple' is adjusted to reflect which base is being used for FME.

4 *Discounted future cash flows ('DCF')*

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start-up phase, or experience irregular cash flows.

5 *Market Based Assessment*

The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.

Appendix 3 - Company Debt Facilities Data

Holder	Parent Company	Maturity	Current Base	Current Margin	Total Revenue (millions)	Reporting Currency	Gross Profit Margin (%)	EBITDA Margin (%)	S&P Credit Rating
Energy Equity Epic SengKang Pty Ltd	Energy World Corporation Limited	18/03/2021	LIBOR	4.50%	177.8	USD	59.9%	51.5%	-
Sino Gas & Energy Holdings Limited	Sino Gas & Energy Holdings Limited	01/11/2022	LIBOR	8.20%	497.9	USD	2.1%	42.5%	-
Iron Mountain Australia Group Pty Ltd	Iron Mountain Mining Limited	28/09/2022	BBSW	4.30%	2,377.6	USD	91.7%	33.1%	BB
Sheffield Resources Limited	Sheffield Resources Limited	18/10/2024	LIBOR	4.50%	0.3	AUD	100.0%	n/a	-
Atlas Iron Limited	Atlas Iron Limited	30/04/2021	LIBOR	4.33%	871.1	AUD	9.6%	17.2%	CCC
Arrow Pharmaceuticals Pty Ltd	Strides Shashun Limited	28/08/2021	LIBOR	4.80%	34,834.2	INR	53.9%	18.6%	-
Sundance Energy Australia Ltd	Sundance Energy Australia Limited	26/04/2023	LIBOR	8.00%	97.8	USD	77.1%	60.9%	-
Seafarms Group Limited	Seafarms Group Limited		BBSY	4.00%	35.7	AUD	22.9%	-28.5%	-

Appendix 4 - Company Descriptions

Company Name	Description
Energy World Corporation Limited	Energy World Corporation Ltd, an independent energy company, produces and sells power and natural gas primarily in the Asia Pacific region. It designs, develops, constructs, operates, and maintains power stations, liquefied natural gas (LNG) plants, gas processing plants, and gas pipelines; explores, develops, and produces gas and oil; and designs and develops LNG receiving terminals. The company also engages in the road transportation of LNG. It owns and operates a 315 MW combined cycle power plant in Sengkang, South Sulawesi, Indonesia; and an 8.68 MW power plant in Alice Springs, Northern Territory, Australia. The company also has gas interests in the Sengkang contract area in south Sulawesi, Indonesia; and in Gilmore and Eromanga gas fields in Queensland, Australia. Energy World Corporation Ltd has strategic alliances with Slipform Engineering International (H.K.) Ltd; Chart; Siemens; Energy World International Ltd.; and Strike Energy Limited. The company was formerly known as Conversion Technology and changed its name to Energy World Corporation Ltd in 2001. Energy World Corporation Ltd was incorporated in 1985 and is headquartered in Seaforth, Australia.
Sino Gas & Energy Holdings Limited	Sino Gas & Energy Holdings Limited, an energy company, engages in exploring, developing, appraising, and producing onshore natural gas resources in the People's Republic of China. It holds a 64.75% interest in the Linxing production sharing contracts (PSC); and a 49% interest in the Sanjiaobei PSC located in the Ordos Basin, Shanxi province. Sino Gas & Energy Holdings Limited was founded in 2006 and is headquartered in Beijing, China.
Iron Mountain Incorporated	Iron Mountain Incorporated, founded in 1951, is focussed on the provision of storage and information management services. Trusted by more than 225,000 organizations around the world, and with a real estate network of more than 85 million square feet across more than 1,400 facilities in over 50 countries, Iron Mountain stores and protects billions of valued assets, including critical business information, highly sensitive data, and cultural and historical artefacts. Providing solutions that include information management, digital transformation, secure storage, secure destruction, as well as data centres, cloud services and art storage and logistics, Iron Mountain helps customers lower cost and risk, comply with regulations, recover from disaster, and enable a more digital way of working.
Sheffield Resources Limited	Sheffield Resources Limited explores for and develops mineral properties. Its principal project is the Thunderbird mineral sands project located near Derby in Western Australia. The company explores for mineral sands, such as zircon, rutile, ilmenite, leucosene, and titanium minerals; iron; nickel; copper; manganese; zinc; and gold, as well as other base metals. The company is headquartered in West Perth, Australia.
Atlas Iron Limited	Atlas Iron Limited, an independent iron ore company, explores for, develops, mines, and sells iron ore in the Pilbara region in Western Australia. Its primary projects include Abydos and Mt Webber mines. The company is based in Perth, Australia.

Strides Shasun Limited

Strides Shasun Limited, a pharmaceutical company, develops, manufactures, and sells active pharmaceutical ingredients, formulations, and biotech products in Africa, Australasia, North America, Europe, South and Central America, India, and internationally. It operates through Pharmaceutical and Biotech segments. The company develops pharmaceutical product portfolio in therapeutic segments, such as immune-suppressants, anti-viral, and antibiotics; and offers general tablets, hard and soft gelatin capsules, sachets, potent drugs, semi-solids, ointments, and creams in the areas of therapeutic segments for prescription, over the counter, and nutraceutical markets. It also provides branded generic products, and buying solutions to the pharmacy owners through national pharmacy services; and supplies drugs in the anti-retroviral and anti-malaria segments. In addition, the company engages in the contract research, custom synthesis and contract manufacturing services for active pharma ingredients and intermediaries for the pharmaceutical industry. The company was formerly known as Strides Arcolab Limited and changed its name to Strides Shasun Limited in November 2015. Strides Shasun Limited was founded in 1990 and is headquartered in Bengaluru, India.

Sundance Energy Australia Limited

Sundance Energy Australia Limited engages in the exploration, development, and production of oil and natural gas in the United States. The company's exploration and development activities are focused on the Eagle Ford project in the South-Texas-Gulf Coast Basin. Sundance Energy Australia Limited was incorporated in 2004 and is based in Wayville, Australia.



Appendix 5 - Interest Payments


Interest payments as per Credit Facility:

Start Period:	15-Mar-19	01-Apr-19	01-May-19	01-Jun-19	01-Jul-19	01-Aug-19	01-Sep-19	01-Oct-19	01-Nov-19	01-Dec-19	01-Jan-20	01-Feb-20	01-Mar-20	01-Apr-20	01-May-20	01-Jun-20	01-Jul-20	01-Aug-20	01-Sep-20	01-Oct-20	01-Nov-20	01-Dec-20	01-Jan-21	01-Feb-21	01-Mar-21	
End Period:	31-Mar-19	30-Apr-19	31-May-19	30-Jun-19	31-Jul-19	31-Aug-19	30-Sep-19	31-Oct-19	30-Nov-19	31-Dec-19	31-Jan-20	29-Feb-20	31-Mar-20	30-Apr-20	31-May-20	30-Jun-20	31-Jul-20	31-Aug-20	30-Sep-20	31-Oct-20	30-Nov-20	31-Dec-20	31-Jan-21	28-Feb-21	31-Mar-21	
Number of days in period:	#	17	30	31	30	31	31	30	31	31	29	31	30	31	30	31	31	30	31	30	31	30	31	28	31	
Facility Limit	AUD	15,200,000	15,200,000	15,200,000	15,200,000	15,200,000	15,200,000	15,200,000	15,200,000	15,200,000	15,200,000	15,200,000	15,200,000	15,200,000	15,200,000	15,200,000	15,200,000	15,200,000	15,200,000	15,200,000	15,200,000	15,200,000	15,200,000	15,200,000	15,200,000	
Line Fee	% p.a.	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	
Line Fee	% p.p.	0.02%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	
Line Fee	AUD	3,539.73	6,246.58	6,454.79	6,454.79	6,454.79	6,246.58	6,454.79	6,454.79	6,038.36	6,454.79	6,454.79	6,246.58	6,454.79	6,246.58	6,454.79	6,454.79	6,246.58	6,454.79	6,246.58	6,454.79	6,454.79	6,454.79	5,830.14	6,454.79	
BBSW	%	1.870%	1.870%	1.870%	1.870%	1.870%	1.870%	1.870%	1.870%	1.870%	1.870%	1.870%	1.870%	1.870%	1.870%	1.870%	1.870%	1.870%	1.870%	1.870%	1.870%	1.870%	1.870%	1.870%	1.870%	
BBSW adjustment	%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	
Margin	%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	
All in rate (pat) %	% p.a.	5.92%	5.92%	5.92%	5.92%	5.92%	5.92%	5.92%	5.92%	5.92%	5.92%	5.92%	5.92%	5.92%	5.92%	5.92%	5.92%	5.92%	5.92%	5.92%	5.92%	5.92%	5.92%	5.92%	5.92%	
All in rate (pp) %	% p.p.	0.28%	0.49%	0.50%	0.49%	0.50%	0.49%	0.50%	0.49%	0.50%	0.47%	0.50%	0.49%	0.50%	0.49%	0.50%	0.49%	0.50%	0.49%	0.50%	0.49%	0.50%	0.49%	0.50%	0.49%	
Interest payments	AUD	41,910.36	73,959.45	76,424.77	73,959.45	76,424.77	73,959.45	76,424.77	73,959.45	71,494.14	76,424.77	76,424.77	73,959.45	76,424.77	73,959.45	76,424.77	73,959.45	76,424.77	73,959.45	76,424.77	73,959.45	76,424.77	73,959.45	76,424.77	69,028.82	76,424.77
Total payments	AUD	0	45,450.08	80,206.03	82,879.56	80,206.03	82,879.56	80,206.03	82,879.56	77,532.49	82,879.56	82,879.56	80,206.03	82,879.56	80,206.03	82,879.56	80,206.03	82,879.56	80,206.03	82,879.56	80,206.03	82,879.56	82,879.56	80,206.03	82,879.56	
Discount Rate	%																									
NPV	AUD		1,898,304																							

Source: BDO analysis, Bloomberg

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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 Seafarms Group Limited.

Signing Instructions for Postal Forms

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

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

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

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

Attending the Meeting

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

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

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or turn over to complete the form** ➔

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

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.



I 9999999999

I ND

Proxy Form

Please mark to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

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

the Chairman of the Meeting **OR**

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

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Extraordinary General Meeting of Seafarms Group Limited to be held at PwC, Level 21, 2 Riverside Quay, Southbank, Victoria on Monday, 16 July 2018 at 10:00am (AEST) and at any adjournment or postponement of that meeting.

STEP 2 Items of Business

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

		For	Against	Abstain
Resolution 1	Approval of CO2 Australia Demerger	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Ratification of issue of securities to Nissui	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Approval of New Loan Arrangements with Avatar Finance Pty Ltd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

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

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name _____

Contact Daytime Telephone _____

Date ____ / ____ / ____

SFG

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Computershare