



**SEAFARMS GROUP LIMITED**  
**Independent Expert's Report**

**OPINION: Fair and reasonable to  
Shareholders**

20 October 2016



## Financial Services Guide

20 October 2016

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 removing the interest rate cap on the Credit Facility and granting 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 \$30,000.

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.

## **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](http://www.fos.org.au) or by contacting them directly via the details set out below.

Financial Ombudsman Service  
GPO Box 3  
Melbourne VIC 3001  
Toll free: 1300 78 08 08  
Facsimile: (03) 9613 6399  
Email: [info@fos.org.au](mailto:info@fos.org.au)

## **Contact details**

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

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20 October 2016

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').

Subsequent to the original agreement, numerous amendments were made to the Credit Facility, with the most recent proposed amendment being:

- Extension of the repayment date to 31 January 2019 ('Repayment Date Extension Transaction'); and
- Grant of security to secure amounts drawn under the Credit Facility ('Security Transaction').

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 31 October 2017 in the absence of an extension from Avatar Finance. The existing Credit Facility contains an interest rate cap clause which prevents the Company from paying any interest or fees that would breach 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 will exceed 5% or more of Seafarms' equity.

Avatar Finance has also required that it be provided security over all the assets of Seafarms Queensland Pty Ltd ('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 Repayment Date Extension Transaction and the Security Transaction are collectively referred to as ('the Transactions').

## 2. Summary and Opinion

### 2.1 Purpose of 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 Repayment Date Extension Transaction and the Security Transaction 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 a superior alternative offer being available to Seafarms;
- other factors which we consider to be relevant to the Shareholders in their assessment of the Transaction; and
- the position of Shareholders should the Transactions not proceed.

### 2.3 Opinion

We have considered the Transaction in two components:

- the Repayment Date Extension Transaction; and
- the Security Transaction.

We have considered the terms of the Repayment Date Extension Transaction as outlined in the body of this report and have concluded that, in the absence of an alternative proposal, the Repayment Date Extension Transaction is fair and reasonable to Shareholders.

We have considered the terms of the Security Transaction as outlined in the body of this report and have concluded that, in the absence of any other relevant information, the Security Transaction is fair and reasonable to Shareholders.

### 2.4 Fairness

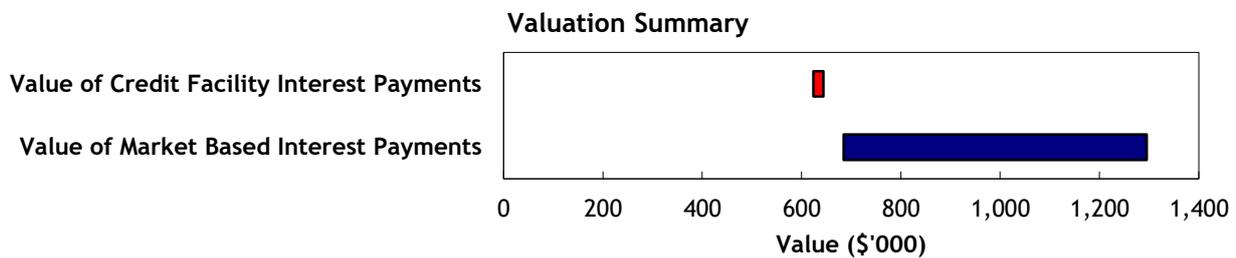
In Section 12, we determined the fairness of the Repayment Date Extension Transaction by comparing the value of the interest repayments on the Credit Facility to be made to Avatar Finance over the period from 31 October 2017 to 31 January 2019 (**'Credit Facility Interest Payments'**) and the value of 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 31 October 2017 to 31 January 2019 (**'Market Based Interest Payments'**).

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

|  | Ref  | Low<br>\$'000 | Mid<br>\$'000 | High<br>\$'000 |
|--|------|---------------|---------------|----------------|
| Value of Credit Facility Interest Payments | 11.1 | 634           | 634           | 634            |
| Value of Market Based Interest Payments    | 11.2 | 685           | 990           | 1,295          |

Source: BDO analysis

The above valuation ranges are graphically presented below:



Source: BDO analysis

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. Therefore, in the absence of an alternative proposal, the Repayment Date 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 a default is equivalent or lower than the value of the liabilities that would be settled. This is discussed in section 14 of our Report. Therefore, in the absence of any other relevant information, this indicates that the Security 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 a superior proposal we believe that:

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

The respective advantages and disadvantages considered are summarised below:

| ADVANTAGES AND DISADVANTAGES                |  |         |   |
|---|--|---------|---|
| Section                                     | Advantages   | Section | Disadvantages   |
| <b>Repayment Date Extension Transaction</b> |  |         |   |
| 15.1.1                                      | The Repayment Date Extension Transaction is fair   | 15.2.1  | Additional interest costs   |
| 15.1.2                                      | Ensures that the business of SQPL remains a going concern without material reductions in operating profile   |         |   |
| 15.1.3                                      | Cost of alternative sources of funding   |         |   |
| 15.1.4                                      | No dilution of Shareholders' interest  |         |   |
| 15.1.5                                      | No change to current operating arrangements  |         |   |
| <b>Security Transaction</b>                 |  |         |   |
| 15.1.6                                      | The Security Transaction is fair. RG 111 states that an offer is reasonable if it is fair  | 15.2.2  | Some limited restrictions placed on SQPL's ability to deal with its assets without Avatar Finance's consent |
| 15.1.7                                      | The provision of security enables the Company to obtain the debt funding that it requires and the provision of security for debt funding purposes is not unusual |         |   |

Other key matters we have considered include:

| Section | Description                            |
|---------|--|
| 15.3.1  | Alternative proposal                   |
| 15.3.2  | 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.

Under the terms of the Transactions, Seafarms is proposing to vary the terms of the Credit Facility by proposing the:

- extending the repayment date to 31 January 2019;
- extension of repayment date of the Credit Facility from 31 October 2017 to 31 January 2019; and
- grant of security over the Credit Facility.

Interest and payments have been paid by Seafarms to Avatar Finance over the period from 11 March 2014 to date. Shareholders' approval under ASX Listing Rule 10.1 will allow Seafarms to continue paying interest or fees under the Credit Facility Agreement until the extended repayment date of 31 January 2019, which may result in Aggregate Payments to Avatar Finance exceeding 5% or more of Seafarms' equity. The Aggregate Payments will be considered a 'substantial asset' under ASX 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 16.82% shareholding interest in the Company. Mr Trahar, through Avatar Industries Pty Ltd and Gabor Holdings Pty Ltd, has a 36.66% 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 Transaction is 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 Repayment Date 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 31 October 2017 to 31 January 2019. The consideration being provided to Seafarms is continued access to the Credit Facility over the extended loan period from 31 October 2017 through to 31 January 2019 on terms that are more favourable than Seafarms would be able to secure from other funding sources.

For the Security 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 14 ‘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 15 ‘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

### 4.1 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 Seafarms Queensland Pty Ltd ('SQPL') for working capital purposes to expand SQPL's production capacity and efficiency.

Subsequently, the Credit Facility was amended for the following:

- on 25 November 2014, the facility limit was increased to \$7.5 million;
- on 21 May 2015, the facility limit was increased to \$8.5 million and the repayment date was extended from 31 October 2015 to 31 October 2016;
- on 28 April 2016, the repayment date was extended from 31 October 2016 to 31 October 2017; and
- on 31 May 2016, the facility limit was further extended to \$16.5 million.

Interest and payments have been paid by Seafarms to Avatar Finance over the period from 11 March 2014 to date. There is an interest rate cap clause in the Credit Facility agreement which prevents the Company from paying any interest or fees that would breach any applicable law or regulation (including the requirement to obtain shareholder approval under the ASX Listing Rules).

Under the Transactions, Seafarms is proposing to vary the terms of the Credit Facility agreement by:

- extending the repayment date under the Credit Facility to 31 January 2019; and
- granting security over the assets of SQPL to secure amounts drawn under the Credit Facility.

Avatar Finance has indicated it will only extend the repayment date under the Credit Facility if the Company obtains shareholder approval to permit the payment of interest and fees until the extended repayment date of 31 January 2019 and if the security over all the assets of SQPL is provided.

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 Repayment Date Extension Transaction, the repayment date of the Credit Facility will not be further extended. Then the Credit Facility will become due and payable on 31 October 2017. If the Repayment Date Extension Transaction is approved, Avatar Finance will agree to an extension to the term of the Credit Facility to 31 January 2019. If Shareholders do not approve the Repayment Date Extension Transaction, Seafarms will need to acquire alternative sources of funding for the continued working capital requirements of SQPL.

The proposed grant of security over the Credit Facility is also subject to Shareholders' approval.

## 5. Profile of Seafarms

### 5.1 History

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

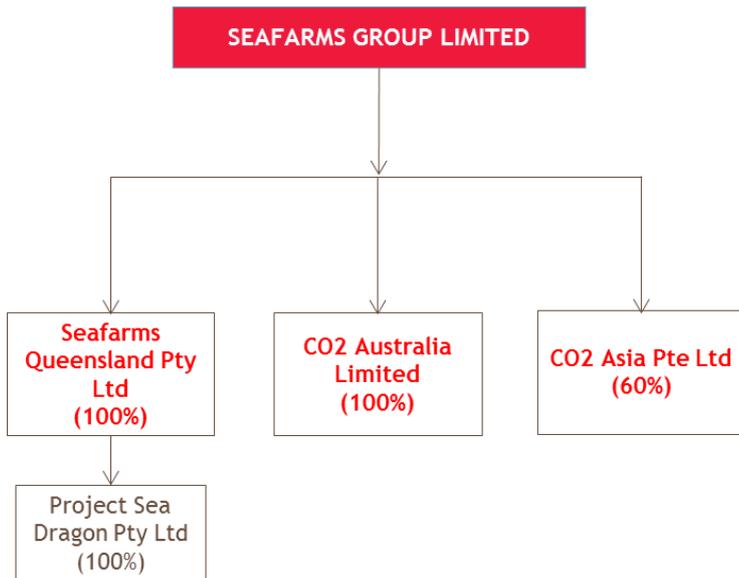
Seafarms principal operations include aquaculture project development, aquaculture operations, carbon project management, provision of environmental services and trading environmental credits.

Seafarms most recent capital raising was completed on 30 August 2016 for \$11 million through the placement of 122.38 million shares at \$0.09 per share.

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

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

Shown below is the organisational structure of Seafarms:



### 5.2 Queensland prawn operations

Seafarms Queensland prawn operations comprise the Company's existing aquaculture prawn operations located in Queensland and Project Sea Dragon ('PSD').

SQPL produces two types of prawns: bananas and black tigers, sold under the Crystal Bay Prawns brand, which are available in supermarkets, seafood outlets and wholesalers.

Major events of Seafarms' Queensland 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 ('<b>WARL</b>'), an Australian aquaculture development company.</p>  |
| 2013 | <p>In February 2013, Seafarms announced the establishment of Project Sea Dragon 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 ('<b>Marine Farms</b>') 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 ('<b>Coral Seafarms</b>'). 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 ('<b>AOA</b>') 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"> <li>• 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;</li> <li>• 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 ('<b>BFS</b>') for PSD; and</li> <li>• an option to purchase Legune Station at a pre-determine price at any time during the three-year term of the AOA.</li> </ul> <p>The Company changed its name from Commodities Group Limited to Seafarms Group Limited ('<b>Seafarms</b>') 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</p> |

| Year | Events   |
|------|--|
|      | <p>enables the Company to work with governments to secure export and trade opportunities being created 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 (‘SQPL’) 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> |

### 5.3 CO2 Australia (100%)

CO2 Australia Limited (‘CO2 Australia’) a 100% fully owned entity offers businesses tailored strategies to manage to environmental and carbon liabilities, by offering:

- carbon management services;
- environmental offset services;
- environmental and land management services; and
- environmental and carbon credits.

On 6 May 2015, CO2 Australia secured three 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.



On 9 March 2016, CO2 Australia secured further new contracts with the Commonwealth's 20 Million Trees Program.

#### **5.4 CO2 Asia (60%)**

On 27 August 2012, Seafarms announced that it had entered into a joint venture with Asia Energy Development Partners ('AEDP'), establishing CO2 Asia Pte Ltd ('CO2 Asia').

CO2 Asia specialises in developing and commercialising projects under the Kyoto Protocol's Clean Development Mechanism ('CDM') through the provision of integrated carbon solutions.

## 5.5 Historical Balance Sheet

| Statement of Financial Position                   | Audited as at<br>30-Jun-16<br>\$ | Audited as at<br>30-Sep-15<br>\$ |
|---|----------------------------------|----------------------------------|
| <b>CURRENT ASSETS</b>                             |                                  |                                  |
| Cash and cash equivalents                         | 8,283,532                        | 12,031,225                       |
| Trade and other receivables                       | 1,558,373                        | 2,490,434                        |
| Inventories                                       | 6,366,517                        | 8,596,683                        |
| Current tax receivables                           | 15,786                           | 12,210                           |
| Other current assets                              | 540,715                          | 735,479                          |
| Accrued income                                    | 791,890                          | 75,288                           |
| Biological assets                                 | 3,325,639                        | 3,522,950                        |
| Other current financial assets                    | 186,829                          | 216,498                          |
| Non-current assets classified as held for sale    | -                                | 1,280,000                        |
| <b>TOTAL CURRENT ASSETS</b>                       | <b>21,069,281</b>                | <b>28,960,767</b>                |
| <b>NON-CURRENT ASSETS</b>                         |                                  |                                  |
| Inventories                                       | 184,923                          | 184,923                          |
| Other financial assets                            | -                                | 9,354                            |
| Investments accounted for using the equity method | 499,109                          | 401,153                          |
| Property, plant and equipment                     | 18,266,194                       | 19,374,038                       |
| Deferred tax assets                               | 6,269,297                        | 5,897,667                        |
| Intangible assets                                 | 3,401,019                        | 3,725,093                        |
| <b>TOTAL NON-CURRENT ASSETS</b>                   | <b>28,620,542</b>                | <b>29,592,228</b>                |
| <b>TOTAL ASSETS</b>                               | <b>49,689,823</b>                | <b>58,552,995</b>                |
| <b>CURRENT LIABILITIES</b>                        |                                  |                                  |
| Trade and other payables                          | 6,984,506                        | 4,011,179                        |
| Borrowings  | 1,271,668                        | 3,379,667                        |
| Provisions  | 1,339,549                        | 1,057,978                        |
| Deferred revenue                                  | 1,072,912                        | 1,322,656                        |
| <b>TOTAL CURRENT LIABILITIES</b>                  | <b>10,668,635</b>                | <b>9,771,480</b>                 |
| <b>NON-CURRENT LIABILITIES</b>                    |                                  |                                  |
| Borrowings  | 8,821,666                        | 9,771,667                        |
| Provisions  | 196,914                          | 68,155                           |
| <b>TOTAL NON-CURRENT LIABILITIES</b>              | <b>9,018,580</b>                 | <b>9,839,822</b>                 |
| <b>TOTAL LIABILITIES</b>                          | <b>19,687,215</b>                | <b>19,611,302</b>                |
| <b>NET ASSETS</b>                                 | <b>30,002,608</b>                | <b>38,941,693</b>                |
| <b>EQUITY</b>                                     |                                  |                                  |
| Contributed equity                                | 79,021,152                       | 69,599,918                       |
| Reserves  | 5,252,773                        | 5,252,773                        |
| Retained earnings                                 | (54,271,317)                     | (35,910,998)                     |
| <b>TOTAL EQUITY</b>                               | <b>30,002,608</b>                | <b>38,941,693</b>                |

Source: Audited financial statements for the financial years ended 30 June 2016 and 30 September 2015.

The Company changed its financial year end from 30 September to 30 June in 2016. Its first new reporting period was for the nine month period ended 30 June 2016.

We note that Seafarms' auditor issued a clean audit report with no qualifications for the period ended 30 June 2016.

### Commentary on Historical Balance Sheet:

- Cash and cash equivalents decreased from \$12.03 million as at 30 September 2015 to \$8.28 million as at 30 June 2016 primarily due to a decrease of approximately \$6.06 million in deposits at call caused by expenditure on PSD; principally engineering; land works; preparation of environmental impact statement; development of Exmouth site; and site trials. This was partially offset by an increase of approximately \$2.13 million in cash at bank and in hand.
- The breakdown for inventories is as set out below:

|                          | Audited as at<br>30-Jun-16<br>\$ | Audited as at<br>30-Sep-15<br>\$ |
|--------------------------|----------------------------------|----------------------------------|
| Finished goods           | 5,121,160                        | 7,266,505                        |
| Feed and consumables     | 1,245,357                        | 1,330,178                        |
| <b>TOTAL INVENTORIES</b> | <b>6,366,517</b>                 | <b>8,596,683</b>                 |

- finished goods relate to harvested prawns from the Company's aquaculture operations located in North Queensland; and
- feed and consumables relate to the Company's aquaculture operations.
- Current tax receivables relate to overseas income tax refundable to CO2 Asia Pte Ltd.
- The breakdown for other current assets is as set out below:

|                                   | Audited as at<br>30-Jun-16<br>\$ | Audited as at<br>30-Sep-15<br>\$ |
|-----------------------------------|----------------------------------|----------------------------------|
| Prepayments                       | 292,168                          | 456,897                          |
| Accrued interest                  | -                                | 8,882                            |
| Deposits paid                     | 19,720                           | 18,091                           |
| Environmental credits to FVTPL    | 169,831                          | 51,037                           |
| Other aquaculture assets          | 58,996                           | 200,572                          |
| <b>TOTAL OTHER CURRENT ASSETS</b> | <b>540,715</b>                   | <b>735,479</b>                   |

- Accrued income of:
  - \$75,288 as at 30 September 2015 relates to accrued income from carbon sink development; and
  - \$791,890 as at 30 June 2016 relates to accrued income from carbon sink management.
- Biological assets relate to live prawns valued at fair value.
- Other current financial assets relate to New Zealand energy futures at FVTPL.
- During the financial year ended 30 September 2015, Seafarms entered into a contract to sell the carbon sink under development for \$1.28 million.
- Other non-current financial assets relate to available for sale investments.
- Investments accounted for using the equity method of \$0.50 million as at 30 June 2016 relates to Seafarms' 60% interest in Blue Leafed Mallee Pty Ltd ('BLM').

- The breakdown for property, plant and equipment is as set out below:

|  | Audited as at<br>30-Jun-16<br>\$ | Audited as at<br>30-Sep-15<br>\$ |
|--|----------------------------------|----------------------------------|
| Freehold land                              | 2,179,799                        | 2,179,799                        |
| Freehold buildings                         | 1,448,734                        | 1,335,213                        |
| Ponds                                      | 6,048,496                        | 6,302,813                        |
| Plant and equipment                        | 6,597,048                        | 6,496,507                        |
| Leasehold improvements                     | 64,993                           | 68,492                           |
| Carbon sinks                               | 1,387,124                        | 2,451,214                        |
| <b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b> | <b>18,266,194</b>                | <b>19,374,038</b>                |

- The breakdown for intangible assets is as set out below:

|                                | Audited as at<br>30-Jun-16<br>\$ | Audited as at<br>30-Sep-15<br>\$ |
|--------------------------------|----------------------------------|----------------------------------|
| Development costs              | 1,979,482                        | 2,274,995                        |
| Goodwill                       | 1,207,187                        | 1,207,187                        |
| Computer software              | 4,277                            | 17,190                           |
| NGAC accreditation             | 210,073                          | 225,721                          |
| <b>TOTAL INTANGIBLE ASSETS</b> | <b>3,401,019</b>                 | <b>3,725,093</b>                 |

- NSW Greenhouse Abatement Certificates ('NGAC') are granted under the New South Wales Greenhouse Gas Abatement Scheme ('NSWGGAS') and allows Seafarms to generate revenues from any single project.
  - NGAC's are granted to those who undertake activities that reduce emissions from existing generators, generate electricity using low emission technologies, improve energy efficiency, sequester carbon in forests, and reduce emissions from industrial processes in large energy consuming industries.
- Current borrowings of \$1.27 million as at 30 June 2016 comprise an unsecured vendor finance facility which relates to the purchase of Coral Seafarms.
- Current and non-current provisions relate to employee benefits.
- The breakdown for deferred revenue is as set out below:

|  | Audited as at<br>30-Jun-16<br>\$ | Audited as at<br>30-Sep-15<br>\$ |
|--|----------------------------------|----------------------------------|
| Government grants                        | -                                | 104,250                          |
| Deferred income from project development | 979,616                          | 551,717                          |
| Deferred income from carbon sinks        | 89,911                           | 587,913                          |
| Deferred advisory income                 | 3,385                            | 78,776                           |
| <b>TOTAL DEFERRED REVENUE</b>            | <b>1,072,912</b>                 | <b>1,322,656</b>                 |

- Non-current borrowings of \$8.82 million as at 30 June 2016 comprise:
  - an unsecured \$8.50 million credit facility with Avatar Finance; and
  - the non-current component of the vendor finance facility for the acquisition of Coral Seafarms.

- Contributed equity increased from \$69.60 million as at 30 September 2016 to \$79.02 million as at 30 June 2016 as a result of a \$10 million placement to institutional and professional investors, whereby 142.86 million fully paid ordinary shares were issued to raise \$9.42 million (net of transaction costs) on 3 June 2016.

## 5.6 Historical Statement of Comprehensive Income

| Statement of Comprehensive Income                        | Audited for the<br>9 months to 30-Jun-16<br>\$ | Audited for the<br>year ended 30-Sep-15<br>\$ |
|--|--|---|
| <b>Revenue</b>   |  |   |
| Revenue from continuing operations                       | 23,529,286                                     | 26,215,415                                    |
| Other gains/(losses)                                     | 449,814  | (35,158)                                      |
| Fair value adjustment of biological assets               | (623,668)                                      | (417,909)                                     |
| <b>Expenses</b>  |  |   |
| Costs of goods sold                                      | (20,211,159)                                   | (20,760,873)                                  |
| Plantation costs   | (1,621,273)                                    | (982,863)                                     |
| Employee benefits expense                                | (4,436,370)                                    | (5,367,324)                                   |
| Consulting expense                                       | (4,469,263)                                    | (2,458,308)                                   |
| Travel   | (1,223,014)                                    | (751,555)                                     |
| Rent   | (314,034)                                      | (646,439)                                     |
| Legal fees   | (287,430)                                      | (272,732)                                     |
| Other expenses   | (1,203,524)                                    | (2,190,976)                                   |
| Depreciation and amortization expense                    | (1,412,484)                                    | (1,808,126)                                   |
| Marketing  | (109,604)                                      | (27,800)                                      |
| Insurance  | (200,633)                                      | (232,916)                                     |
| Impairment of property, plant and equipment              | (905,461)                                      | (311,088)                                     |
| Impairment of intangible assets                          | (267,886)                                      | (392,037)                                     |
| Research and development                                 | (4,981,817)                                    | (2,818,737)                                   |
| Loss on disposal of subsidiary                           | -  | (2,344,580)                                   |
| Finance costs  | (470,768)                                      | (644,359)                                     |
| Share of profit from associates                          | 23,765   | (86,347)                                      |
| <b>Loss from continuing operations before income tax</b> | <b>(18,735,523)</b>                            | <b>(16,334,712)</b>                           |
| Income tax benefit/(expense)                             | 375,204  | 374,743                                       |
| <b>Loss from continuing operations after income tax</b>  | <b>(18,360,319)</b>                            | <b>(15,959,969)</b>                           |
| Other comprehensive income                               | -  | -   |
| <b>Total comprehensive loss for the year</b>             | <b>(18,360,319)</b>                            | <b>(15,959,969)</b>                           |

Source: Audited financial statements for the financial years ended 30 June 2016 and 30 September 2015

## Commentary on Historical Statement of Comprehensive Income:

- The breakdown for revenue is as set out below:

|  | Audited for the<br>9 months to 30-Jun-16<br>\$ | Audited for the<br>year ended 30-Sep-15<br>\$ |
|--|--|---|
| Sales revenue                                    |  |   |
| Project development fees                         | 2,168,162                                      | 989,564                                       |
| Sale of environmental credits                    | -  | 2,293,531                                     |
| Carbon sink project management fees              | 1,580,488                                      | 3,033,467                                     |
| Fees for services                                | 444,388  | 942,654                                       |
| Other revenue                                    | 19,220,281                                     | 18,350,214                                    |
| Interest from financial assets not at fair value | 62,030   | 496,418                                       |
| Crop share and agistment                         | 53,937   | 109,567                                       |
| <b>TOTAL REVENUE</b>                             | <b>23,529,286</b>                              | <b>26,215,415</b>                             |

- The breakdown for other gains/(losses) is as set out below:

|   | Audited for the<br>9 months to 30-Jun-16<br>\$ | Audited for the<br>year ended 30-Sep-15<br>\$ |
|---|--|---|
| Net gain on disposal of property, plant and equipment | -  | 8,692   |
| Net gains on financial assets                         | (64,878)                                       | (240,341)                                     |
| Insurance recovery                                    | -  | 105,000                                       |
| Net foreign exchange gains                            | 24,031   | 14,069  |
| Gain/(loss) on environmental credits FVTPL            | (25,520)                                       | 77,422  |
| Contract termination fees                             | 516,181  | -   |
| <b>TOTAL OTHER GAINS/(LOSSES)</b>                     | <b>449,814</b>                                 | <b>(35,158)</b>                               |

- Insurance recovery relates to cyclone Elwyn claims for Exmouth site.
  - Contract termination fees relate to a business partner cancelling its carbon effect project and paying out the contract as per contracted terms.
- Cost of goods sold comprises:
  - variable selling expenses;
  - cost of environmental credits sold; and
  - cost of goods sold - prawns.
- Rent expense relates to operating property leases and operating plant and equipment leases.
  - Rent expense of \$0.65 million for the financial year ended 30 September 2015 relates to three office facilities and eight motor vehicle leases.
  - Rent expense of \$0.31 million for the nine months to 30 June 2016 relates four office facilities and 11 motor vehicle leases.
- Other expenses consist of various administrative and overhead expenses.
- Impairment of property, plant and equipment of:
  - \$311,088 during the financial year ended 30 September 2015 relates to freehold buildings and plant and equipment; and

- \$905,461 during the nine months to 30 June 2016 relates to carbon sinks.
- Impairment of intangible assets relate to development costs.
- Research and development costs are incurred on the carbon projects and Project Sea Dragon.
- During the financial year ended 30 September 2015, Seafarms sold 40% of its interest in BLM to a third party for \$325,000, leaving Seafarms with a 60% interest in BLM. The fair value of Seafarms 60% interest in BLM was determined based on the transaction price of \$325,000, resulting in a loss of \$2,344,580.
- Share of profit from associates relates to the equity accounted profit from Seafarms' 60% interest in BLM.

## 5.7 Capital Structure

The share structure of Seafarms as at 31 August 2016 is outlined below:

|  | Number        |
|--|---------------|
| Total ordinary shares on issue             | 1,107,457,162 |
| Top 20 shareholders                        | 689,352,865   |
| Top 20 shareholders - % of shares on issue | 62.25%        |

Source: Company share register

The range of shares held in Seafarms as at 31 August 2016 is as follows:

| Range of Shares Held | Number of Ordinary Shareholders | Number of Ordinary Shares | Percentage of Issued Shares (%) |
|----------------------|---------------------------------|---------------------------|---------------------------------|
| 1 - 1,000            | 207                             | 54,461                    | 0.00%                           |
| 1,001 - 5,000        | 502                             | 1,554,035                 | 0.14%                           |
| 5,001 - 10,000       | 480                             | 3,907,458                 | 0.35%                           |
| 10,001 - 100,000     | 1,361                           | 56,180,692                | 5.07%                           |
| 100,001 - and over   | 674                             | 1,045,760,516             | 94.43%                          |
| <b>TOTAL</b>         | <b>3,224</b>                    | <b>1,107,457,162</b>      | <b>100.00%</b>                  |

Source: Company share register

The ordinary shares held by the most significant shareholders as at 31 August 2016 are detailed below:

| Name                                  | Number of Ordinary Shares Held | Percentage of Issued Shares (%) |
|---------------------------------------|--------------------------------|---------------------------------|
| Gabor Holdings Pty Ltd                | 219,678,543                    | 19.84%                          |
| Avatar Industries Pty Ltd             | 186,296,018                    | 16.82%                          |
| Alocasia Pty Ltd                      | 37,536,157                     | 3.39%                           |
| Pinnacle Superannuation P/L           | 36,666,666                     | 3.31%                           |
| Zero Nominees Pty Ltd                 | 33,539,904                     | 3.03%                           |
| Regal Investments                     | 33,333,333                     | 3.01%                           |
| Subtotal                              | 496,162,965                    | 44.80%                          |
| Others                                | 611,294,197                    | 55.20%                          |
| <b>Total ordinary shares on Issue</b> | <b>1,107,457,162</b>           | <b>100.00%</b>                  |

Source: Company share register

## 6. Profile of Avatar Finance

Avatar Finance is a wholly owned subsidiary of Avatar Industries Pty Ltd ('Avatar Industries'). Avatar Industries is a private company owned by Ian Trahar.

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.

Mr Trahar is the Executive Chairman of both Avatar Industries and Seafarms.

## 7. Economic analysis

### 7.1 Global

Overall, the global economy is continuing to grow, though at a lower than average pace. Labour market conditions in advanced economies have improved over the past year but growth in global industrial production and trade remains subdued.

In China, economic activity has eased and the growth rate has continued to moderate following the Government's stimulus plan, which will see China shift away from an economy dependent on manufacturing, to one driven by consumer demand. China's demand for commodities such as crude oil, steel, coal and other raw materials have decreased, therefore affecting the global economy.

Global financial markets have seen improved sentiment following a period of increased volatility. However, uncertainty regarding the global economic outlook and policy settings for major jurisdictions continues. Globally, monetary policy remains accommodative.

### 7.2 Australia

The Australian economy is continuing to grow at a moderate rate. The large decline in mining investment is being offset by growth in other areas including residential construction, public demand and exports. Although household consumption has been growing at a reasonable pace, it appears to have slowed a little recently. Measures of household and business sentiment remain above average.

There is considerable variation in employment growth across the country although, overall, unemployment rate has fallen further. Growth in part-time employment has been strong while growth in full-time employment has been subdued. Forward-looking indicators point to continued expansion in employment in the near term.

The inflation rate remains low in Australia and this is expected to remain the case for some time given very subdued growth in labour costs and very low cost pressures elsewhere in the world.

#### Commodity prices

Commodity prices have risen over recent months, following very substantial declines over the past few years. The higher commodity prices have supported a rise in Australia's terms of trade, although they remain much lower than they have been in recent years.

Prices tend to rely on demand, in particular from the Chinese industrial sector, along with the response to changes in supply. Due to low oil prices, producers of bulk commodities have in general been reducing

their cost of production, as oil is an important input for the transportation of these commodities. However, the ability for these producers to keep on reducing their costs is unlikely and may lead to firms exiting the market.

### Financial markets

Financial markets have continued to function effectively. Funding costs for high-quality borrowers remain low and monetary policy around the globe remains accommodative. Government bond yields are near their historical lows.

### Interest rates

Low interest rates are supporting domestic demand. Supervisory measures have strengthened lending standards in the housing market although growth in lending for housing has slowed over the past year. Turnover in the housing market has also declined and the rate of increase in housing prices is lower than it was a year ago. Some markets have strengthened recently but an influx of apartments onto the property market is expected over the next couple of years, particularly in the eastern capital cities. Growth in rents is the slowest for some decades. The cash rate remains unchanged at 1.50%.

### Australian dollar

The Australian dollar has appreciated recently, despite its noticeable declines against the US dollar over the past year. This in part reflects rises in commodity prices, along with monetary developments globally having a positive impact. Due to current economic circumstances, a strengthening exchange rate could complicate the adjusting economy.

*Source: Statement by Philip Lowe, Governor: Monetary Policy Decision 4 October 2016.*

### Implications for Seafarms

Continual growth in Australia is likely to positively benefit Seafarms, with the rise in disposable incomes allowing consumers to continue purchasing seafood. Further, the weakening commodity sector may result in a number of investors considering other, high-growth areas of investment such as aquaculture.

The result of the United Kingdom's referendum, resulting in Britain's decision to exit the European Union, saw a sharp but orderly repricing of asset classes in global financial markets. Since the announcement, global interest rates have been generally lower. In relation to Seafarms, low interest rates in Australia may bode well for the entity, with possible debt financing seemingly cheaper due to a lower cost of debt.

## 8. Industry analysis

### Industry Overview

The aquaculture industry has grown, however, at slower rates than expected over the past five years. A rise in the pressure from imports of overseas competitors within the industry has offset increased demand and a rise in overall prices; as a result the industry is expected to continue its slow growth rate.

The rising price of many industry products has seen industry profitability grow at a faster pace than revenue. It is expected that rising prices and increasing domestic seafood consumption will lift industry revenue marginally in the foreseeable future.

Other than the rise in domestic seafood consumption, imports from Asia, particularly China and Indonesia, have had a negative impact on demand in seafood processing and retail markets. Over the last five years the amount of imported seafood had considerably increased at the processing level.

A strong Australian dollar over the majority of the past five years has also led to less competitive exports throughout the global market, restricting export earnings for the industry.

### External Drivers

The price of seafood is the key driver of demand within the industry. In general an increase in seafood prices increase industry revenue however, if prices increase too much it can lead to a decline in demand as consumers substitute the product for cheaper meats or poultry. It is expected that the price of domestic seafood will rise in the near future.

Disposable income in households throughout the country 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 will tend 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 2016.

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 generally will 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 over the near future, creating scope for growth within the seafood industry.

The aquaculture industry relies heavily on the demand for seafood products within Australia. Increased consumption of industry products will have a positive effect on revenue within the industry. As stated above, consumption of seafood is expected to grow moderately over the next year or so.

### Current Performance

The aquaculture industry has experienced moderate growth over recent times. 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 had subdued growth and production volume over the period. Industry revenue is forecast to rise at a very moderate pace over the next five years.

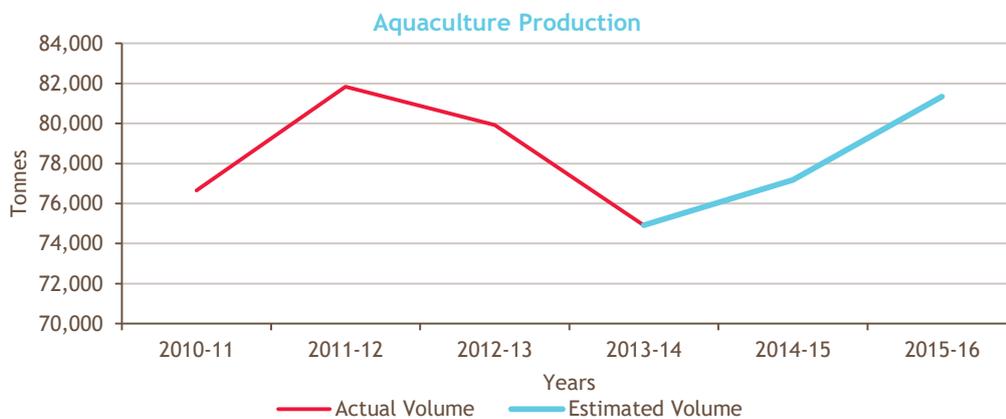
As stated above, rising disposable income and the ongoing push towards health and fitness have supported domestic seafood consumption, even though there has been an increase in the price of seafood in general.

Rising prices and seafood consumption are expected to help increase revenue throughout 2016, however an increase in imports from overseas countries will have a negative impact on the overall performance of the industry.

The high value of the Australian dollar over the past five years has provided opportunity for foreign caught seafood and increased the demand for imported seafood. The strong Australian dollar throughout the early stages of the past five years has also had a negative impact on the industry through constrained export earnings as products become more expensive and less competitive within the foreign markets.

### Aquaculture Production

As depicted below, a fall in aquaculture production throughout 2013-14 was due to weaker demand from downstream markets, having a significant impact on revenue during this period. Over the past five years production volumes have fluctuated as a result of disease outbreaks and dampened demand, however production within the aquaculture industry is projected to be improving in the near future.



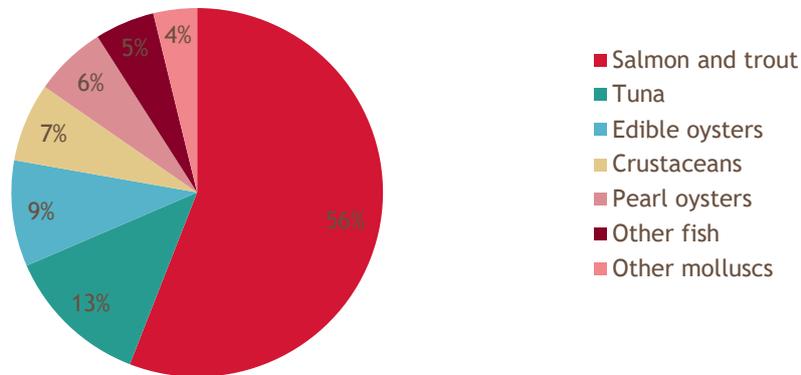
Source: IBISWorld

### Crustaceans (industry in which Seafarms specifically operate)

The crustaceans segment of the aquaculture industry includes products such as prawns, yabbies, marron, crayfish and other species along those lines. The majority of Australia’s aquaculture prawn production is based in Queensland, where Seafarms have their operations set up.

An increase in production has enhanced revenue within this area over the past five years. Prawns account for a major share of the crustaceans segment, with the increase in the overall price of prawns over the past five years driving growth as a share of revenue.

Products and services segmentation 2015-2016



Source: IBISWorld

## Industry Outlook

It is projected that the aquaculture industry will grow at a faster rate over the next five years, with revenue forecast to grow at an annualised 1.7% over the five years through 2020-21 to reach \$1.1 billion.

Sustainable fishing practises will become more sought after due to the falling of wild-fish stocks. The rise in disposable income within households and the ever growing push for healthy living amongst consumers are said to provide benefit within the industry, consequently increasing demand. That being said, the pressure from imports is expected to offset profit margins over the next five years by weakening demand from downstream markets.

Source: IBISWorld

## 9. Assessment 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.

### Repayment Date 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 31 October 2017 to 31 January 2019. 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 31 October 2017 to 31 January 2019.

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 31 October 2017 to 31 January 2017, 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 Transaction

Under the Security 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 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 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'**); and
- Market based assessment.

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

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 Repayment Date Extension Transaction is approved, Avatar Finance has agreed to extend the repayment date of the Credit Facility from 31 October 2017 to 31 January 2019. If the Repayment Date Extension Transaction is not approved, Seafarms will be required to source other means of debt funding for ongoing working capital requirements of SQLPL. 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 31 October 2017.

Given that the Credit Facility is currently available until 31 October 2017, our fairness assessment entails comparison of the present value of the interest payments under the terms of the Credit Facility over the period from 31 October 2017 to 31 January 2019 against the present value of the interest payments under a market rate of debt over the period from 31 October 2017 to 31 January 2019.

## 10. Market rate of debt on Credit Facility

The companies outlined in Appendix 3 and Appendix 4 to 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 significantly 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 5.00% and 11.00% (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 31 October 2017 to 31 January 2019, is the assessed value of the interest payments on a debt facility with a market rate of debt over the extended loan period from 31 October 2017 to 31 January 2019.

### 11.1 Valuation of Credit Facility Interest Payments

We have valued the interest payments to be made under the Credit Facility as at 31 August 2016. This entails the forecast interest payments to be made in the period from 31 October 2017 to expiry on 31 January 2019 discounted to 31 August 2016.

The value of the interest payments under the Credit Facility as at 31 August 2016 is \$633,680.

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 31 August 2016. This entails the forecast interest payments that would be made in the period from 31 October 2017 to expiry on 31 January 2019 discounted to 31 August 2016.

The value of the interest payments under the assessed market rate of debt as at 31 August 2016 is in the range of \$0.68 million and \$1.29 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?

### Repayment Date Extension Transaction

We determined the fairness of the Repayment Date 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<br>\$'000 | Mid<br>\$'000 | High<br>\$'000 |
|--|------|---------------|---------------|----------------|
| Value of Credit Facility Interest Payments | 11.1 | 634           | 634           | 634            |
| Value of Market Based Interest Payments    | 11.2 | 685           | 990           | 1,295          |

We note from the table above that the benefit received by Seafarms is greater than the Credit Facility Interest Payments made. Therefore, we consider that the Transaction is fair.

### Security Transaction

As stated in section 9.1, the Security 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 Transaction is fair in all scenarios.

### Conclusion on fairness

In our opinion:

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

#### Repayment Date Extension Transaction

##### 13.1.1. The Repayment Date Extension Transaction is fair

As set out in section 14, the Repayment Date 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 Repayment Date Extension Transaction, the repayment date of the Credit Facility will not be further extended. Then the Credit Facility will become due and payable on 31 October 2017. If the Repayment Date 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. 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 31 October 2017. 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 Repayment Date 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;
- no security was granted on the Credit Facility (other than the proposed Security Transaction to be approved at the upcoming annual general meeting); 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 Transaction, 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 Transaction was 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 Transaction

### 13.1.6. The Security Transaction is fair

As set out in section 14, the Security 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 in the table below:

### Repayment Date 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 if the aggregate of all payments made by Seafarms to Avatar Finance exceeds 5% of the equity of the Company.

If the Transaction is approved, Seafarms will be required to pay more interest to Avatar Finance as the 5% threshold is expected to be exceeded by December 2017. This is assuming that the current equity of the Company does not deteriorate.

### Security Transaction

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

The provision of security 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:

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

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

We have assessed the Security 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 Transaction to be reasonable because we consider the advantages of approving the Security Transaction outweigh the disadvantages of approving the Security 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 nine months ended 30 June 2016 and the years ended 30 September 2015 and 30 September 2014;
- Financial statements of SQPL for the periods ended 30 September 2014, 30 September 2015 and 30 June 2016
- SQPL management forecasts for the periods ending 30 June 2017 and 30 June 2018;

- Credit Facility Agreement;
- Share registry information;
- Information in the public domain; and
- Discussions with Directors and Management of Seafarms.

## 16. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$30,000 (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 the 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.

Neither the two signatories to this report nor BDO Corporate Finance (WA) Pty Ltd, have had within the past two years any professional relationship with Seafarms, or their associates, other than in connection with the preparation of this report.

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.

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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 Member of the Institute of Chartered Accountants in Australia. He has over twenty five 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 250 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 Natural Resources Leader for BDO in Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 18 years in the Audit and Assurance and Corporate Finance areas. Adam 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 remove the interest rate cap on the Credit Facility and to provide 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.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Transaction, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of Seafarms, or any other party.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd is required to provide a supplementary report if we become aware of a significant change affecting the information in this report arising between the date of this report and the prior to the date of the meeting or during the offer period.

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  |
|--------------------------------------|---|
| The Credit Facility                  | Unsecured 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  |
| 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)   |
| Repayment Date Extension Transaction | The proposal to extend the repayment date on the Credit Facility from 31 October 2017 to 31 January 2019  |
| 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  |
| SQPL                                 | Seafarms Queensland Pty Ltd   |

| Reference            | Definition   |
|----------------------|--|
| 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 Transaction | The proposal to grant security over the Credit Facility  |
| Shareholders         | Shareholders of Seafarms not associated with Avatar Finance and Mr Trahar  |
| The Transactions     | The Repayment Date Extension Transaction and the Security Transaction collectively   |
| Valuation Date       | 31 August 2016   |
| 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

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Australia

## Appendix 2 - Valuation Methodologies

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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 'deep' 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.

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## Appendix 3 - Company Debt Facilities Data

| Holder                                    | Parent Company                  | Maturity   | Current Base | Current Margin | Total Revenue FY16 (A\$m) | Gross Profit Margin (%) | EBITDA Margin (%) | S&P Credit Rating |
|---|---------------------------------|------------|--------------|----------------|---------------------------|-------------------------|-------------------|-------------------|
| Arrium Finance Pty Ltd                    | Arrium Ltd                      | 22/02/2022 | LIBOR        | 11.00%         | 3,992*                    | 10.9%                   | -7.7%             | -                 |
| Pacific Industrial Services BidCo Pty Ltd | Spotless Group Holdings Limited | 02/04/2019 | LIBOR        | 7.75%          | 3,176                     | 15.8%                   | 9.3%              | -                 |
| St Barbara Ltd                            | St Barbara Ltd                  | 31/12/2016 | LIBOR        | 7.50%          | 610                       | 50.4%                   | 46.2%             | B                 |
| Atlas Iron Ltd                            | Atlas Iron Ltd                  | 10/12/2017 | LIBOR        | 7.50%          | 786                       | 1.5%                    | 7.7%              | CCC               |
| Arrow Pharmaceuticals Pty Ltd             | Strides Shasun Limited          | 28/08/2021 | LIBOR        | 4.80%          | 34,170                    | 50.5%                   | 17.2%             | -                 |
| Pact Group Holdings Australia Pty Ltd     | Pact Group Holdings Limited     | 29/05/2018 | LIBOR        | 4.50%          | 1,381                     | 57.3%                   | 15.1%             | -                 |
| Australasian Food Group Pty Ltd           | R&R Ice Cream Plc               | 01/08/2017 | BBSW         | 4.50%          | 1,086*                    | 34.0%                   | 19.2%             | B+                |
| FMG Resources August 2006 Pty Ltd         | Fortescue Metals Group Limited  | 31/12/2021 | LIBOR        | 4.50%          | 9,508                     | 28.5%                   | 44.4%             | BB                |
| Iron Mountain Australia Pty Ltd           | Iron Mountain Incorporated      | 28/09/2022 | BBSW         | 4.25%          | 3,133                     | 56.5%                   | 30.1%             | BB-               |
| oOh! Media Group Ltd                      | oOh! Media Limited              | 15/03/2017 | BBSW         | 4.00%          | 302                       | 42.5%                   | 21.6%             | -                 |
| Seafarms Group Limited                    | Seafarms Group Limited          | 31/10/2017 | BBSY         | 4.00%          | 32                        | 12.1%                   | -65.5%            | -                 |

\*US Dollars

Source: S&P Capital IQ

# Appendix 4 - Company Descriptions

| Company Name                    | Description   |
|---------------------------------|---|
| Arrium Ltd                      | Arrium Limited engages in the mining and supply of iron ore and other steelmaking raw materials to steel mills in Australia and internationally. The company operates through Mining, Mining Consumables, Steel, and Recycling segments. The Mining segment owns and operates the Middleback Ranges and Southern Iron projects located in South Australia; and exports hematite iron ore. The Mining Consumables segment manufactures and supplies consumables, such as grinding media, grinding rods, grinding media feed, rebar and chemicals, and wire ropes, as well as rail wheels, axles, and wheel sets for the rail transport and mining sectors. The Steel segment manufactures and distributes steel long products, billets, and rail and structural steel products; and distributes steel and metal products, including structural steel sections, steel plates, angles, channels, reinforcing steel, and carbon products to the construction, manufacturing, and resource markets. The Recycling segment supplies steelmaking raw materials to foundries, smelters, and steel mills; and recycles ferrous and non-ferrous scrap metal. The company was formerly known as OneSteel Limited and changed its name to Arrium Limited in July 2012. Arrium Limited is headquartered in St Leonards, Australia.   |
| Spotless Group Holdings Limited | Spotless Group Holdings Limited provides outsourced facility, laundry and linen, technical and engineering, and maintenance and asset management services; and refrigeration solutions to various industries in Australia and New Zealand. The company offers catering and hospitality services, such as food to stadiums, education dining halls, school canteens, hospitals, aged-care facilities, and others; venue, event, and residential catering; and corporate hospitality, business cafe and canteen services, and retail food and beverage. It also provides cleaning services, including heavy and light industrial environments, housekeeping, ground and garden maintenance, waste management and recycling, and pest control, as well as stadium, arena, sterile, general, and event cleaning services; and facility management services comprising strategic asset management, maintenance and mechanical services, grounds and gardens management, security service, pest control, cleaning and housekeeping, and energy and environmental management. In addition, the company provides laundry and linen services, such as linen supply, laundering and management, workwear laundering rental and management, workwear supply and design, and floor care and washroom services; and integrated grounds and garden services for various commercial organizations. It offers its services under the Spotless, AE Smith, Alliance, Asset Services, Clean Domain, Clean Event, Ensign, EPICURE, MUSTARD, Nationwide Venue Management, Taylors, TechGuard Security, and UASG brand names. The company serves business and industry, defense, education, government, health, laundries, infrastructure, utilities, and resources, as well as sports, leisure, and entertainment sectors. Spotless Group Holdings Limited was founded in 1946 and is headquartered in Melbourne, Australia. |
| St Barbara Ltd                  | ST Barbara Ltd. engages in the exploration, development, mining, and sale of gold. The company's properties include the Gwalia underground mine located in Leonora, Western Australia; and the Simberi gold mine in New Ireland province, Papua New Guinea. ST Barbara Ltd. was incorporated in 1969 and is based in Melbourne, Australia.  |
| Atlas Iron Ltd                  | 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 the Wodgina, 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 generic 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; supplies drugs in the anti-retroviral and anti-malaria segments; and is involved in bio generics business. 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.   |

| Company Name                   | Description   |
|--------------------------------|---|
| Pact Group Holdings Limited    | Pact Group Holdings Ltd manufactures and supplies rigid plastics packaging and related products in Australia, New Zealand, China, the Philippines, Singapore, Indonesia, Thailand, and the United States. The company operates in two segments, Pact Australia and Pact International. It primarily converts plastic resin and steel into rigid packaging and other products for customers in the food and beverage, personal care, household consumer, industrial and chemical, materials handling, infrastructure, agricultural, and other sectors. The company's products comprise yoghurt, cream and ice-cream containers, milk and beverage bottles, margarine tubs, food jars, meat and bakery trays, cubes, pails, tubes and cartridges, bottle caps and closures, and other customized packaging; steel drums, tinplate pails, and other metal containers; and plastic material handling, industrial, and technical products, as well as sustainability products and services. Pact Group Holdings Ltd was founded in 2002 and is headquartered in Richmond, Australia.   |
| R&R Ice Cream Plc              | R&R Ice Cream plc produces and sells ice cream and frozen confectionery worldwide. It provides take-home ice cream products, which include ice cream tubs, as well as multipacks of ice cream cones, ice lollies, ice cream sticks, and ice cream desserts; and impulse ice cream products. R&R Ice Cream plc offers its products primarily under the Kelly's, Cadbury, Oreo, Daim, Nestle, Skinny Cow, YooMoo, Del Monte, and Britvic brands. The company sells its products to supermarkets. R&R Ice Cream plc was founded in 1932 and is based in Northallerton, the United Kingdom. R&R Ice Cream Plc operates as a subsidiary of New R&R Ice Cream Limited.  |
| Fortescue Metals Group Limited | Fortescue Metals Group Limited engages in the exploration, development, production, processing, and sale of iron ore in Australia, China, and internationally. It owns and operates the Chichester Hub that consists of the Cloudbreak and Christmas Creek mines located in the Chichester Ranges in the Pilbara, Western Australia; and the Solomon Hub comprising the Firetail and Kings Valley mines located in the Hamersley Ranges in the Pilbara, Western Australia. The company was founded in 2003 and is based in East Perth, Australia.   |
| Iron Mountain Incorporated     | Iron Mountain Incorporated, together with its subsidiaries, provides storage and information management services in North America, Europe, Latin America, and the Asia Pacific. It operates through North American Records and Information Management Business, North American Data Management Business, Western European Business, and Other International Business segments. The company provides storage and information management services for physical records and other media, such as microfilm and microfiche, master audio and videotapes, film, X-rays, and blueprints, including healthcare information services, vital records services, and service and courier operations, as well as the collection, handling, disposal of sensitive documents for corporate customers. It also offers information destruction services primarily consist of physical secure shredding operations; document management solutions to develop, implement, and support storage and information management solutions for the complete lifecycle of its customers' information; fulfillment services; technology escrow services that protect and manage source code; and professional consulting services, as well as sells resultant waste paper to third-party recyclers. In addition, the company is involved in the storage and rotation of backup computer media operations, including records management, data protection and recovery, server and computer backup services, and digital content repository systems to house, distribute, and archive key media assets, as well as for storage, safeguarding, and electronic or physical delivery of physical media primarily for the entertainment and media industry clients. It serves commercial, legal, banking, healthcare, accounting, insurance, entertainment, and government organizations. Iron Mountain Incorporated was founded in 1951 and is headquartered in Boston, Massachusetts. |
| oOh! Media Limited             | oOh!media Limited, an out of home media company, provides outdoor media, production, and advertising services in Australia and New Zealand. It offers advertising spaces, such as large format roadside billboards, as well as sites located in retail precincts, including shopping centers and supermarkets; airport terminals and lounges; and high dwell time environments comprising CBD office buildings, cafés, pubs, universities, gyms, and sports centers. oOh!media Limited was founded in 1989 and is based in North Sydney, Australia.   |



# Appendix 5 - Interest Payments

Interest payments as per Credit Facility:

| Start Period:             |           | 01-Nov-17 | 01-Dec-17       | 01-Jan-18 | 01-Feb-18 | 01-Mar-18 | 01-Apr-18 | 01-May-18 | 01-Jun-18 | 01-Jul-18 | 01-Aug-18 | 01-Sep-18 | 01-Oct-18 | 01-Nov-18 | 01-Dec-18 | 01-Jan-19 |  |
|---------------------------|-----------|-----------|-----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|--|
| End Period:               | 31-Aug-16 | 30-Nov-17 | 31-Dec-17       | 31-Jan-18 | 28-Feb-18 | 31-Mar-18 | 30-Apr-18 | 31-May-18 | 30-Jun-18 | 31-Jul-18 | 31-Aug-18 | 30-Sep-18 | 31-Oct-18 | 30-Nov-18 | 31-Dec-18 | 31-Jan-19 |  |
| Number of days in period: | #         | 30        | 31              | 31        | 28        | 31        | 30        | 31        | 30        | 31        | 31        | 30        | 31        | 30        | 31        | 31        |  |
| Facility Limit            | AUD       | 8,500,000 | 8,500,000       | 8,500,000 | 8,500,000 | 8,500,000 | 8,500,000 | 8,500,000 | 8,500,000 | 8,500,000 | 8,500,000 | 8,500,000 | 8,500,000 | 8,500,000 | 8,500,000 | 8,500,000 |  |
| 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%     |  |
| Line Fee                  | % p.p.    | 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       | 3,493.15  | 3,609.59        | 3,609.59  | 3,260.27  | 3,609.59  | 3,493.15  | 3,609.59  | 3,493.15  | 3,609.59  | 3,609.59  | 3,493.15  | 3,609.59  | 3,493.15  | 3,609.59  | 3,609.59  |  |
| BBSW                      | %         | 1.68%     | 1.68%           | 1.68%     | 1.68%     | 1.68%     | 1.68%     | 1.68%     | 1.68%     | 1.68%     | 1.68%     | 1.68%     | 1.68%     | 1.68%     | 1.68%     | 1.68%     |  |
| BBSY 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%     |  |
| 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%     |  |
| All in rate (pa) %        | % p.a.    | 5.73%     | 5.73%           | 5.73%     | 5.73%     | 5.73%     | 5.73%     | 5.73%     | 5.73%     | 5.73%     | 5.73%     | 5.73%     | 5.73%     | 5.73%     | 5.73%     | 5.73%     |  |
| All in rate (pp) %        | % p.p.    | 0.47%     | 0.49%           | 0.49%     | 0.44%     | 0.49%     | 0.47%     | 0.49%     | 0.47%     | 0.49%     | 0.49%     | 0.47%     | 0.49%     | 0.47%     | 0.49%     | 0.49%     |  |
| Interest payments         | AUD       | 40,031.51 | 41,365.89       | 41,365.89 | 37,362.74 | 41,365.89 | 40,031.51 | 41,365.89 | 40,031.51 | 41,365.89 | 41,365.89 | 40,031.51 | 41,365.89 | 40,031.51 | 41,365.89 | 41,365.89 |  |
| Total payments            | AUD       | 0         | 43,524.66       | 44,975.48 | 44,975.48 | 40,623.01 | 44,975.48 | 43,524.66 | 44,975.48 | 43,524.66 | 44,975.48 | 44,975.48 | 43,524.66 | 44,975.48 | 43,524.66 | 44,975.48 |  |
| Discount Rate             | %         | 2.5%      |                 |           |           |           |           |           |           |           |           |           |           |           |           |           |  |
| NPV                       | AUD       | 633,680   | As at 31-Aug-16 |           |           |           |           |           |           |           |           |           |           |           |           |           |  |

Interest payments as per assessed range of market rate of debt:

Credit margin of 5%:

| Start Period:             |           | 01-Nov-17 | 01-Dec-17        | 01-Jan-18        | 01-Feb-18        | 01-Mar-18        | 01-Apr-18        | 01-May-18        | 01-Jun-18        | 01-Jul-18        | 01-Aug-18        | 01-Sep-18        | 01-Oct-18        | 01-Nov-18        | 01-Dec-18        | 01-Jan-19        |
|---------------------------|-----------|-----------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| End Period:               | 31-Aug-16 | 30-Nov-17 | 31-Dec-17        | 31-Jan-18        | 28-Feb-18        | 31-Mar-18        | 30-Apr-18        | 31-May-18        | 30-Jun-18        | 31-Jul-18        | 31-Aug-18        | 30-Sep-18        | 31-Oct-18        | 30-Nov-18        | 31-Dec-18        | 31-Jan-19        |
| Number of days in period: | #         | 30        | 31               | 31               | 28               | 31               | 30               | 31               | 30               | 31               | 31               | 30               | 31               | 30               | 31               | 31               |
| Facility Limit            | AUD       | 8,500,000 | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        |
| BBSW                      | %         | 1.68%     | 1.68%            | 1.68%            | 1.68%            | 1.68%            | 1.68%            | 1.68%            | 1.68%            | 1.68%            | 1.68%            | 1.68%            | 1.68%            | 1.68%            | 1.68%            | 1.68%            |
| BBSY 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%            |
| Margin                    | %         | 5.00%     | 5.00%            | 5.00%            | 5.00%            | 5.00%            | 5.00%            | 5.00%            | 5.00%            | 5.00%            | 5.00%            | 5.00%            | 5.00%            | 5.00%            | 5.00%            | 5.00%            |
| All in rate (pa) %        | % p.a.    | 6.73%     | 6.73%            | 6.73%            | 6.73%            | 6.73%            | 6.73%            | 6.73%            | 6.73%            | 6.73%            | 6.73%            | 6.73%            | 6.73%            | 6.73%            | 6.73%            | 6.73%            |
| All in rate (pp) %        | % p.p.    | 0.55%     | 0.57%            | 0.57%            | 0.52%            | 0.57%            | 0.55%            | 0.57%            | 0.55%            | 0.57%            | 0.57%            | 0.55%            | 0.57%            | 0.55%            | 0.57%            | 0.57%            |
| Interest payments         | AUD       | 47,017.81 | 48,585.07        | 48,585.07        | 43,883.29        | 48,585.07        | 47,017.81        | 48,585.07        | 47,017.81        | 48,585.07        | 48,585.07        | 47,017.81        | 48,585.07        | 47,017.81        | 48,585.07        | 48,585.07        |
| <b>Total payments</b>     | AUD       | <b>0</b>  | <b>47,017.81</b> | <b>48,585.07</b> | <b>48,585.07</b> | <b>43,883.29</b> | <b>48,585.07</b> | <b>47,017.81</b> | <b>48,585.07</b> | <b>47,017.81</b> | <b>48,585.07</b> | <b>48,585.07</b> | <b>47,017.81</b> | <b>48,585.07</b> | <b>47,017.81</b> | <b>48,585.07</b> |
| Discount Rate             | %         | 2.5%      |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| NPV                       | AUD       | 684,537   | as at 31-Aug-16  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |

Credit margin of 11%:

| Start Period:             |           | 01-Nov-17 | 01-Dec-17        | 01-Jan-18        | 01-Feb-18        | 01-Mar-18        | 01-Apr-18        | 01-May-18        | 01-Jun-18        | 01-Jul-18        | 01-Aug-18        | 01-Sep-18        | 01-Oct-18        | 01-Nov-18        | 01-Dec-18        | 01-Jan-19        |
|---------------------------|-----------|-----------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| End Period:               | 31-Aug-16 | 30-Nov-17 | 31-Dec-17        | 31-Jan-18        | 28-Feb-18        | 31-Mar-18        | 30-Apr-18        | 31-May-18        | 30-Jun-18        | 31-Jul-18        | 31-Aug-18        | 30-Sep-18        | 31-Oct-18        | 30-Nov-18        | 31-Dec-18        | 31-Jan-19        |
| Number of days in period: | #         | 30        | 31               | 31               | 28               | 31               | 30               | 31               | 30               | 31               | 31               | 30               | 31               | 30               | 31               | 31               |
| Facility Limit            | AUD       | 8,500,000 | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        | 8,500,000        |
| BBSW                      | %         | 1.68%     | 1.68%            | 1.68%            | 1.68%            | 1.68%            | 1.68%            | 1.68%            | 1.68%            | 1.68%            | 1.68%            | 1.68%            | 1.68%            | 1.68%            | 1.68%            | 1.68%            |
| BBSY 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%            |
| Margin                    | %         | 11.00%    | 11.00%           | 11.00%           | 11.00%           | 11.00%           | 11.00%           | 11.00%           | 11.00%           | 11.00%           | 11.00%           | 11.00%           | 11.00%           | 11.00%           | 11.00%           | 11.00%           |
| All in rate (pa) %        | % p.a.    | 12.73%    | 12.73%           | 12.73%           | 12.73%           | 12.73%           | 12.73%           | 12.73%           | 12.73%           | 12.73%           | 12.73%           | 12.73%           | 12.73%           | 12.73%           | 12.73%           | 12.73%           |
| All in rate (pp) %        | % p.p.    | 1.05%     | 1.08%            | 1.08%            | 0.98%            | 1.08%            | 1.05%            | 1.08%            | 1.05%            | 1.08%            | 1.08%            | 1.05%            | 1.08%            | 1.05%            | 1.08%            | 1.08%            |
| Interest payments         | AUD       | 88,935.62 | 91,900.14        | 91,900.14        | 83,006.58        | 91,900.14        | 88,935.62        | 91,900.14        | 88,935.62        | 91,900.14        | 91,900.14        | 88,935.62        | 91,900.14        | 88,935.62        | 91,900.14        | 91,900.14        |
| <b>Total payments</b>     | AUD       | <b>0</b>  | <b>88,935.62</b> | <b>91,900.14</b> | <b>91,900.14</b> | <b>83,006.58</b> | <b>91,900.14</b> | <b>88,935.62</b> | <b>91,900.14</b> | <b>88,935.62</b> | <b>91,900.14</b> | <b>91,900.14</b> | <b>88,935.62</b> | <b>91,900.14</b> | <b>88,935.62</b> | <b>91,900.14</b> |
| Discount Rate             | %         | 2.5%      |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| NPV                       | AUD       | 1,294,823 | as at 31-Aug-16  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |