



Dear shareholders,

SeaDragon Limited (“SeaDragon”) has completed a challenging year of transformation – putting us in a great position to move forward. We have reshaped the company by taking tangible steps to exit the Omega-2 market and to enter the Omega-3 market and we look forward to sharing this progress with you at our Annual Shareholders Meeting in Tauranga on 31 August 2016 (details of the venue and time are set out in the attached Notice of Meeting).

The commissioning of our new Omega-3 fish oil refinery in Nelson has lifted our total refining capacity to more than 5,200 tonnes per year and we now have the capability to produce a range of new products, including sustainably-sourced Omega-3 fish oils.

We have sold test quantities of Omega-3 oils refined at the plant and we are enjoying strong enquiry for new products from potential customers, including large international food supplement and nutraceutical manufacturers.

We have started to put in place Omega-3 raw material supply arrangements, while the new refinery has obtained the certifications necessary to export products to our key target markets.

Other changes, we have successfully completed this year include a refreshed Board, the appointment of a new auditor, PwC, and the completion of a review of the company’s financial reporting systems and processes to strengthen the foundations of the business as it enters a new phase of growth. We also established a strategic alliance with global natural health products company Comvita.

Our position today stands in stark contrast to where we were a year ago, when the company was primarily a small refiner of Omega-2 fish oils. We were then focused on two main suppliers and two main customers and we were limited to relatively small volumes of fish oil that subjected the company to long lead times and a highly variable supply chain. The “cash-to-cash” cycle with the Omega-2 business, could easily extend to 12 months, which was not a desirable financial business model.

Our achievements in the last financial year, however, were overshadowed by the unexpectedly sharp decline in demand for the company’s Omega-2 products during the third and fourth quarters of the financial year.

In the past, SeaDragon had been generally unable to satisfy demand for its refined Omega-2 products. However, in the latter half of the last financial year, inventories began to build as we honoured raw material purchase agreements that had been struck at a time when competition for supply was strong. This put significant pressure on the company and its cash reserves.

Instead of providing a bridge for SeaDragon to transition to Omega-3 markets, the Omega-2 business became a serious roadblock to the company's aspirations. SeaDragon was taking steps to exit the market, but lacked the capital to manage this exit in an orderly way due to our unexpected inability to readily sell Omega-2 inventories. The Board explored a number of alternatives to alleviate the pressure on the company's balance sheet, but it quickly became clear that the only viable, and ultimately the only practical, alternative was to accept Comvita's offer to advance up to \$3 million to SeaDragon via convertible loan notes.

Comvita's offer of capital in May 2016 provided the company with time to seek an orderly exit from the Omega-2 market, as evidenced by the sale in late June of the majority of our Omega-2 inventory for \$2.5 million.

In addition to resolutions covering the re-election of directors and the reappointment of auditors, shareholders at the Annual General Meeting will be asked to approve the terms of these convertible loan notes issued to Comvita.

Shareholders will also be asked to extend the expiry date of options issued to Comvita as part of the October 2015 capital raising from 5.00pm 30 September 2017 to 5.00pm 30 September 2018. This new expiry date matches the expiry date of the convertible loan notes and the expiry date of other options granted in connection with last year's capital raising.

The resolutions and explanatory notes, including the key terms of the convertible loan notes and the option extension, are detailed in the Notice of Meeting and the accompanying Independent Adviser's Report.

SeaDragon's Independent Directors encourage you to read this Notice of Meeting and the Independent Adviser's Report carefully. We share the Independent Adviser's view that the positive aspects of the proposed transaction outweigh the negative aspects.

The Independent Directors unanimously encourage you to vote your shares in support of the resolutions.

We also encourage shareholders to read SeaDragon's 11 August 2016 announcement of a planned one-for-two pro-rata renounceable issue to all shareholders of rights to acquire new shares at 0.8 cents per share. SeaDragon will announce further information relating to the rights offer once details have been finalised.

These rights, which are aimed at providing SeaDragon with additional capital to facilitate growth and meet the company's working capital needs, offer shareholders the opportunity to acquire additional shares in SeaDragon at the same share price per share as that available to Comvita through the convertible loan notes.

We are fortunate to have Comvita as a strategic partner. The convertible loan notes are a clear demonstration of the value of the partnership to SeaDragon, but they are not an isolated case. We believe that the now strong links between the two companies will enable us to achieve our joint ambition to add value to the New Zealand fishing and aquaculture industries.

Finally, we are excited to welcome our new Chief Executive, Dr Nevin Amos, who held senior roles with Comvita between 2006 and 2015 and is currently Chief Executive at Pacific T&R, a Taupo-based start-up that extracts natural rosin acids and terpenes from waste material left over from forestry operations. Dr. Amos will shortly take over from our Interim Chief Executive, Richard Alderton.

We look forward to introducing you to Nevin and discussing the resolutions with you in further detail at the meeting. Should you have any questions before then please do not hesitate to contact me directly.

Yours sincerely,

Colin Groves
Chairman