



**SeaDragon  
Annual Shareholders Meeting  
Eden Park  
Auckland  
8 August 2018 10:30am**

**Colin Groves, Chairman**

Good morning ladies and gentlemen.

Welcome to SeaDragon's annual shareholders meeting. It is great to be at this fantastic venue. It has a such wonderful history.

My name is Colin Groves. I am Chairman. Before we proceed with the meeting, I would like to cover a few points of house-keeping and safety. Firstly, I would ask you as a matter of courtesy to turn your mobile phones to silent.

In the event of an emergency or if we need to evacuate the building, please do so through the marked exits.

In case of a medical emergency, Eden Park staff are your first port of call.

Thank you. The items of business and the resolutions to be considered by shareholders at this meeting are contained in the Notice of Meeting, which was mailed to shareholders on 20 July 2018 and is available on both the NZX and SeaDragon websites.

As it is 10.30 am and we have a quorum present, I now declare the meeting open.

I am joined here by SeaDragon's Chief Executive Dr Nevin Amos, my fellow directors: Matt McNamara, Stuart Macintosh, Mark Sadd and Mark Stewart as well as our Commercial Manager Tracey Castleton.

Tracey would you like to stand up so people can see you.

Richard Alderton has put in his apologies for today's meeting as he has commitments offshore.

We also have representatives from our solicitors MinterEllisonRuddWatts, our auditors PwC and our share registrar Link Market Services, who you would have met at the registration desk.

Without doubt this is a very important meeting for SeaDragon. As you will have seen from the documents sent out to you, this company requires more cash to put it into a position to capitalise on what we continue to believe is a very unique and exciting opportunity.

I am pleased to say that our financial future has been underpinned by two of our major shareholders who have agreed to provide us with \$6 million via a convertible loan. All shareholders stand to get the opportunity to participate in this capital raising exercise on the same price per share.

I will provide more details on this capital restructuring plan after both Nevin and myself have provided you with an overview of SeaDragon's operational performance during the past financial year.

We would then welcome your questions before we move to the formal business of the meeting, which involves the nine resolutions as outlined in the notice of meeting.

I remind you that this is a meeting of - and for - our shareholders. Only shareholders registered at 5:00 pm on Monday, 6 August, or their proxies are entitled to vote. If you have become a shareholder since then, you are not entitled to vote at this meeting, but we do welcome you here.

Meanwhile, if there are any media present today, we ask that you keep any questions until after the meeting, when Nevin and I will make ourselves available to speak with you.

This has been a challenging year for SeaDragon. But it has been one that has necessarily seen us transition away from Omega-2 markets and into growing a presence into Omega-3 markets.

This has been more costly, and taken more time, than we anticipated but it is the right way forward for SeaDragon and certainly one that our major shareholders support.

So where are we at with the development of our Omega-3 programme? I am pleased to report that the company is now building momentum and growing our presence in this market.

Over the last year we have secured relationships with several major international Omega-3 customers.

In the 2018 financial year our Omega-3 sales more than doubled to \$1.0 million. And, as Nevin will report shortly, we have made significant progress since then.

We gained Friends of the Sea, halal and kosher certifications, which will further enhance our appeal to international Omega-3 customers.

We are still not generating sufficient sales to cover our operating costs. Progress, particularly in Europe, has been slower than we expected.

However, the net loss after tax and normalised EBITDA loss narrowed as we reduced operating costs. This reflected the business moving out of the initial transition phase into Omega-3 production.

Demand for our products is growing strongly. SeaDragon is also evolving to meet the market demand for Omega-3 products that take advantage of New Zealand's reputation for clean deep blue oceans and high-quality primary products.

Although we are forecasting strong improvements in our financial performance in the current financial year, this is off a low base and we are still some way from being self-funding.

In summary, over the last year SeaDragon's prospects have improved and we are looking ahead confident about the opportunities we enjoy and our ability to make the most of them.

However, this optimism is predicated on securing additional shareholder funding. For that we thank both Pescado and BioScience for their commitment to this company – without which this opportunity before us would not be possible.

Most importantly, the ultimate say will come down to our shareholders – but more on that later when I address the refinancing package.

I would now like to hand you over to Nevin to review our strategy and the progress we have made against it.

**Nevin Amos, Chief Executive**

Thank you, Colin, and good morning ladies and gentlemen. It is a pleasure to be here today.

Before I get into my address, I would like to say that I strongly believe in this company and its future.

Good things sometimes take longer and require more resources to realise their potential. I am pleased there is a funding plan in place that will provide this business with a real chance of realising that potential – particularly for those who have stuck with us over the years.

As part of our annual strategic review, we have slightly refined our vision to be recognised as a world-class provider of marine ingredients which are sustainably sourced from the Southern Oceans and manufactured in New Zealand.

This shift has not changed the broad thrust of our activities nor the customers we seek to serve. But it recognises the importance of a strong reputation and the need for global recognition for us to succeed. It also recognises the unique opportunity we enjoy producing New Zealand and Southern Ocean-sourced Omega-3 oils.

We are primarily a supplier of ingredients and we believed it makes sense to make this clear in our vision statement.

Finally, sustainability remains at the heart of our proposition and over the longer term, we believe it will become a key differentiator of SeaDragon as demands on the planet's scarce resources grow.

We have similarly refined our mission, which describes our path towards this goal.

We refine and distribute bulk fish oil, converting marine by-products to support human health. This is a broader programme that more accurately reflects our transition to higher value Omega-3 markets.

I now want to provide a quick recap about why we are investing in Omega-3 markets and how we see them developing.

This graph is the same as the one we showed you last year because nothing we have seen since has changed our view.

The global market for Omega-3 oils is huge, growing and offers numerous market categories across a broad range of territories.

Omega-3s - EPA and DHA - are essential fatty acids abundant in fish and some shellfish. Their consumption supports cardiovascular, eye, brain and joint health.

Again, shareholders who attended last year's meeting would have seen this slide – which shows the average concentrations of Omega-3s in the blood of healthy adults around the world.

It shows that coastal regions of countries and populations that traditionally rely on hunting, fishing and gathering, tend to have moderate to adequate Omega-3 levels. Conversely those that have relied on agriculture have lower Omega-3 concentrations.

It also shows that in most of the places in the world where we see a strong market for our Omega-3 products, the need for Omega-3s is greatest. These markets include the US, Europe, Australasia and China.

Japan and other countries in North Asia – where blood concentrations of Omega-3s are high – demonstrate the potential of markets where the health benefits of Omega-3s are well understood.

Demand for Omega-3 fish oils in these markets is strong and this reflects the important role fish plays in local diets. It also reflects cultures that embrace dietary supplementation.

Meeting this demand is not simply a matter of supplying refined or semi-refined Omega-3 fish oil. The markets for these products are quickly becoming commoditised.

Omega-3 markets are evolving from commodity fish oils to highly-differentiated supplements. SeaDragon is already making moves to stay ahead of these developments.

We already refine tuna, hoki and other fish oils, but today we also need to start preparing for the future.

As we reported last year, we have agreements with third parties to contract manufacture ethyl esters and re-esterified tri-glycerides and other forms of Omega-3 concentrates.

And, in the last year, we have secured a global exclusive license for tuna and Hoki liposomal powders and emulsions along with a toll manufacturing agreement.

So, what is our strategy to meet this market? After years of investment in our capabilities we understand that you, our shareholders, are keen to start seeing a return.

To achieve this goal, we are determined to drive capacity utilisation in our fish oil refinery and build demand for higher-value customised products.

We also seek to build and maintain a diversity of customers and markets to ensure we are protected against external supply fluctuations and the other market trends I highlighted in the prior slide.

We are making progress and building a global presence. We have had the greatest success in North and South East Asia, where we have satisfied orders from major refiners.

This is a significant achievement. All our customers impose complex product approval and certification processes on their suppliers. These processes have taken considerable effort and time to satisfy.

We said last year that the typical lag between a customer indicating they are interested in SeaDragon supply, and making a commercial order, is 6 to 18 months.

Over the last year we have seen nothing to change our view on this. Nor have we found a way to shorten these timeframes.

We are pushing into South East Asian markets and we are hopeful the halal certification we received in the 2018 financial year will enhance our efforts to win customers in the region. China for the moment is inaccessible due to narrow Omega-3 import specifications.

We are developing our presence in Europe, where we have already shipped several orders.

The region's complex certification and product specification regime remains challenging. Indeed, delays in accessing these markets were a key reason we failed to meet our earlier expectations.

We overcame many of these hurdles in the latter part of the financial year thanks to continuous improvements in our processing capabilities. However, these successes did not come fast enough to resolve our funding requirements.

We remain positive about our prospects in European markets. The certification of our facilities by the marine resources sustainability organisation, Friends of the Sea, is enhancing our appeal. The certification complements the certification we have from the Marine Stewardship Council.

We continue to explore the North American market. We have so far shipped only a small quantity of oil to the region, but we believe that will grow in the coming years.

In the 2018 financial year we sent samples to 34 prospective customers and sold more than 150 tonnes of semi-refined tuna Omega-3 oil.

Three major customers placed orders for semi-refined Omega-3 tuna oil and more have indicated a strong interest. Colin will give you more detail shortly when he discusses our outlook.

In the early stages of development, and in line with our strategy to drive capacity utilisation in the factory, we have inevitably provided the majority of our production to the tier one customers you see in this slide; the global Omega-3 oil refiners.

But as I have already mentioned we are working towards the development of higher value products that meet the needs of fortified food manufacturers and ingredient suppliers.

A key initiative to achieve this goal has been our efforts to build demand for New Zealand-sourced, predominantly hoki, Omega-3 oil.

Customers are showing interest in this oil because it offers them a significant opportunity to differentiate themselves from their competitors. Supply of the raw material is at present limited, but as I will detail shortly, we have taken some significant steps to bring this market to fruition.

Our focus is now firstly on tuna oil but we are working hard to develop the market for hoki oil.

As a general rule, customers demand oil that either has – or has the potential to reach - Omega-3 concentrations of more than 30%. They are increasingly also requiring higher concentrations of DHA relative to EPA, particularly for infant formula.

Tuna is then the obvious target species as it has the highest natural DHA content of any fish. We are, for instance, producing refined tuna oils that achieve Omega-3 concentrations on average of 35%.

Hoki, thanks to its association with New Zealand and its strong international reputation for being a sustainably managed fishery, offers a real opportunity to migrate SeaDragon into higher-value Omega-3 categories.

But there are a couple of challenges.

The levels of EPA and DHA in hoki oil and the total Omega-3 concentration of refined oil is generally lower than supplement manufacturers require.

Consequently, for hoki to be a commercial proposition, it needs to be concentrated, or used in other delivery formats such as emulsions where consumers are happy to consume larger volumes of oil. The downside of this is that these oils (per unit of Omega-3) are more expensive for consumers than tuna or anchovy oils.

More work is required to develop the market. The first step is securing a supply of raw oil.

We are pleased to report that one of our suppliers this year gained accreditation to produce fit for human consumption unrefined New Zealand-sourced, predominantly hoki, Omega-3 oil directly from one of their fishing vessels. The supplier discharged the first oil early in July this year and it has recently been processed at our refinery.

We are now in discussions with customers over delivery of further quantities of the refined oil.

The production of oils from sustainably managed fisheries is at the heart of our proposition.

This year we commissioned a formal examination of the sustainability of the fisheries from where we source our unrefined Omega-3 oil.

The review (which draws on international research and is detailed in our annual report) shows the South Pacific and Indian Ocean tuna fisheries from which we derive our unrefined tuna oil are able to support the current level of fishing. This view is shared by the International Seafood Sustainability Foundation.

The hoki fishery was the first white fishery in the world to be certified by the Marine Stewardship Council.

According to MPI the two main hoki fisheries are being sustainably fished and have been growing since 2006.

We continue to make process refinements and are scaling up production to meet sales demand.

Indeed, in the first four months of the current financial year manufacturing activity was more than double the equivalent period last year and is in line with management expectations.

Our smaller extraction plant is meanwhile proving its worth in small batch processing of New Zealand derived Omega-2 fish oils and small batch toll processing of Omega-3 for strategic partners.

This will remain the boutique plant's focus for the immediate future.

I would now like to hand you back to Colin to review our 2018 fiscal year financial performance and the business of the meeting.

### **Colin Groves, Chairman**

Thank you Nevin.

Our discussion on the financial results is detailed in the annual report. Therefore, I will not dwell too long on them other than to say they show a company transitioning to Omega-3 markets and that progress has not been as swift as we expected.

Omega-3 sales grew but were insufficient to offset the planned reduction of Omega-2 sales. Normalised EBITDA loss narrowed as costs associated with the establishment of the company in Omega-3 markets fell.

As Nevin mentioned, we faced delays, particularly in accessing European markets, and this weighed on our financial performance.

The trends observable in the balance sheet at the year-end of falling cash reserves and net equity continued into the new financial year.

SeaDragon has a fixed cost base of around \$5 million a year.

As the cashflow statement shows we had some way to go in the 2018 financial year to achieve breakeven.

Cash on hand at the year-end stood at just over \$1 million following the drawdown of the remaining convertible loan advanced to the company by Comvita.

The proceeds from that note have now been exhausted and the company is now unfortunately in the position of requiring additional funding.

It is disappointing for all of us. Make no mistake, as a shareholder in SeaDragon, I am also disappointed that the progress has not been as fast as I would have hoped.

However, we are lucky that two of our major shareholders have agreed to support us by agreeing to advance up to \$6 million via convertible loan notes, which, along with associated arrangements, is subject to shareholder approval today.

I would now like to turn to this capital raising.

As we have said numerous times before, one of SeaDragon's great strengths is the support we receive from our cornerstone shareholders.

You would have received the full detail of how the shareholders are supporting the company in the notice of meeting detailing the transactions.

In summary, Pescado and Bioscience Managers have each agreed to provide up to \$3 million in convertible loan notes, for a total of up to \$6 million.

The note holders have an option to convert all outstanding principal amounts owed to them into shares prior to maturity. SeaDragon may repay any outstanding loan notes in full at any time prior to conversion.

At maturity on 31 March 2020, the notes convert automatically to ordinary shares at 0.33 cents per share.

Comvita has agreed to share with Pescado and BioScience Managers its first ranking security over SeaDragon's assets. This security is being extended to include all of SeaDragon's subsidiaries and their assets.

The issue of the new loan notes and the associated arrangements is subject to shareholder approval today.

I now turn to the Comvita option and loan note agreements.

On 17 December 2015, SeaDragon granted Comvita an option to subscribe for 375,000,000 ordinary shares in SeaDragon at an exercise price of 0.8 cents per share.

The option had an aggregate exercise price of \$3 million and expired on 30 September 2017. On 31 August 2016, SeaDragon shareholders approved an extension of the expiry date to 28 September 2018.

This year, as part of negotiations over the terms of the new loan notes, the non-associated directors and the cornerstone shareholders have negotiated to an amendment of the Comvita Option so that:

- the expiry date is extended from 28 September 2018 to 31 March 2020;
- the exercise price is reduced from 0.8 cents per share to 0.33 cents per share;
- the number of shares is increased to 909.1 million from 375 million; and
- SeaDragon gains greater flexibility to require Comvita to invest a further \$3 million in the company.

Turning to the loan note amendments. On 27 May 2016, Comvita provided a convertible loan note facility to SeaDragon of up to \$3 million.

The facility is now fully drawn and is due and payable on 28 September 2018. It is secured by a first ranking general security interest over all SeaDragon's assets.

Comvita may convert the loan notes into ordinary shares in SeaDragon at 0.8 cents per share. But as this price is well above the current market price of SeaDragon's shares, conversion is unlikely.

Again, as part of the negotiations over the future funding of the business, the non-associated directors and the cornerstone shareholders have agreed to amend the terms of the existing Comvita loan notes so that the terms match the new loans issued by Pescado and Bioscience managers:

- the conversion price is to be reduced from 0.8 cents to 0.33 cents per share;
- the loan notes automatically convert on maturity; and
- the maturity date is to be extended to 31 March 2020.

The non-associated directors and the cornerstone shareholders have also agreed new conditions so that:

- SeaDragon is prevented from repaying Comvita's loan notes unless all amounts advanced by BioScience Managers and Pescado are also repaid in full at the same time; and
- Comvita's first ranking security granted by SeaDragon over all its assets is to be shared by all three lenders under the new loans, and this security is extended to include all of SeaDragon's subsidiaries and their assets.

Comvita, Pescado and Bioscience Managers are all precluded from voting on the motions relating to the loan notes and the amendments to the existing Comvita loan and the Comvita option.

The full detail on the new loan notes, the options and the amendments, which are subject to shareholder approval, are detailed in the notice of meeting and the accompanying independent appraisal report, which have been sent to all shareholders.

Shareholders should refer to these documents when considering the merits of the proposed transactions.

As part of the talks to put in place funding for the company, directors formed a committee of non-associated directors to assess the transaction on behalf of minority shareholders.

That committee, which was made up of myself, Richard Alderton and Stuart Macintosh, considered the advice of the independent advisor, Campbell MacPherson.

We believe that voting your shares in favour of these resolutions is in your interest.

If shareholder approval is not obtained for these transactions, it is highly likely that the directors will have no option but to place the company into receivership or liquidation.

Meanwhile, approval of the transactions will give the company an opportunity to build on the strong growth in Omega-3 sales it has seen over the last year.

We do not currently expect the company to fully draw down on the facilities.

All of the non-associated directors, who together hold in aggregate 18.8% of the shares eligible to be voted on the resolution, intend to vote their shares in favour.

Directors also draw shareholders' attention to the announcement of 14 June 2018 that, if shareholders approve the resolutions today, they will be offered an opportunity to participate in a 1-for-1 renounceable pro rata rights offer.

The rights offer will give shareholders the opportunity to subscribe for new shares at 0.33 cents per share, the same price per share as the conversion price of the loans.

As detailed in the notice of meeting, each of Comvita, Pescado and BioScience Managers have confirmed that, subject to shareholders approving the resolutions today, they will not seek to increase their proportional share in the company through that rights offer.

Finally, I would again draw your attention to the independent advisor's report provided for the benefit of non-associated directors and shareholders and sent to shareholders together with the notice of meeting.

The expert considered the merits of the proposed transactions for minority shareholders, who are required to approve the transactions given the potential for each of BioScience Managers, Pescado and Comvita to increase their stake in the company above the 20% prescribed in the Takeovers Code.

On this basis, the independent advisor concluded that the positive aspects of the transaction outweighed the negative aspects.

The independent advisor also considered the fairness of the transactions under the NZX listing rules.

It found that the terms were not fair to the non-associated shareholders. However, it was of the view that, taking into account the wider benefits and risks of the proposed transactions, the positive aspects of the proposed transactions outweigh the negative aspects.

SeaDragon, as the major shareholders' actions demonstrate, is a company that is worth supporting. We are starting to gain traction in Omega-3 markets. As we disclosed to the NZX in early June and as we show in this slide we are forecasting a strong pick up in sales in the current financial year.

You will notice however even at the top end of the range we will not be generating sufficient margin to breakeven this financial year. It is worth noting that 50% of the forecast uplift in sales to between \$10 million and \$14 million in the coming year is based on indicative orders we have already received.

There is scope for a better result if further orders beyond our forecasts materialise. Even at the top end of the range, SeaDragon will only be using around 40% of the refinery's capacity.

So, in summary, SeaDragon is continuing to forecast cash outflow.

Luckily for SeaDragon we have supportive cornerstone shareholders who are backing the company.

The company plans a rights offer to all shareholders to buy new shares in the company on at a price per share equal to the conversion price of the loans.

SeaDragon is making progress, even if it is not as fast as all shareholders would like.

We have a growing customer base of global refiners and supplement manufacturers. In the first four months of the current financial year manufacturing activity was more than double the equivalent period last year and is in line with management forecasts.

We have secured supply from sustainably managed fisheries and we are evolving into differentiated New Zealand-sourced Omega-3 bioactives.

Finally, we are forecasting a strong improvement in sales next year and we have been conservative, with 50% of the forecast sales covered by indicative orders.

SeaDragon is building momentum in Omega-3 markets. We hope you will continue to support the company and vote in favour of the nine resolutions the board has put before you today.