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**SeaDragon**
**Annual Shareholders Meeting**
**Mills Reef Winery**
**Tauranga**
**20 September 2017 10:00am**

Good morning ladies and gentlemen.

Welcome to SeaDragon's annual shareholders meeting.

My name is Colin Groves. I am Chairman.

I am joined here by SeaDragon's Chief Executive Dr Nevin Amos, my fellow directors: Matt McNamara, Richard Alderton, Stuart Macintosh, Brett Hewlett as well as our Commercial Manager Tracey Castleton, and Sales Director Campbell Berry-Kilgour.

[Campbell and Tracey would you like to stand up so people can see you.]

Patrick Geals has put in his apologies for today's meeting as he has commitments offshore.

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

Before we get to the formal business of the meeting, I will give a brief address setting out our strategic achievements of the last year.

I will then hand over to Nevin to review the company's strategic and operational progress.

I will then briefly cover the financial performance of the last year and then we will take your questions before moving to the formal business of the meeting.

I remind you that this is a meeting of - and for - our shareholders. Only shareholders registered at 5:00 pm yesterday 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.

After several years of planning and dedicated effort from the SeaDragon team, it is gratifying to finally report to you that we are now out of the starting blocks and are growing our presence in Omega-3 markets.

In June, we announced we had secured our first commercial order for 32,000 kg of refined Omega-3 tuna oil. This order has since been followed by another order for a similar amount from a second customer.

Our oils have meanwhile undergone, or are undergoing, tests with a further 21 prospective customers and we are hopeful that orders for commercial quantities will follow.

We are not happy with the progress we have made. Like you, we would have hoped to have secured more orders and seen our new refinery operating at least to the point of breakeven.

The simple fact of the matter is that the Omega-3 market has proved more challenging than we expected.

Nevin will give you more detail in his address.

But in summary, SeaDragon, having substantially moved away from Omega-2 markets is enduring the challenges and delays one would expect from any company embarking on a new strategic direction.

I want to assure you, your board shares your frustration. However, directors remain confident that SeaDragon is well positioned to carve out an attractive position in Omega-3 markets.

We have a new management team superbly led by Nevin, and in conjunction with the board, the team has established a vision and a strategic plan that directors believe has set SeaDragon on a path to achieve its potential.

We have established supply agreements for unrefined Omega-3 tuna oil that will allow us to deliver commercial volumes of refined oil, once our prospective customers have completed what are time-consuming and arduous quality assurance checks.

Following last year's $10.9 million capital raising we strengthened our balance sheet. Assuming we meet our sales expectations, we believe we have sufficient capital to support our immediate market development plans. We are reviewing this monthly.

Additionally, through the capital raising, Masthead – the investment vehicle of the Stewart family - joined the share register.

Like our other cornerstone shareholders, Comvita, SDMO Trustee and BioScience Managers, Masthead shares our long-term vision, providing us with capital and contacts to help us succeed in Omega-3 markets.

We are fortunate to have Masthead's backing - and indeed - the backing of all our shareholders.

I would now like to hand you over to Nevin to give you an overview of the strategy we announced to the market at the start of the year and the progress we have made against it.

Nevin…

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

It is now just over a year since I joined the company and I must tell you it has been a year of considerable change as we progress towards our goal.

I joined SeaDragon because – like you – I was excited about the company's potential to leverage New Zealand's sustainable fisheries and its reputation for producing healthy high-quality food into international health supplement and functional food markets.

However, along with the board, I believed it was important that we first translated that excitement into a clear statement of strategic direction.

Firstly, why Omega-3 fish oils?

These compounds are the foundations of our new strategy. They offer an attractive proposition because they offer tangible human health benefits.

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

GOED, the global Omega-3 trade organisation, supported by a wide body of peer-reviewed research, recommends that adults take 500mg per day to lower the risk of coronary heart disease.

Pregnant mothers are advised to take 700-1000mg per day, while people with medical conditions such as high blood pressure are advised to take more than 1000mg per day.

The next step is a vision for the business. And we settled on this: to be recognised by global customers as a valued supplier of unique and sustainably harvested marine bioactives for use in supporting healthy lifestyles.

You will notice some subtle yet important changes from how the company talked about itself in the past.

We are focused on marine bioactives for supporting healthy lifestyles. Omega-3 fish oils remain front and centre of our strategy, but we do not want to limit ourselves to one product category given the rapid advances we are seeing in technology and health science.

Finally, sustainability is 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.

Our vision is one that plays to our strengths and one that we believe has the potential to position the company in the most attractive supplement, nutraceutical, functional food and pharmaceutical markets.

Our mission describes our path towards this goal. We intend to capture value from processing fish into purified marine bioactives for use in the functional foods, nutraceutical, and pharmaceutical industries.

This statement again recognises the significant changes we are seeing in the industry and in health science.

It firmly locates our expertise in refining the products of our world class and importantly sustainably-managed New Zealand fisheries. It also gives us the latitude to move away from commodity oils into the highest-value Omega-3 niches.

As I mentioned our vision and mission are shaped by the trends we are seeing in international markets.

Omega-3 markets are evolving from commodity fish oils to highly-differentiated supplements reflecting:

- Increasing customer demand for Omega-3 supplements derived from sustainably-sourced and traceable fish stocks as well as Omega-3 products that offer higher potency and smaller, more-convenient pill sizes;
- Manufacturers' determination to move into higher value niches in Omega-3 markets; and
- Clinicians' determination to prescribe 'clinically-relevant' dosages of EPA and DHA.

Unless we move into these higher value niches the company will remain in a market that is becoming increasingly commoditised. SeaDragon is looking at how we can stay ahead of these developments.

We already refine tuna, hoki and other fish oils. We have agreements with third parties to contract manufacture ethyl esters and re-esterified tri-glycerides. And, we are in negotiations to obtain a global exclusive license for tuna and Hoki liposomal powders and emulsions along with a toll manufacturing agreement.

As we mentioned in the strategic update earlier this year, the global market for Omega-3s is, huge growing and offers numerous market categories across a broad range of territories.

In 2017, according to Grand View Research, demand for Omega-3s for applications including functional foods, infant formula, dietary supplements, and pharmaceuticals is forecast to reach US$35 billion.

Infant formula represents the largest category, generating 42% of the total demand, while the two categories of greatest interest to SeaDragon - food and beverages and dietary supplements - account for 42% or $US14.8 billion of the total demand in 2017.

Meanwhile, the market for Omega-3 supplements across all applications is expected to grow by an average of 6.4% a year between now and 2025, with fish oil-sourced Omega-3s providing the majority of supply.

Demand for Omega-3s for functional food applications such as ice-cream, bread, smoothies and protein bars, is forecast to achieve a compound annual growth rate of 6% a year between now and 2025 to reach US$16.4 billion.

Dietary supplement demand is expected to grow at 5.5% a year to reach nearly US$7 billion by 2025.

SeaDragon's maximum annual production represents a small fraction of this.

This slide demonstrates the potential for SeaDragon. The map shows the average concentrations of EPA and DHA in the blood of healthy adults around the world.

An obvious pattern emerges.

It shows that coastal regions of countries and populations that traditionally rely on hunting, fishing and gathering for sustenance, 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, China, Europe and Australasia.

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.

We have started to make in-roads into North Asia and the halal certification we gained in June has allowed us to approach prospective customers in Singapore, Indonesia and Malaysia.

Still, we have faced significant market access challenges in two important target regions.

The complex and ever-shifting market access regime for China has effectively prevented SeaDragon from engaging with potential customers in this territory over the last 18 months. However, we now believe we have found a way to overcome this barrier and are preparing to send sample batches to potential customers.

In Europe, where demand for the high-DHA tuna oil we produce is strong, regulators and the industry are imposing an ever-more-stringent contaminant testing regime. While we are confident about the quality and purity of our products, the list of certifications we must supply for each batch of Omega-3 oil we produce has grown over the year.

The changes and the growth in certifications is especially challenging for a new Omega-3 market entrant like SeaDragon, which faces an already-arduous and complex product-approval process with prospective customers.

The new regime may limit our ability to secure orders from some customers selling into the European market in the short-term. But we are implementing several process changes in our plant that we believe will assist us to meet the new EU requirements.

When we approach customers we not only have to attest to the quality of our refining capabilities, we also must be able to deliver - at reasonably short notice - the quantities of oil they require.

It is a balancing act. We obviously do not want to repeat the past, when the company was left with inventory it either could not sell or was forced to sell below cost.

We believe we are balancing these tensions well. We are, in the first instance, focusing on refining tuna oil, a product that is valued not only for its high Omega-3 content but also for its high concentration of DHA.

We are confident we can secure 2,000 tonnes of unrefined tuna oil per year through supply agreements and purchases on the spot market. We will place firm orders as we secure contracts for finished goods, which is in stark contrast to the legacy Omega-2 markets, when we would often be required to place orders for supply with no certainty of selling the product.

The supply relationships are for the moment sufficient for the company to establish our credentials with customers and meet our initial estimates for demand. We will seek more supply as demand grows.

We are sourcing tuna from fisheries that are aligned with our responsibly-pure brand positioning. Our suppliers are signatories to - or will shortly be signatories to - agreements or standards that seek to protect fish stocks for future generations, including certifications from the Marine Stewardship Council and Friends of the Sea.

We are sourcing tuna from a range of geographies to reduce risk and meet our customers complex market-access requirements.

Over the longer term we continue to target the development of Omega-3 bioactives from hoki. Hoki-supply will allow us to capitalise on the strong potential we see to sell sustainably-sourced New Zealand products.

We are building strong relationships with the New Zealand fishing industry and have sourced hoki livers to meet sales demand and we expect this to continue.

Hoki offers higher concentrations of DHA than EPA, which is an attractive proposition in international markets. But its total Omega-3 content is lower when compared to tuna and anchovies. It therefore requires concentration or transformation into second-or-third-generation products to be competitive in international Omega-3 markets.

Additionally, the market for differentiated New Zealand-sourced hoki and salmon oils still needs investment to be developed. That is why, for the moment at least, our attention is focussed on capitalising on the opportunities we see for refined tuna oils.

Our customers fall into three main categories. Although, as you can imagine, there is some overlap. The first tier of customers, the refiners, are seeking commodity Omega-3 oils and high volumes. They generally help SeaDragon recover its costs but do not deliver us a significant margin.

Our goal is to channel more of the oil from our refinery into products such as oils with unique EPA and DHA profiles, concentrates or small batch Omega-3 bioactive compounds that Tier 2 and Tier 3 customers are seeking.
Over the longer term, as we develop the market, we also expect these customers to begin to share our enthusiasm for differentiated sustainably-sourced New Zealand Omega-3 oils.
All our customers impose complex product approval and certification processes on their suppliers and these are taking a considerable period of time to satisfy.
We estimate the typical lag between a customer indicating they are interested in SeaDragon supply, and making a commercial order, is 6 to 18 months. This is longer than we expected.
Adding to the complexity are customers' diverse oil provenance requirements. Omega-3 oils, even if they share exactly the same DHA and EPA profiles and are identical in all other respects, may not have access to the same markets due to the certification of the fishing vessel and on-shore processing facilities from which the unrefined oil was sourced.
This complexity however has a silver-lining. The customers, once established, have the potential to offer predictable demand, which will aid us as we seek to manage inventory and working capital.
They also have the potential to be loyal as long as we continue to deliver to specification and on time.
I hope you are now beginning to understand that Omega-3 markets are not easy and they are certainly not as easy as we had hoped.
That said, we are making steady albeit slow progress, assisted by strong support from New Zealand Trade and Enterprise in offshore markets.
We secured our first order with a major Asian tier one customer in June for 32,000 kg of refined oil. And, as announced to the NZX this month, we have received another order for a similar amount from a second tier one customer.
We expect further orders to follow and volumes to increase over time.
Meanwhile, our oil has undergone, or is undergoing, tests with 21 other prospective customers, several of whom have the potential to lodge orders in the hundreds of tonnes.
Again, we are hopeful these tests will translate into commercial orders.

We have also made progress in developing demand for higher-value bioactives such as liposomes and Omega-3 micro-encapsulated powders.

Liposomes, in contrast to commodity Omega-3 oils, are sweet smelling and can be added to nutraceuticals and functional foods such as smoothies and drinks without diminishing flavour.

Similarly, micro-encapsulated Omega-3 powders, which protect oils against oxidation, can be added to infant formula and a variety of functional foods and nutraceuticals.

Our operations are maturing. In the calendar year to date we have processed around 260 tonnes of raw tuna, including 180 tonnes in the current financial year.

This is in the ball park of the volume we processed in the legacy Omega-2 business.

We are using this oil to provide samples for prospective customers and build stocks sufficient to meet immediate anticipated orders.

When we achieve sales of 600 to 700 tonnes of refined tuna oil at current market prices, then we would have covered our costs. The margin on further sales after that will fall directly to the bottom line.

The refinery is generally performing well. As I mentioned earlier, we have achieved halal certification and this is bolstering efforts to secure new customers in south and east Asia.

We have faced some teething issues. Some of our initial orders did not meet specifications due to processing issues. With one exception, we believe we have addressed these deficiencies and made the necessary process improvements. We are focussed on resolving the one remaining issue, but in the interim, the price we can achieve for the affected product has weakened.

In our strategy update we mentioned we were scoping the redevelopment of our Omega-2 refinery for boutique applications such as the concentration of Omega-3 oils.

However, we have now decided to put this plan on hold as we explore the merits of toll manufacturing of concentrated fish oil, rather than tying up shareholders' capital in new plant. This approach is in line with our decision to postpone the fractionation plant.

We are also working hard to strengthen our operational capabilities. We have appointed a new commercial manager, Tracey Castleton, who has restructured our financial reporting and inventory management processes. Tracey is also driving improvements in information technology and human resources.

We have also made several important operational appointments, including a new supply chain manager, a new process engineer and a laboratory chemist, all of whom are helping to provide the level of assurance our customers demand.

We are building our capabilities and making the company better. Progress is not as fast as I would like, but I am confident the company is taking the right steps to build a long-term position in Omega-3 markets.

I will now hand you over to Colin to take you through our financial results.

Thanks Nevin.

As Nevin outlined it has been another year of significant change and one in which we have faced a number of challenges. But our efforts have not been reflected in our financial results. Indeed, due to the absence of significant Omega-3 sales the results for the last financial year are effectively a report on our now discontinued business of refining imported Omega-2 fish oils.

The detail is covered in our annual report, but in summary. Sales for the year to 31 March 2017 fell 22.5% to $4.3 million and we posted a normalised EBITDA loss for the year of $4.4 million. This result principally reflected the sales - at low margin - of our legacy Omega-2 stocks.

We weathered higher interest charges related to bridge financing prior to the company undertaking its rights issue. Following non-cash charges relating to higher depreciation, amortisation and adjustments relating to the accounting treatment of staff incentive payments, net losses after tax increased to $6.7 million.

Following the rights issue, we repaid all our bank debt. And, as I mentioned earlier, as long as we meet our sales expectations we have sufficient cash to achieve our immediate sales development plans, although we are reviewing this monthly.

Inventories are meanwhile sufficient to deliver on anticipated initial orders. We also have the facility to draw a further $1 million of the Comvita Convertible loan facility, if required.

So, to summarise. Shareholders I believe have three key questions to ask of us.

Firstly: ‘Does the factory deliver the products at a specification and quality that we need?’ The answer to this is ‘yes’. We have faced issues but these with a couple of exceptions have been resolved.

Secondly. ‘When are you going to make sales?’ And the answer to this question is that we have started to make sales.

We have secured two significant orders and we have sent oil samples to a further 21 prospective customers. We believe we will cover our costs when we secure orders for 600-700 tonnes of refined tuna oil, assuming current market pricing holds.

We have faced and are dealing with a number of challenges. They range from changing market access rules and arduous customer approval processes.

However, we have a strong team – led by Nevin – that is dedicated to overcoming these hurdles and driving the success of the business.

In the current financial year, we are looking to build sales momentum and we are cautiously confident of our success.

Finally, 'Do you have sufficient capital?' And the answer to this is that we have sufficient capital to achieve our immediate development plans, as long as we deliver on our sales expectations.

We are reviewing this monthly, but we do have the potential to further draw down on the Comvita convertible loan note if needed.

We are lucky to enjoy the support of several high-profile shareholders that share our long-term vision for the company and are committed to seeing that vision realised.

We are moving ahead. We expect our normalised EBITDA loss for the six months to 30 September 2017 to range between $2.4 million and $2.7 million. We currently expect our full year result to be a lower loss than last year – assuming we are able to meet our current sales expectations.

We will provide a further update to the market on our progress when we release our half-year financial results.