



**SEADRAGON LIMITED**

**INDEPENDENT ADVISER'S REPORT &  
INDEPENDENT APPRAISAL REPORT**

**In respect of:**

- **The potential allotment of shares to Comvita in accordance with the convertible loan agreement; and**
- **The proposed amendment to the exercise date of Comvita's Additional Option**

**CAMPBELL MACPHERSON** LTD  
CORPORATE ADVISORS

**25 July 2016**

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**STATEMENT OF INDEPENDENCE**

Campbell MacPherson Limited confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report; and,
- has no direct or indirect pecuniary or other interest in the proposed transaction considered in the report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Campbell MacPherson Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

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## 1. INTRODUCTION

### 1.1 Background

SeaDragon Limited (**SeaDragon**; the **Company**) is a public listed company which specialises in manufacturing high quality Omega 3 oils. SeaDragon is listed on the main board of the New Zealand Stock Exchange (**NZSX**) operated by NZX Limited (**NZX**). The Company has 3,146,314,377 ordinary shares on issue and a market capitalisation of circa \$40.9 million as at 30 June, 2016 (\$0.013 per share).

SeaDragon's three largest shareholders are:

- One Funds Management Limited (**OFM**) with 739,795,270 shares, representing 23.37% of the voting securities on issue.
- SDMO Trustee Limited (**SDMO Trustee**) with 435,388,743 shares, representing 13.84% of the voting securities on issue.
- Comvita Limited (**Comvita**) with 410,987,830 shares, representing 13.06% of the voting securities on issue.

OFM, SDMO Trustee and Comvita each has one representative on the SeaDragon Board of Directors.

On 25 September 2015, SeaDragon entered into an agreement with Comvita in order to facilitate the completion of its 3 for 5 renounceable rights offer. Key terms of this agreement included:

- A cash investment by Comvita as part of the rights offer shortfall bookbuild.
- The issue of an additional option to Comvita to subscribe for 375 million SeaDragon shares at an issue price of \$0.008 per share (**Additional Option**).
- A supply arrangement whereby Comvita will be offered first rights to SeaDragon products at market rates (**Supply Agreement**).

On 30 September 2015, SeaDragon announced that it had raised \$10.009 million via its rights offer and associated shortfall bookbuild (collectively the **Rights Offer**). Under the terms of the Rights Offer, SeaDragon issued 1,251,142,517 new shares at a price of \$0.008 per share and 1,251,142,517 Rights Offer Options (**RO Options**) for no additional consideration. This included the issue of 410,987,830 SeaDragon shares and 410,987,830 RO Options to Comvita.

On 27 May 2016, SeaDragon announced that it had entered into a Convertible Loan Agreement (**Loan Agreement**) with Comvita in order to secure additional capital to fund a gradual build-up of its Omega-3 business and also exit the challenging Omega-2 market. In accordance with the Loan Agreement, Comvita has made available to SeaDragon a convertible loan facility of up to \$3.0 million (the **Loan**), which may be converted to equity at Comvita's option. As at the date of this Report, SeaDragon had drawn down \$1.5 million of the \$3.0 million Loan facility.

The Loan Agreement also provides for an extension to the expiry date of the Additional Option held by Comvita. The key terms of the Loan and the Additional Option are set out in Section 1.3 below.

The potential allotment of shares to Comvita as a result of the conversion of the Loan, and also the proposed extension to the expiry date of the Additional Option (referred to collectively in this Report as the **Proposed Transaction**) are subject to SeaDragon shareholder approval in accordance with the Takeovers Code and NZX Listing Rules.

Campbell MacPherson Limited (**Campbell MacPherson**) has been engaged by SeaDragon to prepare an Independent Adviser's Report in accordance with Rule 18 of the Takeovers Code and an Independent Appraisal Report in accordance with NZX Listing Rules 7.5.1 and 9.2.1 (the **Report**). This Report provides an evaluation of the merits and the fairness of the Proposed Transaction.

## 1.2 Comvita

Comvita is a global natural health company committed to the development of innovative products, backed by ongoing investment in scientific research. Its core products are Manuka Honey and Olive Leaf Extract which are sold into more than 18 countries through a network of its own branded retail locations, online and third party outlets.

Comvita currently holds 410,987,830 shares in SeaDragon, representing 13.06% of the outstanding ordinary shares on issue. On a fully diluted basis (i.e. assuming the exercise of all outstanding SeaDragon options, including the Additional Option), Comvita would hold 25.13% of the ordinary SeaDragon shares on issue.

Comvita has no Associates (within the meaning of the Takeovers Code) or Associated Persons (within the meaning of the NZX Listing Rules) who hold shares in SeaDragon.

Further information on Comvita is provided in Section 5 of this Report.

## 1.3 Terms and Conditions of the Proposed Transaction

The key commercial terms and conditions of the Proposed Transaction are summarised below.

Convertible Loan Agreement – Key Terms and Conditions	
<b>Loan Facility</b>	Comvita has made available to SeaDragon a convertible loan facility which allows SeaDragon to borrow up to \$3.0 million via the issue of convertible loan notes at NZ\$1.00 per note.
<b>Drawdown</b>	The Loan may be drawn down in multiple tranches, provided that each tranche is not less than \$500,000.
<b>Interest</b>	Interest will initially accrue daily on the outstanding balance of the Loan at a rate of 12.0% per annum, reducing to 7.95% per annum on and from the date that shareholder approval for the Proposed Transaction is obtained.
<b>Repayment</b>	Unless the Loan has been converted to equity or redeemed early in accordance with the terms of the Loan Agreement (as summarised below), the Loan will be repaid in full on maturity.
<b>Maturity</b>	5:00pm on 28 September 2018.
<b>Conversion Right</b>	<p>Subject to shareholder approval being obtained, Comvita has the option to convert the outstanding balance of the Loan into ordinary SeaDragon shares based on a conversion price of \$0.008 per share.</p> <p>The Loan may be converted to equity at any time before maturity, unless a redemption notice has been issued by SeaDragon. The Loan can only be converted in full.</p>
<b>Redemption Right</b>	SeaDragon has the option to redeem any convertible loan note at any time before maturity, unless a conversion notice has been

issued by Comvita.

<b>Security</b>	The Loan is secured by a second ranking security agreement over the assets of SeaDragon (subject to shareholder approval). The Loan is subordinated to the Company's debt with Heartland Bank.
<b>Transferability</b>	The Loan may not be transferred without the written consent of SeaDragon.
<b>Additional Option Extension</b>	The expiry date of the Additional Option currently held by Comvita will be extended from 1 October 2017 to 28 September 2018 (subject to shareholder approval).

#### Additional Option – Key Terms and Conditions

<b>Size</b>	In September 2015, SeaDragon granted Comvita an Additional Option to subscribe for 375 million new ordinary SeaDragon shares at a price of \$0.008 per share. The aggregate subscription price in the event that the Additional Option is exercised would be \$3.0 million.
<b>Proposed Date</b>	<b>Expiry</b> The Additional Option may only be exercised in full and can be exercised by Comvita at any time before 5:00pm, 28 September 2018. The current expiry date is 1 October 2017.
<b>Mandatory Exercise Right</b>	SeaDragon may require Comvita to exercise the Additional Option if certain milestones are achieved by SeaDragon (the <b>Mandatory Exercise Right</b> ). Those milestones include: <ul style="list-style-type: none"> <li>▪ A positive operating cash flow target;</li> <li>▪ SeaDragon honouring in good faith the terms of the Supply Agreement;</li> <li>▪ commissioning of the fractionation plant;</li> <li>▪ confirmation of finished product quality and sustainability; and,</li> <li>▪ raw material supply milestones.</li> </ul>

## 1.4 Takeovers Code Requirements

Rule 6 of the Code prohibits:

- A person who holds or controls less than 20% of the voting rights in a Code Company from increasing its control of voting rights beyond 20%.
- A person who holds or controls 20% or more of the voting rights in a Code Company from increasing its control of voting rights.

Unless the person complies with the exceptions to Rule 6.

One of the exceptions, set out in Rule 7(d) of the Code, enables a shareholder to increase its shareholding beyond 20% of the voting rights by an allotment of shares if the allotment is approved by an ordinary resolution of shareholders of the code company.

The Notice of Meeting in respect of the allotment of shares under Rule 7(d) must include or be accompanied by an Independent Adviser's Report that complies with Rule 18 of the Code. This Report must have regard to the interests of those persons who will vote to approve the Proposed Transaction.

In the event that the Proposed Transaction proceeds, the potential allotment of shares as a result of the conversion of the Loan or the exercise of the Additional Option may result in Comvita increasing its control of voting rights in SeaDragon to above 20%. The Directors of SeaDragon have therefore engaged Campbell MacPherson to prepare this Report in accordance with Rule 18 of the Code.

## 1.5 NZX Listing Rules

SeaDragon is listed on the NZX Main Board and is therefore an Issuer and is subject to the NZX Listing Rules.

### *Listing Rule 7.5.1*

Under Listing Rule 7.5.1, no issue, acquisition or redemption of securities shall be made by an Issuer if:

- There is a significant likelihood that the issue, acquisition or redemption will result in any person or group of associated persons materially increasing their ability to exercise, or direct the exercise of (either then or at any future time) effective control of that Issuer; and
- That person or group of associated persons is entitled before the issue, acquisition or redemption to exercise, or direct the exercise of, not less than 1% of the total votes attaching to securities of the Issuer,

unless the precise terms and conditions of the issue, acquisition or redemption have been approved by an ordinary resolution of the Issuer.

Listing rule 7.5.1 requires that, amongst other things, the text of any resolution shall be set out in the Notice of Meeting which must be accompanied by an Independent Appraisal Report to be prepared in accordance with Listing Rule 1.7.2.

In the event that the Proposed Transaction proceeds, it is possible that the potential allotment of shares as a result of the conversion of the Loan or the exercise of the Additional Option may result in Comvita increasing its ability to exercise effective control of SeaDragon. The Independent Directors of SeaDragon have therefore engaged Campbell MacPherson to prepare this Independent Appraisal Report.

### *Listing Rule 9.2.1*

Listing Rule 9.2.1 prohibits the Company from entering into a Material Transaction (as defined in Listing Rule 9.2.2), which includes:

- The issue of securities having a market value in excess of 10% of the Average Market Capitalisation of the Company;
- Borrowing money or incurring an obligation of an amount in excess of 10% of the Average Market Capitalisation of the Company;
- Giving any security for or of obligations which could expose the Company to liability in excess of 10% of the Average Market Capitalisation of the Company,

if a Related Party is a party to at least one of a related series of transactions of which the Material Transaction forms part. Comvita is a Related Party because it holds more than 10% of the shares of the Company. The entry into the Loan Agreement, the issue of the associated securities and the granting of security over all of SeaDragon's assets in favour of Comvita, may each be considered to be a Material Transaction which requires approval by an ordinary resolution of the Company's shareholders in accordance with Listing Rule 9.2.1.

Listing rule 9.2.5 requires that, amongst other things, the text of any resolution to be put to a meeting of an Issuer for the purposes of Rule 9.2.1 shall be set out in the Notice of Meeting which must be accompanied by an Independent Appraisal Report.

## 1.6 Notice of Meeting

The Company is holding its annual meeting of shareholders on 31 August 2016, where shareholders will vote on a number of resolutions contained in the notice of meeting (**Notice of Meeting**). These resolutions shall include Resolutions 4, 5, 6 and 7 relating to the Proposed Transaction (the **Resolutions**). Comvita will not be entitled to vote on the Resolutions.

### **Resolution 4 – Convertible Notes**

“That for the purposes of Listing Rule 7.3.10(b)(ii), and in accordance with the agreement for the issue of Convertible Loan Notes between the Company and Comvita dated 30 May 2016, the Company may issue such number of ordinary shares to Comvita as may be required on the conversion of the Convertible Loan Notes pursuant to the Loan Agreement, up to a maximum of 375,000,000 ordinary shares (the **Conversion Shares**).”

### **Resolution 5 – Listing Rules and Takeovers Code**

“That, subject to Resolution 4 being passed, for the purposes of Listing Rule 7.5 and Rule 7(d) of the Takeovers Code, the issue of the Conversion Shares to Comvita is approved.”

### **Resolution 6 – Listing Rules**

“That, subject to Resolutions 4 and 5 being passed, for the purposes of Listing Rule 9.2.1, the entry into the Loan Agreement, the issue of the Convertible Loan Notes and the Conversion Shares and the granting of security over all of SeaDragon’s assets in favour of Comvita to secure repayment of the Convertible Loan Notes, each as a Material Transaction with a Related Party (as those terms are defined in Listing Rule 9.2.2), is approved.”

### **Resolution 7 – Additional Option Extension**

“That, subject to Resolutions 4, 5 and 6 being passed, the proposed change to the date of expiry of the option granted to Comvita on 17 December 2015 (as set out in the option deed dated 17 March 2016) from 5:00pm on 30 September 2017 to 5:00pm on 28 September 2018, is approved.”

Each of the resolutions set out above is conditional on all of the other Resolutions being approved. In the event that either Resolution 4, 5, 6 or 7 is not approved, then the Proposed Transaction will not have been approved, the interest rate applicable to the Loan will not step down and Comvita may require repayment of the outstanding amount of the Loan.

## 1.7 Issue of the Report

The **Non-Associated Directors** of SeaDragon, being those Directors who are not associated with Comvita, have engaged Campbell MacPherson to prepare an Independent Adviser’s Report on the merits of the Proposed Transaction in accordance with Rule 18 of the Code and an Independent Appraisal Report on the fairness of the Proposed Transaction in accordance with NZX Listing Rule 7.5.1, 9.2 and 1.7.2.

Campbell MacPherson was approved by the Takeovers Panel on 10 June 2016 to prepare the Independent Adviser’s Report. Campbell MacPherson was approved by the NZX on 1 July 2016 to prepare the Independent Appraisal Report.

Campbell MacPherson issues this Report to the Non-Associated Directors to assist SeaDragon shareholders other than Comvita (the **Non-Associated Shareholders**) in forming their own opinion on whether to vote for or against the Resolutions. We note that each

shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits or fairness of voting for or against the Resolutions in relation to each individual shareholder. This Report is therefore necessarily general in nature. This Report is not to be used for any other purpose without Campbell MacPherson's prior written consent.



## 2. EVALUATION OF THE MERITS OF THE PROPOSED TRANSACTION

### 2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the potential allotment of shares to Comvita as a result of the conversion of the Loan, and the extension to the expiry date of the Additional Option. There is no legal definition of the term “merits” in New Zealand in either the Code or in any statute dealing with securities or commercial law. In the absence of an explicit definition of “merits”, guidance can be taken from:

- The Takeover Panel’s guidance note on the role of Independent Advisers dated September 2015;
- Definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction;
- Overseas precedents; and
- The ordinary meaning of the term “merits”.

We are of the view that an assessment of the merits of the Proposed Transaction should focus on the following:

- The rationale for the Proposed Transaction.
- The terms and conditions of the Proposed Transaction.
- The impact of the Proposed Transaction on the ownership of SeaDragon by Comvita.
- The impact of the Proposed Transaction on the control of SeaDragon by Comvita.
- Alternatives to the Proposed Transaction.
- The likelihood of the Resolutions in respect of the Proposed Transaction being approved.
- The implications of the Resolutions in respect of the Proposed Transaction not being approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analysis together could create a misleading view of the rationale underlying this opinion.

### 2.2 Rationale for the Proposed Transaction

As previously announced to the market, SeaDragon is currently in a transitional phase as it seeks to exit the challenging Omega-2 market and focus on its recently developed Omega-3 business.

Recent milestones achieved by the Company include:

- Completion of a \$10.0 million capital raising in September 2015.
- A strategic partnership with Comvita, a global natural health products company (who is now a cornerstone shareholder in SeaDragon).
- Construction of a new Omega-3 fish oil refinery in Nelson, which has increased the Company’s processing capacity from approximately 200 tonnes to 5,000 tonnes per annum. The final cost of the new refinery was \$10.8 million.

A recent downturn in the global Omega-2 market has led to a decline in Omega-2 prices. As a result, SeaDragon has faced considerable difficulties selling its remaining Omega 2

inventory. An extended sales cycle and the associated build-up of Omega-2 inventory has resulted in the Company experiencing a short-term cash flow shortage.

SeaDragon's audited statement of financial position as at 31 March 2016 shows inventory of \$2.97 million, drawn bank facilities of \$3.87 million and cash reserves of only \$195,000. Campbell MacPherson has been advised that the \$10.0 million raised via the Rights Offer in September 2015 was primarily used to complete the Company's new Omega-3 refinery, meet working capital requirements and fund ongoing operating losses.

In April 2016, Heartland Bank provided SeaDragon with a \$1.0 million term loan facility to assist the Company with its short-term funding requirements. However, as a result of on-going operating losses, SeaDragon was facing an immediate shortfall in available funds by May 2016. The SeaDragon Board therefore approached a number of potential funders, including its major shareholders and Heartland Bank. Given SeaDragon's urgent funding requirements, Comvita agreed to provide up to \$3.0 million of funding via a convertible loan facility. We are advised that SeaDragon's other cornerstone shareholders, OFM and SDMO Trustee, were not in a position to provide further funding to the Company.

On 30 May 2016 the Company drew down \$1.5 million from the Loan facility and issued 1,500,000 convertible loan notes to Comvita.

## 2.3 Analysis of the Key Terms and Conditions of the Loan

SeaDragon advises that the terms of the Loan were negotiated on an arm's length basis between Comvita (represented by Comvita management) and SeaDragon (represented by a subcommittee comprising the Non-Associated Directors).

### *Size of the Loan Facility*

Comvita has agreed to advance the Company up to \$3.0 million to fund projected operating losses and additional working capital as the Company transitions from Omega-2 to Omega-3. As at the date of this Report, SeaDragon had drawn down \$1.5 million of the \$3.0 million Loan facility. We are advised that the balance of the Loan facility will likely be drawn down during August 2016. However, the quantum and timing of any further drawdowns will depend on a range of factors including:

- SeaDragon's ability to realise the value of its Omega-2 inventory (discussed below).
- SeaDragon's requirement to fund raw materials for its Omega-3 business.
- Future Omega-3 sales.
- Future capital expenditure requirements.
- Future fundraising and / or debt repayment obligations.

As previously announced on 30 June 2016, SeaDragon has agreed to sell the majority of its remaining Omega-2 inventory to a major international food and chemicals company. The sale is expected to generate revenue of approximately \$2.5 million.

Campbell MacPherson understands that the amount of funding made available under the Loan Agreement (i.e. \$3.0 million) was determined by the SeaDragon Board based on a number of factors including:

- The Board's estimate of the amount of capital required to fund immediate cash requirements until the Omega-3 business can reach a break-even position.
- Comvita's appetite to invest further capital into SeaDragon.

### ***Interest Rate***

Interest will initially accrue on the outstanding balance of the Loan at 12.0% per annum, reducing to 7.95% per annum from the date that the Non-Associated Shareholders approve the Resolutions.

As set out in Section 2.8, it is highly likely that the Resolutions relating to the Proposed Transaction will be approved. We have therefore focused on the reduced interest rate of 7.95% per annum.

Based on our knowledge of current interest rates for subordinated loans in the commercial banking market, and also taking into consideration SeaDragon's current stage of development, we believe an interest rate of 7.95% p.a. to be favourable to SeaDragon.

For example, SeaDragon currently pays an interest rate of 7.95% p.a. on its primary debt facility with Heartland Bank, which is secured by a first ranking security agreement over the Company's assets. Under the terms of the Loan Agreement and the associated Deed of Priority, the Loan from Comvita is subordinated to the Heartland debt facility, and therefore, has a higher risk profile. This additional risk would typically warrant a higher interest rate.

### ***Early Redemption / Repayment***

Subject to the Company complying with its obligations under the Deed of Priority with Heartland Bank, SeaDragon will have the option to redeem the Loan at any time prior to its maturity date, unless a conversion notice has already been issued by Comvita (as discussed below).

On the basis that SeaDragon has sufficient funding, the ability to redeem the Loan prior to its maturity date has a number of advantages for the Non-Associated Shareholders, including;

- The potential for a lower interest expense (relative to allowing the Loan to run until maturity).
- The ability to refinance the Loan at a lower interest rate without penalty.
- The ability to reduce the term of Comvita's conversion right in relation to the Loan, which is potentially dilutive to the Non-Associated Shareholders. Comvita's conversion right is discussed in more detail below.

Based on discussions with the Non-Associated Directors, we understand that it is the Company's intention to redeem the Loan prior to the 28 September 2018 maturity date. However, the Company's ability to generate the cash flow and / or secure the funding required to redeem the Loan early remains uncertain.

### ***Conversion Right***

Subject to shareholder approval being obtained, Comvita will have the option to convert the outstanding balance of the Loan into ordinary SeaDragon shares at any time prior to the Loans' maturity date, unless a redemption notice has already been issued by SeaDragon (as discussed above). In accordance with the terms of the Loan Agreement, the conversion price is fixed at \$0.008 per share, which represents a 38.5% discount to SeaDragon's closing share price as at 30 June 2016 and a 40.4% discount to SeaDragon's 30 day VWAP as at 30 June 2016.

It is not uncommon for NZX-listed companies to issue convertible securities which convert to equity based on a discounted share price. In our opinion, the size of the conversion discount can be a function of a range of factors, including:

- The perceived risks associated with the company.

- The urgency of the transaction / capital raising.
- The appetite of potential investors to provide further capital.
- Other key terms associated with the convertible security (e.g. interest rate and conversion terms).
- Whether the convertible security forms part of a wider transaction.

By virtue of the conversion price for the Loan being fixed at \$0.008 per SeaDragon share, which represents a significant discount to SeaDragon's current traded share price, the potential conversion of the Loan may result in a significant transfer of value from the Non-Associated Shareholders to Comvita. The Non-Associated Shareholders have not been provided with an opportunity to acquire additional SeaDragon shares at a discounted price of \$0.008 per share.

The extent of any transfer of value to Comvita as a result of the Loan being converted to equity will ultimately depend on a range of factors including:

- SeaDragon's ability to redeem the Loan early (i.e. prior to Comvita issuing a conversion notice).
- Comvita's decision to exercise its option to convert the Loan to equity.
- The outstanding balance of the Loan in the event that Comvita does exercise its option to convert the Loan to equity.
- SeaDragon's prevailing share price as at the date of any conversion event.

#### *Indicative Valuation of the Convertible Loan Notes*

As set out in Section 1.3, SeaDragon may borrow up to \$3.0 million from Comvita via the issue of convertible loan notes at NZ\$1.00 per note (**Convertible Loan Notes**). By virtue of the conversion price for each Convertible Loan Note being fixed at \$0.008 per share, each Convertible Loan Note has an embedded call option (i.e. the option to buy SeaDragon shares at \$0.008 per share). It is therefore necessary to consider the debt component and also the embedded option component when assessing the total value of each Convertible Loan Note.

Key assumptions made by Campbell MacPherson in assessing the value of each Convertible Loan Note issued to Comvita on 30 May 2016 are set out below. We note that, our indicative valuation of the Convertible Loan Notes has been undertaken on the basis that the Proposed Transaction is approved by the Non-Associated Shareholders and that the Loan is fully drawn down.

Convertible Loan Notes Valuation – Inputs and Assumptions (Debt Component)	
Input	Assumption
Valuation date	30 May 2016 - The date on which the first Convertible Loan Notes were issued to Comvita.
Effective maturity date	28 September 2018 – We have assumed that the Loan will not be repaid or converted to equity prior to its maturity date.
Coupon rate	12.0% p.a. up until 30 August 2016, the day prior to SeaDragon's annual meeting of shareholders, and 7.95% p.a. thereafter (paid quarterly) - As per the terms of the Loan Agreement.
Principal payment on maturity	\$1.00 per Convertible Loan Note - As per the terms of the Loan Agreement.
Required Yield	12% to 14% - Estimated based on SeaDragon's current debt funding costs and also yields on comparable debt

securities.

Convertible Loan Notes Valuation – Inputs and Assumptions (Option Component)	
Input	Assumption
Valuation date	30 May 2016 - The date on which the first Convertible Loan Notes were issued to Comvita.
Effective expiry date	28 September 2018 – We have assumed that the Loan will not be repaid or converted to equity prior to its maturity date.
Underlying share price	\$0.013 – SeaDragon’s 30 day VWAP prior to the announcement of the Proposed Transaction.
Exercise price	\$0.008 – The effective exercise price of the embedded option component of the Convertible Loan Notes.
Risk-free rate	2.1% - Estimated based on current yields on short-term New Zealand Government bonds.
Dividend yield	0% - Campbell MacPherson has assumed that SeaDragon will not pay any dividends over the term of the Convertible Loan Notes.
Expected volatility	50% to 60% - Estimated based on SeaDragon’s historic volatility and also the volatility of comparable listed companies.
Conversion factor	125 – The number of SeaDragon shares issued per Convertible Loan Note in the event that the Loan is converted to equity.

Unlike a standard call option, which is written over existing shares, SeaDragon will issue new shares to Comvita in the event that the Loan is converted to equity. The conversion of the Loan would therefore dilute the interests of the existing SeaDragon shareholders. Campbell MacPherson has made an adjustment to the value of a standard call option in order to reflect the potential dilutive impact of converting the Loan.

**Based on the inputs and assumptions set out above, Campbell MacPherson has assessed the value of each Convertible Loan Note issued to SeaDragon on 30 May 2016 to be in the range of \$1.61 to \$1.69 per note.**

Convertible Loan Notes Issued on 30 May 2016 - Valuation Results		
NZ\$	Value Range	
	Low	High
Debt component	0.89	0.93
Embedded option component	0.71	0.76
<b>Assessed value per Convertible Loan Note</b>	<b>1.61</b>	<b>1.69</b>

As set out above, only 1.5 million Convertible Loan Notes were issued to Comvita on 30 May 2016. SeaDragon may therefore issue a further 1.5 million Convertible Loan Notes to Comvita, raising an additional \$1.5 million of capital.

Assuming that all valuation assumptions remain unchanged, other than the issue date, then the term of any further Convertible Loan Notes issued to Comvita will be less than those issued on 30 May 2016 (i.e. less than 2.3 years). The theoretical value of any further Convertible Loan Notes issued to Comvita will therefore be less than the value of those Convertible Loan Notes issued on 30 May 2016.



## 2.4 Analysis of the Terms of the Additional Option

### *Issue of the Additional Option*

The Additional Option was issued to Comvita for no consideration as part of the Rights Offer undertaken in September 2015, and therefore provided Comvita with preferential terms compared to existing shareholders and external investors who did not receive an equivalent Additional Option as part of the Rights Offer. The key terms of the Additional Option are set out above in Section 1.3.

The Non-Associated Directors of SeaDragon supported the issue of the Additional Option to Comvita on the basis that Comvita was prepared to invest a significant amount of capital (ultimately more than \$3.0 million) into SeaDragon via the Rights Offer and potentially a further \$3.0 million through exercise of the Additional Option.

**The issue of the Additional Option to Comvita was approved by SeaDragon shareholders at the special meeting of shareholders held on 17 December, 2015.**

### *Exercise Price*

The exercise price of the Additional Option is fixed at \$0.008 per share, which represents a 38.5% discount to SeaDragon's closing share price as at 30 June 2016 and a 40.4% discount to SeaDragon's 30 day VWAP as at 30 June 2016.

By virtue of the exercise price of the Additional Option being fixed at \$0.008 per SeaDragon share, the exercise of the Additional Option by Comvita may result in a significant transfer of value from the Non-Associated Shareholders to Comvita. However, this potential transfer of value to Comvita is off-set to some extent by the Mandatory Conversion Right held by SeaDragon (as discussed below).

### *SeaDragon's Mandatory Exercise Right*

SeaDragon may require Comvita to exercise the Additional Option if certain milestones are achieved by SeaDragon, as set out in Section 1.3.

Subject to meeting the Mandatory Exercise Milestones, the key benefits of the Mandatory Exercise Right to SeaDragon include:

- The ability to remove a significant "overhang" of options from the market. SeaDragon already has approximately 1.24 billion RO Options and 375 million additional options on issue, which may potentially limit future appreciation in the SeaDragon share price.
- The ability to secure a further \$3.0 million of equity capital.
- The ability to issue new shares to Comvita at a price of \$0.008 per share, regardless of SeaDragon's prevailing shares price as at the exercise date, which may be lower than \$0.008 per share.

SeaDragon has indicated that, in the event that the Mandatory Exercise Milestones are achieved, it is likely that it would promptly exercise its Mandatory Exercise Right to require Comvita to exercise the Additional Option.

### *Term / Expiry Date*

The initial expiry date of the Additional Option was 1 October 2017, representing a term of approximately two years from the date the Additional Option was issued. In the event that the Proposed Transaction is approved, the expiry date of the Additional Option will be extended to 28 September 2018.

Campbell MacPherson has been advised that the extension to the expiry date of the Additional Option was negotiated on an arm's length basis between Comvita and SeaDragon as part of the Proposed Transaction in order to obtain the \$3.0 million Loan from Comvita.

The key advantages to SeaDragon and Comvita of extending the expiry date of the Additional Option are summarised below.

Key Advantages of Extending the Expiry Date of the Additional Option	
SeaDragon	Comvita
<ul style="list-style-type: none"> <li>Provides SeaDragon with additional time to achieve the milestones set out in Section 1.3, which would enable the Company to exercise its Mandatory Exercise Right and secure an additional \$3.0 million of new capital at a fixed subscription price.</li> </ul>	<ul style="list-style-type: none"> <li>Increases the time value component of Comvita's option to buy additional SeaDragon shares at \$0.008 per share.</li> </ul>

In our opinion, the extension of the expiry date of the Additional Option increases the likelihood that the Additional Option will be exercised (either compulsorily or at Comvita's discretion). Therefore, the primary disadvantage to the Non-Associated Shareholders of extending the expiry date of the Additional Option is that there is a higher chance that the Non-Associated Shareholders will be subject to ownership and control dilution resulting from the Additional Option being exercised. Analysis on the potential dilutionary impact of exercising the Additional Option is set out in Sections 2.6 and 2.7 below.

Furthermore, extending the expiry date of the Additional Option may prolong the negative effects of having a significant "overhang" of options on SeaDragon's share price and liquidity.

## 2.5 Potential Alternatives to the Proposed Transaction

At the time the Loan Agreement was entered into, SeaDragon was facing an immediate shortfall in available funds. Alternative funding options considered by the Board prior to entering into the Loan Agreement with Comvita are summarised below.

SeaDragon - Alternative Funding Options Considered	
Option	Comment
A placement to SeaDragon's other cornerstone shareholders.	We are advised that OFM and SDMO Trustee declined to provide funding to SeaDragon.
Extending its debt facility with Heartland Bank.	As set out above, Heartland Bank provided SeaDragon with a \$1.0 million extension to its debt facility to support the Company in the short-term. However, additional capital was required by the Company and Heartland Bank was not willing to provide any further funding.
A rights issue or private placement	Given SeaDragon's immediate funding requirements, we are advised that insufficient time was available to complete a rights issue or private placement.

Given the urgency of SeaDragon's funding requirements, and also the Company's current stage of development, it is unlikely that SeaDragon would have been able to secure alternative funding.

As announced to the market on 30 June 2016, SeaDragon is reviewing the terms of its relationship with its bankers and is looking at options to raise additional capital for the Company if required. We are advised by the Non-Associated Directors that this may include



a rights offer at \$0.008 per share (i.e. the same as the conversion price for the Loan). The SeaDragon Board will consider the Company's capital raising options at its next board meeting on 2 August.

## 2.6 Impact on the Ownership of SeaDragon

OFM is currently the largest SeaDragon shareholder, followed by SDMO Trustee and then Comvita. Comvita currently holds 13.06% of the shares on issue. However, on a fully diluted basis (i.e. assuming the exercise of all outstanding SeaDragon options, including the Additional Option), Comvita would hold 25.13% of the ordinary SeaDragon shares on issue.

The current ownership position of SeaDragon's major shareholders is summarised in the table below.

SeaDragon Ownership (as at 21 July 2016)								
Security Holder	Shares		RO Options		Additional Options		Convertible Notes <sup>1</sup>	
	# (M)	%	# (M)	%	# (M)	%	# (M)	%
OFM	735	23.37%	325	26.22%	-	0.0%	-	0.0%
SDMO	435	13.84%	-	0.00%	-	0.0%	-	0.0%
Comvita	411	13.06%	411	33.12%	375	100.0%	1.5	100.0%
Other	1,565	49.73%	504	40.66%	-	0.0%	-	0.0%
<b>Total</b>	<b>3,146</b>	<b>100.0%</b>	<b>1,241</b>	<b>100.0%</b>	<b>375</b>	<b>100.0%</b>	<b>1.5</b>	<b>100.0%</b>

1. Based on a conversion price of \$0.008 per share, each Convertible Loan Note may be converted into 125 SeaDragon shares. Assuming the Loan is fully drawn down (i.e. \$3.0 million), Comvita will have the option to acquire up to 375 million SeaDragon shares.

The number of SeaDragon shares issued per Convertible Loan Note in the event that the Loan is converted to equity.

The impact of the Proposed Transaction on the ownership of SeaDragon will depend on the following key factors:

- The extent to which the existing RO Option holders (including Comvita) exercise their RO Options.
- Whether Comvita exercise its Additional Option (either compulsorily or at its discretion).
- Whether Comvita exercises its option to convert the Loan to equity.
- The outstanding balance of the Loan in the event that Comvita does exercise its option to convert the Loan to equity.
- Whether SeaDragon issues any new shares to other parties, other than those contemplated above.

In assessing the impact of the Proposed Transaction on the ownership of SeaDragon, the following points must be taken into consideration:

- The RO Options held by Comvita were issued as part of the Rights Offer and **do not** form part of the Proposed Transaction.
- The issue of the Additional Option to Comvita was approved by the SeaDragon shareholders on 17 December, 2015.
- The Proposed Transaction only contemplates an extension to the expiry date of the Additional Option. The Proposed Transaction **does not** impact the extent to which Comvita can increase its ownership of SeaDragon by exercising the Additional Option.

- Whilst Comvita currently holds 13.06% of the SeaDragon shares on issue, in accordance with the original terms of the RO Options and the Additional Option, which were approved by shareholders on 17 December 2015, Comvita is **currently** able to increase its shareholding in SeaDragon to a maximum position of 30.44% of the shares on issue by exercising its RO Options and the Additional Option. However, in order for Comvita to reach a maximum ownership position of 30.44%, all RO Options held by the Non-Associated Shareholders would need to remain unexercised. In our opinion, this is unlikely given that a key driver of an RO Option holder's decision to exercise is likely to be the prevailing price of SeaDragon shares. Therefore, in the event that Comvita exercises its RO Options, it is not unreasonable to assume that at least some other RO Option holders will do the same. If Comvita exercised its Additional Option and **all** RO Option holders exercised their RO Option, Comvita would hold 25.13% of the SeaDragon shares on issue.

SeaDragon's existing capital structure and the Proposed Transaction gives rise to a wide range of potential future shareholding levels for the Non-Associated Shareholders. Campbell MacPherson has assessed the potential impact of the Proposed Transaction on the ownership and control of SeaDragon under four scenarios, as summarised below. We note that, each of the four scenarios summarised below assumes that the Loan is fully drawn down (i.e. \$3.0 million).

#### SeaDragon – Ownership and Control Scenarios

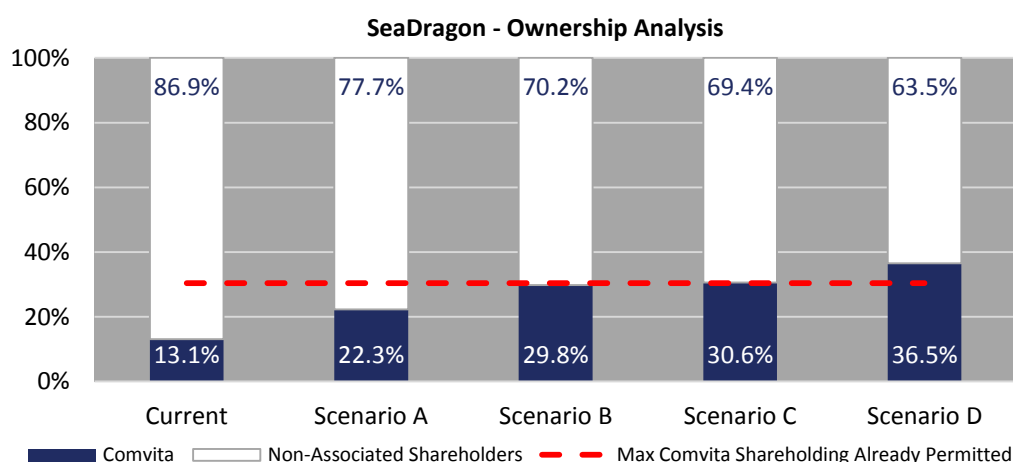
<b>Scenario A</b>	The Additional Option is exercised <b>or</b> the Loan is converted to equity (both the Additional Option and the Loan allow Comvita to acquire up to 375 million SeaDragon shares).
<b>Scenario B</b>	The Additional Option is exercised <b>and</b> the Loan is converted to equity.
<b>Scenario C</b>	The Additional Option is exercised, the Loan is converted to equity and all outstanding RO Options are exercised.
<b>Scenario D</b>	The Additional Option is exercised, the Loan is converted to equity and only Comvita's RO Options are exercised. This scenario assumes that all RO Options held by the Non-Associated Shareholder are not exercised.

As noted in Section 1.3, the exercise price of the Additional Option and the conversion price for the Loan is fixed at \$0.008 per share. This is significantly lower than the exercise price of the RO Options (i.e. \$0.015 per share). It is therefore unlikely, in our view, that Comvita would exercise its RO Options without first exercising its Additional Option and converting the Loan to equity.

### SeaDragon Ownership - Scenario Analysis

SeaDragon's potential ownership under the four scenarios described above is summarised below.

SeaDragon - Ownership Analysis					
	Current	Scenario A	Scenario B	Scenario C	Scenario D
<b>OFM</b>					
Number of Shares (M)	735	735	735	1,061	735
%	23.37%	20.88%	18.87%	20.65%	17.07%
<b>SDMO Trustee</b>					
Number of Shares (M)	435	435	435	435	435
%	13.84%	12.36%	11.17%	8.48%	10.11%
<b>Comvita</b>					
Number of Shares (M)	411	786	1,161	1,572	1,572
%	13.06%	22.32%	29.80%	30.60%	36.50%
<b>Other</b>					
Number of Shares (M)	1,565	1,565	1,565	2,069	1,565
%	49.73%	44.43%	40.16%	40.28%	36.33%
<b>Shares Outstanding (M)</b>	<b>3,146</b>	<b>3,521</b>	<b>3,896</b>	<b>5,137</b>	<b>4,307</b>



Whilst it is theoretically possible that Comvita could reach the maximum ownership position of 36.50% of the SeaDragon shares on issue, this would require that the Non-Associated Shareholders do not exercise any of their RO Options. As set out above, this is unlikely given that a key driver of an RO Option holder's decision to exercise is likely to be the prevailing share price of SeaDragon. Therefore, in the event that Comvita exercises its RO Options, it is not unreasonable to assume that at least some other RO Option holders will do the same.

The four ownership scenarios set out above assume that the Loan is fully drawn down at the time of any conversion event. As at the date of this report, only \$1.5 million of the \$3.0 million facility had been drawn down by SeaDragon. If the outstanding balance of the Loan as at the date of any conversion event is less than \$3.0 million, then Comvita's maximum ownership position would be less than 36.50%.

### Ability of Comvita to Increase its Ownership of SeaDragon in the Future

Other than by way of exercising its RO Options, Additional Option, and/or converting the Loan to equity, Comvita will not be able to increase its ultimate shareholding in SeaDragon to above 20% in the future unless it complies with the provisions of the Code and the NZX Listing Rules.

Comvita will therefore only be able to increase its voting control in SeaDragon above the percentage that maybe acquired via exercising its RO Options, Additional Option, and/or converting the Loan to equity (36.50% being the maximum) if;

- It makes a full or partial takeover offer; or
- The acquisition of further shares by Comvita is approved by way of an ordinary resolution of SeaDragon shareholders, (where Comvita would be precluded from voting on such a resolution); or
- The Company makes an allotment of shares to Comvita which is approved by way of an ordinary resolution of SeaDragon shareholders, (where Comvita would be precluded from voting on such a resolution).

## 2.7 Impact on the Control of SeaDragon

### *Shareholder Voting*

There are a number of key thresholds in relation to the voting rights of NZSX listed companies such as SeaDragon.

- Ordinary resolutions require passing by more than 50% of votes of holders of securities who are eligible to vote and voting.
- Special resolutions require passing by 75% or more of votes of holders of securities who are eligible to vote and voting.
- A shareholder holding more than 25% of the voting securities of a company is able to block a special resolution.
- A shareholder holding more than 50% of the voting securities of a company is able to pass an ordinary resolution.
- A shareholder holding 50% or more of the voting securities of a company is able to block an ordinary resolution.
- A shareholder holding 75% or more of the voting securities of a company is able to pass (or block) both ordinary resolutions and special resolutions.

A shareholder's ability to influence voting on ordinary or special resolutions may be impacted by other legal and regulatory factors such as the Companies Act, Takeovers Code, NZX Listing Rules, and the Company's constitution.

The typical powers that can be exercised by an ordinary resolution of shareholders include:

- adoption of financial statements;
- appointment or removal of directors;
- appointment of auditors;
- alteration of shareholder rights; and
- decisions involving remuneration and other benefits.

The typical powers that can be exercised by a special resolution of shareholders include:

- adopting, altering or revoking the company's constitution;
- approval of a major transaction;
- approval of an amalgamation; and
- placing the company into liquidation.

A shareholder may also be able to influence voting on ordinary or special resolutions in the event that other shareholders choose not to vote (to the extent that this increases the effective voting power of those shareholders that do vote).

### ***Voting Impact of the Proposed Transaction***

In the event that the Proposed Transaction proceeds, the maximum control position that Comvita could reach is 36.50% of the voting securities on issue (i.e. Scenario D). Under this scenario Comvita's shareholding would exceed the 25% threshold of voting securities required for Comvita to be able to block a special resolution. However, Comvita would not be able to pass or block an ordinary resolution in its own right (assuming that all SeaDragon shareholders cast their vote on a given resolution).

As set out above, in accordance with the original terms of the RO Options and the Additional Option, and the associated shareholder approvals, Comvita is already permitted to increase its shareholding in SeaDragon to a maximum of 30.44% of the voting securities on issue by exercising its RO Options and its Additional Option. Comvita is therefore already permitted to increase its shareholding to a position whereby it could block a special resolution in its own right. However, by virtue of the conversion price for the Loan being significantly lower than the exercise price of the RO Options (i.e. \$0.008 compared to \$0.015), the Proposed Transaction does, in our view, increase the likelihood that Comvita will increase its shareholding in SeaDragon above the 25% threshold, allowing it to block a special resolution. For example, based on SeaDragon's share price of \$0.013 as at 30 June 2016, the RO Options are currently "out of the money" and are unlikely to be exercised until SeaDragon's share price exceeds \$0.015 per share. However, the Loan, which has a conversion price of \$0.008, is currently "in the money" and may be converted at any time following shareholder approval at the Company's annual meeting.

Given the large number of small shareholders on the SeaDragon share register, we believe it is possible that a significant number of minority shareholders who are eligible to vote may not vote on a given resolution. This would increase the effective voting power of those shareholders which do cast their vote. It is therefore possible that Comvita may control more than 36.50% of the votes cast on a given resolution in the event that the Proposed Transaction is approved.

On the basis that Comvita is already permitted to increase its shareholding in SeaDragon to above 25% of the voting securities on issue, the Proposed Transaction is unlikely to result in Comvita being able to materially increase its voting control of the Company. However, given the favourable terms of the Loan relative to the RO Options, the Proposed Transaction does, in our view, increase the likelihood that Comvita will increase its shareholding in SeaDragon above the 25% threshold.

### ***Board of Directors***

Brett Hewlett, the former CEO of Comvita, was appointed to the SeaDragon Board in November 2015. The Non-Associated Directors of SeaDragon advise that the Proposed Transaction is not expected to result in any increase in the number of Directors appointed by Comvita to the Board of SeaDragon, nor is it expected to result in any increase in Comvita's control position on the SeaDragon Board.

### ***Countervailing Power held by other Major SeaDragon Shareholders***

OFM and SDMO Trustee will remain significant shareholders in SeaDragon under all of the scenarios set out above. In our view, the presence of these major shareholders, who also have representatives on the Board of SeaDragon (and who are not a related party or associate of Comvita) provides a level of countervailing ownership and control of the Company that will help to moderate the influence and control of Comvita over SeaDragon.

In particular, we consider that the presence of these other major shareholders significantly reduces the risk of Comvita being able to exercise “de facto” majority control of the Company in the event of a vote on a given ordinary resolution of the Company (unless one or more of those other major shareholders is not permitted to vote on the ordinary resolution in question).

## 2.8 Resolutions are Highly Likely to be Approved

OFM is eligible to vote on the Resolutions and is currently the largest SeaDragon shareholder, holding 735,264,802 shares representing 23.37% of the total shares on issue.

SDMO Trustee is eligible to vote on the Resolutions and is currently the second largest SeaDragon shareholder, holding 435,388,743 shares representing 13.84% of the total shares on issue.

Longview Te Pirita Limited and Ross Keeley are eligible to vote on the Resolutions and collectively hold 111,204,981 SeaDragon shares representing 3.53% of the total shares on issue.

OFM, SDMO Trustee, Longview Te Pirita Limited and Ross Keeley collectively hold 1,281,858,526 SeaDragon shares, representing 40.74% of the total number of SeaDragon shares on issue, and 46.86% of the total votes entitled to be cast on the Resolutions. Each Resolution is an ordinary resolution requiring approval of more than 50% of votes of holders of securities who are eligible to vote and voting.

OFM, SDMO Trustee, Longview Te Pirita Limited and Ross Keeley have all advised SeaDragon that they intend to vote in favour of the Resolutions to approve the Proposed Transaction. It is therefore highly likely that the Resolutions will be approved.

## 2.9 Implications if the Resolutions are not Approved

In the unlikely event that the Resolutions are not approved, then in accordance with the Loan Agreement, failure to obtain shareholder approval for the Proposed Transaction by 30 September 2016 will constitute an event of default. In which case, Comvita may require SeaDragon to redeem the outstanding balance of the Loan in full (including all accrued and unpaid interest).

Given the Company’s current financial position and current stage of development, there is considerable uncertainty around SeaDragon’s ability to repay the Loan if the Proposed Transaction is not approved. Furthermore, the requirement to repay the Loan following an event of default would have a significant negative impact on the Company’s ability to fund the growth of its Omgea-3 business and meet its other obligations in the short-term.

In the event that the Proposed Transaction is not approved and Comvita does not exercise its right to have SeaDragon redeem the Loan, then SeaDragon would pay a higher interest rate of 12.0% per annum on the outstanding balance of the Loan until it is redeemed or repaid.

## 2.10 Voting for or Against the Resolutions

Voting for or against the Resolutions is a matter for individual shareholders to consider. Such a decision by each shareholder would be based on their own views as to control, future market conditions, future share price and other factors. The Non-Associated Shareholders of SeaDragon will therefore need to weigh up carefully these consequences and consult their own professional adviser as appropriate.

## 2.11 Summary Evaluation of the Merits of the Proposed Transaction

**In our opinion, taking into account all of the relevant factors, the positive aspects of the Proposed Transaction outweigh the negative aspects.**

A summary of the key factors influencing our opinion are provided below.

### *Positive aspects*

- As at 31 March 2016 SeaDragon had cash reserves of only \$195,000. The financial support of Comvita via the Loan Agreement (including \$1.5 million already drawn down) has been critical to SeaDragon at a time when a confluence of negative factors had resulted in a cash crisis for the Company.
- The Proposed Transaction will secure up to \$3.0 million of capital for SeaDragon, enabling the Company to implement its Omega-3 strategy and also exit the challenging Omega-2 market.
- The Loan has a number of attributes which are favourable to SeaDragon and the Non-Associated Shareholders:
  - An interest rate of 7.95% p.a. is considered to be very attractive.
  - The ability of SeaDragon to redeem the Loan prior to its maturity date has a number of advantages to the Non-Associated Shareholders (as set out in Section 2.3).
- The proposed extension to the expiry date of the Additional Option held by Comvita would provide SeaDragon with additional time to achieve the milestones required to exercise its Mandatory Exercise Right and secure an additional \$3.0 million of new equity capital.
- The maximum control position that Comvita could reach as a result of the Proposed Transaction is 36.50% of the voting securities on issue. It is therefore unlikely, in our view, that Comvita would be able to pass or block an ordinary resolution in its own right. On the basis that Comvita is already permitted to increase its shareholding in SeaDragon to above 25% of the voting securities on issue, the Proposed Transaction is unlikely to result in Comvita being able to materially increase its voting control of the Company.
- The presence of other major shareholders significantly reduces the risk of Comvita being able to exercise “de facto” majority control of the Company as a result of the non-participation of other SeaDragon shareholders in relation to a vote on a given ordinary resolution of the Company.
- The Proposed Transaction is not expected to result in any increase in the number of Directors appointed by Comvita to the Board of SeaDragon, nor is it expected to result in any increase in Comvita’s ability to control the SeaDragon Board.
- The Non-Associated Directors unanimously support the Proposed Transaction.

### *Negative aspects*

- Our assessed value per Convertible Loan Note materially exceeds the consideration offered by Comvita for each Note. On the assumption that the Convertible Loan

Notes are held until maturity, Campbell MacPherson has assessed the value of each Convertible Loan Note issued to Comvita on 30 May 2016 to be in the range of \$1.61 to \$1.69 per Note. Each Note is being issued to Comvita for a consideration of \$1.00 per Note.

- The Non-Associated Shareholders have not been provided with an opportunity to participate alongside, or as part of, the Proposed Transaction (e.g. by way of a Rights Issue or other issue of securities). We note that the SeaDragon Board intends to consider the Company's capital raising options (including a possible rights offer at \$0.008 per share) at its next board meeting. But no decision has been made as at the date of this Report.
- The conversion price for the Loan and the exercise price for the Additional Option are fixed at \$0.008 per share, which is significantly below SeaDragon's current traded share price. A price of \$0.008 per share represents a 38.5% discount to SeaDragon's closing share price as at 30 June 2016.
- The potential conversion of the Loan may result in a significant transfer of value from the Non-Associated Shareholders to Comvita (by virtue of the conversion price being significantly less than Comvita's share price). The extent of any transfer of value to Comvita will ultimately depend on a range of factors as set out in Section 2.3.
- The proposed extension to the expiry date of the Additional Option increases the time value component of Comvita's option to buy additional SeaDragon shares at \$0.008 per share.
- The potential exercise of the Additional Option may result in a significant transfer of value from the Non-Associated Shareholders to Comvita (by virtue of the exercise price being significantly less than Comvita's share price). However, it is important to note that, the Proposed Transaction only contemplates an extension to the expiry date of the Additional Option, all other terms and conditions of the Additional Option remain unchanged and were approved by the SeaDragon shareholders on 17 December, 2015.
- The potential allotment of shares to Comvita as a result of the conversion of the Loan and/or the exercise of the Additional Option would be dilutive to the Non-Associated shareholders. On a fully diluted basis (i.e. Scenario D set out in Section 2.6), the Non-Associated Shareholders would hold 63.5% of the voting securities on issue.
- The maximum control position that Comvita could reach as a result of the Proposed Transaction is 36.50% of the voting securities on issue. Comvita would therefore be able to block a special resolution in its own right. However, as set out in Section 2.7, Comvita is already permitted to increase its shareholding in SeaDragon to above 25% of the voting securities on issue, allowing it to block a special resolution in its own right.
- Given the favourable terms of the Loan relative to the RO Options, the Proposed Transaction does, in our view, increase the likelihood that Comvita will increase its shareholding in SeaDragon above the 25% threshold in the future.
- The Proposed Transaction will add a further "over-hang" of issued SeaDragon securities. Investors will be aware of the potential dilutive impact of the Additional Option being exercised and / or the Loan being converted to equity. This "over-hang" may reduce the liquidity and / or the market price at which SeaDragon shares are trade on the NZSX until such time as the Additional Option is exercised or expires, and/or the Loan is repaid or converted to equity. We note that, the exercise period for the Additional Option will be extended until 28 September 2018 in the event that the Proposed Transaction is approved (currently 1 October 2017).



### 3. EVALUATION OF THE FAIRNESS OF THE PROPOSED TRANSACTION

#### 3.1 Basis of Evaluation

NZX Listing Rule 1.7.2 requires an Appraisal Report to consider whether or not, in the opinion of the Appraiser, the consideration and the terms and conditions of the Proposed Transaction are fair to the holders of equity securities other than those associated with Comvita and its associated persons, and the grounds for that opinion.

This Report is addressed to the Non-Associated Directors of SeaDragon being those persons who are not associated persons of Comvita.

There is no legal definition of the term fair in New Zealand in either the NZX Listing Rules or in any statute dealing with securities or commercial law. We note that in Australia an Independent Experts Report prepared in the context of a takeover offer is required to consider whether the transaction is “fair and reasonable” to the non-associated shareholders. Australian Securities and Investments Commission Regulatory Guideline 111 (RG111) provides guidance on the definitions of “fair” and “reasonable” and notes that *“an offer is ‘fair’ if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer.”* Of interest, RG111 also notes that *“An offer 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 before the close of the offer.”*

It is generally accepted that an assessment of the fairness of a transaction (as required under NZX Listing Rules) is a narrower test than an assessment of the merits of a transaction (under the Takeovers Code). This is because the fairness of a transaction as required under the NZX Listing Rules focuses on the consideration (i.e. price/value issues) and the terms and conditions of the Proposed Transaction.

Given the framework of the NZX Listing Rules as stated above we have evaluated the fairness of the Proposed Transaction focussing on:

- The terms and conditions of the Proposed Transaction (including the consideration received for the Loan relative to its value).
- The impact of the Proposed Transaction on the ownership of SeaDragon by Comvita.
- The impact of the Proposed Transaction on the control of SeaDragon by Comvita.

However we have also given due consideration to other benefits and risks relating to the Proposed Transaction including:

- The rationale for the Proposed Transaction.
- Alternatives to the Proposed Transaction.
- The likelihood of the Resolutions in respect of the Proposed Transaction being approved.
- The implications of the Resolutions in respect of the Proposed Transaction not being approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analysis together could create a misleading view of the process underlying the opinion.

## 3.2 Evaluation of the Fairness of the Proposed Transaction

Having given due consideration to all of the relevant factors, it is our opinion that the consideration and the terms and conditions of the Proposed Transaction are Not Fair to the Non-Associated Shareholders. However, we are of the view that, taking into account the wider benefits and risks relating the Proposed Transaction, the positive aspects of the Proposed Transaction outweigh the negative aspects.

The grounds for our opinion are provided in Sections 2.2 to 2.9. A summary of the key factors influencing our opinion are provided below.

### *Positive aspects*

- As at 31 March 2016 SeaDragon had cash reserves of only \$195,000. The financial support of Comvita via the Loan Agreement (including \$1.5 million already drawn down) has been critical to SeaDragon at a time when a confluence of negative factors had resulted in a cash crisis for the Company.
- The Proposed Transaction will secure up to \$3.0 million of capital for SeaDragon, enabling the Company to implement its Omega-3 strategy and also exit the challenging Omega-2 market.
- The Loan has a number of attributes which are favourable to SeaDragon and the Non-Associated Shareholders:
  - An interest rate of 7.95% p.a. is considered to be very attractive.
  - The ability of SeaDragon to redeem the Loan prior to its maturity date has a number of advantages to the Non-Associated Shareholders (as set out in Section 2.3).
- The proposed extension to the expiry date of the Additional Option held by Comvita would provide SeaDragon with additional time to achieve the milestones required to exercise its Mandatory Exercise Right and secure an additional \$3.0 million of new equity capital.
- The maximum control position that Comvita could reach as a result of the Proposed Transaction is 36.50% of the voting securities on issue. It is therefore unlikely, in our view, that Comvita would be able to pass or block an ordinary resolution in its own right. On the basis that Comvita is already permitted to increase its shareholding in SeaDragon to above 25% of the voting securities on issue, the Proposed Transaction is unlikely to result in Comvita being able to materially increase its voting control of the Company.
- The presence of other major shareholders significantly reduces the risk of Comvita being able to exercise “de facto” majority control of the Company as a result of the non-participation of other SeaDragon shareholders in relation to a vote on a given ordinary resolution of the Company.
- The Proposed Transaction is not expected to result in any increase in the number of Directors appointed by Comvita to the Board of SeaDragon, nor is it expected to result in any increase in Comvita’s ability to control the SeaDragon Board.
- The Non-Associated Directors unanimously support the Proposed Transaction.

### *Negative aspects*

- Our assessed value per Convertible Loan Note materially exceeds the consideration offered by Comvita for each Note. On the assumption that the Convertible Loan Notes are held until maturity, Campbell MacPherson has assessed the value of each Convertible Loan Note issued to Comvita on 30 May 2016 to be in the range of

\$1.61 to \$1.69 per Note. Each Note is being issued to Comvita for a consideration of \$1.00 per Note.

- The Non-Associated Shareholders have not been provided with an opportunity to participate alongside, or as part of, the Proposed Transaction (e.g. by way of a Rights Issue or other issue of securities). We note that the SeaDragon Board intends to consider the Company's capital raising options (including a possible rights offer at \$0.008 per share) at its next board meeting. But no decision has been made as at the date of this Report.
- The conversion price for the Loan and the exercise price for the Additional Option are fixed at \$0.008 per share, which is significantly below SeaDragon's current traded share price. A price of \$0.008 per share represents a 38.5% discount to SeaDragon's closing share price as at 30 June 2016.
- The potential conversion of the Loan may result in a significant transfer of value from the Non-Associated Shareholders to Comvita (by virtue of the conversion price being significantly less than Comvita's share price). The extent of any transfer of value to Comvita will ultimately depend on a range of factors as set out in Section 2.3.
- The proposed extension to the expiry date of the Additional Option increases the time value component of Comvita's option to buy additional SeaDragon shares at \$0.008 per share.
- The potential exercise of the Additional Option may result in a significant transfer of value from the Non-Associated Shareholders to Comvita (by virtue of the exercise price being significantly less than Comvita's share price). However, it is important to note that, the Proposed Transaction only contemplates an extension to the expiry date of the Additional Option, all other terms and conditions of the Additional Option remain unchanged and were approved by the SeaDragon shareholders on 17 December, 2015.
- The potential allotment of shares to Comvita as a result of the conversion of the Loan and/or the exercise of the Additional Option would be dilutive to the Non-Associated shareholders. On a fully diluted basis (i.e. Scenario D set out in Section 2.6), the Non-Associated Shareholders would hold 63.5% of the voting securities on issue.
- The maximum control position that Comvita could reach as a result of the Proposed Transaction is 36.50% of the voting securities on issue. Comvita would therefore be able to block a special resolution in its own right. However, as set out in Section 2.7, Comvita is already permitted to increase its shareholding in SeaDragon to above 25% of the voting securities on issue, allowing it to block a special resolution in its own right.
- Given the favourable terms of the Loan relative to the RO Options, the Proposed Transaction does, in our view, increase the likelihood that Comvita will increase its shareholding in SeaDragon above the 25% threshold in the future.
- The Proposed Transaction will add a further "over-hang" of issued SeaDragon securities. Investors will be aware of the potential dilutive impact of the Additional Option being exercised and / or the Loan being converted to equity. This "over-hang" may reduce the liquidity and / or the market price at which SeaDragon shares are trade on the NZSX until such time as the Additional Option is exercised or expires, and/or the Loan is repaid or converted to equity. We note that, the exercise period for the Additional Option will be extended until 28 September 2018 in the event that the Proposed Transaction is approved (currently 1 October 2017).

## 4. PROFILE OF SEADRAGON

### 4.1 Background

SeaDragon Marine Oils Limited was established in 2004 and originally focused on the production and marketing of specialist Omega 2 products (also known as Squalene). After a change in strategy in recent years, SeaDragon has become Australasia's largest refiner and blender of internationally certified Omega 2 and Omega-3 fish oils. In October 2012 the SeaDragon business was listed on the NZSX via the reverse takeover of listed shell company Claridge Capital Limited (**Claridge**).

SeaDragon's target market is health supplement manufacturers around the world where there is increasing demand for pure, high quality fish oils, which are scientifically proven to deliver significant human health benefits such as lowering the risk of heart disease, improving brain function and joint health. The majority of SeaDragon's products are exported.

On 1 November 2013 SeaDragon announced its plans to build a new state-of-the-art Omega-3 fish oil refinery on the outskirts of Richmond, 20km from Port Nelson (and the centre of New Zealand's commercial fishing industry).

On 24 January, 2014 SeaDragon announced the sale of its remaining shareholding in Snakk Media for \$2.5 million. One week later SeaDragon announced it had raised \$4.1 million at a price of 1.6 cents per share from a Share Purchase Plan offer, well in excess of its \$2.5 million target. This new capital and the proceeds from the sale of the Company's shares in Snakk Media were used to retire debt, provide working capital support and partially fund the development of the new Omega-3 fish oil refinery.

During May 2015, SeaDragon announced leadership changes to the Company. The Chairman since October 2012, Dr Doug Wilson, resigned to reduce his workload and focus on his pharmaceutical interests. It was also announced that Ross Keeley, the CEO for the previous 11 years had also resigned, but would stay on until a new CEO had been appointed and act as a consultant to the Company in the future. Both Dr Wilson and Ross Keeley were directors of SeaDragon's then largest shareholder, Mersea Holdings Limited (**Mersea**). Mr Colin Groves was subsequently appointed to the Board as Independent Director and Chairman in June 2015.

In June 2015 the Company announced that BioScience Managers (now OFM), a cornerstone shareholder, had agreed to advance SeaDragon \$2.5 million via a Convertible Loan as a precursor to a further capital raising. At the same time, Richard Alderton was appointed interim CEO effective from 27<sup>th</sup> July 2015 and it was announced that he would also join the Board.

On 30 September, 2015, SeaDragon announced that it had raised \$10.009 million via its Rights Offer. This funding included a \$3,287,902.64 investment by new cornerstone investor Comvita, agreed pursuant to an agreement with Comvita entered into on 25<sup>th</sup> September 2015. The agreement with Comvita also provided for the grant to Comvita of the Additional Option and a Supply Agreement between SeaDragon and Comvita (see Section 1.3).

On 28 October 2015, the shareholders of Mersea decided to put Mersea into voluntary, solvent liquidation and distribute its shares in SeaDragon in specie to SDMO Trustee, Merinova Limited (**Merinova**), Ross Keeley and Darrell Crozier. Merinova has subsequently sold down its cornerstone shareholding SeaDragon.

On 27 November 2015, SeaDragon announced the completion of its new Omega 3 fish oil refinery. The total cost of the Omega-3 refinery was approximately \$10.8 million.

SeaDragon is currently in a transitional phase as it seeks to exit the challenging Omega-2 market and focus on its recently developed Omega-3 business. This has created material cash constraints on the Company. On 27 May, 2016, SeaDragon announced that it had entered into a Loan Agreement with Comvita in order to secure up to \$3.0 million of additional capital.

## 4.2 Current Capital Structure and Substantial Shareholders

SeaDragon is a public company listed on the NZSX. The Company has a single class of shares on issue comprising 3,146,314,377 ordinary shares collectively held by over 3,000 shareholders.

### Shareholders

The top ten shareholders of SeaDragon are shown in the table below.

SeaDragon - Top Ten Shareholders (as at 21 July 2016)		
Shareholder	No. of Shares	%
One Funds Management Limited	735,264,802	23.37%
SDMO Trustee Limited	435,388,743	13.84%
Comvita Limited	410,987,830	13.06%
Forsyth Barr Custodians Limited	166,098,700	5.28%
Longview Te Pirita Limited	106,998,469	3.40%
Skylog Limited	50,601,833	1.61%
Gillespie Nominees Limited	28,157,969	0.89%
Leveraged Equities Finance Limited	26,167,300	0.83%
FNZ Custodians Limited	23,333,279	0.74%
Darrell Crozier	21,035,171	0.67%
Other	1,142,280,281	36.31%
<b>Total</b>	<b>3,146,314,377</b>	<b>100.00%</b>

OFM holds its shares in SeaDragon through New Zealand Central Securities Depository Limited as nominee for custodian HSBC Nominees (New Zealand) Limited and administers the shares as trustee for the Asia Pacific Healthcare Fund II. This Fund was launched by BioScience Managers who also manage the Fund on a day-to-day basis.

### RO Option holders

The RO Options were issued as part of the Rights Offer and are exercisable by the holder in full or in part at any time on or before 1 October 2018 at an exercise price of \$0.015 per share. The top ten RO Option holders of SeaDragon are shown in the table below.

SeaDragon - Top Ten Rights Offer Option holders (as at 21 July 2016)		
Shareholder	No. of Options	%
Comvita Limited	410,987,830	33.12%
One Funds Management Limited	325,393,835	26.22%
Leveraged Equities Finance Limited	62,651,800	5.05%
Forsyth Barr Custodians Limited	27,850,440	2.24%
Skylog Limited	27,601,000	2.22%
Tamahere Limited	18,750,000	1.51%
Geoffrey Richard Brophy	13,642,500	1.10%
Yun Li	12,500,000	1.01%
Hotwater Nominees Limited	10,200,000	0.82%
ChangeQ Limited	9,375,000	0.76%
Other	321,922,446	25.94%

<b>Total</b>	<b>1,240,874,851</b>	<b>100.00%</b>
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SeaDragon Chairman, Colin Groves, holds RO Options through Tamahere Limited, and SeaDragon Interim CEO and Executive Director, Richard Alderton, holds RO Options through ChangeQ Limited.

#### ***Additional Option Holder***

As summarised in Section 1.3, Comvita holds an Additional Option to acquire 375 million shares in SeaDragon. The Additional Option is currently exercisable at any time before 1 October 2017 at an exercise price of \$0.008 per share. However, the expiry date of the Additional Option will be extended until 28 September 2018 in the event that the Proposed Transaction is approved.

### **4.3 Board of Directors**

The current Directors of SeaDragon are listed below.

<b>SeaDragon - Directors</b>	
<b>Name</b>	<b>Role</b>
Colin Groves	Independent Chairman
Patrick Geals	Independent Director
Jeremy Curnock Cook	Non-Executive Director (alternate for Mr McNamara)
Stuart Macintosh	Non- Executive Director
Matthew McNamara	Non-Executive Director
Brett Hewlett	Non-Executive Director
Mark Sadd	Non-Executive Director (alternate for Brett Hewlett)
Richard Alderton	Executive Director

Mr McNamara (and his alternate Mr Cook) are Directors of Bioscience Managers and represent the interests of OFM on the Board. Mr Macintosh represents the interests of SDMO Trustee and Mr Hewlett (and his alternate Mark Sadd) represent the interests of Comvita on the Board.

Mr Alderton is currently the Interim CEO of SeaDragon. However, as announced on 18 July 2016, SeaDragon has appointed Dr Nevin Amos as its new CEO, effective from October 2016. Mr Alderton will remain on SeaDragon's Board in a Non-executive capacity.

### **4.4 Overview of Operations**

SeaDragon's vision is to be a leader in the supply of high quality Omega-3 fish oil products and added value products, with a commitment to purity, sustainability and environmental responsibility. The Company's current strategy is to:

- Exit the challenging Omega-2 market.
- Establish a platform for expansion into the growing Omega-3 fish oils market.
- Create high value Omega-3 products utilising single source sustainable supply.
- Build a branded bulk oils business in Omega-3 on the key principles of sustainability, traceability, freshness and quality.

SeaDragon has recently commissioned its new refined fish oil plant to produce high quality Omega -3 fish oils. The new plant has capacity to produce 5,000 tonnes of Omega-3 fish oil each year, or the equivalent of twenty times New Zealand's annual consumption. SeaDragon

has also progressed its proposal for a new fractionation plant to complement the recently completed Omega-3 refinery.

As announced on 26 April 2016, the Company recently secured supply of up to 700 tonnes of unrefined tuna oil. Furthermore, the Company is now in discussions with a number of large prospective customers for its Omega-3 products.

## 4.5 Summary Financial Information

### *Financial Performance*

SeaDragon's summary historical financial performance over the 2-year period ending 31 March 2016 is set out below.

SeaDragon - Summary Financial Performance		
NZ\$000	Audited Mar-15	Audited Mar-16
Revenue	6,211	5,585
Cost of Sales	(5,869)	(4,278)
Impairment of Inventory	(905)	(4,263)
<b>Gross Profit</b>	<b>(563)</b>	<b>(2,956)</b>
Gains / Losses from Foreign Exchange	8	121
Other Income	198	175
Other Expenses	(2,392)	(2,637)
<b>Operating Profit</b>	<b>(2,749)</b>	<b>(5,297)</b>
Net Finance Cost	(60)	(226)
<b>Profit Before Tax</b>	<b>(2,809)</b>	<b>(5,523)</b>
Tax Expense	(29)	-
<b>Total Comprehensive Income</b>	<b>(2,838)</b>	<b>(5,523)</b>

Note: SeaDragon's FY15 results have been restated to reflect a change in accounting policies.

SeaDragon has historically exhibited volatile revenue and significant losses as the business transitions towards becoming a large-scale Omega-3 producer.

SeaDragon's revenue fell from \$6.2 million in FY15 to \$5.6 million in FY16, reflecting a recent downturn in the global Omega-2 market which has led to a reduction in Omega-2 prices and an extended sales cycle. As a result of falling Omega-2 prices and weak demand for Omega-2 oil, SeaDragon wrote-down the value of its Omega-2 inventory by \$4.3 million as at 31 March 2016, which significantly impacted the Company's reported profitability in FY16. SeaDragon's Omega-2 business model has become increasingly challenging due to a combination of factors including:

- SeaDragon's limited global Omega-2 supply options.
- SeaDragon's highly concentrated Omega-2 customer base.
- Long-lead times and delays in the supply of Omega-2 feedstock.
- Inability to meet customer delivery date expectations due to supply issues.
- Weak international Omega-2 demand and prices.

### Financial Position

SeaDragon's summary historical financial position over the 2-year period ending 31 March 2016 is set out below.

SeaDragon - Summary Financial Position		
NZ\$000	Audited Mar-15	Audited Mar-16
<u>Current Assets</u>		
Cash and Equivalents	425	195
Trade and Other Receivables	2,974	685
Inventory	1,906	2,970
Other	16	35
	5,321	3,885
<u>Current Liabilities</u>		
Trade and Other Payables	1,086	1,333
Loans and Borrowings	2,994	3,874
Other	19	-
	4,099	5,207
<u>Non-Current Assets</u>		
Property, Plant and Equipment	6,641	13,127
Other Receivables	75	75
	6,716	13,202
<u>Non-current Liabilities</u>		
Asset retirement obligation	-	240
<b>Net Assets</b>	<b>7,938</b>	<b>11,640</b>

SeaDragon had negative working capital of \$1.3 million as at 31 March 2016, reflecting the Company's lower than expected sales in FY16 and the recent \$4.3 million inventory write-down. The Company had positive net assets of \$11.6 million as at 31 March 2016.

As at 31 March 2016, SeaDragon had external debt with Heartland Bank of \$3.9 million. However, as set out in Section 2.2, Heartland recently provided SeaDragon with an additional \$1.0 million loan facility to assist the Company with its short-term funding requirements. Furthermore, SeaDragon has drawn down \$1.5 million against its Loan facility with Comvita.

As a result of the recent inventory write-down, the Company did not comply with one of its lending covenants set out in its lending facilities with Heartland Bank. Heartland Bank has agreed that it will temporarily suspend the requirement to comply with this covenant for the year ended 31 March 2016 and the 30 June 2016 quarter.

### Cash Flow

SeaDragon's summary historical cash flow over the 2-year period ending 31 March 2016 is set out below.

SeaDragon - Summary Cash Flow		
NZ\$000	Audited Mar-15	Audited Mar-16
Cash Flow from Operating Activities	(4,341)	(3,342)
Cash Flow from Investing Activities	(3,314)	(6,890)



Cash Flow from Financing Activities	-	9,122
<b>Net Increase / (Decrease) in Cash</b>	<b>(7,655)</b>	<b>(1,110)</b>

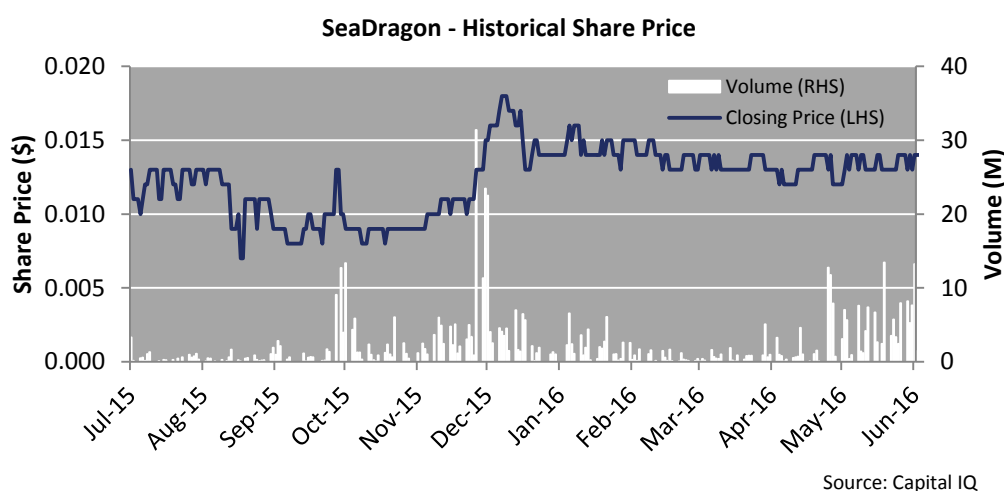
SeaDragon has sustained significant cash losses from its existing business operations over the past two years, with net operating cash flow totalling negative \$7.7 million over the FY15 - FY16 period. Significant investment in the new Omega-3 fish oil refinery has also placed additional pressure on the Company's cash reserves. The final cost of the new refinery was approximately \$10.8 million, well in excess of the original budgeted cost prior to commencement of construction.

The Company has funded recent losses and new investment by raising additional debt and equity capital. As noted earlier SeaDragon completed a \$10.0 million capital raising at the end of September 2015 (i.e. during FY16). This capital was primarily used to complete the Company's new Omega-3 refinery, meet working capital requirements and fund ongoing operating losses as the Company transitions from Omega-2 to Omega-3 production. We note that \$2.5 million of the capital raised from the rights issue (being the Convertible Loan provided by OFM) had already been spent by the Company by the time the rights offer was completed.

#### 4.6 Share Price History

As at 30 June 2016, SeaDragon shares were trading at 1.3 cents per share, representing a market capitalisation of approximately \$40.9 million. Over the 12-month period to 30 June 2016, SeaDragon shares have traded between 0.7 cents and 1.8 cents per share (based on the closing daily price).

SeaDragon's historical share price performance and trading volumes are summarised below.



The total volume of SeaDragon stock traded on the NZX Main Board over the 12-month period to 30 June 2016 was equivalent to approximately 19.8% of the current total ordinary shares on issue.

SeaDragon - VWAP and Trading Liquidity (as at 30 June 2016)			
Period	VWAP (\$)	Volume Traded (M)	Liquidity*
30 Days	0.0134	106.1	3.4%
90 Days	0.0132	250.3	8.0%
180 Days	0.0134	322.9	10.3%

365 Days

0.0129

624.0

19.8%

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\* Volume traded / total number of shares on issue as at 30 June 2016

Source: Capital IQ

## 5. SUMMARY PROFILE OF COMVITA

### 5.1 Background

Comvita was founded in 1974 by Alan Bougen and Claude Stratford in the Bay of Plenty and has grown into a global natural health company based on product innovation, well supported by significant and ongoing investment in scientific research and development.

Comvita first listed on the NZX in 2003 and now has a market capitalisation of approximately \$472 million (as at 30 June 2016).

Over the past forty years Comvita has built an enviable presence in the honey market. It now has approximately 50% of its honey supply under direct ownership or control, with the balance from long-term contract and partnership arrangements. Comvita pioneered the development and use of medical grade Manuka honey and was the first to gain FDA (USA) approval in 2007.

The company has a successful partnership with US wound care company Derma Sciences Inc. (NASDAQ:DSCI) (**Derma**), the global licensee for Medihoney specialist wound care products used in hospitals and medical centres around the world.

Another major growth step and innovation for Comvita was the acquisition of a large olive grove with over one million trees in Queensland in 2013. Freshly picked Olive Leaf Extract is now grown, harvested, extracted and bottled at the world's largest specialised olive leaf grove by Comvita.

In September, 2015, Comvita became took a 13.06% equity stake in SeaDragon via a \$3,287,902.64 investment in new shares. The agreement with SeaDragon also provided for the grant to Comvita of an Additional Option to acquire a further 375,000,000 shares and a Supply Agreement between SeaDragon and Comvita (see Section 1.3).

On 2 March 2016, Comvita announced that it had entered in to a Memorandum of Understanding with ASX listed Capilano Honey Limited to form a new, jointly-owned apiary business. The new business intends to operate a number of Leptospermum honey producing apiary businesses in Australia, to deliver premium honey for a range of medical and natural health products.

On 25 May 2016, Comvita announced that it had agreed to form a 50:50 joint venture with Putake Group Limited, a Blenheim-based apiary management business. The joint venture will enable Comvita to secure supply to meet the global demand for Manuka honey.

### 5.2 Strategy and Business Model

Comvita is a world leader in Manuka honey and fresh-picked Olive Leaf Extract. The key strategies being pursued by Comvita include:

- Concentrating on earnings growth.
- Continuing the development of supply chain strategies and partnerships.
- Optimising and diversifying ingredient platforms and channel performance.
- Increasing market spend to grow its consumer channels added value product lines.
- Focusing on earnings accretive acquisitions.

Comvita manufactures, markets and distributes natural health products across four broad market segments namely:

- Healthcare products.
- Functional foods.
- Personal care.
- Medical.

Comvita now sells products in more than 18 countries world-wide through a network of company-branded retail locations, online and third party outlets. The company has over 500 staff located in New Zealand, Australia, Hong Kong, Japan, Taiwan, South Korea, the UK and the USA.

### 5.3 Governance and Management

Comvita - Directors	
Name	Role
Neil Craig	Non-Executive Chairman
Alan Bougen	Non- Executive Director & Deputy Chairman
Murray Denyer	Independent Director
Sarah Ottrey	Independent Director
Sarah Kennedy	Independent Director
David Cullwick	Independent Director
Luke Bunt	Independent Director

Comvita – Senior Management	
Name	Role
Scott Coulter	Chief Executive Officer
Mark Sadd	Chief Financial Officer
Patrick Brus	Chief Corporate Services Officer
Colin Baskin	Chief Supply Chain Officer
Sharon Hollenstein	Chief Innovation Officer

In early October 2015, long serving CEO, Brett Hewlett stepped down and Scott Coulter was promoted from Chief Operating Officer to CEO. Scott Coulter has worked for Comvita since 2003 and the Board intend to use Brett Hewlett as a consultant.

## APPENDIX I. INFORMATION, DISCLAIMER & INDEMNITY

### I.a Sources of Information

The statements and opinions expressed in this Report are based on the following main sources of information:

- The final draft Notice of Meeting.
- The Loan Agreement between SeaDragon and Comvita.
- The Deed of Priority between SeaDragon, Heartland Bank and Comvita.
- The Option Agreement between SeaDragon and Comvita.
- SeaDragon's audited annual report for the year ended 31 March 2016
- Various NZSX announcements by SeaDragon and Comvita.
- Publicly available information on Sea Dragon and Comvita.
- Capital IQ (share price data and company financials).

During the course of preparing this Report, we have had discussions with and/or received information from the Directors who are not associated with Comvita, executive management of SeaDragon and SeaDragon's legal advisers.

The Non-Associated Directors of SeaDragon have confirmed that we have been provided, for the purpose of this Report, with all information relevant to the Proposed Transaction that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is necessary for the purpose of preparing this Report.

In our opinion, the information set out in this Report is sufficient to enable the Non-Associated Directors and the Non-Associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Resolutions.

### I.b Reliance on Information

In preparing this Report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by SeaDragon and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this Report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of SeaDragon. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

## **I.c Disclaimer**

We have prepared this Report with care and diligence and the statements in this Report are given in good faith and in the belief, on reasonable grounds, that such statements are true and correct.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of this Report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the Report or assumptions reasonably taken as implicit.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this Report. Such conditions may change significantly over relatively short periods of time. We have no obligation to advise any person of any change in circumstances which comes to our attention after the date of this Report or to review, revise or update our Report.

We have had no involvement in the preparation of the Notice of Meeting issued by SeaDragon and have not verified or approved the contents of the Notice of Meeting. We do not accept any responsibility for the contents of the Notice of Meeting except for this Report.

## **I.d Indemnity**

SeaDragon has agreed that, to the extent permitted by law, it will indemnify Campbell MacPherson and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of this Report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law.

SeaDragon has also agreed to indemnify Campbell MacPherson and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Campbell MacPherson or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Campbell MacPherson shall reimburse such costs.

## APPENDIX II. QUALIFICATIONS, DECLARATIONS & CONSENTS

### II.a Qualifications

#### *Campbell MacPherson Limited*

Campbell MacPherson is a private New Zealand-owned investment bank and corporate finance advisory firm. It advises on mergers and acquisitions, debt and equity capital-raising and prepares independent corporate advisory reports, valuation reports and strategic advice to a wide range of private and public New Zealand companies, local bodies and other organisations. Further information on Campbell MacPherson can be found on our website [www.campbellmacpherson.com](http://www.campbellmacpherson.com)

The persons in Campbell MacPherson responsible for issuing this Report are Alistair Ward, Tony Haworth and Brad Caldwell. These individuals are experienced corporate finance practitioners with relevant expertise in preparing a report of this nature.

Summary profiles on each individual are provided below.

#### *Alistair Ward B.Com (Hons), M INST D, AFNZIM*

Alistair is an Executive Director of Campbell MacPherson Limited and co-founded the firm in 2002 with Stephen Burns. Alistair is a former principal of Waitiri Capital Ltd, an Auckland-based venture capital and advisory company established in 1997, the interests of which were acquired by Campbell MacPherson. He has advised many companies, business leaders and owners on issues relating to corporate governance and strategy, mergers, acquisitions and capital raising.

Alistair is a former CEO of Golden Bay Cement, the largest cement company in New Zealand and a key part of NZX-listed Fletcher Building. As a reflection of this position Alistair also chaired a variety of industry groups including the Cement and Concrete Association of NZ and the Major Energy Users Group. Alistair is a former Director of Solid Energy and continues to hold several private company directorships.

Alistair holds a Bachelor of Commerce degree (Honours) from the University of Otago and is a member of the New Zealand Institute of Directors and an Associate Fellow of the NZ Institute of Management.

#### *Tony Haworth M.Sc (Tech), M.Sc (Fin), M.AusIMM*

Tony is a Director at Campbell MacPherson Limited and has worked for the Company since 2004. Tony is a former General Manager of National Mining Company in Oman and a former Director of Liberty Gold Corporation in London. Prior to joining Campbell MacPherson, Tony completed a Masters in Finance at London Business School. Prior to working and studying overseas Tony held the position of geologist with Heritage Gold Limited.

Tony specialises in mergers and acquisitions, corporate valuation and financial analysis and has advised on a wide range of corporate finance transactions and assignments for public and private New Zealand companies and organisations across a variety of industry/public sectors.

Tony holds a Master of Science and Technology degree (First Class Honours) from the University of Waikato and a Master of Science (Finance) degree from London Business School. He is a Member of the Australasian Institute of Mining and Metallurgy.

**Brad Caldwell B.Com, M.Bus**

Brad is a graduate of the University of Otago where he completed a Bachelor of Commerce, majoring in finance, followed by a Masters in Business, majoring in finance. Brad joined Campbell MacPherson in 2010 and has worked on numerous corporate advisory assignments including mergers and acquisitions, capital raising and other projects. His expertise includes valuation, financial modelling and market/industry research.

**II.b Independence**

Campbell MacPherson does not have at the date of this Report, and has not had, any shareholding in or other relationship with SeaDragon or Comvita that could affect our ability to provide an unbiased opinion in relation to this Report.

Campbell MacPherson has not had any part in the formulation of the Proposed Transaction nor any aspects thereof. Our sole involvement has been the preparation of this Report.

Campbell MacPherson will receive a fixed fee for the preparation of this Report. This fee is not contingent on the conclusions of this Report. We will receive no other benefit from the preparation of this Report.

**II.c Declarations**

Advance drafts of this Report were provided to the Non-Associated Directors for their comments as to factual accuracy as opposed to opinions, which are the sole responsibility of Campbell MacPherson. Changes made to the Report as a result of circulation of the drafts have not changed the methodology or conclusions reached by Campbell MacPherson.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of this Report.

**II.d Consents**

We consent to the issuing of this Report in the form and context in which it is to be included in the Notice of Meeting to be sent to SeaDragon's shareholders. Neither the whole nor any part of this Report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.