

# **SeaDragon Limited**

## **Appraisal Report**

### **In Respect of the Issue of 295,997,241 Options to Bryan Mogridge**

*August 2019*

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## 1. Introduction

### 1.1 Background

SeaDragon Limited (**SeaDragon** or the **Company**) is New Zealand's largest refiner and blender of high-quality, internationally-certified concentrated fish oils and fractions, including Omega-3 oils.

The Company's shares are listed on the main equities securities market (the **NZX Main Board**) operated by NZX Limited (**NZX**) with a market capitalisation of \$9.7 million as at 7 August 2019. Its audited total equity as at 31 March 2019 was \$8.8 million.

### 1.2 Current Capital Structure

#### *Ordinary Shares*

SeaDragon currently has 4,843,304,727 fully paid ordinary shares on issue held by 3,444 shareholders.

#### *Existing Loans*

Three of the Company's major shareholders – Pescado Holdings Limited (**Pescado**), Comvita Limited (**Comvita**) and One Funds Management Limited as trustee for Asia Pacific Healthcare Fund II and BioScience Managers Ventures Pty Limited as general partner of BioScience Management Partnership LP (collectively **BioScience**) - have each provided \$3.0 million of convertible loan note facilities to SeaDragon, totalling \$9.0 million (the **Existing Loans**).

The Existing Loans mature on 31 March 2020 by mandatory conversion into ordinary shares at \$0.0033 per share, unless a default event subsists or the Company is insolvent at maturity time. Accordingly, a total of 2,727,272,727 new ordinary shares will be issued when the Existing Loans convert (the **Existing Loans Allotment**).

#### *2019 Pescado Loan*

Pescado entered into a \$4.0 million convertible loan note facility with SeaDragon on 1 April 2019 (the **2019 Pescado Loan**). As at the date of this report, \$2.0 million has been advanced under the 2019 Pescado Loan.

The 2019 Pescado Loan can be converted into ordinary shares at the election of Pescado at a conversion price of \$0.002 per share. The 2019 Pescado Loan mandatorily converts into ordinary shares at the maturity date if it has not been repaid, unless a default event subsists or the Company is insolvent at maturity time. Accordingly, up to 2,000,000,000 new ordinary shares will be issued to Pescado when the 2019 Pescado Loan converts (the **Pescado Loan Allotment**).

#### *Comvita Option*

With effect on and from 8 August 2018, SeaDragon has granted Comvita with the right, but not the obligation, to acquire 909,090,909 shares in the Company at an exercise price of \$0.0033 per share by 31 March 2020 (the **Comvita Option**).

The Comvita Option has mandatory exercise milestones which, if met, would enable the Company to require Comvita to exercise the Comvita Option. As at the date of this report, the Comvita Option has not been exercised.

### 1.3 Proposed Grant of Options to Bryan Mogridge

SeaDragon proposes to grant a total of 295,997,241 options to its independent non-executive chairman Bryan Mogridge (the **Mogridge Options**), subject to shareholder approval.

The terms of the Mogridge Options are set out in the draft Option Deed between SeaDragon and Mr Mogridge (the **Option Deed**).

The key terms of the Mogridge Options are:

- the Mogridge Options can be exercised at any time between 1 April 2021 and the **Lapse Date**, which is the earliest of:
  - 30 September 2023
  - the date on which Mr Mogridge ceases to be a director of the Company if such date falls prior to 1 April 2021, unless:
    - Mr Mogridge has ceased to be a director of the Company due to death, disability or serious ill health and
    - the Company's board of directors (the **Board**), at its sole and absolute discretion and after taking into account the amount of time that has passed from the grant of the Mogridge Options and Mr Mogridge's contribution to the success of the Company in that time, determines that the relevant date for the Lapse Date is 30 September 2021 and
  - the date falling 6 months after Mr Mogridge ceases to be a director of the Company if such date falls on or after 1 April 2021
- an exercise price of \$0.005 per Mogridge Option
- the number of shares to be issued upon the exercise of a Mogridge Option is calculated on the basis of the then applicable conversion ratio. The conversion ratio is one share issued for each Mogridge Option exercised, subject to adjustment in the following circumstances:
  - the initial conversion ratio has been determined on the assumptions that:
    - the Existing Loans are converted into 2,727,272,727 new ordinary shares
    - the full amount of the 2019 Pescado Loan of \$4.0 million is drawn down and is converted into 2,000,000,000 new ordinary shares and
    - the Comvita Option is not exercised
  - if any such assumption is not correct, the conversion ratio will be adjusted accordingly such that, if Mr Mogridge exercises all of the Mogridge Options, the number of shares to be issued upon the exercise of those Mogridge Options equals 3.00% of the number of shares then on issue (post exercise), but excluding any shares issued otherwise than as a result of:
    - the Existing Loan Allotment
    - the Pescado Loan Allotment
    - the exercise of the Comvita Option and

- if there is a consolidation, subdivision or similar proportionate reconstruction of the share capital of the Company, the conversion ratio for any subsequent exercise of an option is to be consolidated or subdivided in the same ratio, including any necessary rounding to the number of shares following such exercise
- a minimum of 100,000,000 Mogridge Options may be exercised at any one time (unless fewer than 100,000,000 Mogridge Options are held, in which case the minimum number is all of the Mogridge Options held)
- the Mogridge Options are not transferable other than (in broad terms):
  - pursuant to a takeover offer or a scheme of arrangement
  - to the executor of Mr Mogridge’s estate if Mr Mogridge ceases to be a director of the Company due to death
  - at the sole and absolute discretion of the Board, to the trustees of a family trust of which Mr Mogridge and / or his close relatives are beneficiaries if Mr Mogridge ceases to be a director of the Company due to disability or serious ill health.

The grant of the Mogridge Options is subject to shareholder approval.

#### 1.4 Regulatory Requirements

Listing Rule 4.1.1 of the NZX Listing Rules states that an Issuer may only issue Equity Securities with approval by Ordinary Resolution in accordance with Listing Rule 4.2.1.

Listing Rule 7.8.5 (b) requires an Appraisal Report to be prepared where a meeting will consider a resolution where more than 50% of the securities to be issued will be acquired by directors.

Shareholders will vote on an ordinary resolution in respect of the Mogridge Options at SeaDragon’s annual meeting on 13 September 2019 (resolution 6). All of the Company’s shareholders other than Mr Mogridge and any of his Associated Persons (as that term is defined in the NZX Listing Rules) (the **Non-associated Shareholders**) may vote on the resolution.

#### 1.5 Purpose of the Report

The directors of SeaDragon who are not, and are not associated with, Mr Mogridge (the **Non-associated Directors**) have engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Appraisal Report on the fairness of the Mogridge Options in accordance with Listing Rule 7.8.5 (b).

Simmons Corporate Finance was approved by NZX Regulation on 17 July 2019 to prepare the Appraisal Report.

Simmons Corporate Finance issues this Appraisal Report to the Non-associated Directors for the benefit of the Non-associated Shareholders to assist them in forming their own opinion on whether to vote for or against the resolution in respect of the Mogridge Options.

We note that each shareholder’s circumstances and objectives are unique. Accordingly, it is not possible to report on the fairness of the Mogridge Options in relation to each shareholder. This report on the fairness of the Mogridge Options is therefore necessarily general in nature.

The Appraisal Report is not to be used for any other purpose without our prior written consent.

## 2. Evaluation of the Fairness of the Mogridge Options

### 2.1 Basis of Evaluation

Listing Rule 7.10.2 requires an Appraisal Report to consider whether the terms and conditions of the Mogridge Options are fair to the Non-associated Shareholders.

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.

In our opinion, the Mogridge Options will be fair to the Non-associated Shareholders if:

- the options granted to Mr Mogridge under the Mogridge Options represent a fair level of remuneration to Mr Mogridge
- the terms and conditions of the Mogridge Options are fair.

We have evaluated the fairness of the Mogridge Options by reference to:

- the rationale for the Mogridge Options
- the terms and conditions of the Mogridge Options
- the value of the Mogridge Options to Mr Mogridge
- the impact of the Mogridge Options on shareholding levels
- the impact of the Mogridge Options on SeaDragon's share price.

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

### 2.2 Opinion on the Fairness of the Mogridge Options

**In our opinion, after having regard to all relevant factors, the terms and conditions of the Mogridge Options are fair to the Non-associated Shareholders.**

The basis for our opinion is set out in detail in sections 2.3 to 2.9. In summary, the key factors leading to our opinion are:

- the rationale for the Mogridge Options is sound. It seeks to provide remuneration to Mr Mogridge in his role as SeaDragon chairman as well as providing a long-term incentive to Mr Mogridge that aligns his interests with the Non-associated Shareholders
- we assess the value of the Mogridge Options to be in the vicinity of \$30,000
- Mr Mogridge receives directors' fees of \$75,000 per annum in his role as chairman. He is also entitled to a fee of \$500 per half day for any additional work over the normal expected duties of chairman (the **Additional Chairman's Fees**), which will cease to apply upon the one-off grant of the Mogridge Options

- the Mogridge Options are granted *out of the money* (ie the exercise price of \$0.005 is significantly higher than the current share price). The Mogridge Options will only have value to Mr Mogridge if SeaDragon's share price is over 250% higher at the exercise date than when the Mogridge Options were granted
- the Mogridge Options can only be exercised in the period between 1 April 2021 and (at the latest) 30 September 2023, representing a long term incentive that may aid in the retention of Mr Mogridge as the chairman of the Company
- the Mogridge Options will have negligible impact on Mr Mogridge's ability to exert control over shareholder voting
- the dilutionary impact of the Mogridge Options on Non-associated Shareholders is minimal at 3%
- the Mogridge Options are unlikely to have any material impact on SeaDragon's share price or the liquidity of its shares
- the implications of the Mogridge Options not being approved are significant:
  - the Company may incur additional costs if an alternative remuneration package for Mr Mogridge requires shareholder approval
  - Mr Mogridge may possibly resign from his position
- holders of 51.00% of the voting rights that are able to be voted on resolution 6 have indicated to the Board that they will vote in favour of the resolution, in which case the resolution is certain to be approved.

## 2.3 Rationale for the Mogridge Options

### *Overview of the Rationale for Long Term Incentive Remuneration*

In general terms, companies provide equity-based long term incentive remuneration to tie executives' remuneration to the annual and long term performance of the company and to align the interests of the executives with those of shareholders.

Key perceived benefits to the company include:

- equity-based long term executive incentive remuneration helps to attract and retain top executives
- it enables executives to build equity ownership in the company
- executives' interests are more closely aligned with shareholders' interests.

There has been growing criticism in New Zealand and abroad in respect of equity based incentive remuneration. The criticisms centre around:

- the lack of performance hurdles and / or inadequate explanation of performance hurdles
- the length of term for the equity-based incentive remuneration being too short and hence not aligning with shareholder interests
- already generous remuneration for executives.

### **Mr Mogridge's Appointment and Remuneration**

Mr Mogridge was appointed to SeaDragon's board of directors on 1 February 2019 and assumed the chairman role on 16 April 2019.

Mr Mogridge is paid \$75,000 per annum for the chairman role. Under his letter of appointment, he is also entitled to the Additional Chairman's Fees, being a fee of \$500 per half day for any additional work over the normal expected duties of chairman.

The Board and Mr Mogridge have agreed that Mr Mogridge will be granted the Mogridge Options as one-off remuneration in lieu of any Additional Chairman's Fees.

The cash remuneration of \$75,000 per annum that Mr Mogridge will receive as chairman is less than that paid to the Company's previous chairman. The previous chairman's annual directors' fees (including Additional Chairman's Fees) were:

- \$106,000 in the 2019 financial year
- \$102,000 in the 2018 financial year.

### **Board's Rationale**

The Board has stated that the purpose for the grant of the Mogridge Options is to appropriately incentivise and compensate Mr Mogridge in his capacity as chairman for future contributions to significant increases in shareholder returns (measured by a significantly increased SeaDragon share price).

Mr Mogridge, in conjunction with SeaDragon's chief executive officer, is responsible for developing and executing a business strategy that aims to significantly increase the Company's revenue and earnings. This will entail Mr Mogridge undertaking additional work over and above the normal expected duties of a non-executive chairman.

Mr Mogridge and the Board have agreed to grant the Mogridge Options in lieu of paying Mr Mogridge any Additional Chairman's Fees (which would be paid in cash).

The exercise price of \$0.005 per option has been set at a significant premium to SeaDragon's current share price, meaning that Mr Mogridge cannot financially benefit from the Mogridge Options unless there has been a significant increase in SeaDragon's share price - which will benefit all of the Company's shareholders.

### **Conclusion**

In our view, the rationale for the Mogridge Options as a component of Mr Mogridge's remuneration for the role of the chairman is sound:

- it is designed to align the interests of Mr Mogridge with those of the Company's shareholders by issuing the options significantly *out of the money*
- it aims to provide a long-term incentive - spanning up to potentially approximately 4 years (based on a 30 September 2023 Lapse Date), thus aiding in the retention of Mr Mogridge as the Company's chairman
- it preserves the Company's cash resources by not having to pay any Additional Chairman's Fees.



## 2.4 Terms of the Mogridge Options

### Positive Features

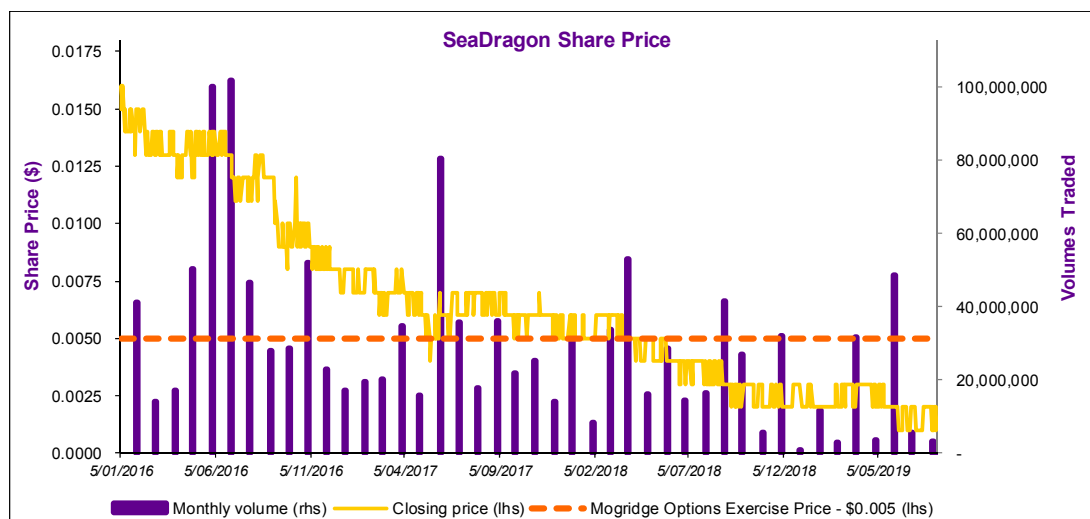
We consider the following terms of the Mogridge Options are positive features of the Mogridge Options:

- the options being granted *out of the money*
- the options cannot be exercised until, at the earliest, 1 April 2021 and then over a 2 and a half year period
- the options are not generally transferable.

### Options are Significantly out of the Money

The Mogridge Options have an exercise price of \$0.005 per option.

The graph below shows that SeaDragon’s share price has steadily decreased from \$0.016 on 8 January 2016 to a low of \$0.001 on 7 June 2019. Since that date, SeaDragon’s shares have traded at a volume weighted average share price (VWAP) of \$0.0013.



Source: NZX Company Research

The Mogridge Options will be granted significantly *out of the money*. In order for Mr Mogridge to derive value from the Mogridge Options, the Company’s share price will need to appreciate by over 250% by the time he exercises the options, in which case all current shareholders in the Company will benefit from an appreciation in the value of their investments in SeaDragon.

### 1½ Year to 4 Year Exercise Period

The Mogridge Options can be exercised between 1 April 2021 and the Lapse Date. The latest date for the Lapse Date is 30 September 2023.

Accordingly, the benefits to be derived by Mr Mogridge will not begin to accrue until, at the earliest, approximately one and a half years from now and will possibly accrue over a further 2 and a half year period to 30 September 2023. This provides a long-term incentive to Mr Mogridge and may also aid in his retention as the Company’s chairman.

### *Non Transferability*

The Mogridge Options cannot be freely transferred by Mr Mogridge. Therefore he cannot readily realise value for the options in the near term. This term serves to provide a long-term incentive to Mr Mogridge and potentially aid in his retention as the Company's chairman over the term of the Mogridge Options.

### *Negative Features*

When viewed overall, we do not consider any of the terms of the Mogridge Options to be negative from the perspective of the Non-associated Shareholders.

We are of the view that additional terms could have been considered by the Non-associated Directors in devising the Mogridge Options to further meet their objectives of providing a long-term incentive, aiding in the retention of Mr Mogridge and more closely aligning his interests with those of the Non-associated Shareholders.

Such additional terms could have included setting annual performance targets that had to be met before the options vested. Such performance targets could have been referenced to annual increases in total shareholder return, share price or earnings per share. However, given that the Mogridge Options are granted significantly *out of the money*, they have a de facto performance target in the form of the exercise price being over 250% above current share price when the options are exercisable.

While additional terms such as vesting conditions could more closely align with the objectives of the Non-associated Directors, they would have negative value implications to Mr Mogridge. Therefore, in the context of his negotiations with the Board's remuneration sub-committee, other (compensating) terms may have been negotiated - such as an increased number of options and / or a lower exercise price. This may have resulted in minimal changes in the overall value of the Mogridge Options to Mr Mogridge or their cost to the Company.

## **2.5 Value of the Mogridge Options**

Our assessment of the value of the Mogridge Options is set out in section 3.

We assess the fair market value of the Mogridge Options to be in the vicinity of \$30,000.

It is important to bear in mind that while we have assessed the current value of the Mogridge Options to be in the vicinity of \$30,000, the actual benefit received by Mr Mogridge may be anywhere from nil (if no Mogridge Options are exercised) to potentially considerably more than \$30,000 (depending on the actual prices of SeaDragon shares).

SeaDragon will be required to recognise the fair value of the Mogridge Options as an expense in its Statement of Profit or Loss and Other Comprehensive Income in accordance with *NZ IFRS-2 Share-based Payment (NZ IFRS-2)*. The Mogridge Options will need to be valued as at their actual grant date. NZ IFRS-2 has specific requirements on valuation measurement and reporting of the Mogridge Options that are not specifically covered in this report. These requirements may result in different values being recorded in SeaDragon's financial statements.

## 2.6 Impact on Shareholding Levels

### Share Capital and Shareholders

#### Ordinary Shares

SeaDragon currently has 4,843,304,727 fully paid ordinary shares on issue held by 3,444 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 31 July 2019 are set out below.

SeaDragon's 10 Largest Shareholders		
Shareholder	No. of Shares	%
Pescado	855,433,823	17.66%
New Zealand Central Securities Depository Limited (NZCSD)	746,118,908	15.41%
SDMO Trustee Limited (SDMO)	438,419,046	9.05%
Comvita	410,987,830	8.49%
Skylog Limited	151,805,500	3.13%
Graeme Saunders	69,000,000	1.42%
Leveraged Equities Finance Limited	51,545,750	1.07%
FNZ Custodians Limited	40,794,388	0.84%
Nicklas Willemse	40,000,000	0.83%
Forsyth Barr Custodians Limited	30,033,210	0.62%
Top 10 shareholders	2,834,338,455	58.52%
Others (3,434 shareholders)	2,008,966,272	41.48%
Total	<u>4,843,304,727</u>	<u>100.00%</u>

Source: NZX Company Research

Mr Mogridge does not currently hold any shares in the Company.

SeaDragon has 4 shareholders holding more than 5% of the Company's shares:

- Pescado – 17.66%
- BioScience – 15.18%. BioScience holds its shares in SeaDragon through NZCSD
- SDMO, associated with Company director Stuart Macintosh – 9.05%
- Comvita – 8.49%.

Collectively the 4 largest shareholders hold 50.38% of the Company's shares.

#### Employee Options

SeaDragon has on issue 8,000,000 employee options that may be exercised under the Company's employee share option plan. The options were granted in 2016 and are held by one employee. These options are exercisable at any time on or before 31 December 2019 at an exercise price of \$0.008 per share. As the options are currently well *out of the money*, it would appear unlikely that they will be exercised.

#### Shareholding Control

Assuming the 295,997,241 Mogridge Options are granted and exercised, 2,727,272,727 new shares are issued under the Existing Loans Allotment, 2,000,000,000 new shares are issued under the Pescado Loan Allotment and the Comvita Option is not exercised and no other shares are issued, there will be 9,866,574,695 shares on issue. Mr Mogridge will hold 295,997,241 shares, representing 3.00% of the shares on issue.

If the Comvita Option is also exercised, 324,113,455 new shares will be issued upon the exercise of the 295,997,241 Mogridge Options and there will be 10,803,781,818 shares on issue. Mr Mogridge's 324,113,455 shares will represent 3.00% of the shares on issue.

In our view, Mr Mogridge's shareholding of 3.00% is unlikely to have an impact on his ability to exercise control over the affairs of the Company.

### ***Dilutionary Impact***

Assuming the Mogridge Options are granted and exercised, this will result in the Non-associated Shareholders' proportionate shareholdings in the Company being diluted by 3.0%.

We do not consider this level of dilution to be of significance to highlight it as a negative aspect of the Mogridge Options.

## **2.7 Impact on Share Price and Liquidity**

### ***Share Price***

Over the year to 7 August 2019, the Company's shares have traded between \$0.001 and \$0.004 at a VWAP of:

- \$0.0014 in the last month
- \$0.0019 in the last 3 months
- \$0.0023 in the last 6 months
- \$0.0024 in the year.

We consider the existence of the Mogridge Options is unlikely to have a material effect (either positive or negative) on the Company's share price as the exercise price is significantly higher than the current share price and the dilutionary impact of the Mogridge Options is minimal.

### ***Liquidity***

The average volume of shares traded each month since 5 January 2016 has been approximately 1% of the shares on issue.

The size of the pool of shares held by the Non-associated Shareholders will not change as a result of the allotment of shares upon the exercise of the Mogridge Options.

In our view, the grant of the Mogridge Options in itself is unlikely to have a positive or negative effect on the liquidity of SeaDragon shares.

## **2.8 Implications of the Resolution not being Approved**

In the event that resolution 6 in respect of the Mogridge Options is not approved, the Mogridge Options cannot be granted.

The Non-associated Directors will need to re-enter into remuneration negotiations with Mr Mogridge. Re-entering into remuneration negotiations is unlikely to be a desirable situation for the Company as it gives rise to a number of risks:

- additional costs to the Company if the alternative remuneration package requires shareholder approval. Shareholders should be aware that any further increase in Mr Mogridge's remuneration for acting as chairman is constrained by the existing remuneration for directors of the Company approved by shareholders (which is \$225,000 per annum payable to all directors of the Company in aggregate)
- the possibility of Mr Mogridge resigning from his position if a suitable alternative long-term incentive scheme or remuneration structure cannot be negotiated or approved by the Non-associated Shareholders.

## **2.9 Likelihood of the Resolution Being Approved**

The Non-associated Directors have unanimously recommended that the Non-associated Shareholders vote in favour of the resolution in respect of the Mogridge Options.

The following shareholders have advised the Board that they intend to vote in favour of the resolution:

- Pescado, holding 17.66% of total voting rights
- BioScience, holding 15.18% of the total voting rights
- Comvita, holding 8.49% of the total voting rights
- SDMO, holding 9.05% of the total voting rights
- Tamahere Limited (associated with director Colin Groves), holding 0.62% of the total voting rights.

Collectively these shareholders hold 51.00% of the Company's voting rights able to be voted on the resolution. Assuming they all do vote in favour, the resolution is certain to be approved.

## **2.10 Voting For or Against the Resolution in Respect of the Mogridge Options**

Voting for or against resolution 6 in respect of the Mogridge Options is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

### 3. Valuation of the Mogridge Options

#### 3.1 Methodology and Valuation Approach

The Mogridge Options can be exercised in the period between 1 April 2021 and (at the latest) 30 September 2023. Therefore the options are American options (as opposed to European options which can only be exercised on one particular day).

The Binomial option-valuation model (the **Binomial Model**) and the Black-Scholes option-valuation formula (the **Black-Scholes Formula**) are commonly used in commercial practice to value options. The Binomial Model is more appropriate for the valuation of American options and options over shares which are expected to pay dividends during the exercise period, although variants of the Black-Scholes Formula exist to handle the valuation of such options.

The key variables in determining the value of an American Option are:

- the exercise price of the option
- the risk free rate
- the current spot price or market value of the underlying instrument
- the volatility of the returns on the underlying instrument
- the time to expiry
- the expected distributions to be made on the underlying instrument.

The values derived from the Binomial Model and Black-Scholes Formula represent the value of options over existing shares. The Mogridge Options are in effect warrants and hence SeaDragon will issue new shares whenever the options are exercised. Accordingly, an adjustment must be made to the values derived from the Binomial Model and Black-Scholes Formula to take into account the dilutionary effect of the Mogridge Options.

Furthermore, the values derived from the Binomial Model and Black-Scholes Formula represent the value of options which are freely tradable. Given that the Mogridge Options are not able to be freely traded, we have further adjusted the values derived from the Binomial Model and Black-Scholes Formula to allow for the lack of marketability of the Mogridge Options.

## 3.2 Valuation Assessment

### *Valuation Parameters*

The key variables applied in our assessment of the value of the Mogridge Options are:

- number of options – 295,997,241
- valuation date – 13 September 2019, being the date of the Company's annual meeting. If approved by the Non-associated Shareholders, the Mogridge Options will be granted to Mr Mogridge on or soon after the date of that approval
- exercise price – \$0.005 per option
- the risk free rate – 0.9%, based on the current yield on New Zealand Government 15 April 2023 bonds
- the current market value of SeaDragon's shares – \$0.0014, being the one month VWAP up to 7 August 2019
- volatility – 50% to 60%, based on the observed volatility levels of movements in SeaDragon's share price and for comparable companies
- the time to expiry – 30 September 2023, being the last day that Mr Mogridge may exercise the Mogridge Options
- expected distributions – nil, given the Company's recent dividend history and its current financial performance and financial position.

### *Dilutionary Effect*

The Binomial Model and Black-Scholes Formula assume that the options are over existing shares. However, the Mogridge Options are akin to warrants. SeaDragon will need to issue new shares when the options are exercised and therefore the new shares will have a dilutionary effect. This is taken into account in our valuation.

We have assumed that the number of shares on issue prior to the exercise of the Mogridge Options is 9,570,577,454, being the 4,843,304,727 shares currently on issue plus 2,727,272,727 new shares issued under the Existing Loans Allotment and 2,000,000,000 new shares issued under the Pescado Loan Allotment. We have assumed that the Comvita Option is not exercised.

### *Discount for Restrictive Terms*

The Binomial Model and Black-Scholes Formula assume that the options being valued can be sold on a secondary market. The terms of the Mogridge Options forbid the trading of the options. There is also an argument that, due to management risk aversion, senior executives often exercise options early and in some instances sub-optimally. Accordingly, a discount to the values derived from the Binomial Model and Black-Scholes Formula is required to reflect the restrictive terms and the potential early exercise of the options. We have applied a discount of 20% to the values assessed under the Binomial Model and Black-Scholes Formula (adjusted for dilution).

### *Valuation Conclusion*

Based on the above, we assess the fair market value of each Mogridge Option to be in the vicinity of \$0.0001 and the fair market value of the 295,997,241 Mogridge Options to be in the vicinity of \$30,000 as at 13 September 2019.

## **4. Sources of Information, Reliance on Information, Disclaimer and Indemnity**

### **4.1 Sources of Information**

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

- the draft SeaDragon notice of annual general meeting
- the draft Option Deed
- the SeaDragon 2017, 2018 and 2019 annual reports
- share price data and shareholder data from NZX Company Research
- comparable companies' share price volatility data from S&P Capital IQ.

During the course of preparing this report, we have had discussions with and / or received information from the Non-associated Directors and executive management of SeaDragon and SeaDragon's legal advisers.

The Non-associated Directors have confirmed that we have been provided for the purpose of this Appraisal Report with all information relevant to the Mogridge Options 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 Appraisal Report.

In our opinion, the information set out in this Appraisal 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 Mogridge Options.

### **4.2 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.



### **4.3 Disclaimer**

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way do we guarantee or otherwise warrant that any forecasts of future profits, cash flows or financial position of SeaDragon will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of SeaDragon and its directors and management. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of the 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 or undertaking 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 annual meeting issued by SeaDragon and have not verified or approved the contents of the notice of annual meeting. We do not accept any responsibility for the contents of the notice of annual meeting except for this report.

### **4.4 Indemnity**

SeaDragon has agreed that, to the extent permitted by law, it will indemnify Simmons Corporate Finance and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. SeaDragon has also agreed to indemnify Simmons Corporate Finance and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Simmons Corporate Finance or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Simmons Corporate Finance shall reimburse such costs.

## **5. Qualifications and Expertise, Independence, Declarations and Consents**

### **5.1 Qualifications and Expertise**

Simmons Corporate Finance is a New Zealand owned specialist corporate finance advisory practice. It advises on mergers and acquisitions, prepares independent expert's reports and provides valuation advice.

The person in the company responsible for issuing this report is Peter Simmons, B.Com, DipBus (Finance), INFINZ (Cert).

Simmons Corporate Finance and Mr Simmons have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of the transactions.

### **5.2 Independence**

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with SeaDragon or Mr Mogridge or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to this transaction.

Simmons Corporate Finance has not had any part in the formulation of the Mogridge Options or any aspects thereof. Our sole involvement has been the preparation of this report.

Simmons Corporate Finance will receive a fixed fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the voting in respect of the Mogridge Options. We will receive no other benefit from the preparation of this report.

### **5.3 Declarations**

An advance draft of this report was provided to the Non-associated Directors for their comments as to the factual accuracy of the contents of the report. Changes made to the report as a result of the circulation of the draft have not changed the methodology or our conclusions.

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

### **5.4 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 annual meeting to be sent to SeaDragon 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.



Peter Simmons  
Director

**Simmons Corporate Finance Limited**  
8 August 2019