



**SeaDragon Limited
Annual General Meeting,
13th September, 2pm**

Chair and CEO Speech

Bryan Mogridge – Chairman

Welcome to SeaDragon's annual shareholder's meeting; a review of last financial year's results plus a chance to update you on progress to date this year.

Last year's result was certainly not satisfactory producing an after-tax loss of \$9.6 million.

This loss is made up of a trading EBITDA loss of \$5.2million including an inventory write down of \$424,000 and excluding the write down to property plant and equipment of \$2,973,000.

On the positive side of the result revenue rose 60% over the prior year and the amount of omega 3 product sold increased by 325% to 65% of total revenue.

This trend is in line with our desired plan of moving SeaDragon's production up the value curve, but it needs to be better and especially it needs to be a much larger volume.

As you are aware, I only joined the Board in February this year and became Chairman in April. Since that time, I have been deeply involved in meeting the SeaDragon team, studying our plans for the future, visiting our major customers and some of our suppliers.

Here are a few very quick thoughts of what I have found so far and what I believe is possible for SeaDragon in the future.

SeaDragon has excellent supportive shareholders and especially those around the Board table who represent over 50% of the current shares on issue which will rise to at least 75% upon conversion of the Convertible Loan Notes on issue (with the conversion of the first tranche occurring on 31 March next year), . Three of those major shareholders have contributed \$9 million last year and in particular Masthead (Mr Mark Stewart's company) who recently agreed to contribute another \$4 million by way of a convertible loan note has currently invested a total of \$12.3m that with another \$1.5m to come from that recent capital loan note allocation. Despite this solid support management and the Board are not complacent about the ability of the larger shareholders to continue funding the business and we are intently focused on ensuring SeaDragon can stand on its own feet as soon as possible and hopefully during the next financial year.

SeaDragon is a sub-component supplier, refining tuna oil and then on selling it to other parties who will process it further into their proprietary products. We have plans to move up from that position to be a trusted component supplier and then move to a mix of that with some specialised products of our own. This doesn't mean we will necessarily interface directly with end consumers; we are not that sort of company; we are a business to business activity with a team of only 23 people. However, within that space there is plenty of opportunity to grow our volumes and margins plus strengthen our relationships with our customers and suppliers so that we can rely upon the business we generate to continue. Naturally such a continuation relies upon SeaDragon continually improving our quality and coming up with creative ideas to enhance our customers' businesses and profits.

On my recent visits to our customers globally I heard how much our product quality and service has improved over the past 2-3 years and how important that is to these customers staying with us and increasing their orders. More orders don't always translate into a rapid growth of business as we need also to source the right quality of unrefined Tuna oil to refine and meet our growing demand. Our supply team is doing an excellent job of sourcing the right oil with the right certifications to satisfy the growing customer demand. This involves considerable travel and travel to difficult environments, fortunately we have an ex defence force guy doing that, so he is able to look after himself where some of the places are not too human friendly!!

This business moves slowly, not because the team are slow but because the demand and supply lines need lots of qualifying and quality testing to ensure we can produce what we say and that we can supply what we say. The flip side of this seemingly slow process is that when we develop the relationships and prove ourselves to be excellent suppliers there is a certain lock-in. We're not complacent about this but it is somewhat reassuring once business is secured that if we do everything right, we can rely upon a strong two-way relationship for the future.

For SeaDragon to be successful it needs to think like a high-quality food ingredient supplier, not just providing the high demand Omega 3 products but also providing interesting concepts for how our customers can gain advantage in their markets and generate more profits with their end products.

I mentioned earlier about us moving from being just a subcomponent supplier to becoming a trusted component supplier and also providing a few unique products. The Slide behind me on the screen highlights that process graphically. This transformation won't be over-night, but we expect to move along that curve enhancing our position on an annual basis. We have some early stage ideas for extra value products, but they won't be for direct to consumer sales they will be for our direct to consumer customers. I would expect that we will start to see those enter the market later in the 2021 fiscal year.

Naturally a major key strategic advantage is being New Zealand based and being able to leverage off the wonderful image of the highest quality food safety standards that our nation has. We subscribe to all those standards and want to exceed them wherever possible. Also, our access to the Southern oceans and sustainable resources of seafood is really important to our future, and seen as such by all our customers.

So far this year we are tracking ahead of last year with our revenue and the percentage of Omega 3 content is growing. Our full year result will still be a loss but could come in at around half the \$9.6m after tax loss for this year as long as there are no other significant capital write downs and the sales for the last 6 months continue as planned. Our first half result will be ahead of last year for revenue but about the same on an EBITDA basis due to some extra development costs.

As a new Chairman, I would like to thank all shareholders for their patience and continued investment. SeaDragon has a value enhancing future, it has just taken time to get the production and quality right, so that our customers and potential customers can have the confidence to place more of their product manufacturing in our hands. Nevin and the team have done a very good job on that front and I will now hand over to our CEO Dr Nevin Amos to give you an update.

Nevin Amos – CEO

Thank you Bryan and good afternoon ladies and gentlemen.

As Bryan has outlined our results for the 2019 fiscal year were far from acceptable. They were a disappointment to me and my team. Notwithstanding that poor operating result, we have made progress in positioning the business for future profitability.

As Bryan also mentioned we are currently a sub-component supplier to businesses that are manufacturing specialty oil blends for infant formula. The business has been largely focused on refining tuna oil for this business as that offers us the most attractive margins longer term. This strategic direction, set by the Board in 2016, remains the right one for the business. We simply would not make sufficient margin if we were to attempt to compete with major international refiners focused on standard anchovy or concentrated oils aimed at the human supplement industry.

We have made progress this last year on addressing the key issues that had hitherto kept us from making sales into the European infant formula space. I will come back to that later.

First, I would like to show you the nature of our operations. From time-to-time we get shareholders requesting a site visit through the refinery. That is not feasible given the staffing of the business and considering health and safety aspects. I have put together a short video of our operations that I will now share with you.

Refinery Operations:

The refinery has three floors and requires height to enable its vacuum system to operate.

Unrefined oil arrives on site in 20' general purpose shipping containers either in a flexitank, which is a single bladder within the container holding 20-22 metric tonnes of oil, or in one metric tonne plastic liners within a cardboard box. The bulk of our oil arrives in flexitanks. The oil is pumped into the refinery over a pipe-bridge and this takes 3-4 hours for each 20-22 metric tonne container.

Outside the refinery is a bunded area for our boiler fuel, wastewater and other by-products including soap that is produced during our process.

The refinery has been designed for truck flows around its perimeter for offloading containers by swing-lift and other materials by forklift for storage in our warehouse.

Inside the refinery are four main bulk tanks, each contains 20 cubic metres of internal volume. The unrefined oil is pumped into the first of these, then mixed and gently heated.

The refinery has three main processes: neutralisation; bleaching; and deodorisation.

Taking neutralisation first, laboratory analysis is used to determine the quality of the unrefined oil and these parameters are used by the control systems of the refinery to remove any residual gums, phospholipids and free fatty acids from the oil.

As part of the neutralisation process the refinery uses a degumming reactor where the oil is mixed and held before passing through heat exchangers and mixing pumps where processing aids are added. It then passes through two high speed separators, the first being a desludging separator and the second a polishing separator. After the two separators the oil has a very low level of free fatty acids and is then pumped into the second of the four main bulk tanks.

Bleaching is the second process undertaken in the refinery. Neutralised oil is pumped into the bleaching reactor where it is mixed with special bleaching earths. Bleaching removes colour compounds from the oil taking it from a dark black colour to a light golden colour. Contaminants that maybe present are also removed by this step. After the bleaching process has been completed the oil is filtered to remove the residual bleaching earth and then pumped to the third bulk storage tank.

The final step in the process is deodorisation. The oil is pumped into the deodorisation vessel, where it is held under a strong vacuum. It is then heated and has live steam added to assist the process of removing odour and taste compounds thereby imparting the oil with a neutral taste and odour. The oil is then pumped into the final bulk tank where it is held until packing out. We pack oil into 210kg drums, 1 metric tonne plastic bag in box or 20-22 metric tonne flexitanks depending on customer requirements.

The refinery is run with three personnel on site at any one time. It has a high degree of automation with PLC control of the major systems. Our refinery includes a basic laboratory where we run routine analysis to control the process and for in-process and finished goods quality checks.

Oil Quality:

Over the last year we made steady progress on achieving the quality specifications required for access into the European infant formula market. Whilst that took much longer than we anticipated, we believe we are now ahead of many of our global competitors.

We have successfully developed techniques in our refinery to ensure we meet new standards for MCPD compounds. These compounds are formed in refining of all oils, including e.g. vegetable, soy, fish and also form during cooking. The European Food Safety Authority, several years ago, dictated limits of MCPD compounds for use in infant formula. Our customers then specified a limit of 250 parts per billion (ppb) of MCPD compounds in fish oil that is to be used in infant formula. Almost all global refiners struggled to meet this requirement. Since late last year we have been able to produce refined tuna oil in our refinery that has had non-detectable levels of these MCPD compounds. Whereas, in 2017 we typically had levels of around 1,000 ppb. Whilst the levels in 2017 were safe for general consumption by adults, they did not meet the standard required for infant formula.

Over the last year we have also continued to make progress on improving other refined oil quality factors, including improvements in oil colour and oxidative state.

The Omega-3 Global Organisation for EPA and DHA (GOED) of whom we are a member, mandates that the oxidative level of fish oil should be less than 26 tottox. Since 2017 our average tottox levels have improved from 18 to 5.

Alongside product quality the business requires certifications to access key infant formula companies. Besides the New Zealand Governments Risk Management Program, we also need Halal, Kosher and third-party sustainability certifications. The two sustainability requirements most of our customers, request are either Marine Stewardship Council (MSC) or Friends of the Sea (FOS). We achieved all of those during 2017. During the last year we also achieved, what is deemed, the gold standard for access into infant formula, FSSC22000.

I am pleased that we have now reached a point where the quality of our oil does meet the exacting standards for use in infant formula and with the required quality systems and certifications we are making sales of our refined tuna oil to a major infant formula company in Europe.

We also have had good interest from other infant formula producers in Europe, and a number currently have already received samples of our current product.

We expect this interest to generate sales growth into Europe for infant formula use. However, that growth may be slow. Major customers have lengthy supplier approval processes, where they first thoroughly test samples and then generally manufacture pilot scale samples to test for product stability. Unfortunately, that process takes time. We have previously said that process takes 6-18 months and that is still our expectation of the time it will take for customers to evaluate our product prior to placing purchase orders.

We are confident that our product quality now meets the required standards and we expect sales growth as we get approved by new customers. Once we have successfully gained supplier approval, sales will become more constant and key customers become more locked-in provided we continue to deliver to their exacting needs.

SeaDragon Team:

Achievement of this improved quality has been a result of many hours of development and testing by the staff of SeaDragon. The business has a high calibre of staff, many have been recruited over the last several years with the skills required for a refiner of Omega-3 oils.

The team at the refinery now has the right skills, and knowledge, to enable our continued success. We have a mix of relevant skills and experience including four staff with professional Chemical Engineering qualifications.

Recruiting staff with the right skills and aptitude for our business in Nelson, and indeed New Zealand, has proved difficult. We are the only refinery of its type in New Zealand. As a consequence, we have had to search globally for the right skills in critical areas.

I am very pleased that we attracted our new Operations Manager, Michele Marazzato to Nelson. Michele, who is an industrial chemist from Italy has an extensive background in refining oils including fish oils. He was production manager for Nestle's refinery in Switzerland and then moved to another Nestle role where he was considered one of Nestle's global experts on oil and fat refining.

We have also attracted a number of our technical and operations staff with expertise in oils from a range of places. Our staff truly bring global expertise!

In closing, last's years result was very disappointing, but we now have the building blocks laid out so we can produce improved results going forward.

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