

22 September 2020

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS OF SEADRAGON LIMITED

Notice is hereby given to all shareholders that a special meeting of shareholders (**Meeting**) of SeaDragon Limited (**SeaDragon** or **Company**) will be held by an online meeting using the Company's share registrar's virtual meeting platform at www.virtualmeeting.co.nz/sea20sm on Wednesday, 7 October 2020, at 2:00 p.m.

Due to COVID-19, shareholders of the Company (**Shareholders**) will only be able to participate in the Meeting online. Shareholders cannot attend the Meeting in person.

We appreciate the support and understanding of our Shareholders with regard to these Meeting arrangements.

Further information on the virtual meeting platform, including how to participate, vote and ask questions, is set out under the "Important Information" section of this notice of meeting.

AGENDA

A. Apologies and Chairman's introduction

B. Resolution

To consider and, if thought fit, pass the following ordinary resolution:

Resolution – allotment of shares in the Company to Pescado

"That, for the purposes of rule 7(d) of the Takeovers Code, the allotment of 83,333,334 ordinary shares in the Company to Pescado is approved."

Please see the Explanatory Notes in respect of the resolution below.

The directors of the Company not associated with Pescado (i.e., excluding Mark Stewart, Mark Sadd and, alternate director for Mr. Stewart, Warwick Webb) unanimously recommend that Shareholders vote in favour of the resolution

By order of the Board

ENDS

Contact:

Bryan Mogridge
Independent Chairman
Tel: +64 21 931 355

This notice of meeting is an important document and requires your immediate attention. It should be read in its entirety. It has been prepared to advise you of the forthcoming Meeting and to assist you in understanding the resolution to be put to Shareholders for consideration at the Meeting. The Directors encourage you to read this notice of meeting and exercise your right to vote.

If you do not understand any part of this document or are in doubt as to how to deal with it, you should consult your broker or other professional adviser as soon as possible.

EXPLANATORY NOTES

CONSEQUENCES IF RESOLUTION APPROVED

1. If the resolution set out in the notice of meeting is passed, the allotment of the ordinary shares in the Company referred to in the resolution will be approved in terms of rule 7(d) of the takeovers code set out in the schedule to the Takeovers Regulations 2000 (the **Takeovers Code**) as an exception to rule 6 of the Takeovers Code.
2. Based on management's current estimates, the funding available through the Pescado Subscription (as defined in paragraph 4(c) below) if the resolution is approved, together with the funding available from the other capital raising initiatives described in paragraph 5 below (assuming a modest amount is raised under the Crowdfunding Offer (as defined in paragraph 5(b)), should enable the Company to achieve positive operating cashflow. If the full amount of \$1,250,000.01 is raised under the Crowdfunding Offer, this will assist with funding capital expenditure for new projects, which the Board anticipates will speed up the Company's growth. These estimates are subject to assumptions and expectations as to future events.
3. The effect that the passing of the resolution has on the number of ordinary shares in the Company held by Pescado Holdings Limited (**Pescado**) and the other Shareholders following the possible allotment of the Pescado Shares (as defined in paragraph 4(c) below) is summarised at paragraph 17. Paragraph 17 also considers the effect of the possible allotment of ordinary shares in the Company:
 - (a) to Pescado on conversion of the convertible loan notes issued under the 2019 Convertible Loan Note Facility (as defined in paragraph 4(a) below); and
 - (b) to other Shareholders pursuant to the Crowdfunding Offer (as defined in paragraph 5(b) below).

Please refer to section 1.6 of the IAR (as defined in paragraph 8 below) for a detailed analysis of the impact on the ownership of the Company from these transactions.

We encourage all Shareholders to read the IAR that accompanies this notice of meeting in full.

RESOLUTION – ALLOTMENT OF PESCADO SHARES TO PESCADO

Relationship between Pescado and the Company

4. Pescado is a cornerstone shareholder of the Company and a member of the Masthead group of companies. Pescado is ultimately controlled by Mark Stewart, a director of the Company. Each of Mark Sadd, a director of the Company, and Warwick Webb (alternate director for Mr. Stewart) is associated with Pescado. Key aspects of the relationship between Pescado and the Company are as follows:
 - (a) **2019 Convertible Loan Note Facility:** on 17 May 2019, Shareholders approved up to \$4 million of advances by Pescado to the Company via the convertible loan note agreement 2019 between the Company and Pescado (the **2019 Convertible Loan Note Facility**). By way of further information:
 - (i) the 2019 Convertible Loan Note Facility has been fully drawn down by the Company;
 - (ii) all indebtedness under the 2019 Convertible Loan Note Facility is secured over all of the assets of the Company and its subsidiaries, in each case under then-existing security arrangements (the **Existing Security**);
 - (iii) unless previously repaid or converted, the 2019 Convertible Loan Note Facility will mature at 5:00 p.m. on 31 March 2021. On maturity, unless the Company is in default under the 2019 Convertible Loan Note Facility or insolvent, the outstanding amount under the 2019 Convertible Loan Note Facility will automatically convert into ordinary shares in the Company. The Company considers it highly unlikely that it will be in a position to repay that outstanding amount (i.e., it is highly likely that such outstanding amount will convert into ordinary shares in the Company); and
 - (iv) on conversion of the 2019 Convertible Loan Note Facility, a further 20,000,000 ordinary shares in the Company will be issued to Pescado;

- (b) **2020 Pescado Facility:** on 4 May 2020, Pescado agreed to advance up to \$2 million to the Company via a new loan facility (the **2020 Pescado Facility**). By way of further information:
- (i) the 2020 Pescado Facility has been fully drawn down by the Company;
 - (ii) any loans drawn under the 2020 Pescado Facility (**New Loans**) have a repayment date of 31 December 2021;
 - (iii) New Loans have an interest rate of 12% per annum, payable on 30 November 2020, 31 May 2021, 30 November 2021 and 31 December 2021; and
 - (iv) New Loans are secured by a further general security deed over all of the assets of the Company and its subsidiaries (the **Further Security**). The Existing Security has priority over the Further Security. The Existing Security is unaffected, and not amended, by the 2020 Pescado Facility or the New Loans.
- (c) **Pescado Subscription:** on 3 September 2020, Pescado and the Company entered into a subscription agreement pursuant to which, conditional on the Shareholders approving the resolution set out in this notice of meeting, Pescado will subscribe for 83,333,334 ordinary shares in the Company (the **Pescado Shares**) at a subscription price of \$0.03 per ordinary share (the **Pescado Subscription**). The:
- (i) aggregate subscription price of \$1,000,000.02 for 33,333,334 of the Pescado Shares (the **Subscription Shares**) is to be paid in cash by Pescado; and
 - (ii) aggregate subscription price of \$1.5 million for the remaining 50 million Pescado Shares (the **Repayment Shares**) is to be satisfied by the Company repaying \$1.5 million of the New Loans (i.e., those loans drawn down under the 2020 Pescado Facility). Pursuant to the 2020 Pescado Facility, interest on that portion of the New Loans continues to accrue up to the date of repayment.

Other capital raising initiatives

5. As announced by the Company on 3 September 2020, the Pescado Subscription is one of three capital raising initiatives by the Company. The other two are:
- (a) the subscription by certain directors and management of the Company (or their associated entities or trusts) of, in aggregate, 15,000,002 ordinary shares in the Company on or about 17 September 2020, with a subscription price of \$0.03 per ordinary share in the Company (so, a total subscription amount of \$450,000.06); and
 - (b) the Company's offer of up to 41,666,667 new ordinary shares in the Company to existing Shareholders via the crowdfunding platform, Snowball Effect, as further described in the Company's announcement on 18 September 2020, and, again, at a subscription price of \$0.03 per ordinary share in the Company (the **Crowdfunding Offer**). As previously announced:
 - (i) the maximum amount to be raised through the Crowdfunding Offer is \$1,250,000.01; and
 - (ii) the Crowdfunding Offer remains open until 2 October 2020.

PURPOSE AND CONSIDERATION FOR THE ALLOTMENT OF PESCADO SHARES

6. The proceeds from the allotment of the Subscription Shares are to be applied to general corporate and working capital purposes of the Company. The consideration for the allotment of the Subscription Shares is the payment of \$0.03 per Subscription Share (i.e., an aggregate subscription price of \$1,000,000.02).
7. Absent the allotment of the Repayment Shares, the Company considers it highly unlikely it will be in a position to repay the New Loans on 31 December 2021. The Company, accordingly, considers that the allotment of the Repayment Shares is a prudent alternative to sourcing other funding to repay \$1.5 million to Pescado. The allotment of the Repayment Shares was also integral to the Company securing Pescado's agreement to subscribe for significant further capital in the Company by way of the Subscription Shares (having an aggregate subscription price of \$1,000,000.02) and is consistent with Pescado's desire to increase its shareholding in the Company. The consideration for the allotment of the Repayment Shares is the early repayment

by the Company of \$1.5 million of the principal amount outstanding of the New Loans – i.e., the allotment of each Repayment Share satisfies the Company's obligation to repay \$0.03 of the principal amount outstanding of the New Loans.

8. As set out in more detail in the independent adviser's prepared by Simmons Corporate Finance Limited (the **IAR**), the issue price for the Pescado Shares of \$0.03 is equivalent to the current value of the Company's shares (see section 2.5 of the **IAR**).

CONSEQUENCES IF RESOLUTION NOT APPROVED

9. If the resolution is not approved, then:
 - (a) the Company must repay the New Loans (having an outstanding principal amount of \$2 million) on 31 December 2021;
 - (b) the Company must continue to pay interest on all of the New Loans; and
 - (c) the Company will not receive \$1,000,000.02 from Pescado pursuant to the Pescado Subscription,

and, if the Company is unable to source other funding likely to be required to repay the New Loans on 31 December 2021, the Board will likely have no option but to place the Company into receivership or liquidation.

VOTING INTENTIONS

10. The following Shareholders have advised that they intend to vote in favour of the resolution:
 - (a) One Funds Management Limited as trustee of Asia Pacific Healthcare Fund II and BioScience Managers Ventures Pty Ltd as general partner of BioScience Management Partnership LP (together, **BioScience**), together holding 18.13% of total voting rights;
 - (b) Comvita Limited (**Comvita**), holding 14.55% of total voting rights;
 - (c) the trustees of the Mogridge Family Trust (associated with chairman Bryan Mogridge), holding 11.36% of total voting rights;
 - (d) SDMO Trustee Limited (associated with director Stuart Macintosh) and Stuart Macintosh, together holding 6.67% of total voting rights;
 - (e) Tamahere Limited (associated with director Colin Groves), holding 1.10% of the total voting rights; and
 - (f) Five Islands Ventures Pty Ltd as trustee for Five Islands Holdings Trust (associated with director Craig Patch), holding 0.73% of total voting rights.

Together, these Shareholders hold 65.24% of total number of voting rights able to be voted on the resolution (since Pescado is not entitled to vote on that resolution).

TAKEOVERS CODE

11. Under rule 6 of the Takeovers Code, a person who holds or controls:
 - (a) no voting rights, or less than 20% of the voting rights, in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company unless, after that event, that person and the person's associates hold or control in total not more than 20% of the voting rights in the code company; or
 - (b) 20% or more of the voting rights in a code company may not become a holder or controller of an increased percentage of the voting rights in the code company.
12. There are a limited number of exceptions to this rule, including (in rule 7(d) of the Takeovers Code) where a person becomes the holder or controller of an increased percentage of the voting rights in a code company by an allotment to that person of voting securities in the code company that has been approved by an ordinary resolution of the code company in accordance with the Takeovers Code.
13. The Company is a code company as it was, during the period of 12 months before the proposed allotment of the Pescado Shares, a listed issuer that has financial products that confer voting rights quoted on a licensed market (being NZX).

14. Pescado currently holds 17,645,247 ordinary shares in the Company, comprising 19.45% of the Company's voting rights.
15. As a result of the proposed allotment of the Pescado Shares as referred to in the resolution, Pescado would become the holder of an increased percentage of the voting rights in the Company and, after that event, Pescado would hold more than 20% of the voting rights in the Company.
16. The total percentage of the voting rights in the Company held by Pescado after the proposed allotment will vary between 51.33% and 62.35% depending on the number of ordinary shares in the Company subscribed by Shareholders pursuant to the Crowdfunding Offer.
17. The table below shows the effect on the number of ordinary shares in the Company held by Pescado, BioScience and Comvita and the Shareholders not associated with Pescado, BioScience or Comvita (**Other Shareholders**) following the allotment of the Pescado Shares – please refer to section 1.6 of the IAR for the complete analysis.

The table below assumes that:

- (a) the maximum amount of \$1,250,000.01 is raised through the Crowdfunding Offer;
- (b) the outstanding amount under the 2019 Convertible Loan Note Facility will convert into ordinary shares in the Company (i.e., such amounts will not be repaid by the Company) (the **2019 CLN Conversion**); and
- (c) there are no other changes to the Company's capital structure.

Impact on Shareholding Levels					
	Pescado	BioScience	Comvita	Other Shareholders	Total
Current	17,645,247	16,443,557	13,200,787	43,416,237	90,705,828
%	19.45%	18.13%	14.55%	47.86%	100.00%
Pescado Subscription	83,333,334	-	-	-	83,333,334
Crowdfunding Offer	-	-	-	41,666,667 ¹	41,666,667 ¹
2019 CLN Conversion	20,000,000	-	-	-	20,000,000
Potential Shareholding Levels	120,978,581	16,443,557	13,200,787	85,082,904	235,705,829
%	51.33%	6.98%	5.60%	36.10%	100.00%

¹ Assumes \$1.25 million is raised under the Crowdfunding Offer

18. Pescado may become the holder of an increased percentage of the voting rights in the Company by the allotment of shares referred to in the resolution if the allotment is approved by an ordinary resolution of the Company in accordance with the Takeovers Code (the main provisions being contained in rules 16 to 19B).
19. The information required under rule 16 of the Takeovers Code is set out in Appendix 1 of this notice of meeting.
20. The information required under rule 19B(4)(c) of the Takeovers Code is set out in Appendix 3 of this notice of meeting.

INDEPENDENT ADVISER'S REPORT

21. As required by rule 18 of the Takeovers Code, the Company has commissioned an independent adviser's report on the allotment of the Pescado Shares referred to in the resolution.
22. The Takeovers Code requires that, where shareholders are being asked to give their approval under rule 7(d) of the Takeovers Code, the directors must obtain a report from an independent adviser on the merits of the proposed allotment having regard to the interests of those persons who may vote to approve the allotment.
23. Simmons Corporate Finance Limited has prepared the IAR and a copy of the IAR is attached to this notice of meeting.

24. Section 2.2 of the IAR contains the following summary of Simmons Corporate Finance Limited's evaluation of the merits of Pescado Subscription under the Takeovers Code:

“In our opinion, after having regard to all relevant factors, the positive aspects of the Pescado Subscription significantly outweigh the negative aspects from the perspective of the [Shareholders not associated with Pescado].”

We encourage all Shareholders to read the IAR that accompanies this notice of meeting in full.

IMPORTANT INFORMATION

Virtual Shareholder meeting

Due to COVID-19, Shareholders will only be able to participate in the Meeting online via the virtual meeting platform at www.virtualmeeting.co.nz/sea20sm. Shareholders cannot attend the Meeting in person.

To attend online via the virtual meeting platform, you will require your CSN/Holder Number for verification purposes. Please join online at least five minutes prior to the start time.

Shareholders attending and participating in the Meeting online via the virtual meeting platform will be able to vote and ask questions during the Meeting.

More information regarding online attendance at the Meeting (including how to vote and ask questions during the Meeting) is available in the Virtual Annual Meeting Online Portal Guide, which is available at: <https://bcast.linkinvestorservices.co.nz/generic/docs/OnlinePortalGuide.pdf>.

The Company also offers the facility for Shareholders to submit questions to the Board in advance of the Meeting at <http://investorcentre.linkmarketservices.co.nz/voting/SEA>, or by using the Proxy Form. The Chairman of the Meeting will answer as many of the most frequently asked questions as possible during the Meeting.

You may also appoint a proxy and direct your votes in advance of the Meeting. Please see below.

Proxies

Any Shareholder who is entitled to attend and vote at the online Meeting may appoint a proxy to attend and vote at the online Meeting. A proxy does not need to be a Shareholder. If you appoint a proxy you may either direct your proxy how to vote for you or you may give your proxy discretion to vote as he or she sees fit. If you wish to give your proxy discretion then you must mark the appropriate boxes on the form to grant your proxy that discretion. If you do not tick any box for the resolution, then the proxy will vote or abstain from voting as he or she sees fit.

If, in appointing a proxy, you do not name a person as your proxy but otherwise complete the proxy form in full, or your named proxy does not attend the online Meeting, the Chairman of the Meeting will act as your proxy and may only vote in accordance with your express direction.

The Chairman of the Meeting is willing to act as proxy for any Shareholder who wishes to appoint him. To appoint the Chairman of the Meeting simply tick the box allocated next to "The Chairman of the meeting" on your Proxy Form.

If the Chairman of the Meeting is appointed as a proxy and you have given your proxy discretion to vote as he or she sees fit, the Chairman of the Meeting will vote in favour of the resolution.

If you wish to mail the Proxy Form then please send it to our Share Registrar, Link Market Services Limited, using the reply-paid envelope provided. New Zealand based Shareholders may also fax the form to (09) 375 5990, and overseas Shareholders may fax the form to +64 9 375 5990. The form may also be emailed to meetings@linkmarketservices.com or posted to Link Market Services Limited, PO Box 91976, Auckland 1142, New Zealand.

The completed Proxy Form must be received by our Share Registrar no later than 2:00 p.m. (New Zealand time) on Monday, 5 October 2020. Any Proxy Form received after that time will not be valid for the Meeting.

Shareholders can elect to vote their proxies online. To appoint your proxy and vote online, please visit the Link Market Services Investor Centre at <http://investorcentre.linkmarketservices.co.nz/voting/SEA>. You will require your CSN/Holder number and Authorisation Code (FIN) to securely access the website. Follow the prompts to complete your proxy appointment and vote.

Ordinary resolution

The business for the Meeting is to pass the ordinary resolution set out in the preceding pages. An ordinary resolution is a resolution passed by a simple majority of the votes of those Shareholders entitled to vote and voting on the resolution.

Voting

Voting entitlements for the Meeting will be determined as at 5:00 p.m. (New Zealand time) on 5 October 2020. Registered Shareholders at that time will be the only persons entitled to vote at the Meeting and only the ordinary shares in the Company registered in those Shareholders' names at that time may be voted at the Meeting.

Voting restrictions

Neither Pescado, nor any of its associates (as that term is defined in the Takeovers Code), is entitled to vote, appoint a proxy or exercise discretionary proxies in respect of the resolution, in accordance with rule 17(2) of the Takeovers Code.

Appendix 1 – Information required by rule 16 of the Takeovers Code

Pursuant to rule 16 of the Takeovers Code (with the sub-paragraphs below corresponding to the sub-paragraphs in rule 16), the Company advises as follows:

- (a) Pescado is the proposed allottee of the voting securities (being the Pescado Shares);
- (b) the particulars of the voting securities to be allotted are as set out in Appendix 2 of this notice of meeting;
- (c) no voting securities of a body corporate other than the Company are to be allotted;
- (d) the issue price for the Pescado Shares is \$0.03 per Pescado Share payable on 14 October 2020, provided that the resolution is approved;
- (e) the reasons for the allotment are:
 - (i) to assist the Company with its general corporate and working capital purposes; and
 - (ii) to implement what the Company considers a prudent alternative to sourcing other funding to repay \$1.5 million of New Loans;
- (f) the allotment under the resolution, if approved, will be permitted under rule 7(d) of the Takeovers Code as an exception to rule 6 of the Takeovers Code;
- (g) Pescado has confirmed that there is no agreement or arrangement (whether legally enforceable or not) that has been, or is intended to be, entered into between it and any other person (other than between it and the Company in respect of the matters referred to in paragraphs (a) to (e)) relating to the allotment, holding, or control of the voting securities to be allotted, or to the exercise of voting rights in the Company;
- (h) attached to this notice is a report from an independent adviser in compliance with rule 18 of the Takeovers Code; and
- (i) the directors of the Company make the following statement for the purposes of rule 19 of the Takeovers Code:

The directors of the Company (excluding Mark Stewart, Mark Sadd and, alternate director for Mr. Stewart, Warwick Webb) recommend that the Shareholders approve the proposed allotment of the Pescado Shares. The grounds for this recommendation are that:

- *the allotment of the Pescado Shares allows the Company to secure significant further capital of \$1,000,000.01 by way of the Subscription Shares;*
- *the allotment of the Repayment Shares is a prudent alternative to sourcing other funding to repay \$1.5 million of New Loans;*
- *if the resolution is not approved, and the Company is unable to source other funding likely to be required to repay the New Loans on 31 December 2021, the Board will likely have no option but to place the Company into receivership or liquidation; and*
- *the IAR prepared by Simmons Corporate Finance Limited on the merits of the allotment of the Pescado Shares states that: "In our opinion, after having regard to all relevant factors, the positive aspects of the Pescado Subscription significantly outweigh the negative aspects from the perspective of the [Shareholders not associated with Pescado]."*

Each of Mark Stewart and Mark Sadd (each a director of the Company), and Warwick Webb (alternate director for Mr. Stewart), has a potential conflict of interest in respect of the Pescado Subscription due to him being a shareholder of Pescado.

Appendix 2 – Particulars of voting securities to be allotted

Pursuant to Schedule 4 of the Takeovers Code, the Company advises as follows:

Note: the particulars below are based on the assumption that there is no change in the total number of voting securities on issue between the date of this notice of meeting and upon completion of the allotment (other than as a result of the allotment). Put another way, the particulars below assume that no ordinary shares in the Company are issued to existing Shareholders pursuant to the Crowdfunding Offer or that such ordinary shares in the Company are issued after completion of the allotment.

(a) the number being allotted:	If the resolution is approved, the number of voting securities being allotted to Pescado is 83,333,334 voting securities (i.e., ordinary shares in the Company).
(b) the percentage of the aggregate of all existing voting securities and all voting securities being allotted that that number represents:	47.88%.
(c) the percentage of all voting securities that will be held or controlled by Pescado after completion of the allotment:	58.02%.
(d) the aggregate of the percentages of all voting securities that will be held or controlled by Pescado and its associates after completion of the allotment:	Same as (c) above.

Appendix 3 – Terms and particulars of Approved Allotment Package

The Company effected a 100-to-1 share consolidation on 13 March 2020. The numbers set out in the disclosures below reflect that share consolidation.

On 17 May 2019, the Shareholders approved the allotment of up to 20,000,000 ordinary shares in the Company to Pescado on conversion of the convertible loan notes issued under the 2019 Convertible Loan Note Facility (the **Approved Allotment Package**) in accordance with the Takeovers Code. The last date on which such ordinary shares in the Company may be allotted on conversion of such convertible loan notes is 31 March 2021. Therefore, and pursuant to rule 19B(4)(c)) of the Takeovers Code, the Company advises as follows:

Rule	Information required	
19B(4)(c)(i)	A summary of the terms of the Approved Allotment Package	
	<p>The convertible loan notes that have been issued under the 2019 Convertible Loan Note Facility are convertible at \$0.20 per share. On that basis, the convertible loan notes issued by the Company under the 2019 Convertible Loan Note Facility could be converted into a maximum of 20,000,000 ordinary shares in the Company.</p> <p>Interest on the 2019 Convertible Loan Note Facility is nil prior to an event of default, and 9.95% per annum while an event of default is subsisting. Accrued and unpaid interest is payable in cash and does not convert to ordinary shares in the Company.</p> <p>Pescado has the option to convert all outstanding amounts advanced by it under the 2019 Convertible Loan Note Facility to ordinary shares in the Company for so long as the 2019 Convertible Loan Note Facility remains unpaid by the Company.</p> <p>The Company may repay its indebtedness under the 2019 Convertible Loan Note Facility at any time in full.</p> <p>Unless previously repaid or converted, the 2019 Convertible Loan Note Facility will mature at 5:00 p.m. on 31 March 2021. On maturity, unless the Company is in default under the 2019 Convertible Loan Note Facility or insolvent, the outstanding amount under the 2019 Convertible Loan Note Facility will automatically convert into ordinary shares in the Company at \$0.20 per share.</p> <p>Shares issued on conversion of the convertible loan notes issued under the 2019 Convertible Loan Note Facility will be ordinary shares in the Company and will rank equally with all other ordinary shares on issue.</p> <p>All indebtedness under the 2019 Convertible Loan Note Facility is secured over all of the assets of the Company and its subsidiaries, in each case under existing security arrangements.</p> <p>Until the 2019 Convertible Loan Note Facility is repaid in full or converted, the Company will be required to obtain the prior written approval of Pescado to the appointment, replacement or removal of any member of the senior management of the Company or any of its subsidiaries and the appointment by the Board of any person as a director of the Company or any of its subsidiaries.</p> <p>If Comvita has at any time exercised its contractual right (if any) to appoint a director to the Board who is not Mark Sadd or to remove or replace Mark Sadd as a director on the Board, then drawdown under the 2019 Convertible Loan Note Facility is conditional on the Company procuring that the Board appoints an individual nominated by Pescado as a director of the Company.</p>	
19B(4)(c)(ii)	Particulars, as at 22 September 2020, of:	
	(A) the number of voting securities already allotted to Pescado under the Approved Allotment Package:	Nil.
	(B) the number of voting securities on issue that are held or controlled by Pescado, and the percentage of all voting securities on issue that that number represents:	17,645,247 ordinary shares in the Company (being 19.45% of all voting securities on issue).
	(C) the aggregate of the percentages of all voting securities that are held or controlled by Pescado and Pescado's associates:	19.45%. * Note that no associate of Pescado holds any voting securities in the Company.

	(D) the maximum percentage of all voting securities that could be held or controlled by Pescado after the completion of both the Approved Allotment Package and the increase proposed by the resolution:	62.35% (being 120,978,581 ordinary shares in the Company).
	(E) the maximum aggregate of the percentages of all voting securities that could be held or controlled by Pescado and Pescado's associates after the completion of both the Approved Allotment Package and the increase proposed by the resolution:	Same as (D) above. * Note that no associate of Pescado holds any voting securities in the Company.
	(F) the assumptions on which the particulars above are calculated:	<ul style="list-style-type: none"> (i) that there is no change in the total number of voting securities on issue between 22 September 2020 and the date of the last allotment under the Approved Allotment Package (other than as a result of completion of both the Approved Allotment Package and the increase proposed by the resolution); (ii) that, in relation to paragraphs (D) to (E), Pescado is allotted the maximum number of voting securities under the Approved Allotment Package; and (iii) that Pescado and its associates do not acquire or dispose of any additional voting securities in the Company prior to the date of the last allotment under the Approved Allotment Package.

SeaDragon Limited

Independent Adviser's Report

In Respect of the Issue of Shares to Pescado Holdings Limited

September 2020

Statement of Independence

Simmons Corporate Finance 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 this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

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

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1. Executive Summary

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 quoted on the Unlisted Securities Exchange securities trading facility (**USX**). SeaDragon's market capitalisation was \$2.3 million as at 18 September 2020. Its audited total equity as at 31 March 2020 was \$6.9 million.

A profile of the Company is set out in section 3.

1.2 Pescado Subscription

SeaDragon entered into a subscription agreement with Pescado Holdings Limited (**Pescado**) on 3 September 2020 (the **Pescado Subscription Agreement**) whereby Pescado has committed to subscribe for 83,333,334 new ordinary shares at an issue price of \$0.03 per share (the **Subscription Price**) for a total subscription amount of \$2.5 million (the **Pescado Subscription**).

The aggregate subscription price of \$1.0 million for 33,333,334 shares (the **Subscription Shares**) is to be paid in cash by Pescado.

The aggregate subscription price of \$1.5 million for the remaining 50,000,000 shares (the **Repayment Shares**) is to be satisfied by the Company repaying \$1.5 million of loans provided by Pescado to SeaDragon in 2020 (discussed in section 1.5).

The Pescado Subscription is conditional on shareholder approval by 31 October 2020.

1.3 Other Capital Raising Initiatives

The Pescado Subscription is one of 3 capital raising initiatives by the Company.

The other 2 initiatives aim to raise up to \$1.7 million of cash:

- the subscription by certain directors and management of the Company (or their associated entities or trusts) for a total of 15,000,002 new ordinary shares on or about 17 September 2020 at a subscription price of \$0.03 per share for a total subscription amount of \$0.45 million (the **Directors / Management Subscription**)
- an offer of up to 41,666,667 new ordinary shares to the Company's shareholders via the crowdfunding platform Snowball Effect at a subscription price of \$0.03 per share (the **Crowdfunding Offer**). The maximum amount to be raised through the Crowdfunding Offer is \$1.25 million. The Crowdfunding Offer will remain open until 2 October 2020.

1.4 Pescado Holdings Limited

Pescado is SeaDragon's largest shareholder, holding 17,645,247 ordinary shares. This represents 19.45% of the Company's ordinary shares currently on issue.

Pescado was incorporated in New Zealand on 14 April 2016. Its shareholders are:

- Masthead Limited (**Masthead**) – 90%
- John Clark, Linda Webb and Warwick Webb – 5%
- Mark Sadd – 5%.

Masthead is the investment vehicle of the Stewart family. The Masthead group is an active investor in the New Zealand public and private equity markets and has invested in companies in sectors such as plastics, healthcare and pet nutrition.

Pescado's sole director is Mark Stewart, who is also a SeaDragon director.

Mr Webb is an alternate director for Mr Stewart on the SeaDragon board of directors (the **Board**).

Mr Sadd is a SeaDragon director.

1.5 Recent Funding Provided by Pescado

2019 Convertible Loan Note Facility

On 17 May 2019, the Company's shareholders approved up to \$4.0 million of advances by Pescado to the Company via a convertible loan note agreement between the Company and Pescado (the **2019 Convertible Loan Note Facility**).

The 2019 Convertible Loan Note Facility has been fully drawn down by the Company.

Unless previously repaid or converted, the 2019 Convertible Loan Note Facility will mature on 31 March 2021. On maturity, the outstanding amount of \$4.0 million will automatically convert into 20,000,000 ordinary shares in the Company (the **2019 CLN Conversion**).

SeaDragon considers it highly unlikely that it will be in a position to repay the outstanding amount and therefore it is most likely that the 2019 CLN Conversion will occur on 31 March 2021.

2020 Pescado Facility

On 4 May 2020, Pescado agreed to advance up to \$2.0 million to the Company via a new loan facility (the **2020 Pescado Facility**).

The 2020 Pescado Facility has been fully drawn down by the Company.

Any loans drawn down under the 2020 Pescado Facility have a repayment date of 31 December 2021 and bear interest at 12% per annum, payable on 30 November 2020, 31 May 2021, 30 November 2021 and 31 December 2021.

1.6 Impact on Shareholding Levels

As at 21 September 2020, SeaDragon has 90,705,828 fully paid ordinary shares on issue held by 3,321 shareholders.

The Company's 3 largest shareholders at present are:

- Pescado – 19.45%
- One Funds Management Limited (**One Funds**) as trustee for Asia Pacific Healthcare Fund II and BioScience Managers Ventures Pty Limited (**BMV**) as general partner of BioScience Management Partnership LP (collectively **BioScience**) – 18.13%
- Comvita Limited (**Comvita**) – 14.55%.

The total percentage of the voting rights in the Company held by Pescado after the Pescado Subscription and the 2019 CLN Conversion will vary depending on the amount raised under the Crowdfunding Offer.

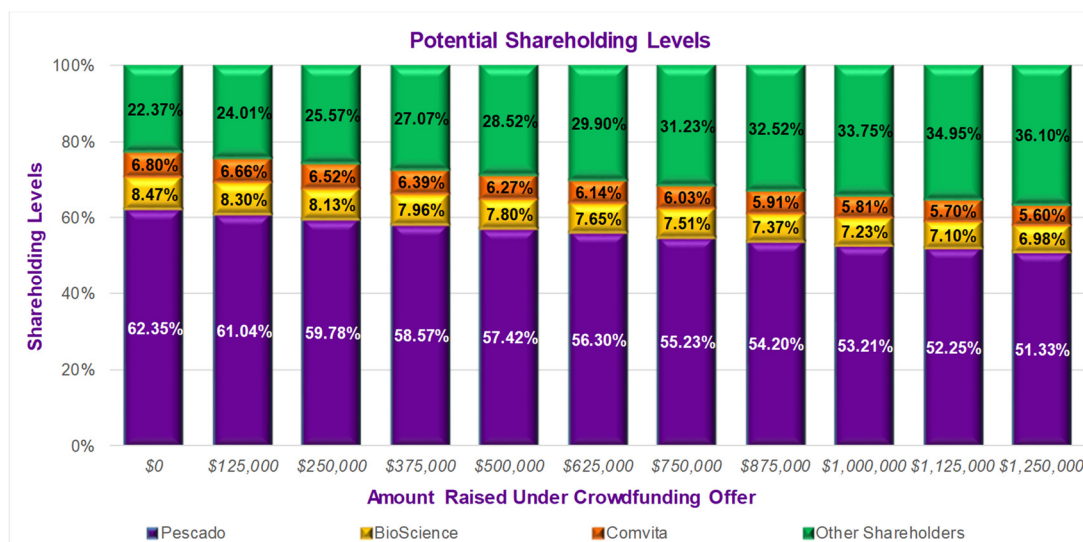
Following the Pescado Subscription and the 2019 CLN Conversion and assuming the full \$1.25 million is raised under the Crowdfunding Offer and there are no other changes to the Company's capital structure:

- Pescado will hold 51.33% of the Company's ordinary shares on issue
- BioScience will hold 6.98%
- Comvita will hold 5.60%
- the shareholders not associated with Pescado, BioScience or Comvita (the **Other Shareholders**) will collectively hold 36.10%.

Impact on Shareholding Levels					
	Pescado	BioScience	Comvita	Other Shareholders	Total
Current	17,645,247	16,443,557	13,200,787	43,416,237	90,705,828
%	19.45%	18.13%	14.55%	47.86%	100.00%
Pescado Subscription	83,333,334	-	-	-	83,333,334
Crowdfunding Offer	-	-	-	41,666,667 ¹	41,666,667 ¹
2019 CLN Conversion	20,000,000	-	-	-	20,000,000
Potential Shareholding Levels	<u>120,978,581</u>	<u>16,443,557</u>	<u>13,200,787</u>	<u>85,082,904</u>	<u>235,705,829</u>
%	51.33%	6.98%	5.60%	36.10%	100.00%

¹ Assumes \$1.25 million is raised under the Crowdfunding Offer

The graph that follows shows the shareholding levels for Pescado, BioScience, Comvita and the Other Shareholders depending on the amount raised under the Crowdfunding Offer.



1.7 Special Meeting

SeaDragon is holding a special meeting of shareholders on 7 October 2020, where the Company will seek shareholder approval of a resolution in respect of the Pescado Subscription (the **Pescado Resolution**) for the purposes of the Takeovers Code (the **Code**).

The resolution is an ordinary resolution (which is passed by a simple majority of the votes cast).

Pescado and its associates are not permitted to vote on the Pescado Resolution.

1.8 Summary of Opinion

Our evaluation of the merits of the Pescado Subscription as required under the Code is set out in section 2.

In our opinion, after having regard to all relevant factors, the positive aspects of the Pescado Subscription significantly outweigh the negative aspects from the perspective of the Company's shareholders not associated with Pescado (the **Non-associated Shareholders**).

1.9 Regulatory Requirements

SeaDragon is a code company (as it was, during the 12 month period prior to the proposed allotment of shares under the Pescado Subscription, a listed issuer that had financial products that confer voting rights quoted on a licensed market (being the NZX Main Board)) and is subject to the provisions of the Code.

Rule 6 of the Code prohibits:

- a person who holds or controls no voting rights or less than 20% of the voting rights in a code company from holding or controlling an increased percentage of the voting rights in the code company unless, after that event, that person and that person's associates hold or control in total not more than 20% of the voting rights in the code company
- a person who holds or controls 20% or more of the voting rights in a code company from holding or controlling an increased percentage of the voting rights in the code company

unless done in compliance with exceptions to this fundamental rule.

One of the exceptions, set out in Rule 7(d) of the Code, enables a person to become a holder or controller of an increased percentage of voting rights by an allotment of voting securities in the code company if the allotment is approved by an ordinary resolution of the code company (on which neither that person, nor any of its associates, may vote).

The Pescado Subscription will result in Pescado increasing its holding or control of the voting rights in SeaDragon from 19.45% to between 51.33% and 62.35% (depending on the number of shares issued under the Crowdfunding Offer).

Accordingly, in accordance with the Code, the Non-associated Shareholders will vote at the Company's special meeting on an ordinary resolution in respect of the Pescado Subscription.

Rule 18 of the Code requires the directors of a code company to obtain an Independent Adviser's Report on the merits of an allotment under Rule 7(d).

This Independent Adviser's Report is to be included in, or accompany, the notice of meeting pursuant to Rule 16(h).

1.10 Purpose of the Report

The Company's directors not associated with Pescado, being Jeremy Curnock Cook, Colin Groves, Stuart Macintosh, Bryan Mogridge and Craig Patch (the **Non-associated Directors**) have engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of the allotment of shares under the Pescado Subscription in accordance with Rule 18 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 4 September 2020 to prepare the Independent Adviser's Report.

Simmons Corporate Finance issues this Independent Adviser's 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 Pescado Resolution.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the Pescado Subscription in relation to each shareholder. This report on the merits of the Pescado Subscription is therefore necessarily general in nature.

The Independent Adviser's Report is not to be used for any other purpose without our prior written consent.

2. Evaluation of the Merits of the Pescado Subscription

2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the allotment of shares to Pescado under the Pescado Subscription having regard to the interests of the Non-associated Shareholders.

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 Takeovers Panel *Guidance Note on Independent Advisers* dated 21 April 2020
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction
- overseas precedents
- the ordinary meaning of the term *merits*.

We are of the view that an assessment of the merits of the allotment of shares to Pescado under the Pescado Subscription should focus on:

- the requirements for the Pescado Subscription
- the prospects for SeaDragon without the Pescado Subscription
- the terms of the Pescado Subscription
- the impact of the Pescado Subscription on SeaDragon's financial position
- the impact of the Pescado Subscription on the control of SeaDragon
- the impact of the Pescado Subscription on SeaDragon's share price
- the benefits and disadvantages to Pescado of the Pescado Subscription
- other issues in respect of the Pescado Subscription
- the implications if the Pescado Resolution is not approved.

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 Summary of the Evaluation of the Merits of the Pescado Subscription

The Non-associated Shareholders currently hold shares in a company with total equity of \$6.9 million as at 31 March 2020 and which has accumulated losses of over \$49 million in its trading history.

The Pescado Subscription is for \$2.5 million, which, in conjunction with the Directors / Management Subscription and the Crowdfunding Offer, the Non-associated Directors consider to be sufficient to enable the Company to achieve positive operating cash flow.

The Non-associated Shareholders are being asked to vote on the Pescado Resolution. Accordingly, shareholders have 3 alternatives with regard to their voting:

- vote in favour of the resolution, in which case the Pescado Subscription will proceed, or
- vote against the resolution. In the event that the Pescado Resolution is not passed, then the Pescado Subscription will not proceed, resulting in the Company needing to raise additional capital in the future in order to repay the \$2.0 million of 2020 Pescado Facility loans when they mature on 31 December 2021, or
- abstain from voting, in which case the voting of the other shareholders will determine the outcome.

Our evaluation of the merits of the Pescado Subscription is set out in detail in sections 2.3 to 2.14.

In summary, the positive aspects of the Pescado Subscription are:

- the rationale for the Pescado Subscription is sound. It will provide \$1.0 million of cash for SeaDragon, which, in conjunction with the Directors / Management Subscription and the Crowdfunding Offer, should provide sufficient funding to enable the Company to achieve positive operating cash flow
- the terms of the Pescado Subscription are reasonable:
 - the size is sufficient to meet the Company's immediate and medium term funding needs
 - the Subscription Price of \$0.03 is equivalent to SeaDragon's current market price
 - the Subscription Price of \$0.03 is the same as the subscription price under the Directors / Management Subscription and the Crowdfunding Offer
- the Pescado Subscription will have a positive impact on the Company's financial position
- the implications of the Pescado Resolution not being approved by the Non-associated Shareholders are significant. SeaDragon will need to raise additional capital in the future in order to repay the \$2.0 million of 2020 Pescado Facility loans on 31 December 2021. In the event that the Company is unable to repay its debts as they fall due, the Board will likely have no option but to place the Company into receivership or liquidation.

In summary, the negative aspects of the Pescado Subscription are:

- Pescado's level of voting rights will increase to between 51.33% and 62.35% following the Pescado Subscription and the 2019 CLN Conversion (depending on the amount raised under the Crowdfunding Offer)
- the Pescado Subscription, in conjunction with the 2019 CLN Conversion, will result in Pescado significantly increasing its ability to influence the outcome of shareholder voting as it will be able to singlehandedly determine the outcome of ordinary resolutions and block special resolutions. However, it will not be able to singlehandedly pass special resolutions
- the dilutionary impact of the Pescado Subscription on the Non-associated Shareholders (before the Crowdfunding Offer) will result in their current collective interests in the Company reducing by 47.9%
- the attraction of SeaDragon as a takeover target may reduce.

In our view, the Pescado Subscription is unlikely to have any material impact on:

- Pescado's ability to exert influence over the Board and the Company's operations
- the Company's share price in the near term
- the liquidity of the Company's shares in the near term.

There are a number of positive and negative features associated with the Pescado Subscription. In our view, when the Non-associated Shareholders are evaluating the merits of the transaction, they need to carefully consider whether the negative aspects of the Pescado Subscription, including the increased level of control that Pescado will hold over SeaDragon and the dilutionary impact, could justify voting against the Pescado Resolution with the outcome that the Company will need to raise additional capital in the near future in order to repay its debts as they fall due.

In our opinion, after having regard to all relevant factors, the positive aspects of the Pescado Subscription significantly outweigh the negative aspects from the perspective of the Non-associated Shareholders.

As set out in section 2.13, 6 shareholders collectively holding 65.24% of the Company's voting rights that may vote on the Pescado Resolution have stated that they intend to vote in favour of the resolution. Assuming they all vote as they have stated, the Pescado Resolution is certain to be approved.

2.3 The Requirement for the Pescado Subscription

The purpose of the Pescado Subscription is to assist the Company with meeting its immediate and medium term funding requirements (being working capital, operational expenditure and capital expenditure requirements).

The Non-associated Directors have advised us that based on the Company's current financial position and management's sales and financial projections, the \$1.0 million of cash from the issue of the Subscription Shares under the Pescado Subscription, in conjunction with the \$0.45 million from the Directors / Management Subscription and a modest amount from the Crowdfunding Offer, should provide sufficient funding to enable SeaDragon to achieve positive operating cash flow. In the event that the full amount of \$1.25 million is raised under the Crowdfunding Offer, this will assist with funding capital expenditure for new projects, which the Non-associated Directors anticipate will speed up the Company's growth.

Furthermore, the allotment of the Repayment Shares under the Pescado Subscription will alleviate the obligation to repay \$1.5 million of 2020 Pescado Facility loans on 31 December 2021. The Non-associated Directors consider this conversion of debt to equity to be a prudent alternative to sourcing other funding to repay the loans.

2.4 The Prospects for SeaDragon Without the Pescado Subscription

The carrying value of SeaDragon's equity was \$6.9 million as at 31 March 2020, which included the \$4.0 million 2019 Convertible Loan Note Facility. The Company had \$0.2 million of cash and cash equivalents as at that date.

Since 31 March 2020, SeaDragon has drawn down the full \$2.0 million of the 2020 Pescado Facility and has raised \$0.45 million from the Directors / Management Subscription.

In the event the Pescado Subscription does not proceed, the Company will not receive \$1.0 million of cash from the issue of the Subscription Shares and will need to repay the \$2.0 million of 2020 Pescado Facility loans on 31 December 2021. In the meantime, SeaDragon will continue to pay interest on the full \$2.0 million of loans up to the date of their repayment.

Given the Company's financial position, it will need to raise additional capital in the future in order to repay the \$2.0 million of 2020 Pescado Facility loans. There is no certainty that SeaDragon will be able to raise a sufficient amount of capital at a future date in order to meet these repayment obligations. In the extreme case, if the Company is unable to repay its debts as they fall due, the Board will have no option but to place the Company into receivership or liquidation.

2.5 Terms of the Pescado Subscription

Size of the Pescado Subscription

The Pescado Subscription involves the issue of 83,333,334 new ordinary shares at an issue price of \$0.03 per share, totalling \$2.5 million:

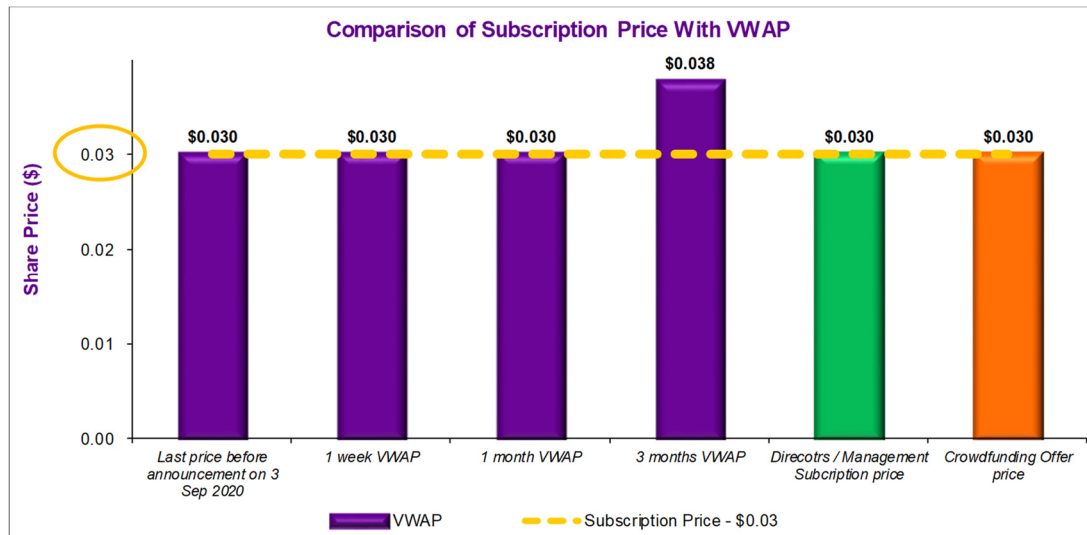
- Pescado will pay \$1.0 million in cash for the 33,333,334 Subscription Shares
- the subscription price of \$1.5 million for the 50,000,000 Repayment Shares will be satisfied by the Company repaying \$1.5 million of 2020 Pescado Facility loans.

The amount of the Pescado Subscription was based on the Company's estimate of the level of capital required (in conjunction with the Directors / Management Subscription and the Crowdfunding Offer) to enable the Company to achieve positive operating cash flow.

Subscription Price

The Subscription Price of \$0.03 per share is equivalent to the current value of SeaDragon's shares:

- the Company's share price on 2 September 2020 (being the day before the announcement of the Pescado Subscription) was \$0.03
- the one week and one month volume weighted average share price (**VWAP**) up to 2 September 2020 was \$0.03.



The Subscription Price is also the same as the subscription price under:

- the Directors / Management Subscription in September 2020
- the Crowdfunding Offer in October 2020.

On the basis that the Subscription Price equates to the Company's current share price and current share issues to other shareholders, we consider the Subscription Price to be reasonable.

Condition

The Pescado Subscription is subject to one condition, being the Non-associated Shareholders approving the Pescado Resolution by 31 October 2020.

2.6 Impact on Financial Position

A summary of SeaDragon's recent financial position is set out in section 3.7.

SeaDragon's total equity as at 31 March 2020 was \$6.9 million. This included the 2019 Convertible Loan Note Facility of \$4.0 million which is treated as equity for financial reporting purposes as at 31 March 2020. Taking into account the 20,000,000 new ordinary shares that will be issued under the 2019 CLN Conversion, SeaDragon's adjusted equity per share amounts to \$0.072.

For illustrative purposes, if the Pescado Subscription was received on 31 March 2020, SeaDragon's total equity would increase by 36% to \$9.4 million and equity per share would decrease by 27% to \$0.053 per share.

Illustrative Effect of the Pescado Subscription on SeaDragon's Financial Position			
	Equity (\$'000)	No. of Shares ('000)	Equity / Share (\$)
Total equity as at 31 March 2020 ¹	6,923	95,706 ²	0.072
Pescado Subscription	2,500	83,333	0.030
Post the Pescado Subscription	9,423	179,039	0.053

¹ Source: SeaDragon 2020 annual report
² Includes the 20,000,000 shares issued under the 2019 CLN Conversion

The above analysis is illustrative only and does not take into account the Directors / Management Subscription and the Crowdfunding Offer or any other changes to the Company's capital structure.

2.7 Impact on Control

Share Capital and Shareholders

SeaDragon currently has 90,705,828 fully paid ordinary shares on issue held by 3,321 shareholders. The names, number of shares and percentage holding of the Company's 10 largest shareholders as at 21 September 2020 are set out in section 3.4.

SeaDragon currently has 5 shareholders holding more than 5% of its shares:

- Pescado – 19.45%
- BioScience – 18.13%
- Comvita – 14.55%
- Mogridge Family Trust – 11.36%. Mogridge Family Trust is associated with SeaDragon chair Bryan Mogridge
- SDMO Trustee Limited (**SDMO**) and Stuart Macintosh – 6.67% collectively. SDMO is the private investment vehicle of SeaDragon director Stuart Macintosh.

Collectively the 5 largest shareholders currently hold 70.16% of the Company's shares.

Shareholding Levels

As set out in section 1.6, following the Pescado Subscription, the Crowdfunding Offer and the 2019 CLN Conversion, Pescado will hold between 51.33% and 62.35% of the Company's shares (depending on the amount raised under the Crowdfunding Offer).

BioScience will be the second largest shareholder, holding between 6.98% and 8.47% of the Company's shares.

The Non-associated Shareholders (including BioScience, Comvita and SDMO) will collectively hold between 37.65% and 48.67% of the Company's shares.

The actual shareholding levels will depend on how much is raised under the Crowdfunding Offer.

Shareholding Voting

Pescado's current level of voting rights of 19.45% does not enable it to pass or block special resolutions (which require the approval of 75% of the votes cast by shareholders) or to pass or block ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders).

Following the Pescado Subscription and the 2019 CLN Conversion, Pescado's ability to influence the outcome of shareholder voting will increase significantly.

By holding between 51.33% and 62.35% of the Company's shares, Pescado will be able to singlehandedly determine the outcome of ordinary resolutions and block a special resolution. However, Pescado will still not be able to singlehandedly pass special resolutions.

The ability for any shareholder to influence the outcome of voting on the Company's ordinary resolutions or special resolutions may be reduced by external factors such as the Company's constitution, the Code and the Companies Act 1993 (eg if the shareholder is precluded from voting on the resolution because it is a party to the transaction which the resolution relates to).

Given the above, we are of the view that the Pescado Subscription, in conjunction with the 2019 CLN Conversion, will increase Pescado's ability to exert shareholder control over SeaDragon to a significant degree.

Ability to Creep

If Pescado holds between 51.33% and 62.35% of the Company's shares, then as long as SeaDragon remains a code company, Pescado will be able to utilise the *creep provisions* of Rule 7(e) of the Code. The *creep provisions* enable entities that hold or control more than 50% and less than 90% of the voting securities in a code company to acquire up to a further 5% of the code company's shares in any 12 month period without the need for shareholder approval. Pescado will be able to utilise the *creep provisions* commencing 12 months after the date of the 2019 CLN Conversion.

Board Control

As set out in section 3.3, the Company currently has 7 directors on the Board, 2 of whom are associated with Pescado (Mark Stewart and Mark Sadd) and there are 3 independent directors.

We are advised by the Non-associated Directors that the Pescado Subscription will not have any impact on Pescado's level of representation on the Board or its level of influence over the Board.

We note that SeaDragon's constitution requires there to be at least 2 independent directors and also permits each shareholder holding 15% to appoint / remove one director.

Operations

We are advised by the Non-associated Directors that Pescado currently does not have any influence over the Company's operations other than through Mr Stewart's and Mr Sadd's roles as directors and that this will not change following the Pescado Subscription.

2.8 Dilutionary Impact

The Pescado Subscription will result in the Non-associated Shareholders' shareholdings in the Company being diluted. The dilutionary impact of the Pescado Subscription on its own (before the Crowdfunding Offer and the 2019 CLN Conversion) on Non-associated Shareholders will be 47.9%.

While the potential dilutionary impact is relatively significant, we are of the view that the Non-associated Shareholders' main focus should be on whether there is any dilutionary impact on the value of their respective shareholdings rather than on their level of voting rights. As stated in section 2.5, we are of the view that the Pescado Subscription is reasonable from a financial point of view and therefore does not dilute the value of the Non-associated Shareholders' respective shareholdings.

2.9 Impact on Share Price and Liquidity

A summary of SeaDragon's daily closing share price and monthly volume of shares traded from 3 January 2019 is set out in section 3.9.

In the period from 30 June 2020 (when SeaDragon listed on USX) to 2 September 2020 (immediately prior to the announcement of the Pescado Subscription), 0.1% of the Company's shares traded at a VWAP of \$0.03. The closing share price on 2 September 2020 was \$0.03.

Subsequent to the announcement of the Pescado Subscription, no shares have traded (up to 18 September 2020).

Negligible Impact on Share Price

Given that the Subscription Price of \$0.03 is equivalent to SeaDragon's share price prior to the announcement of the Pescado Subscription, we are of the view that the Pescado Subscription will have a negligible impact on the Company's share price.

Liquidity of SeaDragon Shares Unlikely to Change

We are of the view that the Pescado Subscription is unlikely to have any significant impact on the liquidity of the Company's shares as the size of the pool of shares held by the Non-associated Shareholders will not change under the Pescado Subscription.

2.10 Key Benefit to Pescado

The Pescado Subscription provides Pescado with the opportunity to increase its shareholding in SeaDragon from its current level of 19.45% to between 51.33% and 62.35% (following the 2019 CLN Conversion and depending on the amount raised under the Crowdfunding Offer and assuming there are no other changes to the Company's capital structure).

2.11 Disadvantages to Pescado

Exposure to the Risks of SeaDragon

The key issues and risks that are likely to impact upon the business operations of SeaDragon are summarised in section 3.5. As Pescado's shareholding level in SeaDragon increases, so does its exposure to these issues and risks.

Further Financial Commitments

The market value of Pescado's 19.45% shareholding was approximately \$0.5 million as at 18 September 2020. The 2019 Convertible Loan Note Facility of \$4.0 million will convert into 20,000,000 ordinary shares on 31 March 2021, which have a value of approximately \$0.6 million as at 18 September 2020.

Pescado will be required to invest a further \$1.0 million of cash under the Pescado Subscription and convert \$1.5 million of the 2020 Pescado Facility into equity. This will increase Pescado's level of equity investment in SeaDragon by 221% to approximately \$3.6 million.

2.12 Other Issues

Benefits to SeaDragon of Pescado as a Cornerstone Shareholder

The major benefit to SeaDragon of the Pescado Subscription is that the Company will receive \$1.0 million of cash and convert \$1.5 million of debt into equity.

The Pescado Subscription will enhance Pescado's position as an important cornerstone strategic investor in the Company and further signals its confidence in the future prospects of SeaDragon.

Pescado has been the key provider of capital to SeaDragon since it acquired its cornerstone shareholding in 2017:

- it provided a \$3.0 million convertible loan note facility in August 2018, which was converted into shares in March 2020
- it provided the \$4.0 million 2019 Convertible Loan Note Facility in May 2019, which will likely be converted into shares in March 2021 under the 2019 CLN Conversion
- it provided \$1.0 million of bridging finance in April 2020. This loan was repaid in June 2020
- it provided the \$2.0 million 2020 Pescado Facility in May 2020.

Non-associated Shareholders Approval is Required

Pursuant to Rule 7(d) of the Code, the Non-associated Shareholders must approve by ordinary resolution the Pescado Subscription.

The Pescado Subscription will not proceed unless the Non-associated Shareholders approve the Pescado Resolution.

Attraction of SeaDragon as a Takeover Target May Reduce

For as long as SeaDragon remains a code company, following the Pescado Subscription, Pescado will not be able to increase the level of its shareholding unless it complies with the provisions of the Code. It will only be able to acquire more shares in the Company if:

- it makes a full or partial takeover offer
- the acquisition is approved by way of an ordinary resolution of the Non-associated Shareholders
- the Company makes an allotment of shares which is approved by way of an ordinary resolution of the Non-associated Shareholders
- the Company undertakes a share buyback that is approved by the Company's shareholders and Pescado does not accept the offer of the buyback.

As discussed in section 2.7, Pescado will be able to utilise the *creep* provisions of Rule 7(e) of the Code, commencing 12 months after the 2019 CLN Conversion.

If Pescado holds between 51.33% and 62.35% of the Company's shares, this may reduce the likelihood of a takeover offer for the Company from Pescado as it may consider that it has sufficient control over the Company.

It is possible that if Pescado did make a takeover offer for further shares in the Company, it may offer a control premium that is lower than would otherwise be expected as it may value its offer on the basis that it already has significant control of the Company and hence does not need to pay a control premium of any significance.

Pescado's shareholding of between 51.33% and 62.35% may reduce the attraction of SeaDragon as a takeover target to other parties, as any bidder looking to fully or partially take over the Company would need to ensure that Pescado would accept its offer.

2.13 Likelihood of the Pescado Resolution Being Approved

The Non-associated Directors have unanimously recommended that the Non-associated Shareholders vote in favour of the Pescado Resolution.

Pescado and its associates may not vote on the Pescado Resolution.

The following shareholders have stated that they will vote in favour of the Pescado Resolution:

- BioScience, which holds 18.13% of the total voting rights
- Comvita, which holds 14.55% of the total voting rights
- the trustees of the Mogridge Family Trust (associated with Board chair Bryan Mogridge), who hold 11.36% of the total voting rights
- SDMO and Stuart Macintosh, who collectively hold 6.67% of the total voting rights
- Tamahere Limited (**Tamahere**) (associated with director Colin Groves), which holds 1.1% of the total voting rights
- Five Islands Ventures Pty Limited as trustee for Five Islands Holdings Trust (associated with director Craig Patch), which holds 0.73% of the total voting rights.

Collectively these shareholders hold 52.55% of the Company's voting rights, which represent 65.24% of the total number of voting rights able to be voted on the Pescado Resolution (as Pescado is not entitled to vote on the resolution). Accordingly, on the basis that the 6 shareholders vote as they have stated, the Pescado Resolution is certain to be approved.

2.14 Implications of the Pescado Resolution not Being Approved

If the Pescado Resolution is not approved, then the Pescado Subscription cannot proceed. The implications of the Pescado Subscription not being available to the Company are discussed in section 2.4. However, as stated in section 2.13, the Pescado Resolution is certain to be approved if the 6 shareholders vote in favour of the resolution as they have stated they will.

2.15 Voting For or Against the Pescado Resolution

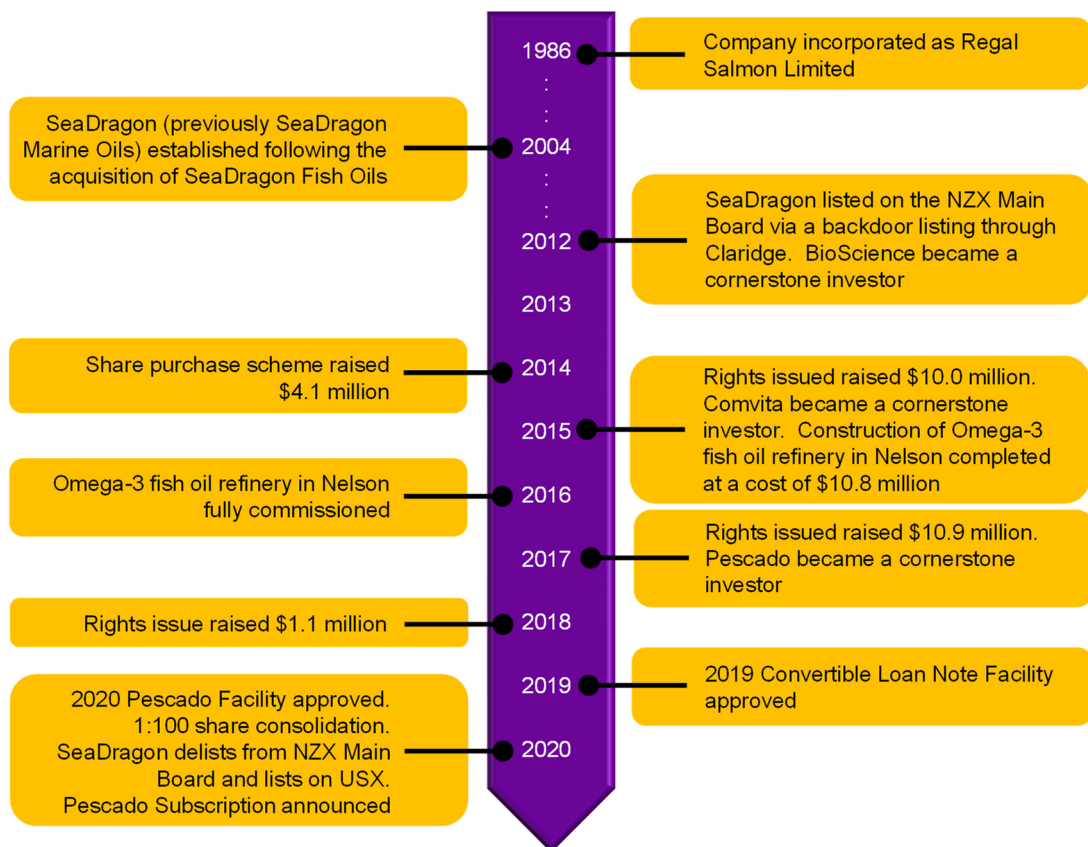
Voting for or against the Pescado Resolution is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

3. Profile of SeaDragon

3.1 Background

The Company was incorporated on 31 July 1986 as Regal Salmon Limited. It changed its name to Queen Charlotte Holdings Limited on 12 July 1996, to Aquaria 21 Limited on 5 December 1997, to AQL Holdings Limited on 29 September 2000, to Certified Organics Limited on 14 September 2001, to CER Group Limited on 17 May 2006, to Claridge Capital Limited (**Claridge**) on 20 December 2010 and to SeaDragon Limited on 19 October 2012.

The Company's key events are set out below.



3.2 Nature of Operations

SeaDragon is New Zealand's largest refiner and blender of high-quality, internationally-certified concentrated fish oils and fractions, including Omega-3 oils. It has more than 20 years' experience processing fish oils into marine bioactive compounds.

The Company's oils are sourced from fish caught in the waters of New Zealand, the South Pacific and other trusted sources around the world.

SeaDragon supplies health supplement manufacturers around the world and the majority of its supply is exported.

The Company's Nelson-based Omega-3 fish oil refinery was fully commissioned in 2016. The state-of-the-art facility, built with Desmet Ballestra's refining technology, has the capacity to produce 5,000 tonnes of Omega-3 fish oil each year. It is a highly flexible plant offering customers continuous process refining and quick-turnaround batch processing runs. SeaDragon's refinery is able to complement the processing capabilities of large-scale refiners and meet the demands of bioactive ingredients brokers and fortified food manufacturers.

The plant has the necessary certifications to export products to key target markets including Australia, many Asian markets including China and Japan, the European Union, USA and Canada.

The key elements of the Company's Omega-3 strategy include:

- leveraging the capabilities of its state-of-the-art refinery to produce high-quality Omega-3 fish oils, including:
 - high docosahexaenoic acid (**DHA**) Tuna oil for infant formula and functional food applications
 - New Zealand sourced Hoki oil which provides a point-of-difference to key customers
- growing its international customer base and sales, focussing on Omega-3 oil refiners, fortified food and beverage manufacturers and branded Omega-3 supplement suppliers
- eventually developing a balanced portfolio of Omega-3 products, ranging from bulk refined oil through to more advanced products such as micro-encapsulated powder.

3.3 Directors and Senior Management

The directors of SeaDragon are:

- Jeremy Curnock Cook – non-executive director, associated with BioScience
- Colin Groves – independent director
- Stuart Macintosh – non-executive director, associated with SDMO
- Bryan Mogridge – independent chair
- Craig Patch – independent director
- Mark Sadd – non-executive director, associated with Comvita and Pescado
- Mark Stewart – non-executive chair, associated with Pescado.

The SeaDragon senior management team is:

- Dr Nevin Amos – chief executive officer
- Robyn Curran – management accountant
- Michele Marazzato – technical manager
- Scott Christensen – supply chain manager
- Mike Rutledge – sales and marketing manager.

3.4 Capital Structure and Shareholders

Ordinary Shares

SeaDragon currently has 90,705,828 fully paid ordinary shares on issue held by 3,321 shareholders, following a 1:100 share consolidation on 13 March 2020.

The names, number of shares and percentage holding of the 10 largest shareholders as at 21 September 2020 are set out below.

SeaDragon's 10 Largest Shareholders		
Shareholder	No. of Shares	%
Pescado	17,645,247	19.45%
Comvita	13,200,787	14.55%
Mogridge Family Trust	10,300,000	11.36%
New Zealand Central Securities Depository Limited (NZCSD)	7,381,289	8.14%
BMV	5,833,333	6.43%
SDMO	4,384,190	4.83%
One Funds	3,257,576	3.59%
Stuart Macintosh	1,666,667	1.84%
Skylog Limited	1,518,055	1.67%
The N&V Amos Family Trust	1,000,000	1.10%
Top 10 shareholders	66,187,144	72.97%
Others (3,311 shareholders)	24,518,684	27.03%
Total	90,705,828	100.00%

Source: SeaDragon and LINK Market Services

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

- Pescado – 19.45%
- BioScience – 18.13%. BioScience holds its shares in SeaDragon through NZCSD, BMV and One Funds
- Comvita – 14.55%
- Mogridge Family Trust – 11.36%
- SDMO / Stuart Macintosh – 6.67%.

Collectively the 5 largest shareholders hold 70.16% of the Company's shares.

Director Share Options

SeaDragon has on issue 295,997,241 director share options that were granted in 2019 and are held by Bryan Mogridge, the Company's chair. These options are exercisable between 1 April 2021 and 30 September 2023 for a total of 2,959,972 shares at an exercise price of \$0.03 per share.

3.5 Key Issues Affecting SeaDragon

The main industry and specific business factors and risks that SeaDragon faces include:

- reliance on raw materials sourced from the ocean – climatic conditions and natural stock numbers of fish can naturally vary and as such can impact on the availability of raw materials for processing
- as Omega-3 is a relatively new product line for SeaDragon, it needs to establish its presence in the market with new and potential customers

- SeaDragon is dependent upon importing regulations and achieving the regulatory standards for its products in key export markets
- fluctuations in foreign exchange rates – a significant portion of SeaDragon's sales are earned in export markets and the majority of raw materials are purchased in foreign currency.

3.6 Financial Performance

A summary of SeaDragon's recent financial performance is set out below.

Summary of SeaDragon Financial Performance				
	Year to 31 Mar 17 (Audited) \$000	Year to 31 Mar 18 (Audited) \$000	Year to 31 Mar 19 (Audited) \$000	Year to 31 Mar 20 (Audited) \$000
Revenue	4,331	3,028	4,887	6,625
Gross loss	(2,515)	(2,987)	(6,320)	(4,938)
Normalised EBITDA	(4,703)	(4,522)	(5,177)	(4,673)
Operating loss	(6,221)	(5,410)	(9,052)	(7,409)
Loss before income tax	(6,659)	(6,057)	(9,576)	(7,038)
Total loss for the period	(6,659)	(6,057)	(9,576)	(7,038)
<i>EBITDA: Earnings before interest, tax, depreciation and amortisation</i>				
<i>Source: SeaDragon audited financial statements</i>				

SeaDragon's revenue decreased from \$5.6 million in the 2016 financial year to \$4.3 million in the 2017 financial year, reflecting the Company's transition from the sale of Omega-2 products into the Omega-3 market.

The Company reported a net loss of \$6.7 million in the 2017 financial year, up from a loss of \$5.5 million in the previous year, reflecting the sales at low margin of the Company's legacy Omega-2 stocks as well as higher interest charges (related to bridge financing) and higher depreciation and amortisation charges (in line with the Company's expanded asset base).

SeaDragon's revenue decreased to \$3.0 million in the 2018 financial year, reflecting the ongoing transition into the Omega-3 market. While revenue from Omega-3 sales increased from \$0.6 million to \$1.0 million, revenue from Omega-2 sales fell from \$3.8 million to \$2.0 million.

The Company reported a lower net loss of \$6.1 million in the 2018 financial year, reflecting a reduction in operating costs as SeaDragon moved out of the initial transition phase to Omega-3 production.

SeaDragon reported a net loss of \$9.6 million in the 2019 financial year, which included impairment charges of \$3.0 million in respect of the Nelson refinery and \$0.4 million in respect of inventory.

The Company's revenue increased by 36% to \$6.6 million in the 2020 financial year. However, it reported a net loss of \$7.0 million for the year after recording a \$2.1 million impairment charge in respect of the Nelson refinery.

3.7 Financial Position

A summary of SeaDragon's recent financial position is set out below.

Summary of SeaDragon Financial Position				
	As at 31 Mar 17 (Audited) \$000	As at 31 Mar 18 (Audited) \$000	As at 31 Mar 19 (Audited) \$000	As at 31 Mar 20 (Audited) \$000
Current assets	7,197	3,105	3,341	2,680
Non current assets	12,318	11,700	8,199	7,988
Total assets	19,515	14,805	11,540	10,668
Current liabilities	(2,525)	(3,818)	(2,466)	(1,841)
Non current liabilities	(248)	(255)	(262)	(1,904)
Total liabilities	(2,773)	(4,073)	(2,728)	(3,745)
Total equity	16,742	10,732	8,812	6,923

Source: SeaDragon audited financial statements

SeaDragon's current assets as at 31 March 2020 comprised:

- cash and short term deposits of \$0.2 million
- trade and other receivables of \$0.2 million
- inventories of \$2.3 million.

Non current assets as at 31 March 2020 comprised mainly the Omega-3 refinery's computer, office, plant and equipment of \$7.9 million.

Current liabilities as at 31 March 2020 comprised:

- trade and other payables – \$1.5 million
- lease liabilities – \$0.3 million.

The Company had equity of \$6.9 million as at 31 March 2020, comprising:

- share capital – \$52.2 million
- mandatory convertible loans – \$4.0 million
- reserves – negative \$49.3 million.

3.8 Cash Flows

A summary of SeaDragon's recent cash flows is set out below.

Summary of SeaDragon Cash Flows				
	Year to 31 Mar 17 (Audited) \$000	Year to 31 Mar 18 (Audited) \$000	Year to 31 Mar 19 (Audited) \$000	Year to 31 Mar 20 (Audited) \$000
Net cash (outflow) from operating activities	(3,882)	(4,650)	(5,628)	(4,384)
Net cash (outflow) from investing activities	(138)	(270)	(374)	(787)
Net cash inflow from financing activities	12,628	1,000	6,207	4,161
Net increase / (decrease) in cash held	8,608	(3,920)	205	(1,010)
Opening cash balance	(3,679)	4,929	1,009	1,214
Closing cash balance	4,929	1,009	1,214	204

Source: SeaDragon audited financial statements

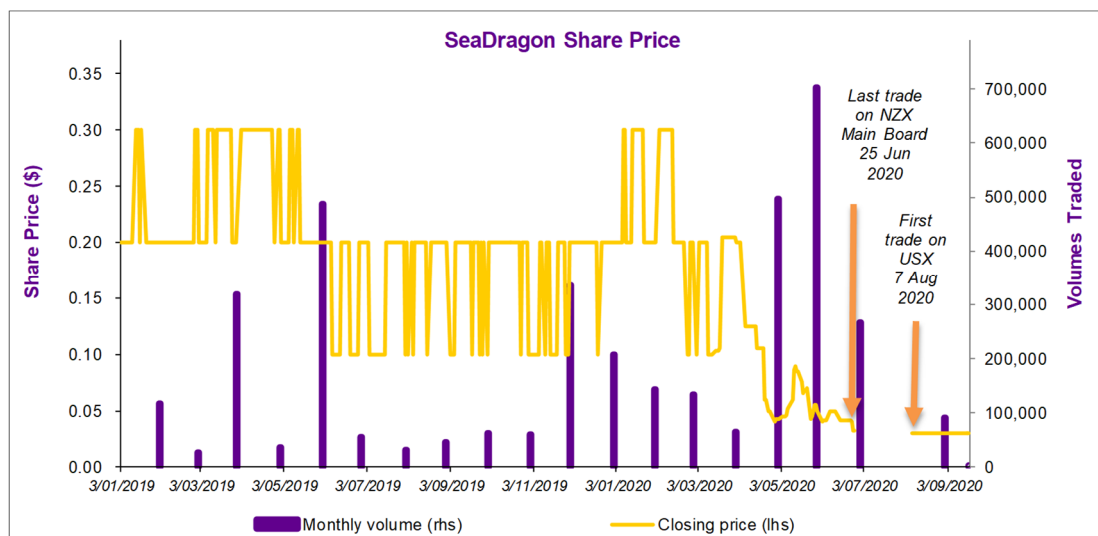
SeaDragon has sustained significant cash losses from its operations as it transitions its business model into the Omega-3 market. The Company's cumulative operating cash flow over the 4 year period to 31 March 2020 totalled negative \$18.5 million.

The Company has historically funded its operating losses and capital expenditure by raising debt and equity capital, including:

- a \$3.0 million loan from Comvita in May 2016
- \$10.9 million of equity in October 2016 through a rights issue
- \$1.0 million of bridge finance in May 2018 (which was repaid in July 2018)
- \$6.0 million of loans from Pescado and BioScience in July 2018
- \$1.1 million of equity in October 2018 through a rights issue
- the \$4.0 million 2019 Convertible Loan Note Facility
- the \$2.0 million 2020 Pescado Facility.

3.9 Share Price History

Set out below is a summary of SeaDragon's daily closing share price and monthly volumes of shares traded from 3 January 2019 to 18 September 2020. Prices and volumes prior to 13 March 2020 have been adjusted for the 1:100 share consolidation.



Source: NZX Company Research and USX

SeaDragon's shares ceased trading on the NZX Main Board on 25 June 2020. They commenced trading on the USX on 30 June 2020, with the first trade occurring on 7 August 2020.

During the period, SeaDragon's shares have traded between \$0.03 and \$0.30 at a VWAP of \$0.143.

An analysis of SeaDragon's recent VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of shares outstanding) up to the last day before the announcement of the Pescado Subscription is set out below.

Share Trading up to 2 September 2020					
Period	Low (\$)	High (\$)	VWAP (\$)	Volume Traded (000)	Liquidity
1 week	0.03	0.03	0.030	10	0.0%
1 month	0.03	0.03	0.030	95	0.1%
3 months	0.03	0.05	0.038	312	0.4%
6 months	0.03	0.20	0.060	1,580	2.1%
Source: NZX Company Research and USX					

Subsequent to the announcement of the Pescado Subscription on 3 September 2020, no shares have traded (up to 18 September 2020).

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 notice of special meeting
- the Pescado Subscription Agreement
- the Directors / Management Subscription Agreement
- the SeaDragon annual reports for the years ended 31 March, 2016 to 2020
- data in respect of SeaDragon from NZX Company Research, USX, S&P Capital IQ and LINK Market Services.

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

The Non-associated Directors have confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the Pescado Subscription 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 desirable for the purpose of preparing this Independent Adviser's Report.

In our opinion, the information to be provided by SeaDragon to the Company's shareholders 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 Pescado Subscription.

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, provided that this shall not absolve Simmons Corporate Finance from liability arising from an opinion expressed recklessly or in bad faith.

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 this report.

We have had no involvement in the preparation of the notice of special meeting issued by SeaDragon and have not verified or approved the contents of the notice of special meeting. We do not accept any responsibility for the contents of the notice of special 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), INFENZ (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 Pescado or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the Pescado Subscription.

Simmons Corporate Finance has not had any part in the formulation of the Pescado Subscription 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 Pescado Resolution. 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 special meeting to be sent to the Non-associated 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

21 September 2020