16 September 2021

Executive Chairman and Chief Operating Officer Addresses – Annual Shareholders Meeting

EXECUTIVE CHAIRMAN – Bryan Mogridge

As noted in the annual report, over the past year SeaDragon has made improvements to its business, increasing the ratio of higher value products as noted in the increasing margins. However, we also noted that pace of change can be slow in the specialised food and nutraceutical space due to regulatory hurdles and ensuring the stability and quality of our products to avoid expensive product recalls.

SeaDragon is largely a business-to-business provider with no direct-to-consumer brands at this time. The cost of developing the latter is beyond us currently and our place in the sun is to be the world's best producer of the best quality brain food well supported by global science. The demand for our products is steady and on the rise. The quality products we are creating are quite difficult to replicate and should provide some barriers to entry from competitors.

Having said all that our requirements for capital have not completely gone away, but the amounts required have reduced over the past year. They will be targeted at supporting reduced but ongoing losses, capex for growth plus an increase in working capital due to an increasing order book. As well some capital is required to hold extra stock to cover shortfalls created by supply disruption to both inwards supplies and receipt of finished product by our overseas customers. With our suppliers we have had positive response to payment given new lead times but some of the current shipping challenges mean we need to be cautious about our working capital.

SeaDragon's profitability has improved over the past 2 years thanks to the efforts of the team to downsize, focus on enhanced efficiencies and generate new product directions. Unfortunately we are still in loss territory with the EBITDA loss of 5.2m in FY 19 reducing to an EBITDA loss of $2.3m last year with a forecast reducing this further to a loss of $1.9m at the EBITDA level in this financial year. As we have mentioned previously, we anticipate getting some monthly positive EBITDA results during calendar 2022 and achieving regular profits in the year following.

In a further move to continue reducing excess administration and cost the board today has decided to proceed with SeaDragon's rights under clause 9 of its constitution and intends to give notice to each shareholder holding less than $1000 worth of shares that they have 3 months to increase their holding to $1000 or greater, failing which SeaDragon may arrange for the sale of their shares (including on market through a broker on behalf of SeaDragon). The company considered this last year and, after the 3-month period, decided not to make any such arrangements for the sale of relevant shares. Since then, the share price has doubled on market but still the number of shareholders with less than $1000 worth of shares (based on recent trading prices) is around 2800 out of a total shareholding base of around 3300. A notice on this matter is intended to be sent to shareholders within the next few weeks.

In closing I would like to thank and recognise our cornerstone shareholder Pescado and the Stewart family for their ongoing support and belief in the recovery plan. Also, I would like to thank Colin Groves for his six years of service as a director and a previous chair- Colin retires today.

I would now like to hand over to our Chief Operating Officer Dr Nevin Amos for an operational update.

CHIEF OPERATING OFFICER – Dr Nevin Amos

Thank you, Bryan and good afternoon everyone. I would like to update you on our operational performance, how Covid has impacted our supply chain and on product development activities over the last year.

We have made meaningful and pleasing gains in operations performance over the last year, which have been driven by our new operations team since the restructure undertaken last year.

There have been good improvements in product yields from a continued strong focus on operational excellence. These improved yields flow through to improved margins, which have helped offset headwinds we have encountered with foreign exchange, major delays in logistics and major increases in our logistics costs.

The operations team have also developed techniques for improved operations flows, which have resulted in more oil being processed per shift than previously, allowing us to process oil for our customers more efficiently.

Customer specifications often change, because of regulatory changes, and these often require new processing skills and techniques to be developed to achieve the changes. SeaDragon now has a very strong team in its operations area with four professional chemical engineers, so we are well placed to be able to respond rapidly to these challenges.

One of our key European customers implemented some much tighter requirements for their oil supply just over a year ago. Our operations team was able to develop and test new processing techniques to achieve this specification, which has ensured our oil quality is maintained as world class. We have had consistent longer-term orders from this and other customers in the infant nutrition space and have over the last year delivered meaningful volumes of oil to this industry.

Covid has had well reported effects on global logistics, with ships delayed into ports and in some cases bypassing New Zealand. SeaDragon has been affected by significant delays to our shipments. These have been for both inwards shipments of our raw materials and for exports. Although exports have been less affected. Raw material shipments that we would normally expect to take six weeks have been taking up to 24 weeks.

This has caused disruption for our operations and has made it difficult to deliver to customers within their requested delivery times. We have in the past operated a lean supply chain and have placed orders for raw materials to match customer orders. We do not intend to change that longer term, however in the short term while global logistics work through their current issues, we will be increasing working capital to enable us to hold some buffer stock of oil. This will better enable us to maintain our operations and to deliver to our customers on time.

Cost of freight has also been well reported in the media and we have not been immune to the rapid escalation of freight costs. On our key import and export routes the freight component has increased in some cases by 300-400%. We will be factoring in those costs in future price discussions with our customers.

As was communicated at last year's ASM, SeaDragon has pivoted its business to higher value oil sales. Just prior to the end of the FY20 year we finished contracts with several major international customers, who purchased semi-refined oil. Semi-refined oil is oil that undertakes some, but not all, of our refining processes. We have completely exited from that business as our margins were too low.

Our refined oil sales in the last year have all been to infant nutrition customers. We expect to see a gradual increase in demand for our oil into the infant nutrition space in the next few years and we expect this will take the business to close to a break-even cash position.

The majority of this demand is for Marine Stewardship Council (MSC) certified oil. We have some well-established suppliers who meet this standard, and are working with several more, and expect to be able to meet our customer demand as that grows.

To grow the profitability of the business, as was outlined last year, we have been investing in higher value food ingredients and in white-labelled consumer products.

These products have been progressed to where they are close to launch.

In the food ingredient area we have partnered with a world-class manufacturer of encapsulated-DHA (docosahexanoic acid, an omega-3 fatty acid) infant nutrition powder. This partnership will enable us to offer DHA powder containing SeaDragon refined oil to companies that dry-blend DHA powder into their infant formula.

We have also developed our own powder for inclusion in functional foods. This powder is coming to the end of its extended stability testing and we are currently seeing good results from those. We have also undertaken tests on inclusion of our developed powders in foods and these have performed well.

We are confident of New Zealand food businesses including our powders in their products and have one company doing so as a range extension next month.

We have entered into a partnership with one of New Zealand and Australia's leading food ingredient suppliers, Hawkins Watts. Hawkins Watts has a very strong relationship with the food industry within New Zealand, Australia and the Pacific Islands. We expect this relationship will drive sales of our ingredients to the food industry.

We have also continued to develop offerings in the consumer space that we can manufacture for other brands. We have now finished development of a novel packaging solution for delivering a high dose of 2g per day of omega-3, which is supported by scientific studies as an appropriate daily dose. Our delivery mechanism provides the dose in a liquid format that has good mouth feel and taste, thus avoiding having to take and digest gelatine capsules with no efficacy or benefit. We are currently working with several launch customers for this format and expect to have this product launched within the Australian and New Zealand markets over the next six months.

In summary, our operations have been running well the last year, although Covid had caused some disruption. We have a solid base of oil sales into the infant nutrition space that we believe will grow to take the business to close to break-even. We have developed a range on food ingredients and a white-labelled consumer product that are close to market launch, and continue to work on other valuable omega-3 based health food opportunities that can be sold and branded by third parties.