

SeaDragon Limited

Independent Adviser's Report and Appraisal Report

In Respect of the Proposed Convertible Loan Note Facility from Pescado Holdings Limited

April 2019

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.

Index

Section	Page
1. Executive Summary	1
2. Evaluation of the Merits of the Pescado Allotment	8
3. Evaluation of the Fairness of the 2019 Pescado Loan (Including the Interest Waiver)	20
4. Profile of SeaDragon	23
5. Valuation of the 2019 CLNs.....	30
6. Sources of Information, Reliance on Information, Disclaimer and Indemnity	33
7. Qualifications and Expertise, Independence, Declarations and Consents	35

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 listed on the main equities securities market (the **NZX Main Board**) operated by NZX Limited (**NZX**) with a market capitalisation of \$14.5 million as at 15 April 2019. Its unaudited total equity as at 30 September 2018 was \$13.0 million.

A profile of the Company is set out in section 4.

1.2 2019 Pescado Loan

SeaDragon announced on 25 March 2019 that it had agreed a term sheet with Pescado Holdings Limited (**Pescado**) whereby Pescado has committed to advance up to \$4.0 million via a new convertible loan note facility (the **2019 Pescado Loan**) to assist the Company with meeting its immediate and medium term funding requirements and to continue to target sales growth.

SeaDragon and Pescado entered into the *Convertible Loan Note Agreement (2019)* on 1 April 2019 (the **2019 Pescado Loan Agreement**).

The key terms of the 2019 Pescado Loan are:

- a maturity date of 31 March 2021 (the **Maturity Date**)
- interest is nil prior to an event of default (a **Default Event**) and 9.95% per annum while a Default Event is subsisting
- the convertible loan notes (the **2019 CLNs**) will convert into ordinary shares at a conversion price of \$0.002 per share (the **Conversion Price**)
- each holder of the existing convertible loan note facilities provided to SeaDragon (the **Existing Loans** discussed in section 1.4) has agreed to waive its rights to receive interest under the Existing Loans in respect of the period on and from 1 April 2019 (the **Interest Waiver**)
- all indebtedness under the 2019 Pescado Loan and the Existing Loans will be secured over all of the assets of SeaDragon and its subsidiaries under existing security arrangements.

1.3 Pescado Holdings Limited

Pescado is SeaDragon's largest shareholder, holding 855,433,823 ordinary shares. This represents 17.66% 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 – 10%.

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 the chair of SeaDragon.

1.4 Existing Loans

The Existing Loans are from:

- Pescado
- Comvita Limited (**Comvita**)
- One Funds Management Limited (**OFM**) 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**).

We refer to Pescado, Comvita and BioScience together as the **Existing Noteholders**.

SeaDragon and the Existing Noteholders entered into an amended and restated *Convertible Loan Note Agreement (Second Amendment and Restatement)* originally dated 30 May 2016 as amended and restated as of 30 June 2018 and further amended and restated on 8 August 2018 (the **Existing Loans Agreements**) under which:

- Pescado agreed to provide convertible loan note facilities (the **Existing Pescado Loan**) to SeaDragon of up to \$3.0 million
- BioScience agreed to provide convertible loan note facilities (the **Existing BioScience Loan**) to SeaDragon of up to \$3.0 million
- Comvita agreed to provide convertible loan note facilities (the **Existing Comvita Loan**) to SeaDragon of up to \$3.0 million.

The full \$9.0 million of Existing Loans has been drawn down by SeaDragon.

The Existing Loans carry a 7.95% per annum (post tax) interest coupon. They mature on 31 March 2020 by mandatory conversion into ordinary shares at \$0.0033 per share, unless a Default Event subsists at maturity time. Accordingly, a total of 2,727,272,727 new ordinary shares will be issued when the Existing Loans convert.

1.5 Comvita Option

Comvita currently holds an option to acquire 909,090,909 shares in SeaDragon at an exercise price of \$0.0033 per share (for an aggregate exercise price of \$3.0 million), exercisable by 31 December 2020 (the **Comvita Option**).

The Comvita Option has mandatory exercise milestones which, if met, would enable SeaDragon to require Comvita to exercise the Comvita Option.

As at the date of this report, the Comvita Option has not been exercised.

1.6 2018 Shareholder Approval

SeaDragon's shareholders approved the Existing Pescado Loan and the Existing BioScience Loan as well as amendments to the terms of the Existing Comvita Loan and the Comvita Option at the Company's annual general meeting on 8 August 2018.

The shareholder approval allows each of the 3 major shareholders to increase their respective level of control of voting rights (assuming the other 2 shareholders do not convert their Existing Loans or exercise the Comvita Option) to:

- Pescado – 32.54% through the conversion of the Existing Pescado Loan
- BioScience – 34.27% through the conversion of the Existing BioScience Loan
- Comvita – 39.16% through the conversion of the Existing Comvita Loan and the exercise of the Comvita Option.

1.7 Impact on Shareholding Levels

Pescado Allotment

The 2019 CLNs can be converted into ordinary shares at the election of Pescado at the Conversion Price of \$0.002 per share. The 2019 Pescado Loan mandatorily converts into ordinary shares at the Maturity Date if it has not been repaid.

Accordingly, if the full \$4.0 million of the 2019 Pescado Loan is drawn down and converts into ordinary shares, then SeaDragon will issue 2,000,000,000 new ordinary shares to Pescado (the **Pescado Allotment**).

Potential Shareholding Levels

The total percentage of the voting rights in the Company held by Pescado after the Pescado Allotment will vary depending on:

- the amount drawn down by SeaDragon under the 2019 Pescado Loan and whether that amount is repaid prior to maturity
- the extent to which the amounts drawn down under the Existing Loans are repaid prior to maturity
- whether the Comvita Option is exercised.

Given the Company's financial position, we consider it to be extremely unlikely that SeaDragon will repay any of the Existing Loans or the 2019 Pescado Loan before they mature. Accordingly, our analysis is on the basis that the Existing Loans and the 2019 Pescado Loan are converted into ordinary shares.

Assuming the full \$4.0 million of the 2019 Pescado Loan is drawn down and converted, the Existing Loans are converted, the Comvita Option is exercised and there are no other changes to the Company's capital structure:

- Pescado will hold 35.92% of the Company's ordinary shares on issue
- BioScience will hold 15.69%
- Comvita will hold 21.27%
- the shareholders not associated with Pescado, BioScience or Comvita (the **Other Shareholders**) will collectively hold 27.12%.

Impact on Shareholding Levels – Comvita Option Exercised					
	Pescado	BioScience	Comvita	Other Shareholders	Total
Current	855,433,823	735,264,802	410,987,830	2,841,618,272	4,843,304,727
%	17.66%	15.18%	8.49%	58.67%	100.00%
Comvita Option exercised	-	-	909,090,909	-	909,090,909
Conversion of Existing Loans	909,090,909	909,090,909	909,090,909	-	2,727,272,727
Pescado Allotment	2,000,000,000 ¹	-	-	-	2,000,000,000
Potential Shareholding Levels	<u>3,764,524,732</u>	<u>1,644,355,711</u>	<u>2,229,169,648</u>	<u>2,841,618,272</u>	<u>10,479,668,363</u>
%	35.92%	15.69%	21.27%	27.12%	100.00%

¹ Assumes the full \$4.0 million facility is drawn down and is converted into ordinary shares

Assuming the full \$4.0 million of the 2019 Pescado Loan and converted, the Existing Loans are converted, the Comvita Option is not exercised and there are no other changes to the Company's capital structure:

- Pescado will hold 39.33% of the Company's ordinary shares on issue
- BioScience will hold 17.18%
- Comvita will hold 13.79%
- the Other Shareholders will collectively hold 29.69%.

Impact on Shareholding Levels – Comvita Option Not Exercised					
	Pescado	BioScience	Comvita	Other Shareholders	Total
Current	855,433,823	735,264,802	410,987,830	2,841,618,272	4,843,304,727
%	17.66%	15.18%	8.49%	58.67%	100.00%
Comvita Option not exercised	-	-	-	-	-
Conversion of Existing Loans	909,090,909	909,090,909	909,090,909	-	2,727,272,727
Pescado Allotment	2,000,000,000 ¹	-	-	-	2,000,000,000
Potential Shareholding Levels	<u>3,764,524,732</u>	<u>1,644,355,711</u>	<u>1,320,078,739</u>	<u>2,841,618,272</u>	<u>9,570,577,454</u>
%	39.33%	17.18%	13.79%	29.69%	100.00%

¹ Assumes the full \$4.0 million facility is drawn down and is converted into ordinary shares

1.8 Special Meeting

SeaDragon is holding a special meeting of shareholders on 17 May 2019, where the Company will seek shareholder approval of 4 resolutions which cover the 2019 Pescado Loan and the Interest Waiver (the **Pescado Resolutions**):

- resolution 1 – in respect of the Pescado Allotment for the purposes of the NZX Main Board Listing Rules (the **Listing Rules**)
- resolution 2 – in respect of the Pescado Allotment for the purposes of the Listing Rules and the Takeovers Code (the **Code**)
- resolution 3 – in respect of the 2019 Pescado Loan and the Pescado Allotment for the purposes of the Listing Rules

- resolution 4 – in respect of the Interest Waiver for the purposes of the Listing Rules.

All 4 resolutions are ordinary resolutions (which are passed by a simple majority of the votes cast) and are interdependent, meaning that all resolutions must be approved for any resolution to be approved.

Pescado and its associates / associated persons are not permitted to vote on any of the Pescado Resolutions.

BioScience and Comvita and their respective associated persons are not entitled to vote on resolution 4 in respect of the Interest Waiver.

1.9 Summary of Opinion

Takeovers Code

Our evaluation of the merits of the Pescado Allotment 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 2019 Pescado Loan (including the Pescado Allotment) significantly outweigh the negative aspects from the perspective of the Company's shareholders not associated with Pescado (the **Non-Pescado Shareholders**).

NZX Main Board Listing Rules

Our evaluation of the fairness of the 2019 Pescado Loan (including the Interest Waiver) as required under the Listing Rules is set out in section 3.

In our opinion, after having regard to all relevant factors, the consideration and the terms and conditions of:

- the 2019 Pescado Loan are fair to the Non-Pescado Shareholders
- the Interest Waiver are fair to the Other Shareholders.

1.10 Regulatory Requirements

Takeovers Code

SeaDragon is a code company as defined by the Code 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 increase their holding or control of voting rights by an allotment of shares 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 Allotment will result in Pescado increasing its holding or control of the voting rights in SeaDragon from 17.66% to up to 39.33%.

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

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).

NZX Main Board Listing Rules

Listing Rule 7.5

Listing Rule 7.5 states that no issue of Securities shall be made by an Issuer if:

- there is a significant likelihood that the issue will result in any person or group of Associated Persons materially increasing their ability to exercise, or direct the exercise of effective control of that Issuer and
- that person or group of Associated Persons is entitled before the issue to exercise not less than 1% of the total votes attaching to the Securities of the Issuer

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

The Pescado Allotment involves the issue of equity securities which may materially increase Pescado's ability to exercise, or direct the exercise of effective control of the Company.

Listing Rule 6.2.2 (a) requires an Appraisal Report to be prepared where a meeting will consider a resolution required by Listing Rule 7.5.

Listing Rule 9.2.1

Listing Rule 9.2.1 stipulates that an Issuer shall not enter into a Material Transaction if a Related Party is a party to the Material Transaction or to one of a related series of transactions of which the Material Transaction forms part without first obtaining approval of the transaction by way of an ordinary resolution from shareholders not associated with the Related Party.

The 2019 Pescado Loan is a Material Transaction under Listing Rule 9.2.2 (c) as the loan has a market value in excess of 10% of the Average Market Capitalisation of SeaDragon.

Pescado is a Related Party of the Company under Listing Rule 9.2.3 (b) as it holds 17.66% of the Company's shares.

The Interest Waiver constitutes, or may constitute, an amendment to a Material Transaction with a Related Party under Listing Rule 9.2.2 and accordingly requires approval by ordinary resolution under Listing Rule 9.2.1.

BioScience is a Related Party of the Company under Listing Rule 9.2.3 (b) as it holds 15.18% of the Company's shares.

Comvita is a Related Party of the Company under Listing Rule 9.2.3 (b) as it holds 8.49% of the Company's shares and the exercise of the Comvita Option would increase its shareholding to 22.95% of the Company's shares, assuming no other changes to the Company's capital structure.

Listing Rule 9.2.5 (b) requires an Appraisal Report to be prepared where a meeting will consider a resolution required by Listing Rule 9.2.1.

1.11 Purpose of the Report

The Company's independent directors, being Colin Groves and Bryan Mogridge (the **Independent 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 Allotment in accordance with Rule 18 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 20 March 2019 to prepare the Independent Adviser's Report.

The Independent Directors have also engaged Simmons Corporate Finance to prepare an Appraisal Report on the fairness of the 2019 Pescado Loan (including the Interest Waiver) in accordance with Listing Rules 6.2.2 (a) and 9.2.5 (b).

Simmons Corporate Finance was approved by NZX Regulation on 20 March 2019 to prepare the Appraisal Report.

Simmons Corporate Finance issues this Independent Adviser's Report and Appraisal Report to the Independent Directors for the benefit of the Non-Pescado Shareholders and the Other Shareholders to assist them in forming their own opinion on whether to vote for or against the Pescado Resolutions.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the Pescado Allotment and the fairness of the 2019 Pescado Loan (including the Interest Waiver) in relation to each shareholder. This report on the merits of the Pescado Allotment and the fairness of the 2019 Pescado Loan (including the Interest Waiver) is therefore necessarily general in nature.

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

2. Evaluation of the Merits of the Pescado Allotment

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 Allotment having regard to the interests of the Non-Pescado 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 14 March 2019
- 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*.

The Pescado Allotment arises from the 2019 Pescado Loan. Therefore when assessing the merits of the Pescado Allotment, an assessment of the merits of the 2019 Pescado Loan also needs to be undertaken.

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

- the requirements for the 2019 Pescado Loan
- the prospects for SeaDragon without the 2019 Pescado Loan
- the terms of the 2019 Pescado Loan
- the impact of the 2019 Pescado Loan on SeaDragon's financial position
- the impact of the 2019 Pescado Loan on the control of SeaDragon
- the impact of the 2019 Pescado Loan on SeaDragon's share price
- the benefits and disadvantages to the Non-Pescado Shareholders of the 2019 Pescado Loan
- the benefits and disadvantages to Pescado of the 2019 Pescado Loan
- the implications if the Pescado Resolutions are 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 Allotment

The Non-Pescado Shareholders currently hold shares in a company with total equity of \$13.0 million as at 30 September 2018 and which recently informed the market that it expects to generate a net loss of between \$6.6 million and \$6.8 million in the 2019 financial year. The Company currently has \$9.0 million owing under the Existing Loans.

The 2019 Pescado Loan is for up to \$4.0 million, which the Independent Directors consider to be sufficient to fund SeaDragon's operations up to April / May 2020.

The Non-Pescado Shareholders are being asked to vote on resolutions 1, 2 and 3 in respect of the 2019 Pescado Loan and the Other Shareholders are being asked to vote on resolution 4 in respect of the Interest Waiver. All 4 resolutions must be passed in order for the 2019 Pescado Loan to proceed. Accordingly, shareholders have 3 alternatives with regard to their voting:

- vote in favour of all the resolutions, in which case the Company will be able to draw down on the 2019 Pescado Loan, or
- vote against any of the resolutions. In the event that any one of the 4 resolutions is not passed, then the 2019 Pescado Loan will not be able to be provided to SeaDragon, resulting in the Company being unlikely to repay its debts as they fall due on or about July 2019 and the Company's board of directors (the **Board**) will likely have no option but to place SeaDragon into receivership or liquidation, or
- abstain from voting, in which case the voting of the other shareholders will determine the outcome.

Our evaluation of the merits of the 2019 Pescado Loan and the Pescado Allotment is set out in detail in sections 2.3 to 2.14.

In summary, the positive aspects of the 2019 Pescado Loan and the Pescado Allotment are:

- the rationale for the 2019 Pescado Loan is sound. It will provide up to \$4.0 million of funding for SeaDragon, providing working capital for the Company's operations up to April / May 2020
- the terms of the 2019 Pescado Loan are reasonable:
 - the size is sufficient to meet the Company's immediate and medium term funding needs
 - no interest is payable on the 2019 Pescado Loan (unless a Default Event occurs), which is extremely favourable to the Company (and therefore to the Non-Pescado Shareholders)
 - the Interest Waiver will result in no interest being paid on the Existing Loans from 1 April 2019 onwards, which is extremely favourable to the Company (and therefore to the Other Shareholders)
 - the Conversion Price of \$0.002 is at a discount to SeaDragon's current market price. However, we consider the Conversion Price to be reasonable when viewed in conjunction with the nil interest rate
- we assess the value of each \$1 2019 CLN to be in the range of \$0.96 to \$1.05. Accordingly, we consider the 2019 Pescado Loan to be fair, from a financial point of view, to the Non-Pescado Shareholders

- the 2019 Pescado Loan and Pescado Allotment will have a positive impact on the Company's financial position
- the implications of the Pescado Resolutions not being approved by the Non-Pescado Shareholders / Other Shareholders are significant. SeaDragon will be unable to repay its debts as they fall due and the Board will likely have no option but to place the Company into receivership or liquidation.

In summary, the negative aspects of the 2019 Pescado Loan and the Pescado Allotment are:

- Pescado's level of voting rights will increase to up to 39.33% following the Pescado Allotment (depending on the amount of the 2019 Pescado Loan that is drawn down and converted into ordinary shares, the conversion of the Existing Loans and whether the Comvita Option is exercised)
- the Pescado Allotment will result in Pescado increasing its ability to influence the outcome of shareholder voting as it will be able to singlehandedly block special resolutions and influence the outcome of ordinary resolutions. However, Pescado, BioScience and Comvita are not related parties or associates and therefore each shareholder provides a degree of countervailing power over the other 2 shareholders
- the 2019 Pescado Loan will increase Pescado's ability to exert influence over the Board and the Company's operations as Pescado's prior written approval will be required in respect of any Board appointment by the Board or senior management appointment
- the dilutionary impact of the Pescado Allotment on the Non-Pescado Shareholders will result in their current collective interests in the Company reducing by between 19% and 21% (depending on whether the Comvita Option is exercised).

In our view, the 2019 Pescado Loan and the Pescado Allotment are unlikely to have any material impact on:

- the Company's share price in the near term
- the liquidity of the Company's shares in the near term
- the attraction of SeaDragon as a takeover target.

There are a number of positive and negative features associated with the 2019 Pescado Loan and the Pescado Allotment. In our view, when the Non-Pescado Shareholders are evaluating the merits of the transaction, they need to carefully consider whether the negative aspects of the Pescado Allotment, including the increased level of control that Pescado will hold over SeaDragon and the dilutionary impact, could justify voting against any of the Pescado Resolutions with the outcome that the Company will likely be placed into receivership or liquidation.

In our opinion, after having regard to all relevant factors, the positive aspects of the 2019 Pescado Loan (including the Pescado Allotment) significantly outweigh the negative aspects from the perspective of the Non-Pescado Shareholders.

2.3 The Requirement for the 2019 Pescado Loan

The purpose of the 2019 Pescado Loan is to assist the Company with meeting its immediate and medium term funding requirements (being working capital, operational expenditure and capital expenditure requirements) and to continue to target sales growth.

On 15 February 2019, the Board provided a market update stating that SeaDragon's revenue for the 2019 financial year will not meet earlier market guidance, primarily as a result of shipping delays.

The Independent Directors have advised us that based on the Company's current financial position and management's sales and financial projections, the 2019 Pescado Loan should provide sufficient funding for SeaDragon until April / May 2020.

2.4 The Prospects for SeaDragon Without the 2019 Pescado Loan

The carrying value of SeaDragon's equity was \$13.0 million as at 30 September 2018. It had \$1.4 million of cash and cash equivalents and had drawn down \$6.75 million of the Existing Loans as at that date. Since 30 September 2018, the Company has drawn down the full \$9.0 million facilities on the Existing Loans.

In the event the 2019 Pescado Loan does not proceed, the Independent Directors are of the view that it is highly likely that SeaDragon will be unable to repay its debts as they fall due (including interest payable on the Existing Loans) on or about July 2019 and the Board will have no option but to place the Company into receivership or liquidation.

2.5 Terms of the 2019 Pescado Loan

Size of the 2019 Pescado Loan

The \$4.0 million facility was based on the Company's estimate of the level of capital required to fund its operations until April / May 2020.

Key Terms

The key terms of the 2019 Pescado Loan are:

- interest is nil prior to a Default Event and 9.95% per annum while a Default Event is subsisting. A Default Event includes SeaDragon failing to pay amounts when due, SeaDragon committing a breach of undertakings or obligations, SeaDragon making materially untrue, inaccurate or misleading representations or warranties and SeaDragon becoming insolvent
- the 2019 CLNs are convertible at the Conversion Price of \$0.002 per share
- Pescado has the option to convert all outstanding amounts advanced by it under the 2019 Pescado Loan to ordinary shares in SeaDragon for so long as the 2019 Pescado Loan remains unpaid by SeaDragon
- SeaDragon may repay its indebtedness under the 2019 Pescado Loan at any time in full. All payments under the 2019 Pescado Loan must be made *pari passu* with payments under the Existing Loans Agreements
- unless previously repaid or converted, the 2019 Pescado Loan will mature on the Maturity Date (31 March 2021)

- on maturity, unless SeaDragon is in default under the 2019 Pescado Loan or insolvent, the outstanding amount under the 2019 Pescado Loan will automatically convert into ordinary shares in SeaDragon at the Conversion Price
- shares issued under the Pescado Allotment will be ordinary shares in SeaDragon and will rank equally with all other ordinary shares on issue
- all indebtedness under the 2019 Pescado Loan will be secured over all of the assets of SeaDragon and its subsidiaries, in each case under existing security arrangements (which secure indebtedness under the Existing Loans)
- until the 2019 Pescado Loan 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. This Pescado approval right in respect of a director of the Company applies only to the appointment of such person by the Board and, therefore, does not restrict the right of shareholders to nominate and appoint a director of the Company at SeaDragon's annual or special meeting of shareholders
- if Comvita exercises its contractual right (if any) to appoint a director to the Board who is not Mark Sadd or to remove or replace Mr Sadd as a director, then drawdown under the 2019 Pescado Loan will be conditional on the Company procuring that the Board appoints an individual nominated by Pescado as a director of the Company. This Pescado appointment right in respect of a director of the Company applies only to the appointment of such person by the Board and, therefore, does not restrict the right of shareholders to nominate and appoint a director of the Company at SeaDragon's annual or special meeting of shareholders
- drawdown under the 2019 Pescado Loan is conditional on the Interest Waiver (whereby each Existing Noteholder waives its right to receive interest under the Existing Loans in respect of the period from 1 April 2019 onwards). Such waiver was received by the Company on 25 March 2019 but is conditional on approval of the Other Shareholders in terms of resolution 4 of the Pescado Resolutions.

The 2019 Pescado Loan is conditional upon the Non-Pescado Shareholders approving the Pescado Resolutions by 21 May 2019.

Interest Rate

No interest is payable on the 2019 Pescado Loan (unless a Default Event occurs, in which case default interest of 9.95% per annum will be incurred).

We consider this to be extremely favourable to the Non-Pescado Shareholders as the Company will be alleviated from incurring interest costs that it would normally expect to.

We estimate that a company with a similar financial position to SeaDragon issuing a secured bond would likely have to offer a coupon in the vicinity of 15.0% to 18.0%, which would equate to an interest cost of \$600,000 to \$720,000 per annum if the maximum amount of the 2019 Pescado Loan of \$4.0 million was drawn down.

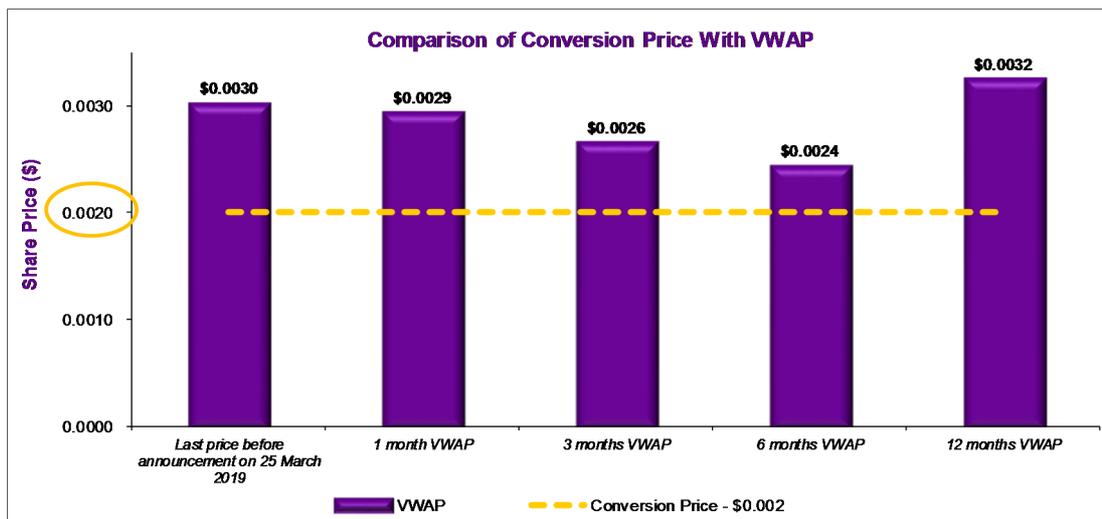
In addition to there being no interest charged on the 2019 Pescado Loan, the Interest Waiver will result in there being no interest charged on the Existing Loans from 1 April 2019 onwards.

The interest rate on the Existing Loans was 7.95% per annum (post tax) prior to the Interest Waiver. The Interest Waiver alleviates the Company of paying interest of \$927,500 per annum (pre tax) on the maximum amount of the Existing Loans of \$9.0 million.

Conversion Price

The Conversion Price of \$0.002 per share is at a discount to the current value of SeaDragon’s shares:

- a 33% discount to the share price on 22 March 2019 (being the last trading day before the announcement of the 2019 Pescado Loan on 25 March 2019) of \$0.003
- 31% to the one month volume weighted average share price (**VWAP**) up to 22 March 2019 of \$0.0029
- 24% to the 3 months VWAP up to 22 March 2019 of \$0.0026
- 17% to the 6 months VWAP up to 22 March 2019 of \$0.0024
- 38% to the 1 year VWAP up to 22 March 2019 of \$0.0032.



Notwithstanding that it is at a discount to the current value of the Company’s shares, we consider the Conversion Price to be reasonable when viewed in conjunction with the nil interest rate.

Valuation

We assess the value of each \$1 2019 CLN to be in the range of \$0.96 to \$1.05. Our valuation assessment is set out in section 5.

Based on this, we consider the 2019 Pescado Loan to be fair, from a financial point of view, to the Non-Pescado Shareholders.

2.6 Impact on Financial Position

A summary of SeaDragon’s recent financial position is set out in section 4.7.

SeaDragon’s total equity as at 30 September 2018 was \$13.0 million (\$0.0027 per share).

For illustrative purposes, if the maximum amount of the 2019 Pescado Loan of \$4.0 million was to have been drawn down as at 30 September 2018 and converted into ordinary shares at that date, SeaDragon’s total equity would increase by 31% to \$17.0 million and equity per share would decrease by 7% to \$0.0025 per share.

Illustrative Effect of the 2019 Pescado Loan on SeaDragon’s Financial Position			
	Equity (\$000)	No. of Shares (000)	Equity / Share (\$)
Total equity as at 30 September 2018 ¹	12,997	4,843,305	0.0027
2019 Pescado Loan and Pescado Allotment	4,000	2,000,000	0.0020
Post the 2019 Pescado Loan and Pescado Allotment	<u>16,997</u>	<u>6,843,305</u>	<u>0.0025</u>

¹ Source: SeaDragon 2019 interim report

The above analysis is illustrative only and does not take into account the conversion of the Existing Loans or the exercise of the Comvita Option or any other changes to the Company’s capital structure.

2.7 Impact on Control

Share Capital and Shareholders

SeaDragon currently has 4,843,304,727 fully paid ordinary shares on issue held by 3,451 shareholders. The names, number of shares and percentage holding of the Company’s 10 largest shareholders as at 5 April 2019 are set out in section 4.4.

SeaDragon currently has 4 shareholders holding more than 5% of its shares:

- Pescado – 17.66%
- BioScience – 15.18%
- SDMO Trustee Limited (**SDMO**) – 9.05%. SDMO is the private investment vehicle of SeaDragon director Stuart Macintosh
- Comvita – 8.49%.

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

Shareholding Levels

Following the 2019 Pescado Loan and the Pescado Allotment, Pescado will hold between 35.92% (if the Comvita Option is exercised) and 39.33% (if the Comvita Option is not exercised) of the Company’s shares, assuming the full \$4.0 million is drawn down and the Existing Loans are converted into ordinary shares.

BioScience will be the second largest shareholder, holding between 15.69% and 17.18% of the Company’s shares.

The Non-Pescado Shareholders (including BioScience, SDMO and Comvita) will collectively hold between 60.67% and 64.08% of the Company’s shares.

The actual shareholding levels will depend on how much of the 2019 Pescado Loan is drawn down and converted into ordinary shares, the conversion of the Existing Loans into ordinary shares and whether the Comvita Option is exercised.

Shareholding Voting

Pescado's current level of voting rights of 17.66% 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 2019 Pescado Loan and the Pescado Allotment, Pescado's ability to influence the outcome of shareholder voting will increase to a high degree.

By holding up to 39.33% of the Company's shares, Pescado will be able to singlehandedly block a special resolution. However, Pescado will still not be able to singlehandedly determine the outcome of ordinary resolutions or pass special resolutions.

Pescado's increased level of voting rights will enhance its ability to influence the outcome of ordinary resolutions. However, Pescado, BioScience and Comvita are not related parties or associates of each other. Each major shareholder therefore provides a degree of countervailing power over the other 2 shareholders. Conversely, if the 3 major shareholders were to vote in the same manner, albeit independently, then collectively they would determine the outcome of any ordinary resolution.

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, the Listing Rules 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 2019 Pescado Loan and the Pescado Allotment will increase Pescado's ability to exert shareholder control over SeaDragon to a high degree.

Board Control

As set out in section 4.3, the Company currently has 6 directors on the Board, one of whom is associated with Pescado (Mark Stewart).

The other 3 major shareholders (BioScience, SDMO and Comvita) each have a representative on the board.

A term of the 2019 Pescado Loan is that until the loan is repaid in full or converted, SeaDragon must obtain the prior written approval of Pescado to the appointment of any person as a director of the Company by the Board.

Furthermore, if Comvita exercises its contractual right (if any) to appoint a director to the Board who is not Mark Sadd or to remove or replace Mr Sadd, then drawdown under the 2019 Pescado Loan will be conditional on the Company procuring that the Board appoints an individual nominated by Pescado as a director of the Company.

These terms of the 2019 Pescado Loan confer additional rights on Pescado in respect of Board appointments and hence increases Pescado's ability to exert control over the Board.

Operations

We are advised by the Independent Directors that Pescado currently does not have any influence over the Company's operations other than through Mr Stewart's role as a director.

A term of the 2019 Pescado Loan is that until the 2019 Pescado Loan 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.

This term increases Pescado's ability to exert control over the Company's operations.

2.8 Dilutionary Impact

The 2019 Pescado Loan will result in the Non-Pescado Shareholders' shareholdings in the Company being diluted if any 2019 CLNs are converted into ordinary shares. If the full \$4.0 million facility is drawn down and converted into ordinary shares, the dilutionary impact on Non-Pescado Shareholders will be between 19.1% and 20.9% (depending on whether the Comvita Option is exercised and assuming the Existing Loans are converted into ordinary shares).

While the potential dilutionary impact is relatively significant, we are of the view that the Non-Pescado 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 2019 Pescado Loan is fair to the Non-Pescado Shareholders from a financial point of view and therefore does not dilute the value of their 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 5 January 2016 is set out in section 4.9.

In the year up to 22 March 2019 (immediately prior to the announcement of the 2019 Pescado Loan), 4.8% of the Company's shares traded at a VWAP of \$0.0032. The closing share price on 22 March 2019 was \$0.003.

Following the announcement of the Pescado Allotment, 8,122,438 shares (0.2%) have traded up to 12 April 2019 at a VWAP of \$0.0026.

Negligible Impact on Share Price

While the Conversion Price of \$0.002 is at a discount to SeaDragon's share price prior to the announcement of the 2019 Pescado Loan, we are of the view that the 2019 Pescado Loan and the Pescado Allotment will have a negligible impact on the Company's share price given that the Company's share price has recently traded at levels close to the lowest possible trading price for shares on the NZX Main Board (ie \$0.001).

The post-announcement VWAP to 12 April 2019 of \$0.0026 is 11% lower than the one month pre-announcement VWAP of \$0.0029.

Liquidity of SeaDragon Shares Unlikely to Change

We are of the view that the 2019 Pescado Loan and the Pescado Allotment are 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-Pescado Shareholders will not change under the 2019 Pescado Loan and the Pescado Allotment.

2.10 Key Benefit to Pescado

The 2019 Pescado Loan provide Pescado with the opportunity to increase its shareholding in SeaDragon from its current level of 17.66% to up to 39.33%, depending on the amount drawn down and subsequently converted into ordinary shares (as well as the conversion of the Existing Loans and whether the Comvita Option is exercised) 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 4.5. 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 17.66% shareholding was approximately \$2.6 million as at 12 April 2019. The Existing Pescado Loan of \$3.0 million will convert into 909,090,909 ordinary shares, which have a value of approximately \$2.7 million as at 12 April 2019.

Pescado will be required to invest up to \$4.0 million under the 2019 Pescado Loan. This will increase Pescado's level of investment in SeaDragon by approximately 76%.

2.12 Other Issues

Benefits to SeaDragon of Pescado as a Cornerstone Shareholder

The major benefit to SeaDragon of the 2019 Pescado Loan is that the Company is certain to obtain up to \$4.0 million of funds.

The 2019 Pescado Loan and the Pescado Allotment 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.

Non-Pescado Shareholders Approval is Required

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

The 2019 Pescado Loan and the Pescado Allotment will not proceed unless the Non-Pescado Shareholders / Other Shareholders approve the Pescado Resolutions.

Attraction of SeaDragon as a Takeover Target is Unlikely to Change

Following the Pescado Allotment, Pescado will not be able to increase the level of its shareholding unless it complies with the provisions of the Code and the Listing Rules. 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-Pescado Shareholders
- the Company makes an allotment of shares which is approved by way of an ordinary resolution of the Non-Pescado 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.

Pescado will not 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% but less than 90% of the voting securities in a code company to buy up to a further 5% of the code company's shares per annum.

We are of the view that an increase in Pescado's shareholding from 17.66% to up to 39.33% will not reduce the likelihood (if any) of a takeover offer for the Company from Pescado as the increase in Pescado's shareholding level does not significantly change its control over SeaDragon.

We are also of the view that Pescado's increased shareholding is unlikely to 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, irrespective of whether it held 17.66% or up to 39.33% of the Company's shares. Furthermore, BioScience and Comvita will continue to be major shareholders in the Company and will also need to accept the offer to enhance the likelihood of the offer being successful.

2.13 Likelihood of the Pescado Resolutions Being Approved

The Independent Directors have unanimously recommended that the Non-Pescado Shareholders and the Other Shareholders vote in favour of the Pescado Resolutions.

Pescado may not vote on any of the Pescado Resolutions. BioScience and Comvita cannot vote on resolution 4 in respect of the Interest Waiver.

The following shareholders have stated that they will vote in favour of resolutions 1, 2 and 3:

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

Collectively these shareholders hold 33.34% of the Company's voting rights, which represents 40.49% of the total number of voting rights able to be voted on resolutions 1, 2 and 3.

SDMO and Tamahere have stated that they will vote in favour of resolution 4. Collectively these shareholders hold 16.48% of the total number of voting rights able to be voted on resolution 4.

2.14 Implications of the Pescado Resolutions not Being Approved

If any of the Pescado Resolutions are not approved, then the 2019 Pescado Loan (including the Pescado Allotment) cannot proceed. The implications of the 2019 Pescado Loan not being available to the Company are discussed in section 2.4 and will likely result in the Board having to place the Company into receivership or liquidation.

2.15 Voting For or Against the Pescado Resolutions

Voting for or against the Pescado Resolutions 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. Evaluation of the Fairness of the 2019 Pescado Loan (Including the Interest Waiver)

3.1 Basis of Evaluation

Listing Rule 1.7.2 requires an Appraisal Report to consider whether the consideration and the terms and conditions of:

- the 2019 Pescado Loan are fair to the Non-Pescado Shareholders
- the Interest Waiver are fair to the Other Shareholders.

There is no legal definition of the term fair in either the Listing Rules or in any statute dealing with securities or commercial law in New Zealand.

In our opinion, the 2019 Pescado Loan (including the Interest Waiver) will be fair to the Non-Pescado Shareholders / Other Shareholders if:

- they are likely to be at least no worse off if the 2019 Pescado Loan (including the Interest Waiver) proceeds than if it does not. In other words, we consider that the 2019 Pescado Loan will be fair if there is no value transfer from the Non-Pescado Shareholders to Pescado, and
- the terms and conditions of the 2019 Pescado Loan (including the Interest Waiver) are in line with market terms and conditions.

We have evaluated the fairness of the 2019 Pescado Loan (including the Interest Waiver) by reference to:

- the rationale for the 2019 Pescado Loan
- the terms of the 2019 Pescado Loan (including the Interest Waiver)
- the benefits and disadvantages to the Non-Pescado Shareholders of the 2019 Pescado Loan
- the benefits and disadvantages to the Other Shareholders of the Interest Waiver
- the benefits and disadvantages to Pescado of the 2019 Pescado Loan (including the Interest Waiver)
- the implications if the Pescado Resolutions are 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.

3.2 Evaluation of the Fairness of the 2019 Pescado Loan (including the Interest Waiver) for the Purposes of Listing Rule 1.7.2

In our opinion, after having regard to all relevant factors, the consideration and the terms and conditions of:

- **the 2019 Pescado Loan are fair to the Non-Pescado Shareholders**
- **the Interest Waiver are fair to the Other Shareholders.**

The basis for our opinion is set out in detail in sections 2.3 to 2.14. In summary, the key factors leading to our opinion are:

- the rationale for the 2019 Pescado Loan is sound
- the terms of the 2019 Pescado Loan are reasonable:
 - the size is sufficient to meet the Company's immediate and medium term funding needs
 - no interest is payable on the 2019 Pescado Loan (unless a Default Event occurs)
 - the Interest Waiver will result in no interest being paid on the Existing Loans from 1 April 2019 onwards
 - the Conversion Price is reasonable when viewed in conjunction with the nil interest rate
- we assess the value of each \$1 2019 CLN to be in the range of \$0.96 to \$1.05. Accordingly, we consider the 2019 Pescado Loan to be fair, from a financial point of view, to the Non-Pescado Shareholders
- the 2019 Pescado Loan and Pescado Allotment will have a positive impact on the Company's financial position
- Pescado's level of voting rights will increase to up to 39.33% following the Pescado Allotment (depending on the amount of the 2019 Pescado Loan that is drawn down and converted into ordinary shares, the conversion of the Existing Loans and whether the Comvita Option is exercised)
- the Pescado Allotment will result in Pescado increasing its ability to influence the outcome of shareholder voting as it will be able to singlehandedly block special resolutions and influence the outcome of ordinary resolutions. However, Pescado, BioScience and Comvita are not related parties or associates and therefore each shareholder provides a degree of countervailing power over the other 2 shareholders
- the 2019 Pescado Loan will increase Pescado's ability to exert influence over the Board and the Company's operations
- the dilutionary impact of the Pescado Allotment on the Non-Pescado Shareholders will result in their current collective interests in the Company reducing by between 19% and 21% (depending on whether the Comvita Option is exercised)
- the 2019 Pescado Loan is unlikely to have any material impact on:
 - the Company's share price in the near term
 - the liquidity of the Company's shares in the near term
 - the attraction of SeaDragon as a takeover target
- the implications of the Pescado Resolutions not being approved by the Non-Pescado Shareholders / Other Shareholders are significant. SeaDragon will be unable to repay its debts as they fall due and the Board will likely have no option but to place the Company into receivership or liquidation.

3.3 Voting For or Against the Pescado Resolutions

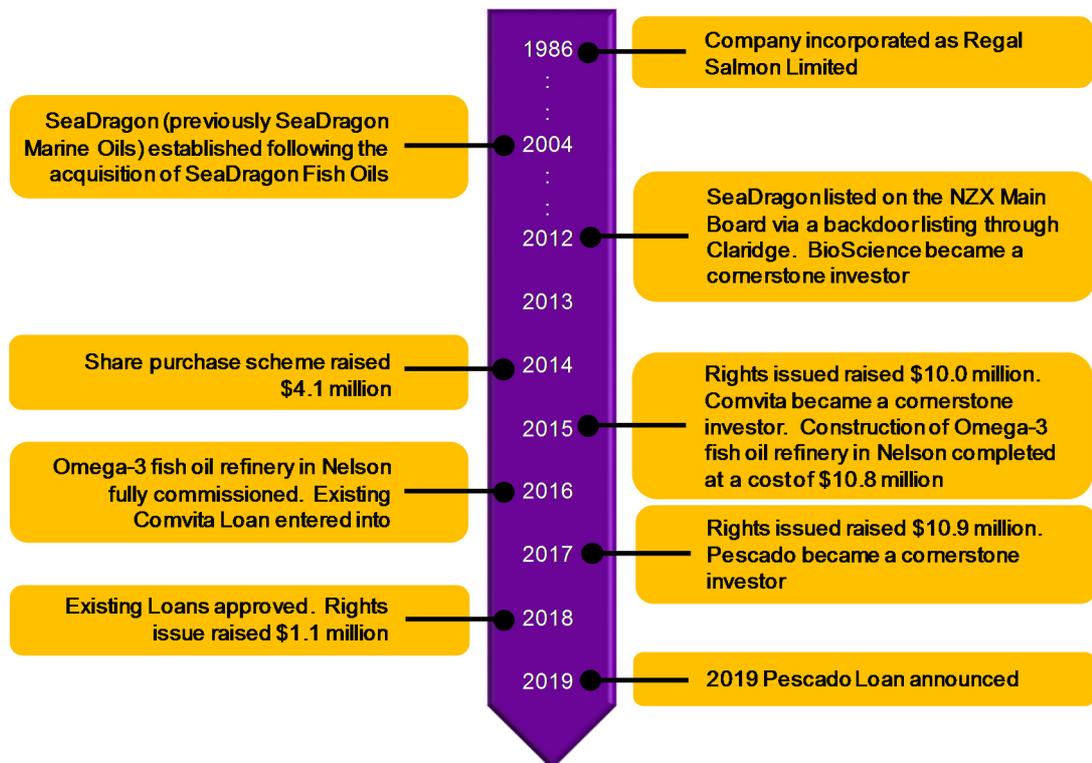
Voting for or against the Pescado Resolutions is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

4. Profile of SeaDragon

4.1 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.



4.2 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. A plan to add fractionation (winterisation) capability has been shelved for the short term as SeaDragon sees significant opportunities in markets such as toll processing and the supply of ingredients for fortified foods and infant formula where fractionation is unnecessary.

SeaDragon's legacy boutique plant in Nelson is now used for small batch processing of New Zealand derived fish oils and small batch toll processing for strategic partners.

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.

4.3 Directors and Senior Management

The directors of SeaDragon are:

- Colin Groves – independent director
- Stuart Macintosh – non-executive director, associated with SDMO
- Matthew McNamara – non-executive director, associated with BioScience
- Bryan Mogridge – independent director
- Mark Sadd – non-executive director, associated with Comvita
- Mark Stewart – non-executive chair, associated with Pescado.

The SeaDragon senior management team is:

- Dr Nevin Amos – chief executive officer
- Tracey Castleton – commercial manager.

4.4 Capital Structure and Shareholders

Ordinary Shares

SeaDragon currently has 4,843,304,727 fully paid ordinary shares on issue held by 3,451 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 5 April 2019 are set out below.

SeaDragon's 10 Largest Shareholders		
Beneficial Shareholder	No. of Shares	%
Pescado	855,433,823	17.66%
New Zealand Central Securities Depository Limited (NZCSD)	746,118,908	15.41%
SDMO	438,419,046	9.05%
Comvita	410,987,830	8.49%
Skylog Limited	151,805,500	3.13%
Graeme Saunders	69,000,000	1.42%
Leveraged Equities Finance Limited	57,545,750	1.19%
FNZ Custodians Limited	40,856,388	0.84%
Nicklas Willemse	40,000,000	0.83%
Lloyd Christie	30,176,000	0.62%
Top 10 shareholders	2,840,343,245	58.64%
Others (3,441 shareholders)	2,002,961,482	41.36%
Total	<u>4,843,304,727</u>	<u>100.00%</u>

Source: SeaDragon and Computershare

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

- Pescado – 17.66%
- BioScience – 15.18%. BioScience holds its shares in SeaDragon through NZCSD
- SDMO – 9.05%
- Comvita – 8.49%.

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

Comvita Option

The Comvita Option provides Comvita with the right, but not the obligation, to acquire 909,090,909 shares in SeaDragon at an exercise price of \$0.0033 per share by 31 December 2020.

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

Employee Share Options

SeaDragon has on issue 89,000,000 employee share options that may be exercised under the Company's employee share option plan. The options were issued in 2016 and are held by 5 senior management and directors. These options are exercisable at any time on or before 29 July 2019, 31 July 2019 or 30 December 2019 at exercise prices of \$0.008, \$0.0102 or \$0.0106 per share. As the options are currently well out of the money, it would appear unlikely that they will be exercised.

4.5 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.

4.6 Financial Performance

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

Summary of SeaDragon Financial Performance				
	Year to 31 Mar 16 (Audited) \$000	Year to 31 Mar 17 (Audited) \$000	Year to 31 Mar 18 (Audited) \$000	6 Mths to 30 Sep 18 (Unaudited) \$000
Revenue	5,585	4,331	3,028	2,317
Gross loss	(2,956)	(2,515)	(2,987)	(1,502)
Normalised EBITDA	(389)	(4,703)	(4,522)	(2,501)
Operating loss	(5,297)	(6,221)	(5,410)	(2,952)
Loss before income tax	(5,523)	(6,659)	(6,057)	(3,407)
Total loss for the period	(5,523)	(6,659)	(6,057)	(3,407)

EBITDA: Earnings before interest, tax, depreciation and amortisation
Source: SeaDragon audited financial statements and 2019 interim report

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.

On 15 February 2019, SeaDragon announced that it will not meet its earlier market guidance and its financial guidance for the 2019 financial year was:

- revenue: \$4.8 million to \$5.0 million
- normalised EBITDA: a loss of \$5.0 million to \$ 5.3 million
- net loss before tax: \$6.6 million to \$6.8 million.

4.7 Financial Position

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

Summary of SeaDragon Financial Position				
	As at 31 Mar 16 (Audited) \$000	As at 31 Mar 17 (Audited) \$000	As at 31 Mar 18 (Audited) \$000	As at 30 Sep 18 (Unaudited) \$000
Current assets	3,885	7,197	3,105	3,625
Non current assets	13,202	12,318	11,700	11,398
Total assets	17,087	19,515	14,805	15,023
Current liabilities	(5,207)	(2,525)	(3,818)	(1,767)
Non current liabilities	(240)	(248)	(255)	(259)
Total liabilities	<u>(5,447)</u>	<u>(2,773)</u>	<u>(4,073)</u>	<u>(2,026)</u>
Total equity	<u>11,640</u>	<u>16,742</u>	<u>10,732</u>	<u>12,997</u>

Source: SeaDragon audited financial statements and 2019 interim report

SeaDragon’s current assets as at 30 September 2018 comprised:

- cash and short term deposits of \$1.4 million
- trade and other receivables of \$0.5 million
- inventories of \$1.7 million.

Non current assets as at 30 September 2018 comprised mainly the Omega-3 refinery’s computer, office, plant and equipment of \$11.3 million.

Current liabilities as at 30 September 2018 comprised:

- trade and other payables – \$1.0 million
- the debt component of the Existing Loans – \$0.8 million.

The Company had equity of \$13.0 million as at 30 September 2018, comprising:

- share capital – \$49.1 million
- reserves – negative \$36.1 million.

4.8 Cash Flows

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

Summary of SeaDragon Cash Flows				
	Year to 31 Mar 16 (Audited) \$000	Year to 31 Mar 17 (Audited) \$000	Year to 31 Mar 18 (Audited) \$000	6 Mths to 30 Sep 18 (Unaudited) \$000
Net cash (outflow) from operating activities	(3,342)	(3,882)	(4,650)	(3,010)
Net cash (outflow) from investing activities	(6,890)	(138)	(270)	(149)
Net cash inflow from financing activities	9,122	12,628	1,000	3,510
Net increase / (decrease) in cash held	(1,110)	8,608	(3,920)	351
Opening cash balance	(2,569)	(3,679)	4,929	1,009
Closing cash balance	(3,679)	4,929	1,009	1,360

Source: SeaDragon audited financial statements and 2019 interim report

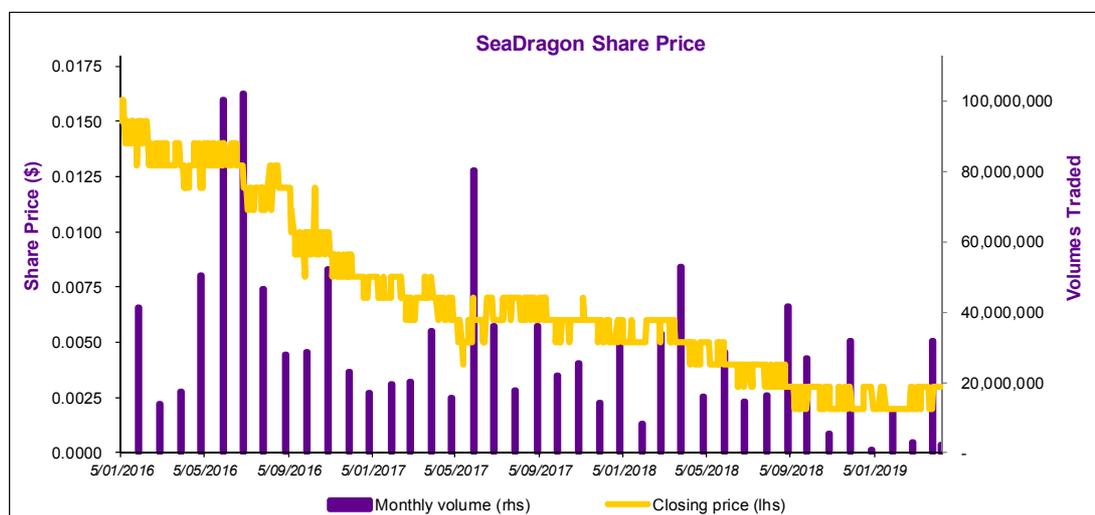
SeaDragon has sustained significant cash losses from its operations as it transitions its business model into the Omega-3 market. The Company's cumulative operating cash flow over the 3 and a half year period to 30 September 2018 totalled negative \$14.9 million.

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

- \$10.0 million of equity in September 2015 through a rights issue
- \$3.0 million from the Existing Comvita Loan 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 from the Existing Pescado Loan and the Existing BioScience Loan since July 2018
- \$1.1 million of equity in October 2018 through a rights issue.

4.9 Share Price History

Set out below is a summary of SeaDragon's daily closing share price and monthly volumes of shares traded from 5 January 2016 to 12 April 2019.



Source: NZX Company Research

During the period, SeaDragon's shares have traded between \$0.002 and \$0.016 at a VWAP of \$0.0081.

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 trading day before the announcement of the 2019 Pescado Loan is set out below.

Share Trading up to 22 March 2019					
Period	Low (\$)	High (\$)	VWAP (\$)	Volume Traded (000)	Liquidity
1 month	0.002	0.003	0.0029	26,465	0.5%
3 months	0.002	0.003	0.0026	40,442	0.8%
6 months	0.002	0.003	0.0024	84,718	1.7%
12 months	0.002	0.005	0.0032	231,935	4.8%

Source: NZX Company Research

Between the announcement of the 2019 Pescado Loan on 25 March 2019 and 12 April 2019, 8,122,438 shares have traded at a VWAP of \$0.0026. The volumes traded represent 0.2% of SeaDragon's total number of shares on issue.

5. Valuation of the 2019 CLNs

5.1 Methodology and Valuation Approach

The 2019 CLNs represent a SeaDragon security which are a combination of a bond and an embedded option:

- the bond component carries no interest
- the embedded option component provides the noteholder with the ability to benefit if the share price of SeaDragon is above \$0.002 when the 2019 CLNs are converted.

To assess the value of the 2019 CLNs, it is necessary to assess the value of the bond component and the embedded option component.

Valuation of Bonds

The value of the bond is a function of the interest rate on the bond and the value of the principal returned.

Each \$1 2019 CLN carries a nil coupon and repayment of \$1 of principal when it is repaid.

A required rate of return higher than the coupon will result in a bond value lower than the principal and vice versa.

In our view, the required rate of return on a “plain vanilla” secured bond offered by SeaDragon at this point in time would be in the range of 15.0% to 18.0% per annum.

Valuation of Options

The Binomial option-valuation model (**Binomial Model**) and the Black-Scholes option-valuation formula (**Black-Scholes Formula**) are commonly used in commercial practice to value options. The Binomial Model is more appropriate for the valuation of American options (which can be exercised at any time during their life, as opposed to European options which can only be exercised on one particular day) and options over shares which are expected to pay dividends during the exercise period, although variants of the Black-Scholes Formula exist to handle the valuation of such options.

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

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

The value derived represents the value of options over existing shares. The 2019 CLNs are in effect warrants and hence SeaDragon will issue new shares when the 2019 CLNs are converted. Accordingly, an adjustment must be made to the value derived from the Black-Scholes Formula to take into account the dilutionary effect of the conversion of the 2019 CLNs.

Furthermore, the value derived from the Black-Scholes Formula represents the value of options which are freely tradable. Given that Pescado may not transfer the 2019 CLNs without the prior written consent of SeaDragon, we have further adjusted the value derived from the Black-Scholes Formula to allow for the lack of marketability of the option component of the 2019 CLNs.

5.2 Valuation Assessment of Bond Component

Valuation Parameters

The key variables applied in our assessment of the value of the bond component of the 2019 CLNs are:

- valuation date – 17 May 2019, being the expected date that the 2019 Pescado Loan will be approved
- coupon – nil
- repayment date – 31 March 2021, being the Maturity Date
- principal repayment - \$1
- required yield – 15.0% to 18.0% per annum.

Conclusion

Based on the above, we assess the fair value of the bond component of the 2019 CLNs to be in the range of \$0.71 to \$0.75 per \$1 of principal.

5.3 Valuation Assessment of Option Component

Valuation Parameters

Each \$1 of 2019 CLN can be converted into 500 ordinary shares at the Conversion Price of \$0.002.

The key variables applied in our assessment of the value of the embedded option component of the 2019 CLNs are:

- valuation date – 17 May 2019, being the expected date that the 2019 Pescado Loan will be approved
- exercise price - \$0.002 per share, being the Conversion Price
- the risk free rate – 1.5%, based on the current yield on New Zealand Government 15 May 2021 bonds
- the current market value of SeaDragon shares - \$0.0026, being the VWAP between 25 March 2019 (when the 2019 Pescado Loan was announced) and 12 April 2019
- volatility – 50% to 60%, based on the observed volatility levels of movements in SeaDragon's share price and for comparable companies
- the time to expiry – 31 March 2021, being the Maturity Date
- expected distributions – nil, based on the Company's recent dividend history.

Conclusion

Based on the above, we assess the fair value of each embedded option in the 2019 CLNs to be in the range of \$0.0005 to \$0.0006.

There are 500 embedded options in each \$1 2019 CLN, equating to a value of \$0.25 to \$0.30 per \$1 2019 CLN.

5.4 Valuation Conclusion

Based on the above, we assess the fair value of each \$1 2019 CLN to be in the range of \$0.96 to \$1.05. This equates to \$3.8 million to \$4.2 million if the maximum amount of \$4.0 million is drawn down under the 2019 Pescado Loan.

Valuation of 2019 CLNs		
Security Component	Value of 2019 CLNs	
	Low (\$)	High (\$)
Bond	0.71	0.75
Embedded option	0.25	0.30
Value per \$1 2019 CLN	<u>0.96</u>	<u>1.05</u>
Value of \$4.0 million of 2019 Pescado Loan (\$000)	<u>3,840</u>	<u>4,200</u>

6. Sources of Information, Reliance on Information, Disclaimer and Indemnity

6.1 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 2019 Pescado Loan Agreement
- the Existing Loans Agreements
- the SeaDragon annual reports for the years ended 31 March, 2016 to 2018
- the SeaDragon 2019 interim report for the 6 months ended 30 September 2018
- data in respect of SeaDragon from NZX Company Research and S&P Capital IQ.

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

The Independent Directors have confirmed that we have been provided for the purpose of this Independent Adviser's Report and Appraisal Report with all information relevant to the 2019 Pescado Loan 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 and Appraisal Report.

In our opinion, the information to be provided by SeaDragon to the Company's shareholders is sufficient to enable the Independent Directors and the Non-Pescado Shareholders and the Other Shareholders to understand all the relevant factors and to make an informed decision in respect of the 2019 Pescado Loan (including the Interest Waiver) and the Pescado Allotment.

6.2 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.

6.3 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.

6.4 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.

7. Qualifications and Expertise, Independence, Declarations and Consents

7.1 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.

7.2 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 2019 Pescado Loan.

Simmons Corporate Finance has not had any part in the formulation of the 2019 Pescado Loan 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 Resolutions. We will receive no other benefit from the preparation of this report.

7.3 Declarations

An advance draft of this report was provided to the Independent 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.

7.4 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-Pescado Shareholders and the Other 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
15 April 2019