



SEADRAGON LIMITED

INDEPENDENT ADVISER'S REPORT & INDEPENDENT APPRAISAL REPORT

In respect of:

- The issue of Convertible Loan Notes to Pescado and Bioscience, and amendments to the terms of the Convertible Loan Notes issued to Comvita;
- The amendments to the terms of the Comvita Option; and
- The potential allotment of shares to Pescado, Bioscience and Comvita as a result of the conversion of the Convertible Loan Notes and/or the exercise of the Comvita Option.

CAMPBELL MACPHERSON LTD
CORPORATE ADVISORS

19 June 2018

STATEMENT OF INDEPENDENCE

Campbell MacPherson 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 the report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

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

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GLOSSARY

2015 Options	SeaDragon share options on issue as a result of a 3 for 5 rights offer undertaken in 2015.
2018 Annual Meeting	SeaDragon's annual meeting of shareholders to be held on 8 August 2018.
2018 Rights Offer	SeaDragon has agreed that, subject to approval of the Resolutions, the Company will make a 1 for 1 pro-rata renounceable rights offer to all current shareholders at a price per share equal to the conversion price of the Loans.
Bioscience	Bioscience means, jointly, OFM and such other fund or funds managed by Bioscience Managers or associated with Bioscience Managers.
Bioscience Loan	The proposed \$3.0 million convertible loan note facility to be provided by Bioscience.
Bioscience Managers	BioScience Managers Pty Limited.
Bridge Loan	\$1.0 million short-term bridge funding arrangement provided to SeaDragon in May 2018 by OFM and Pescado.
Campbell MacPherson	Campbell MacPherson Limited.
Convertible Loan Notes	The convertible loan notes to be issued to (or held by) Pescado, Bioscience and Comvita.
Comvita	Comvita Limited.
Comvita Amendments	The proposed amendments to the Comvita Loan and the Comvita Option as part of the Proposed Transactions.
Comvita Loan	The \$3.0 million convertible loan note facility provided by Comvita.
Comvita Option	An option held by Comvita currently giving it the right to subscribe for 375,000,000 ordinary shares in SeaDragon at a price of \$0.008 per share on or before 28 September 2018.
ESOP Options	The 104,000,000 SeaDragon options held by selected directors and employees under the Company's Employee Share Option Scheme.
Loans	The Pescado Loan, Bioscience Loan and Comvita Loan.
Mandatory Exercise Milestones	The milestones which, if achieved by SeaDragon, would enable the Company to require Comvita to exercise the Comvita Option.
Mandatory Exercise Right	SeaDragon may require Comvita to exercise the Comvita Option if certain milestones are achieved by SeaDragon.
Masthead	Masthead Limited.
Non Associated Directors	SeaDragon Directors who are not associated with Comvita, Pescado or Bioscience.
Non-Associated Shareholders	SeaDragon shareholders other than Comvita, Pescado and OFM.
Notice of Meeting	SeaDragon's notice of meeting for the 2018 Annual Meeting.
NZSX	New Zealand Stock Exchange.
NZX	NZX Limited.
OFM	One Funds Management Limited.
Pescado	Pescado Holdings Limited.
Pescado Loan	The proposed \$3.0 million convertible loan note facility to be provided by Pescado.
Proposed Transactions	The Pescado Loan, Bioscience Loan, Security Arrangements and the Comvita Amendments are together the Proposed Transactions.

Resolutions	SeaDragon's shareholder resolutions in relation to the Proposed Transactions.
SDMO Trustee	SDMO Trustee Limited.
SeaDragon, the Company	SeaDragon Limited.
Security Arrangements	The Pescado Loan, the Bioscience Loan and the Comvita Loan are to be secured by a general security interest over all of SeaDragon's and its subsidiaries assets and undertaking.
Term Sheet	The Term Sheet entered into by SeaDragon in relation to the Proposed Transactions.

1. EXECUTIVE SUMMARY

This Executive Summary has been provided with a view to highlighting our key findings. However given the complexity of the transactions contemplated in this report we urge shareholders to read our report in full. As noted in Section 3.1 our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analysis together could create a misleading view of the rationale underlying this opinion.

1.1 Introduction

SeaDragon Limited (**SeaDragon**; the **Company**) is a public listed company which specialises in manufacturing high quality Omega 3 oils. SeaDragon is listed on the main board of the New Zealand Stock Exchange (**NZSX**) and has a market capitalisation of circa \$18 million as at 13 June, 2018 (\$0.004 per share). A profile of SeaDragon is provided in Section 5.

SeaDragon is currently cash constrained and requires an immediate injection of capital to fund operating losses and execute its business plan. In the event that funding is not secured it is highly likely that the Directors will have no option but to place the Company into receivership or liquidation.

The Company has therefore entered into a series of transactions with key shareholders (collectively the **Proposed Transactions**) to provide up to \$6 million of additional funding. The Company is holding its annual meeting of shareholders on 8 August 2018 (the **2018 Annual Meeting**), where shareholders will vote on a number of resolutions contained in the notice of meeting (**Notice of Meeting**). These resolutions include resolutions 5, 6, 7, 8 and 9 (the **Resolutions**) which collectively require shareholder approval in order for the Proposed Transactions to proceed.

The Proposed Transactions are relatively complex and inter-related and trigger obligations for the Company under various provisions of the Takeovers Code and NZX Listing Rules. These obligations include the requirement for the preparation of an Independent Adviser's Report on the "merits" of the Proposed Transactions in accordance with the Takeovers Code and an Independent Appraisal Report on the "fairness" of the Proposed Transactions in accordance with the NZX Listing Rules (collectively the **Report**).

Campbell MacPherson Limited (**Campbell MacPherson**) has been engaged by SeaDragon to prepare this Report. Further information on the specific Takeovers Code and NZX Listing Rule requirements is provided in Section 2.

1.2 Overview of the Proposed Transactions

A brief outline of the Proposed Transactions is set out below. Further detailed information is provided in Section 2.

On 14 June 2018 SeaDragon announced that it had entered into a Term Sheet (the **Term Sheet**) with its major shareholders Pescado Holdings Limited (**Pescado**), Bioscience¹ and Comvita Limited (**Comvita**) under which:

- Pescado and BioScience have agreed to provide convertible loan note facilities (the **Pescado Loan** and the **Bioscience Loan**) to SeaDragon of up to \$3.0 million each (i.e. total funding of up to \$6.0 million).
- The terms of the existing \$3.0 million convertible loan note facility provided by Comvita (the **Comvita Loan**) will be amended to reflect the terms of the Pescado Loan and

¹ **Bioscience** means, jointly, One Funds Management Limited and such other fund or funds managed by Bioscience Managers Pty Limited or associated with Bioscience Managers Pty Limited.

Bioscience Loan. Key terms to be amended as part of the Proposed Transactions include the maturity date, conversion price, repayment terms, security interests and conversion terms.

- The terms of an option held by Comvita giving it the right to subscribe for 375,000,000 ordinary shares in SeaDragon at an exercise price of \$0.008 per share (for an aggregate exercise price of \$3 million) on or before 28 September 2018 (the **Comvita Option**) will be amended, including changing the expiry date and exercise price per share of the Comvita Option to match the maturity date and conversion price per share of the Pescado Loan and the Bioscience Loan.

The Pescado Loan, Bioscience Loan and Comvita Loan are collectively referred to as the **Loans**. The Loans have an interest rate of 12.00% p.a. reducing to 7.95% p.a. following satisfaction of various conditions including shareholder approval of the Proposed Transactions. Unless previously repaid or converted the Loans will then mature on 31 March 2020. On maturity, unless SeaDragon is in default or insolvent, the Loans will convert on a mandatory basis to ordinary shares at a conversion price of \$0.0033 per share.

In the event the Resolutions are not approved by 15 August 2018 then the Company will be unable to draw down on the undrawn balance of the Pescado Loan and the Bioscience Loan and will be required to repay any amounts drawn down under those Loans. Failure to obtain shareholder approval would also constitute an event of default under the Loan agreement and may result in Comvita also demanding repayment of its Loan in full including any accrued and unpaid interest. We understand that SeaDragon does not currently have any means available to it to repay the Loans and that the directors are highly likely to place the Company into receivership or liquidation if the Resolutions are not passed.

SeaDragon has agreed that, subject to shareholder approval of the Proposed Transactions, the Company will also make a 1 for 1 pro-rata renounceable rights offer to all current shareholders at a price per share equal to \$0.0033 (the **2018 Rights Offer**).

1.3 Evaluation of the Merits and Fairness of the Proposed Transaction

Having given due consideration to all of the relevant factors, it is our opinion that the consideration and the terms and conditions of the Proposed Transactions are Not Fair to the Non-Associated Shareholders. However, we are of the view that, taking into account the wider benefits and risks relating the Proposed Transactions, the positive aspects of the Proposed Transactions outweigh the negative aspects.

The grounds for our opinion are provided in Section 3 and 4. A summary of our findings is provided below.

Positive Aspects of the Proposed Transactions

- The Proposed Transactions will collectively provide essential funding for the Company. Based on the Company's current financial projections, the Proposed Transactions will provide sufficient funding through to December 2019.
- In the event that the Proposed Transactions are not approved, we understand that it is highly likely that the Company will be unable to repay its debts as they fall due and that the directors will have no option but to place the Company into receivership or liquidation.
- The Loans have a number of attributes which are favourable to SeaDragon and the Non-Associated Shareholders:
 - We believe that the interest rate structure is favourable to SeaDragon.
 - The funds can be drawn down progressively as required in order to minimise the principal balance outstanding and minimise interest costs. In particular, if the 2018

Rights Offer is strongly subscribed, there is potential for funds to be applied to reduce the planned draw-down on the Loans, reducing the forecast debt level of the Company and its future interest payments on the Loans.

- The ability of SeaDragon to repay the Loans prior to the maturity date has advantages to the Non-Associated Shareholders.
- The proposed amendments to the terms of the Comvita Loan remove the potential short-term obligation of SeaDragon to repay the Comvita Loan (in cash). The Comvita Loan is currently due for repayment on 28 September 2018 unless converted to equity prior to that date at the option of Comvita, which we believe is unlikely.
- The mandatory conversion terms of the Loans means that there is no requirement for SeaDragon to repay the Loans in cash on the maturity date. Any positive cashflow generated prior to the maturity date can therefore be made available for other purposes such as business growth or distributions to shareholders.
- The mandatory conversion terms of the Loans and the Mandatory Conversion Right relating to the Comvita Option mean that the holders of the Loans and/or the Comvita Option may be required to convert their respective securities into SeaDragon shares at a price that exceeds the (then prevailing) traded share price. This would result in a transfer of value from Pescado, Bioscience and Comvita to the Non-Associated Shareholders.
- Exercise of the Comvita Option would provide SeaDragon with \$3.0 million of additional cash funding.
- Extending the term of the Comvita Option will provide the Company with additional time to achieve the Mandatory Exercise Milestones and increases the likelihood that SeaDragon will be able to utilise its Mandatory Exercise Right for early conversion of the Comvita Loan to shares at a date that is favourable to SeaDragon.
- The removal of some of the previous Mandatory Exercise Milestones will also increase the likelihood that SeaDragon will achieve the Mandatory Exercise Milestones and increases the likelihood that SeaDragon will be able to utilise its Mandatory Exercise Right for early conversion of the Comvita Loan to shares at a date that is favourable to SeaDragon.
- The maximum control position that Pescado, Bioscience or Comvita could respectfully reach as a result of the Proposed Transactions is 32.54%, 34.27% and 39.16% of the voting securities on issue. However, these maximum positions are mutually exclusive and, in our view, highly unlikely. A more realistic scenario (see our Scenario E in Section 3.6) would result in Pescado, Bioscience and Comvita respectively holding 21.65%, 20.18% and 27.35% of the voting securities on issue. It is therefore unlikely, in our view, that Pescado, Bioscience or Comvita would be able to pass or block an ordinary resolution in its own right as a result of the Proposed Transactions.
- The Proposed Transactions are not expected to result in any increase in the number of Directors appointed by Pescado, BioScience or Comvita to the Board of SeaDragon, nor is it expected to result in any increase in Comvita's, Pescado's or Bioscience's ability to control the SeaDragon Board.
- None of Pescado, Bioscience or Comvita are related parties or associates of each other. Each major shareholder therefore provides a degree of countervailing power over the other.
- The 2018 Rights Offer will provide the Non-Associated Shareholders with the opportunity to acquire shares in the Company and participate on a pro rata basis at the same price as the conversion price of the Loans (i.e. \$0.0033 per share).
- The Non-Associated Directors unanimously support the Proposed Transactions.

Negative Aspects of the Proposed Transactions

- Our assessed value per Convertible Loan Note exceeds the consideration offered by Pescado, Bioscience and Comvita for each Note. Campbell MacPherson has assessed the value of the Convertible Loan Notes to be in the range of \$1.03 to \$1.23 per Note. Each Note is being issued for a consideration of \$1.00 per Note. In our view this is the key criteria in assessing that the Proposed Transactions are “not fair” to the Non-Associated shareholders.
- All else being equal, the longer time period an option has until expiry, and the lower the exercise price, the greater its value. The extension of the Comvita Option expiry date and the reduction in the exercise price from \$0.008 to \$0.0033 therefore represents a transfer of value from the Non-Associated Shareholders to Comvita.
- The conversion price for the Loans and the amended exercise price for the Comvita Option are fixed at \$0.0033 per share, which is below SeaDragon’s current traded share price. A price of \$0.0033 per share represents a 17.5% discount to SeaDragon’s closing share price as at 13 June 2018.
- The conversion terms of the Loans and the Comvita Option mean that the holders of the Loans and/or the Comvita Option may be able to convert their respective securities into SeaDragon shares at a price that is lower than the (then prevailing) traded share price.
- The potential allotment of shares to Pescado, Bioscience and Comvita as a result of the conversion of the Loans and/or the exercise of the Comvita Option would be dilutive to the Non-Associated Shareholders. The maximum dilution that the Non-Associated Shareholders could suffer would see their collective ownership decrease from 55.65% to 28.27% of the shares on issue.
- On the basis that Comvita already has shareholder approval such that it can increase its shareholding in SeaDragon to above 25% of the voting securities on issue, the Proposed Transactions are unlikely to result in Comvita being able to materially increase its voting control of the Company. However, the Proposed Transactions do, in our view, increase the likelihood that Comvita will increase its shareholding in SeaDragon above the 25% threshold.
- Bioscience does not currently hold shareholder approvals that would enable it to increase its respective shareholding in SeaDragon to above 25% of the voting securities on issue. The Proposed Transactions therefore have the potential to materially increase the voting control of the Company by Bioscience.
- Pescado does not currently hold shareholder approvals that would enable it to increase its respective shareholding in SeaDragon to above 20% of the voting securities on issue. The Proposed Transactions therefore have the potential to materially increase the voting control of the Company by Pescado.
- Given the potential for future allotments of SeaDragon shares at a price of \$0.0033 per share arising from the Proposed Transactions, they have the potential to increase the significant “over-hang” of SeaDragon securities in the market. This may negatively impact on the future SeaDragon share price, investor sentiment and trading liquidity.

2. INTRODUCTION

2.1 Background

SeaDragon is a public listed company which specialises in manufacturing high quality Omega 3 oils. SeaDragon is listed on the main board of the NZSX operated by NZX Limited (**NZX**). The Company has 4,513,618,718 ordinary shares on issue and a market capitalisation of circa \$18 million as at 13 June, 2018 (\$0.004 per share).

SeaDragon has 1,240,874,851 options on issue as a result of a rights offer undertaken in 2015 (the **2015 Options**), exercisable at a price of \$0.015 per share before 29 September 2018. A further option is held by Comvita Limited giving it the right to subscribe for 375,000,000 ordinary shares in SeaDragon at a price of \$0.008 per share on or before 28 September 2018 (the **Comvita Option**). 104,000,000 options are also held by selected directors and employees under the Company's Employee Share Option Scheme (**ESOP Options**).

SeaDragon's four largest shareholders are:

- Pescado with 855,433,823 shares, representing 18.95% of the voting securities on issue.
- One Funds Management Limited (**OFM**) with 735,264,802 shares, representing 16.29% of the voting securities on issue.
- SDMO Trustee Limited (**SDMO Trustee**) with 435,388,743 shares, representing 9.65% of the voting securities on issue.
- Comvita with 410,987,830 shares, representing 9.11% of the voting securities on issue.

Pescado is a subsidiary of Masthead Limited, a privately-owned New Zealand investment company associated with the Stewart family. OFM is trustee for the Asia Pacific Healthcare Fund II managed by BioScience Managers Pty Limited (**Bioscience Managers**) a leading life sciences investment firm based in Australia. SDMO Trustee is owned by interests associated with SeaDragon Director Stuart Macintosh. Comvita is a global natural health company listed on the NZX. Further information on Pescado, Bioscience Managers and Comvita is provided in Section 6.

Pescado, OFM, SDMO Trustee and Comvita each has one representative on the SeaDragon Board of Directors.

Comvita has previously provided a convertible loan note facility to SeaDragon of up to \$3 million (the **Comvita Loan**) which is secured by a general security interest over all of SeaDragon's assets and undertaking in favour of Comvita. As at the date of this Report the Comvita Loan is fully drawn to \$3 million, and none of the convertible loan notes held by Comvita have been converted to shares in SeaDragon.

SeaDragon is currently cash constrained and has recently entered into a series of transactions in order to raise additional capital to fund its business plan. On 15 May 2018 the Company announced a \$1.0 million short-term bridge funding arrangement (the **Bridge Loan**) with OFM and Pescado to enable SeaDragon to meet its immediate cash requirements. The Bridge Loan matures on 6 July 2018.

On 14 June 2018 SeaDragon announced it had entered into a Term Sheet (the **Term Sheet**) with Pescado, Bioscience² and Comvita under which Pescado and BioScience have agreed to provide convertible loan note facilities (the **Pescado Loan** and the **Bioscience Loan**) to SeaDragon of up to \$3 million each (i.e. total funding of up to \$6 million). It is intended that a

² **Bioscience** means, jointly, OFM and such other fund or funds managed by Bioscience Managers Pty Limited or associated with Bioscience Managers Pty Limited.

portion of the funds from the initial draw down of the Pescado Loan and Bioscience Loan will be used to repay the Bridge Loan.

The Pescado Loan, Bioscience Loan and Comvita Loan are collectively referred to in this Report as the **Loans**.

The Pescado Loan and the Bioscience Loan are to be secured by a general security interest over all of SeaDragon's and its subsidiaries assets and undertaking in favour of each of Pescado and Bioscience, ranking alongside Comvita's general security interest (collectively the **Security Arrangements**).

As part of the Term Sheet and Security Arrangements between Comvita, Pescado and Bioscience, SeaDragon has agreed (subject to shareholder approval) to:

- Amend and restate the Comvita Loan to incorporate the terms of the Pescado Loan and the Bioscience Loan and to amend the terms of the Comvita Loan to align with the terms of the Pescado Loan and the Bioscience Loan, including the maturity date, conversion price, repayment terms, additional security interests and conversion terms; and
- Amend the Comvita Option including changing its expiry date and exercise price to match the maturity date and conversion price of the Pescado Loan and the Bioscience Loan.

(together, the **Comvita Amendments**).

The Pescado Loan, Bioscience Loan, Security Arrangements and the Comvita Amendments are together the **Proposed Transactions**. In accordance with the Takeovers Code and NZX Listing Rules, shareholder approval is required at the 2018 SeaDragon Annual Meeting to approve the Proposed Transactions.

SeaDragon and the other parties to the Term Sheet have also agreed that, subject to shareholder approval of the Proposed Transactions, the Company will make a 1 for 1 pro-rata renounceable rights offer to all current shareholders at a price per share equal to the conversion price of the Loans (the **2018 Rights Offer**).

Campbell MacPherson has been engaged by SeaDragon to prepare an Independent Adviser's Report under Rule 18 of the Takeovers Code, and an Independent Appraisal Report for the purposes of NZX Listing Rules 7.5.1 and 9.2.1 in respect of the Proposed Transactions. This Report provides an evaluation of the merits and the fairness of the Proposed Transactions.

2.2 Terms and Conditions of the Proposed Transactions

The key commercial terms and conditions of the Proposed Transactions are summarised below. Further information on the terms of the Proposed Transactions is set out in Sections 3.3 and 3.4.

Convertible Loan Agreements – Key Terms and Conditions

Loan Facility

Subject to the Increased Cap Conditions being satisfied, Pescado and Bioscience have each agreed to advance the Company up to \$3.0 million (i.e. total new funding of up to \$6.0 million) by way of subscribing for up to 3.0 million convertible loan notes each, at an issue price of \$1.00 per note.

Prior to the Increased Cap Conditions being satisfied, the Pescado Loan and the Bioscience Loan will each have a maximum facility limit of \$875,000 (i.e. total new funding of \$1.75 million) and will be non-convertible.

As part of the Proposed Transactions, Comvita has agreed to amend some of the terms of its existing \$3.0 million convertible loan. However,

the facility limit of the Comvita Loan will not be amended as a result of the Proposed Transactions.

Increased Cap Conditions	<p>The Increased Cap Conditions associated with the Proposed Transactions include:</p> <ul style="list-style-type: none"> ➤ The terms of the Comvita Loan being amended to correspond to those of the Pescado Loan and the Bioscience Loan (and the Comvita Security Agreement being amended to reflect such terms); ➤ The terms of the Comvita Option being amended (as set out below); ➤ Pescado, Bioscience and Comvita entering into a shared security agreement; ➤ The existing security sharing agreement in relation to the bridging facility is terminated; ➤ Each of SeaDragon's subsidiaries guarantees the Company's obligations in relation to the Loans and grants security over all their assets and undertaking to each of Pescado, Bioscience and Comvita to secure the Loans; and ➤ Shareholder approval in relation to the Proposed Transactions is obtained.
Drawdown	<p>The Pescado Loan and the Bioscience Loan may be drawn down in multiple tranches, provided that:</p> <ul style="list-style-type: none"> ➤ Prior to obtaining shareholder approval, each tranche is not less than \$250,000. ➤ After obtaining shareholder approval, each tranche is not less than \$500,000. ➤ The Pescado Loan and the Bioscience Loan are drawn down on an equal basis. <p>The initial draw down must be an amount sufficient to repay the outstanding Bridge Loan in full (i.e. \$1.0 million). We have been advised that the initial drawdown will be for the full allowable amount of \$875,000 per Loan, for an aggregate initial drawdown of \$1,750,000.</p> <p>The Comvita Loan is already fully drawn (i.e. \$3.0 million).</p>
Interest	<p>Interest will initially accrue on the outstanding balance of the Pescado Loan and the Bioscience Loan at 12.0% per annum, reducing to 7.95% per annum from the date that the Increased Cap Conditions are satisfied. The interest rate on the Comvita Loan is not subject to the Increased Cap Conditions and will be 7.95% per annum. Interest will be paid in cash quarterly in arrears.</p> <p>Interest paid on the Loans may be subject to a tax gross up, depending on the respective tax status of SeaDragon, Pescado, Bioscience and Comvita (as discussed in Section 3.3). The conversion mechanism (discussed below) will not apply to any accrued interest.</p>
Repayment	<p>SeaDragon has the right to repay the Loans at any time prior to the maturity date, provided that a conversion notice has not already been received. SeaDragon must repay all Loans in full in the event of any repayment scenario. Any amounts repaid cannot be redrawn and any outstanding commitments will be cancelled at the time of repayment.</p>
Conversion Right	<p>Subject to obtaining shareholder approval, Pescado, Bioscience and Comvita will have the option to convert their outstanding Loan</p>

balances into ordinary shares in SeaDragon at a fixed conversion price of \$0.0033 per share.

The conversion right may be exercised at any time prior to the maturity date, provided that a repayment notice has not already been issued by the Company. The relevant loan balance must be converted in full.

Automatic Conversion	If, as at the maturity date, the Loans have not been repaid by SeaDragon, or converted to equity at the option of the relevant lender, then the Loans will automatically convert to equity based on a fixed conversion price of \$0.0033 per share, provided that SeaDragon is not in default with respect to the Loans, or insolvent.
Maturity Date	5:00 pm on 31 March 2020.
Security	The Loans will be secured by a first ranking general security agreement over all of SeaDragon's and its subsidiaries assets and undertakings.
Transferability	The Loans cannot be transferred without the written consent of SeaDragon, unless the Company is the subject of a takeover offer or scheme of arrangement.

Comvita Option – Amended Key Terms and Conditions

Size	<p>In September 2015, SeaDragon granted Comvita an option to subscribe for 375 million new ordinary SeaDragon shares.</p> <p>In accordance with the Proposed Transactions, the number of SeaDragon shares that Comvita is entitled to purchase by way of exercising the Comvita Option will be increased to 909,090,909, such that the total proceeds received by SeaDragon in the event that the Comvita Option is exercised remains at \$3.0 million.</p>
Exercise Price	<p>\$0.0033 per share (currently \$0.008 per share).</p> <p>The aggregate subscription price in the event that the Comvita Option is exercised will remain at \$3.0 million.</p>
Exercise Terms	The Comvita Option may only be exercised in full and can be exercised by Comvita at any time before expiry.
Expiry Date	5:00 pm on 31 March 2020 (currently 28 September 2018).
Mandatory Exercise Right	<p>SeaDragon may require Comvita to exercise the Comvita Option if certain milestones (Mandatory Exercise Milestones) are achieved by SeaDragon (the Mandatory Exercise Right). Those milestones include:</p> <ul style="list-style-type: none"> ➤ A positive operating cash flow target; ➤ SeaDragon honouring in good faith the terms of its supply agreement with Comvita; ➤ Confirmation of finished product quality and sustainability targets; and, ➤ Raw material supply milestones. <p>In accordance with the terms of the Proposed Transactions, SeaDragon's Mandatory Exercise Right has been amended such that the milestones no longer include the requirement for SeaDragon to commission a fractionation plant, or secure supply contracts in relation to Tuna and Anchovy raw materials.</p>

2.3 The 2018 Rights Offer

Whilst the 2018 Rights Offer does not form part of the Proposed Transactions requiring shareholder approval, it is none-the-less an important element of the wider capital-raising agreed between SeaDragon and the other parties to the Term Sheet.

Details of the 2018 Rights Offer have yet to be determined by SeaDragon. However, the key terms and conditions agreed to date are as follows:

- Conditional on satisfaction of the Increased Cap Conditions of the Loans. We note that in effect these conditions will be satisfied if shareholder approval is obtained for the Proposed Transactions.
- 1 for 1 pro rata renounceable rights offer to all current shareholders at a price per share equal to the conversion price of the Loans (i.e. \$0.0033 per share).
- No minimum acceptance condition.
- Timeframe for initiation within 30 days of the date that shareholder approval of the Proposed Transactions is obtained.
- Each of Pescado, Bioscience and Comvita has confirmed to SeaDragon that none of them will seek to increase their current respective shareholding percentage in SeaDragon through the 2018 Rights Offer.

2.4 Takeovers Code Requirements

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 becoming the holder or controller of 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 becoming the holder or controller of an increased percentage of the voting rights in the Code Company.

Unless the person complies with the exceptions to Rule 6.

One of the exceptions, set out in Rule 7(d) of the Code, enables a shareholder to increase its shareholding beyond 20% of the voting rights by an allotment of shares if the allotment is approved by an ordinary resolution of shareholders of the code company.

The Notice of Meeting in respect of the allotment of shares under Rule 7(d) must include, or be accompanied by, an Independent Adviser's Report that complies with Rule 18 of the Code. This Report must have regard to the interests of those persons who will vote to approve the Proposed Transactions.

An Independent Adviser's Report is required in respect of the Proposed Transactions because the allotment of SeaDragon shares to Pescado and/or Bioscience as a result of conversion of the Pescado Loan or the Bioscience Loan may result in Pescado and/or Bioscience increasing its respective control of the voting securities in SeaDragon above 20% as set out in Rule 6 of the Code.

The Comvita Amendments reduce the conversion price applicable to the Comvita Loan and the exercise price applicable to the Comvita Option, the Comvita Amendments may therefore result in Comvita increasing its control of the voting securities in SeaDragon. An Independent Adviser's Report is therefore also required in respect of the Comvita Amendments.

2.5 NZX Listing Rules

SeaDragon is listed on the NZX Main Board and is therefore an Issuer and is subject to the NZX Listing Rules.

Listing Rule 7.5.1

Under Listing Rule 7.5.1, no issue, acquisition or redemption of securities shall be made by an Issuer if:

- There is a significant likelihood that the issue, acquisition or redemption will result in any person or group of associated persons materially increasing their ability to exercise, or direct the exercise of (either then or at any future time) effective control of that Issuer; and;
- That person or group of associated persons is entitled before the issue, acquisition or redemption to exercise, or direct the exercise of, not less than 1% of the total votes attaching to securities of the Issuer,

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

Listing rule 7.5.1 requires that, amongst other things, the text of any resolution shall be set out in the Notice of Meeting which must be accompanied by an Independent Appraisal Report to be prepared in accordance with Listing Rule 1.7.2.

It is possible that future allotment of shares to Pescado, Bioscience or Comvita arising from the Proposed Transactions may result in Pescado, Bioscience or Comvita materially increasing its respective ability to exercise effective control of SeaDragon.

Listing Rule 9.2.1

Listing Rule 9.2.1 prohibits the Company from entering into a Material Transaction (as defined in Listing Rule 9.2.2), which includes:

- The issue of securities having a market value in excess of 10% of the Average Market Capitalisation of the Company;
- Borrowing money or incurring an obligation of an amount in excess of 10% of the Average Market Capitalisation of the Company;
- Giving any security for or of obligations which could expose the Company to liability in excess of 10% of the Average Market Capitalisation of the Company,

if a Related Party is a party to at least one of a related series of transactions of which the Material Transaction forms part.

The Proposed Transactions effectively constitute Material Transaction(s) with Related Parties. Each of Pescado, Bioscience and Comvita is a Related Party of SeaDragon because it holds a 'Relevant Interest' (as defined in Listing Rule 9.2.3) of more than 10% of equity securities in the Company carrying votes.

A Material Transaction includes a transaction whereby an Issuer borrows, lends, or receives, money, or incurs an obligation, of an amount in excess of 10% of the Average Market Capitalisation of the Issuer. The current market capitalisation of SeaDragon is approximately \$18 million (as at 13 June 2018). It is therefore likely that, at the date of entering into the Proposed Transactions, each such transaction may be for an amount, or result in the Issuer incurring an obligation for an amount, in excess of 10% of the Average Market Capitalisation.

A Material Transaction also includes the issue of securities having a market value in excess of 10% of the average market capitalisation of the Issuer. While the average market capitalisation of SeaDragon will not be known until the conversion date (if any) of the Pescado Loan or the Bioscience Loan, it is likely that the \$3 million conversion amount will exceed that 10% threshold. It is also possible that this 10% threshold will be exceeded at the time of shareholder approval.

The Comvita Amendments have the effect of reducing the conversion price applicable to the Comvita Loan and the exercise price applicable to the Comvita Option and accordingly would result in additional shares being issued to Comvita on the conversion of the Comvita Loan or exercise of the Comvita Option (as applicable), shareholder approval under Listing Rule 9.2.1 is also being sought in relation to the Comvita Amendments.

Under Listing Rule 9.2.1 an Issuer must not enter into a Material Transaction with a Related Party unless that Material Transaction is approved by an ordinary resolution of shareholders. Listing Rule 9.2.5 requires that, amongst other things, the text of any resolution shall be set out in the notice of relevant meeting, which must be accompanied by an Independent Appraisal Report prepared in accordance with Listing Rule 1.7.2.

We note that the Comvita Loan was initially approved by an ordinary resolution of shareholders at the SeaDragon 2016 Annual Meeting. The Comvita Option was initially approved by an ordinary resolution of shareholders at a special meeting of the shareholders of SeaDragon held on 17 December 2015, and the extension of the maturity date to 28 September 2018 was approved by an ordinary resolution of shareholders at the SeaDragon 2016 Annual Meeting.

2.6 Notice of Meeting

The Company is holding its annual meeting of shareholders on 8 August 2018 (the **2018 Annual Meeting**), where shareholders will vote on a number of resolutions contained in the notice of meeting (**Notice of Meeting**). These resolutions include Resolutions 5, 6, 7, 8 and 9 relating to the Proposed Transactions (the **Resolutions**). Comvita, Pescado and OFM will not be entitled to vote on the Resolutions.

Resolution 5 – Amendments to Comvita Loan

“That, the proposed amendments to the Comvita Loan are approved and consequently, for the purposes of Listing Rule 7.3.10(b)(ii), the Company may issue such number of ordinary shares to Comvita as may be required upon conversion of the amended Comvita Loan, being up to a maximum of 909,090,909 ordinary shares.”

Resolution 6 – Issue of ordinary shares on conversion of New Loans

“That, subject to Resolution 5 being passed, for the purposes of Listing Rule 7.3.10(b)(ii), the Company may issue such number of ordinary shares to each of Pescado and BioScience as may be required on the conversion of the New Loans, being up to a maximum of 909,090,909 ordinary shares to each of Pescado and BioScience in respect of conversion of the respective New Loans.”

Resolution 7 – Amendments to Comvita Option

“That, subject to Resolution 6 being passed, the proposed amendments to the Comvita Option are approved and consequently, for the purposes of Listing Rule 7.3.10(b)(ii), the Company may issue such number of ordinary shares to Comvita as may be required upon exercising the amended Comvita Option, being up to a maximum of 909,090,909 ordinary shares.”

Resolution 8 – Listing Rules and Takeovers Code

“That, subject to Resolution 7 being passed, for the purposes of Listing Rule 7.5 and Rule 7(d) of the Takeovers Code, the issue of the shares to each of Pescado, BioScience and Comvita, upon the conversion of the New Loans, the amended Comvita Loan and the exercise of the amended Comvita Option (as applicable) is approved.”

Resolution 9 – Listing Rules

“That, subject to Resolution 8 being passed, for the purposes of Listing Rule 9.2.1, SeaDragon’s entry into the transactions relating to the New Loans, the amendments to the Comvita Loan and the Comvita Option, the issue of shares on conversion of those facilities, the issue of shares upon exercise of the amended Comvita Option, and SeaDragon’s and its subsidiaries entry into the associated security arrangements over all of SeaDragon’s and its subsidiaries assets, each as a Material Transaction with a Related Party (as those terms are defined in Listing Rule 9.2.2), is approved.”

Each of the Resolutions set out above is conditional on all of the other Resolutions being approved. In the event that any of the Resolutions is not approved, then the Proposed Transactions will not have been approved.

2.7 Issue of the Report

The **Non-Associated Directors** of SeaDragon, being those Directors who are not associated with Comvita, Pescado and Bioscience, have engaged Campbell MacPherson to prepare an Independent Adviser’s Report on the merits of the Proposed Transaction in accordance with Rule 18 of the Code and an Independent Appraisal Report on the fairness of the Proposed Transaction in accordance with NZX Listing Rules 7.5.1, 9.2 and 1.7.2.

Campbell MacPherson was approved by the Takeovers Panel on 25 May 2018 to prepare the Independent Adviser’s Report. Campbell MacPherson was approved by the NZX on 30 May 2018 to prepare the Independent Appraisal Report.

Campbell MacPherson issues this Report to the Non-Associated Directors to assist SeaDragon shareholders other than Comvita, Pescado and Bioscience (the **Non-Associated Shareholders**) in forming their own opinion on whether to vote for or against the Resolutions. We note that each shareholder’s circumstances and objectives are unique. Accordingly, it is not possible to report on the merits or fairness of voting for or against the Resolutions in relation to each individual shareholder. This Report is therefore necessarily general in nature. This Report is not to be used for any other purpose without Campbell MacPherson’s prior written consent.

3. EVALUATION OF THE MERITS OF THE PROPOSED TRANSACTIONS

3.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the Proposed Transactions. 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 Takeover Panel’s guidance note on the role of Independent Advisers dated March 2018;
- Definitions designed to address similar issues within New Zealand regulations which are relevant to the Proposed Transactions;
- Overseas precedents; and
- The ordinary meaning of the term “merits”.

We are of the view that an assessment of the merits of the Proposed Transactions should focus on the following:

- The rationale for the Proposed Transactions.
- The terms and conditions of the Proposed Transactions.
- The impact of the Proposed Transactions on the ownership of SeaDragon by Comvita, Pescado and Bioscience.
- The impact of the Proposed Transactions on the control of SeaDragon by Comvita, Pescado and Bioscience.
- Alternatives to the Proposed Transactions.
- The likelihood of the Resolutions in respect of the Proposed Transactions being approved.
- The implications of the Resolutions in respect of the Proposed Transactions not being approved.

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

3.2 Rationale for the Proposed Transactions

In February and March 2018, SeaDragon advised the market that it would require additional cash to fund its working capital requirements to achieve its projected sales growth as the business continued to transition into the Omega-3 market, as well as to fund ongoing operating losses. The SeaDragon Board noted at that time that it was exploring options for funding these requirements and had strong support from the Company’s cornerstone shareholders.

The Company’s cash position has become critical in recent months as negotiations with cornerstone shareholders have continued. The \$1.0 million Bridge Loan provided by OFM and Pescado in May 2018 provided an interim buffer to allow the Company to continue operating while negotiations on substantive funding were completed.

The Bioscience Loan and the Pescado Loan, and the related elements of the Proposed Transactions have been entered into by SeaDragon in order to secure up to \$6.0 million of new capital. \$1.0 million of this funding will be used to repay the short-term debt facility by 6 July 2018.

Additional funding is expected to be progressively drawn down during FY19, and will be used to fund:

- Purchase of additional inventory;
- Capital expenditure to enhance plant capability and efficiency; and
- Other general working capital and operational expenditure requirements, including new staff to execute on growth objectives.

Funding from the Proposed Transactions is projected to provide sufficient capital for the Company through to December 2019. We note that the Company's financial projections do not currently extend beyond December 2019.

The proposed capital raising has been structured by way of two \$3.0 million convertible loan note facilities. The Non-Associated Directors advise that this structure was preferred by the Board for the following key reasons:

- Bioscience and Pescado's ability and willingness to support the Company's growth.
- The willingness of Comvita to share its first ranking security position with Bioscience and Pescado.
- The Pescado Loan and the BioScience Loan collectively provide confirmed funding of up to \$6.0 million (i.e. the quantum is not contingent on any other equity capital raising).
- The Pescado Loan and the BioScience Loan can be repaid by SeaDragon (subject to available funding) with the potential to avoid dilution of existing shareholders.
- The mandatory conversion to equity at maturity of the facilities.

The Non-Associated Directors advise that the rationale for the Comvita Amendments was based on the following key factors:

- The \$3.0 million Comvita Loan is currently due for repayment on 28 September 2018. Based on current projections the Company was not going to be in a position to repay this Loan from existing cashflow nor were other alternative sources of refinancing available.
- Comvita was unlikely to be willing to convert the existing Comvita Loan to shares given the conversion price of \$0.008 is significantly higher than the current share price of \$0.004 per share (as at 13 June 2018).
- The Comvita Loan currently holds a first ranking secured position over the assets and undertakings of SeaDragon. Comvita has agreed to share this first ranking position pro-rata with the Bioscience Loan and the Pescado Loan. This change represents increased risk to Comvita on the Comvita Loan.
- Subject to acceptance of the Comvita Amendments, Comvita was prepared to effectively roll-over the Comvita Loan for a further 18-month period, share its first ranking security position with Pescado and Bioscience and accept mandatory conversion of its loan into shares on maturity.

3.3 Analysis of the Key Terms and Conditions of the Loans

SeaDragon advises that the terms of the Loans were negotiated on an arm's length basis between representatives of Comvita, Pescado and Bioscience and the Non-Associated Directors of SeaDragon.

Loan Amount

The proposed loan amount of up to \$6.0 million was determined based on a range of factors, including:

- The Company's current cash flow model and the projected requirement for additional capital while the Company continued to implement its Omega-3 strategy.

- The Board's assessment of an appropriate "funding buffer" to allow for any further delays or additional costs in relation to the execution of the Company's Omega-3 strategy.
- The willingness of Pescado and Bioscience to invest further capital into SeaDragon.

As set out above, funds from the initial draw down of the Pescado Loan and the Bioscience Loan will be used to repay the Company's short-term bridging loan (i.e. \$1.0 million). SeaDragon anticipates that a further \$3.5 million will be drawn down during FY19 to fund working capital and operational expenses and ongoing operating losses, and a further \$1.0 million may be drawn down during FY20 (i.e. total funding of \$5.5 million). However, the quantum and timing of any further drawdowns will ultimately depend on SeaDragon's ability to:

- Successfully execute its Omega-3 strategy and reach a break-even position.
- Secure alternative funding (e.g. equity capital via the 2018 Rights Offer).

In line with the Company's current projections, the SeaDragon Board does not expect the full \$6.0 million to be drawn down. However, a \$6.0 million facility does provide the Company with a high degree of certainty in the event that additional funding is required in the short to medium-term. We are advised by the Non-Associated Directors, that funding secured from the 2018 Rights Offer may reduce the requirement for the Company to draw down the Pescado Loan and the Bioscience Loan.

As part of the Proposed Transactions, Comvita has agreed to amend some of the terms relating to its existing \$3.0 million convertible loan. However, the facility limit of the Comvita Loan will not be amended as a result of the Proposed Transactions.

On the basis that the Comvita Loan is currently fully drawn, and the facility limit will not be increased, the Proposed Transactions will not result in any additional capital being advanced to the Company by Comvita. However, as set out below, the proposed amendments to the terms of the Comvita Loan remove the potential short-term obligation of SeaDragon to repay the Comvita Loan in cash.

Term / Maturity Date

The proposed maturity date for the Loans is 31 March 2020, which represents a 1.7 year term from the proposed draw down date for the Pescado Loan and the Bioscience Loan.

The Comvita Loan is currently due for repayment on 28 September 2018 unless converted to equity prior to that date at the option of Comvita, which we believe is unlikely. The proposed amendments to the terms of the Comvita Loan remove the Company's short-term obligation to repay the Comvita Loan, which would place additional financial pressure on the Company.

As set out below, the Loans will automatically convert to equity if, as at the maturity date, the Loans have not been redeemed by SeaDragon, or converted to equity at the option of the relevant lender. There is therefore no requirement for SeaDragon to repay or re-finance the Loans on the maturity date.

Interest Rate

Interest will initially accrue on the outstanding balance of the Pescado Loan and the Bioscience Loan at 12.0% per annum, reducing to 7.95% per annum from the date that the Increased Cap Conditions are satisfied. In the event that the Proposed Transactions are not approved by the Non-Associated Shareholders, then interest will continue to be charged on the outstanding balance of the Pescado Loan and the Bioscience Loan at a rate of 12.0% per annum. The

interest rate on the Comvita Loan is not subject to the Increased Cap Conditions and will be 7.95% per annum.

For the purposes of this Report, we have focused on the 7.95% interest rate that will apply to all Loans following the satisfaction of the Increased Cap Conditions.

We note that interest paid on the Loans may be subject to a tax gross up, depending on the respective current and future tax status of SeaDragon, Pescado, Bioscience and Comvita. Whilst the mechanics of this are relatively complex, the expected outcome is that, following satisfaction of the Increased Cap Conditions, the interest paid by SeaDragon to New Zealand resident lenders Pescado and Comvita will be equivalent to an effective rate in the range of 7.95% to 11.04%, and the interest paid by SeaDragon to non-resident lender Bioscience will be equivalent to an effective rate in the range of 8.11% to 8.83%.

Based on our knowledge of current interest rates for secured loans in the commercial banking market, and also taking into consideration the above factors, as well as Company's current financial position and stage of development, we believe that the interest rate structure is favourable to SeaDragon.

Early Redemption / Repayment

SeaDragon has the right to repay the Loans at any time prior to the maturity date, provided that a conversion notice has not already been received. SeaDragon must repay all Loans in full in the event of any repayment scenario. Furthermore, any amounts repaid cannot be redrawn and any outstanding facility commitments will be cancelled at the time of any repayment.

SeaDragon's ability to repay the Loans prior to their maturity date (or conversion to equity) has a number of advantages for the Non-Associated Shareholders, including;

- The ability to refinance the Loans on more favourable terms (e.g. a lower interest rate).
- The ability to repay the Loans (e.g. using funds raised via the 2018 Rights Offer), resulting in a lower interest expense compared to allowing the Loans to run until maturity.
- The ability to reduce a significant "overhang" of options to acquire SeaDragon shares at a fixed price (via conversion of the Loans), which is potentially dilutive to the Non-Associated Shareholders and may have a negative effect on SeaDragon's share price, investor sentiment and liquidity.

As discussed in Section 2.3, subject to shareholder approval of the Resolutions, SeaDragon has agreed to undertake a 1 for 1 renounceable rights issue at \$0.0033 per ordinary share, which would provide the Company with up to \$14.9 million of additional capital if fully subscribed. The SeaDragon Board has advised us that it will consider its financial position and capital requirements following the completion of the 2018 Rights Offer, at which point it will be in a better position to assess the potential repayment of the Loans.

The ability of SeaDragon to generate the necessary positive cash flow and / or secure the funding required to repay the Loans early remains uncertain at this point. Particularly given the Loans must be repaid in full under any repayment scenario (i.e. repayment of up to \$9.0 million of debt if the Loans are fully drawn).

Conversion to Equity

Subject to obtaining shareholder approval, Pescado, Bioscience and Comvita will have the option to convert their outstanding Loan balances into ordinary shares in SeaDragon at a fixed price of \$0.0033 per share. This conversion right may be exercised at any time prior to the maturity date, provided that the relevant loan balance must be converted in full. Any undrawn commitments under the relevant loan facility will remain available to be drawn down by

SeaDragon following a conversion event. Any subsequent amounts drawn down by SeaDragon will remain eligible for conversion on the same terms.

If, as at the maturity date, the Loans have not been redeemed by SeaDragon, or converted to equity at the option of the relevant lender, then the drawn down balance of the Loans will automatically convert to equity based on a fixed conversion price of \$0.0033 per share, provided that SeaDragon is not in default with respect to the Loans, or insolvent.

Subject to SeaDragon not being in default, there is no requirement for SeaDragon to repay or re-finance the Loans on the maturity date. Any positive cashflow generated prior to the maturity date can therefore be made available for other purposes such as business growth or distributions to shareholders. In our view the requirement for mandatory conversion to shares on maturity is therefore an attractive feature for SeaDragon shareholders.

The proposed conversion price for the Loans is fixed at \$0.0033 per share, which represents a 17.5% discount to SeaDragon's closing share price as at 13 June 2018 (i.e. \$0.004 per share).

It is not uncommon for NZX-listed companies to issue convertible securities which convert to equity based on a discounted share price. In our opinion, the conversion price can be a function of a range of factors, including:

- The perceived risks associated with the company.
- The urgency of the transaction / capital raising.
- The appetite of potential investors to provide further capital.
- Other key terms associated with the convertible security (e.g. interest rate and conversion terms).
- Whether the convertible security forms part of a wider transaction.
- The level of financial headroom the company has available.

The Proposed Transactions will allow Pescado, Bioscience and Comvita to acquire additional ordinary shares in SeaDragon at a fixed price of \$0.0033 per share by way of optional or automatic conversion of the Loans. On the basis that the conversion price may be less than the prevailing SeaDragon share price at the time of conversion, the Proposed Transactions may result in a transfer of value from the Non-Associated Shareholders to Pescado, Bioscience and / or Comvita. However, as a result of the automatic conversion mechanism, whereby the Loans will automatically convert to equity at a fixed price of \$0.0033 on the maturity date, the Loans may ultimately be converted to equity at a price which is higher than the prevailing SeaDragon share price. This would result in a transfer of value from Pescado, Bioscience and Comvita to the Non-Associated Shareholders of SeaDragon.

The extent of any transfer of value as a result of the Loans being converted to equity will ultimately depend on a range of factors including:

- SeaDragon's ability to repay or refinance of the Loans prior to conversion.
- The outstanding balance of the Loans at the time of any conversion event.
- SeaDragon's prevailing share price as at the date of any conversion event.

In accordance with the existing terms of the Comvita Loan, the conversion price for the Comvita Loan is currently fixed at \$0.008 per share, which represented a 35.7% discount to SeaDragon's closing share price as at 27 May 2016 (i.e. the date on which the initial convertible loan with Comvita was announced). As set out above, the terms of the Comvita Loan (including the conversion price) will be amended to match those of the Pescado Loan and the Bioscience Loan in the event that the Proposed Transactions are approved.

A comparison between the proposed conversion price for the Loans, and the existing conversion price for the Comvita Loan (which was approved by SeaDragon shareholders in August 2016) is set out below.

	Proposed Transactions	Existing Comvita Loan
Conversion Price	\$0.0033	\$0.008
Closing Share Price	\$0.004 ¹	\$0.012 ²
Discount to Closing Share Price	17.5% ¹	35.7% ²

1. As at 13 June 2018.

2. As at 27 May 2016.

As illustrated above, the conversion discount implied by the Proposed Transactions is significantly lower than the conversion discount implied by the original terms of the Comvita Loan at the time of announcement. The original conversion terms of the Comvita Loan were approved by SeaDragon shareholders at the SeaDragon 2016 Annual Meeting.

By reducing the conversion price for the Comvita Loan from \$0.008 per share to \$0.0033 per share, Comvita will receive a greater number of SeaDragon shares in the event that the Comvita Loan is ultimately converted to equity. A reduction in the conversion price may therefore result in additional ownership dilution for the Non-Associated Shareholders. The Impact of the Proposed Transactions on the ownership and control of SeaDragon is discussed further in Sections 3.6 and 3.7.

In accordance with the existing terms of the Comvita Loan, SeaDragon is required to repay the Comvita Loan in full on the maturity date of 28 September 2018 (assuming Comvita does not exercise its option to convert the Comvita Loan to equity). There is currently no requirement for the Comvita Loan to automatically or mandatorily be converted to equity upon its maturity. Therefore, as a result of the Proposed Transactions (and the proposed amendments to the terms of the Comvita Loan), Comvita will take on additional equity risk, including the risk that the Comvita Loan may be automatically converted to equity at a conversion price which is higher than the prevailing SeaDragon share price.

Indicative Value of the Convertible Loan Notes

In accordance with the terms of the Proposed Transactions, SeaDragon may borrow up to \$6.0 million from Pescado and Bioscience by issuing convertible loan notes at a price of \$1.00 per note. This is in addition to the 3.0 million convertible loan notes which are currently held by Comvita, which were also issued at \$1.00 per note. The Pescado, Bioscience and Comvita convertible loan notes are collectively referred to as the **Convertible Loan Notes**.

By virtue of the proposed conversion price for each Convertible Loan Note being fixed at \$0.0033 per share, each Convertible Loan Note has an embedded equity derivative (i.e. the ability / requirement to buy SeaDragon shares at \$0.0033 per share on a future date, regardless of the prevailing share price). It is therefore necessary to consider both the debt component and the embedded derivative when assessing the total value of each Convertible Loan Note.

The indicative value of the Convertible Loan Notes has been assessed based on a number of inputs and assumptions, as summarised below. Our indicative valuation has been undertaken on the basis that the Proposed Transactions are approved by the Non-Associated Shareholders.

Convertible Loan Notes Valuation – Inputs and Assumptions (Debt Component)

Input	Assumption
Valuation date / issue date	6 July 2018.
Maturity Date	31 March 2020 - We have assumed that the Loans will not be repaid or converted to equity prior to their maturity date.
Coupon rate	12.0% to 16.67% ¹ per annum up until 8 August 2018, and 7.95% to 11.04% ¹ per annum thereafter.
Principal payment on maturity	\$1.00 per Convertible Loan Note.
Required Yield	12.0% to 15.0% (assessed by Campbell MacPherson).

1. Including the maximum potential tax gross up.

Convertible Loan Notes Valuation – Inputs and Assumptions (Derivative Component)

Input	Assumption
Valuation date / issue date	8 August 2018 – The assumed approval date of the Proposed Transactions.
Expiry date	31 March 2020 - We have assumed that the Loans will not be repaid or converted to equity prior to their maturity date.
Underlying share price	\$0.004 – SeaDragon’s closing share price as at 13 June 2018.
Exercise price	\$0.0033 – The effective exercise price of the embedded derivative.
Risk-free rate	1.9% - Estimated based on current yields on short-term New Zealand Government bonds.
Dividend yield	0% - Campbell MacPherson has assumed that SeaDragon will not pay any dividends over the term of the Convertible Loan Notes.
Expected volatility	50% to 80% - Estimated based on SeaDragon’s historical volatility.
Conversion factor	303 Shares – The number of SeaDragon shares issued per Convertible Loan Note in the event that the Loans are converted to equity.

Unlike a standard call option, which is written over existing shares, SeaDragon will issue new shares to Pescado, Bioscience and Comvita in the event that the Loans are converted to equity. The conversion of the Loans would therefore dilute the interests of the existing SeaDragon shareholders. Campbell MacPherson has made an adjustment to the value of a standard call option in order to reflect the potential dilutive impact of converting the Loans.

Convertible Loan Notes - Valuation Results

NZ\$	Value Range	
	Low	High
Debt Component	0.90	0.99
Embedded Derivative	0.13	0.24
Assessed value per Convertible Loan Note	1.03	1.23

Based on the inputs and assumptions set out above, Campbell MacPherson has assessed the value of the Convertible Loan Notes to be in the range of \$1.03 to \$1.23 per note. Our valuation range for the Notes therefore exceeds the consideration of \$1.00 per note to be received by SeaDragon.

Our valuation analysis is based on the assumption that the Convertible Loan Notes are issued on the proposed draw down date for the Pescado Loan and Bioscience Loan (being 6 July 2018). Any Convertible Loan Notes which are issued after 6 July 2018 will have a shorter term and exercise / conversion period.

3.4 Analysis of the Key Terms of the Comvita Option

Issue of the Comvita Option

The Comvita Option was originally issued to Comvita for nil consideration as part of a rights offer undertaken in September 2015. The Directors of SeaDragon supported the issue of the Comvita Option on the basis that Comvita was prepared to invest a significant amount of capital (ultimately more than \$3.0 million) into SeaDragon via the rights offer and potentially a further \$3.0 million through the exercise of the Comvita Option at a price of \$0.008 per share.

The issue of the Comvita Option was approved by SeaDragon shareholders at a special meeting held on 17 December 2015.

As part of the Proposed Transactions, Comvita will agree to amend the terms of the Comvita Loan, including entering into a security sharing arrangement with Pescado and Bioscience, whereby the Pescado Loan and the Bioscience Loan will rank alongside Comvita's existing loan. As part of the new arrangement with Comvita, SeaDragon is proposing to amend the terms of the Comvita Option.

Size (Number of Shares)

In September 2015, SeaDragon granted Comvita an option to subscribe for 375 million new ordinary shares in SeaDragon.

In accordance with the Proposed Transactions, the number of SeaDragon shares that Comvita is entitled to purchase by way of exercising the Comvita Option will be increased to 909,090,909, such that the total proceeds received by SeaDragon in the event that the Comvita Option is exercised remains at \$3.0 million.

Advantages to all shareholders other than Comvita

- As it is a condition of the Proposed Transactions proceeding, increasing the size of the Comvita Option will enable the Company to secure the necessary capital to fund its Omega-3 strategy (i.e. up to \$6.0 million from Pescado and Bioscience).
- The total proceeds received by SeaDragon in the event that the Comvita Option is exercised will remain at \$3.0 million. If the number of shares which Comvita has the option to purchase remained at 375 million, then the total proceeds received by SeaDragon in the event that the Comvita Option is exercised would be reduced to \$1.24 million (by way of the exercise price being reduced from \$0.008 to \$0.0033).

Disadvantages to all shareholders other than Comvita

- Increasing the size of the Comvita Option will increase the level of ownership dilution suffered by the Non-Associated Shareholders in the event that the Comvita Option is exercised.
- Increasing the size of the Comvita Option will increase the "overhang" of options outstanding to acquire SeaDragon shares at a fixed price, which is potentially dilutive to

the Non-Associated Shareholders and may have a negative effect on SeaDragon's share price and liquidity.

Term / Expiry Date

The initial expiry date of the Comvita Option was 1 October 2017, representing a term of approximately two years from the date the Comvita Option was issued. The expiry date of the Comvita Option was subsequently extended to 28 September 2018 as part of a transaction whereby SeaDragon obtained a \$3.0 million convertible loan from Comvita.

The extension of the expiry date to 28 September 2018 was approved by SeaDragon shareholders at an annual meeting held on 31 August 2016.

In the event that the Proposed Transactions are approved, the expiry date of the Comvita Option will be further extended to 31 March 2020 so that its expiry date aligns with the maturity date of the Loans.

The advantages and disadvantages to shareholders other than Comvita, of extending the expiry date of the Comvita Option are summarised below.

Advantages to all shareholders other than Comvita

- As it is a condition of the Proposed Transactions proceeding, extending the term of the Comvita Option will enable the Company to secure the necessary capital to fund its planned Omega-3 strategy (i.e. up to \$6.0 million from Pescado and Bioscience).
- On the basis that the Comvita Option currently expires on 28 September 2018 and is currently "out of the money" (i.e. the exercise price of \$0.008 is significantly higher than the current SeaDragon share price of \$0.004 as at 13 June 2018), it is highly unlikely that Comvita will opt to exercise the Comvita Option on its current terms. Furthermore, we are advised by senior management, that the Company has not yet achieved the Mandatory Exercise Milestones, and it is highly unlikely that these milestones will be achieved prior to the current expiry date. Therefore, extending the expiry date of the Comvita Option increases the likelihood that the Comvita Option will be exercised, which would ultimately result in the Company receiving a further \$3.0 million in cash.

Disadvantages to all shareholders other than Comvita

- The extension of the expiry date of the Comvita Option increases the likelihood that the Comvita Option will be exercised (either compulsorily or at Comvita's discretion). As a result, there is a higher chance that shareholders other than Comvita will be subject to ownership dilution resulting from the Comvita Option being exercised. Analysis on the potential dilutionary impact of exercising the Comvita Option is set out in Section 3.6.
- All else being equal, the longer time period an option has until expiry, the greater its value. The extension of the Comvita Option expiry date therefore represents a transfer of value from other shareholders to Comvita.
- Extending the expiry date of the Comvita Option may prolong the negative effects (if any) on SeaDragon's share price and liquidity of having a significant "overhang" of options outstanding.

Exercise Price

The original exercise price of the Comvita Option was \$0.008 per share. In the event that the Proposed Transactions are approved, the exercise price of the Comvita Option will be reduced to \$0.0033 per share, which represents a 17.5% discount to SeaDragon's closing share price as at 13 June 2018.

Advantages to all shareholders other than Comvita

- As it is a condition of the Proposed Transactions proceeding, reducing the exercise price of the Comvita Option will enable the Company to secure the necessary capital to fund its Omega-3 strategy (i.e. up to \$6.0 million from Pescado and Bioscience).

Disadvantages to all shareholders other than Comvita

- The reduction in the exercise price of the Comvita Option increases the likelihood that the Comvita Option will be exercised by Comvita. This presents increased risk that the shareholders other than Comvita will suffer ownership dilution. Analysis on the potential dilutionary impact of exercising the Comvita Option is set out in Section 3.6.
- All else being equal, the lower an option's exercise price the greater its value. The reduction in the exercise price of the Comvita Option therefore represents a transfer of value from other shareholders to Comvita.
- Reducing the exercise price of the Comvita Option may increase the negative effects (if any) on SeaDragon's share price and liquidity of having a significant "overhang" of options outstanding.

SeaDragon's Mandatory Exercise Right

SeaDragon can require Comvita to exercise the Comvita Option if certain milestones are achieved by SeaDragon (as set out in Section 2.2). The Proposed Transactions will result in the following key changes to SeaDragon's Mandatory Exercise Right:

- Extending the term of the Comvita Option will provide the Company with additional time to achieve the Mandatory Exercise Milestones.
- The removal of some of the previous Mandatory Exercise Milestones (as set out in Section 2.2) will increase the likelihood that SeaDragon will achieve the remaining Mandatory Exercise Milestones.

Subject to meeting the Mandatory Exercise Milestones, the key benefits of the Mandatory Exercise Right to SeaDragon include:

- The potential to secure a further \$3.0 million of equity capital.
- The ability to remove a significant "overhang" of options from the market.
- The ability to issue new shares to Comvita at a price of \$0.0033 per share, regardless of SeaDragon's prevailing share price as at the mandatory exercise date.

SeaDragon has indicated that, in the event that the Mandatory Exercise Milestones are achieved, it is likely that it would promptly exercise its Mandatory Exercise Right to require Comvita to exercise the Comvita Option. However, it is unlikely that the Mandatory Exercise Milestones will be achieved in the current financial year (FY19). The Non-Associated Directors of SeaDragon believe it is possible that the Mandatory Exercise Milestones could be achieved during the subsequent financial year (FY20).

3.5 Potential Alternatives to the Proposed Transaction

As noted in Section 3.2 the Non-Associated Directors' rationale for entering into the Proposed Transactions was driven by the requirement for an immediate source of near-term to medium-term funding to enable the Company to continue trading and execute its business plan.

Alternative funding options considered by the Board prior to entering into the Proposed Transactions are summarised below.

SeaDragon - Alternative Funding Options Considered

Alternate	Comment
Bank Debt	<p>The Company has approached all of the major trading banks seeking debt funding. However, the weak historic financial performance of the business and current negative operating cashflows means that bank debt is very difficult for SeaDragon to obtain at the present time.</p> <p>We note that the Company had previously secured debt funding from Heartland Bank. However, this ultimately proved unsustainable and was repaid in 2016 following an equity capital-raising by the Company.</p>
Rights Offer to existing shareholders	<p>The Non-Associated Directors advise that a Rights Offer was considered. However, it was not given priority due to the time required to implement and the lack of certainty regarding the outcome.</p> <p>We note that, subject to shareholder approval of the Resolutions, SeaDragon will undertake the 2018 Rights Offer to all shareholders within 30 days of the 2018 Annual Meeting.</p> <p>This will provide all shareholders with the opportunity to participate and acquire additional shares on a pro-rata basis at the same price as the conversion price for the Loans.</p>
Private Placement	<p>A Private Placement of shares to cornerstone shareholders or new investors was considered but rejected in favour of the convertible note structure due to time required to implement, lack of certainty regarding outcome and in order to reach agreement on funding with Pescado and Bioscience and to minimise potential dilution of the Non-Associated shareholders.</p>

3.6 Impact on the Ownership of SeaDragon

Pescado is currently the largest SeaDragon shareholder with 18.95% of the shares on issue, followed by Bioscience and then SDMO Trustee and Comvita. However, on a fully diluted basis (i.e. assuming the exercise of all outstanding SeaDragon options, including the Comvita Option on its current terms), Comvita would hold the largest ownership position with 23.79% of the ordinary shares on issue.

The current ownership position of SeaDragon's major shareholders is summarised in the table below.

SeaDragon Securities (as at 31 May 2018) (Pre-Transaction)										
Security Holder	Shares		2015 Options ¹		Comvita Options ²		ESOP Options ³		Convertible Notes ²	
	#(M)	%	#(M)	%	#(M)	%	#(M)	%	#(M)	%
Pescado	855	18.95%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
OFM (Bioscience)	735	16.29%	325	26.22%	-	0.00%	-	0.00%	-	0.00%
SDMO Trustee	435	9.65%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Comvita	411	9.11%	411	33.12%	375	100.00%	-	0.00%	3	100.00%
Other	2,077	46.01%	504	40.66%	-	0.00%	104	100.00%	-	0.00%
Total	4,514	100.00%	1,241	100.00%	375	100.00%	104	100.00%	3.0	100.00%

1. Based on the exercise price of \$0.015 per share.

2. Based on the current exercise price of \$0.008 per share.

3. The ESOP Options have an exercise price ranging from \$0.008 to \$0.011 per share.

The impact of the Proposed Transactions on the ownership of SeaDragon will depend on a wide range of factors including:

- The extent to which the Loans are drawn.
- The extent to which the Loans are repaid by SeaDragon or converted to shares in the Company.
- The extent to which the existing 2015 Option holders exercise their 2015 Options.
- Whether Comvita exercises the Comvita Option (either compulsorily or at its discretion).
- The allotment of shares as a result of the 2018 Rights Offer.
- Whether SeaDragon issues any other new shares or cancels any shares during the period in which the Loans and the Comvita Option remain in place.

We note that;

- Whilst Bioscience currently holds only 16.29% of the SeaDragon shares on issue, it has previously received shareholder approval (at the annual meeting of shareholders on 17 September 2015) to increase its shareholding in SeaDragon to a maximum of 45.4% of the shares on issue by conversion of a prior convertible loan to shares and exercise of the 2015 Options it acquired.
- Whilst Comvita currently holds only 9.11% of the SeaDragon shares on issue, it has previously received shareholder approval (in accordance with the amended terms of the Comvita Option approved by shareholders on 31 August 2016) to increase its shareholding in SeaDragon to a maximum of 36.50% of the shares on issue by converting its Loan into ordinary shares (at a price of \$0.008 per share) and exercising all of its 2015 Options and the Comvita Option.

SeaDragon has subsequently issued further new ordinary shares in the Company. As a result, these prior approvals would currently permit Bioscience to reach a maximum position of 21.92% of the shares on issue and would currently allow Comvita to reach a maximum position of 27.70% of the shares on issue.

The Proposed Transactions give rise to a wide range of potential future shareholding scenarios for Pescado, Bioscience, Comvita and the Non-Associated Shareholders. Campbell MacPherson has assessed the potential impact of the Proposed Transactions on the ownership and control of SeaDragon under five scenarios, as summarised below.

SeaDragon - Ownership and Control Scenarios

Scenario A – Pescado Maximum	<ul style="list-style-type: none"> ➤ The Pescado Loan is converted into shares. ➤ No other Loans to SeaDragon are converted into shares. ➤ The Comvita Option, the 2015 Options and the ESOP Options are not exercised.
Scenario B – Bioscience Maximum	<ul style="list-style-type: none"> ➤ The Bioscience Loan is converted into shares. ➤ No other Loans to SeaDragon are converted into shares. ➤ Only the 2015 Options held by Bioscience are exercised (i.e. all other 2015 Options are not exercised). ➤ The Comvita Option and the ESOP Options are not exercised.
Scenario C – Comvita Maximum	<ul style="list-style-type: none"> ➤ The Comvita Loan is converted into shares. ➤ The Comvita Option is exercised. ➤ No other Loans to SeaDragon are converted into shares. ➤ Only the 2015 Options held by Comvita are exercised (i.e. all other 2015 Options are not exercised). ➤ The ESOP Options are not exercised.

Scenario D – Non-Associated Shareholder Minimum	<ul style="list-style-type: none"> ➤ All Loans are converted into shares. ➤ The Comvita Option is exercised. ➤ Only the 2015 Options held by Pescado, Bioscience and Comvita are exercised (i.e. all other 2015 Options are not exercised). ➤ The ESOP Options are not exercised. ➤ The current number of shares held by Non-Associated Shareholders remains unchanged.
Scenario E – Conversion of Loan & Exercise of Comvita Option	<ul style="list-style-type: none"> ➤ All Loans are converted into shares. ➤ Only the Comvita Option is exercised (i.e. the 2015 Options and ESOP Options are not exercised).

The first three scenarios (A, B and C) are based on the maximum ownership positions that each of Pescado, Bioscience and Comvita could reach in the event that the Proposed Transactions are approved by SeaDragon shareholders. Scenario D is based on the minimum ownership position of the Non-Associated Shareholders where all Loans are converted to shares and only Pescado, Bioscience and Comvita exercise their respective options.

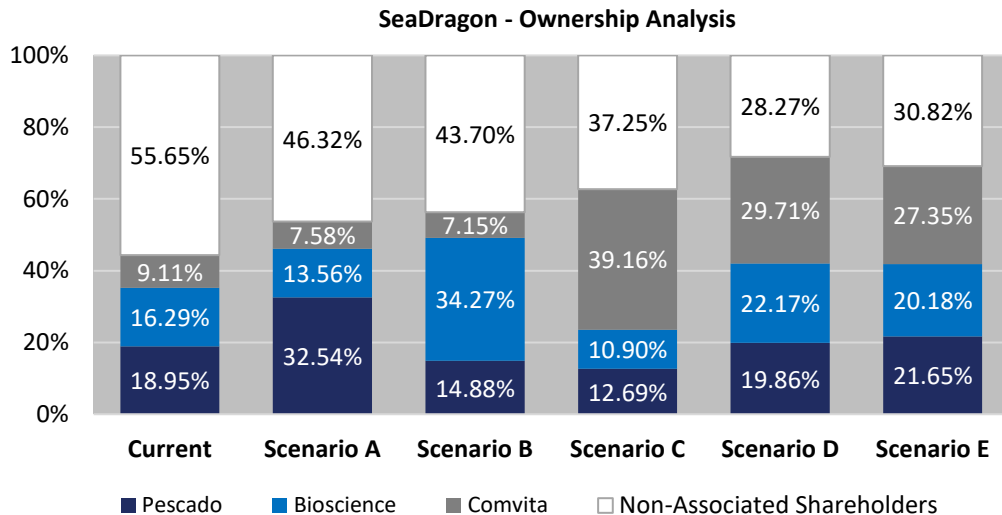
Scenario E is based on conversion of the Loans and exercise of the Comvita Option only. Given the current share price of \$0.004, the significant difference between the \$0.0033 conversion price/exercise price for the Loans/Comvita Option and the \$0.015 exercise price for the 2015 Options, and the imminent expiry date of the 2015 Options on 29 September 2018, **we consider Scenario E to be significantly more likely to occur than the other Scenarios.**

We note that all of the scenarios assume that the Bioscience Loan and the Pescado Loan are fully drawn down (i.e. \$6.0 million).

SeaDragon Ownership - Scenario Analysis

SeaDragon's potential ownership under the five scenarios described above is summarised below.

SeaDragon - Ownership Analysis						
	Current	Scenario A	Scenario B	Scenario C	Scenario D	Scenario E
<u>Pescado</u>						
Number of Shares (M)	855	1,765	855	855	1,765	1,765
%	18.95%	32.54%	14.88%	12.69%	19.86%	21.65%
<u>Bioscience</u>						
Number of Shares (M)	735	735	1,970	735	1,970	1,644
%	16.29%	13.56%	34.27%	10.90%	22.17%	20.18%
<u>Comvita</u>						
Number of Shares (M)	411	411	411	2,640	2,640	2,229
%	9.11%	7.58%	7.15%	39.16%	29.71%	27.35%
<u>Non-Associated Shareholders</u>						
Number of Shares (M)	2,512	2,512	2,512	2,512	2,512	2,512
%	55.65%	46.32%	43.70%	37.25%	28.27%	30.82%
Total Number of Shares (M)	4,514	5,423	5,748	6,743	8,886	8,150



Based on Scenarios A, B and C:

- The maximum ownership position that Pescado could reach would be 32.54% of the shares on issue.
- The maximum ownership position that Bioscience could reach would be 34.27% of the shares on issue.
- The maximum ownership position that Comvita could reach would be 39.16% of the shares on issue.

It is important to note that the maximum positions of Pescado, Bioscience and Comvita outlined above are **mutually exclusive**. Under the terms of the Proposed Transactions it is not possible for them to contemporaneously reach these respective ownership positions (i.e. at the same time).

Whilst we consider it prudent to provide Non-Associated Shareholders with a view on the maximum ownership positions that Pescado, Bioscience and Comvita could theoretically reach, it is our view that Scenarios A, B and C are unlikely to occur given that the terms of the Pescado, Bioscience and Comvita Loans are the same and therefore the financial incentives for each party to convert its Loan (or be repaid by SeaDragon) are likely to be similar. Similarly, the financial incentive for Comvita to exercise its Comvita Option is also likely to be aligned given the exercise price per share will be the same as the conversion price per share of the Loans.

Scenario D has been provided to demonstrate the maximum level of dilution that Non-Associated Shareholders could suffer in the event the Proposed Transactions are approved. Under this Scenario the Non-Associated Shareholders would decrease their collective holding from 55.65% to 28.27% of the shares on issue. We consider that Scenario D is also unlikely to occur given that it assumes that Bioscience and Comvita would exercise their respective 2015 Options but no Non-Associated Shareholders would exercise their 2015 Options.

Under Scenario E no 2015 Options are exercised and the Non-Associated Shareholders decrease their collective holding from 55.65% to 30.82% of the shares on issue. As noted above we consider Scenario E to be significantly more likely to occur than the other Scenarios.

Ability of Comvita, Pescado and Bioscience to Increase their Respective Ownership of SeaDragon in the Future

We note that the 2018 Rights Offer will likely result in the issue of additional shares in SeaDragon which have not been factored into the Scenarios outlined above. However, Pescado, Bioscience or Comvita have all agreed, in accordance with the Term Sheet, not to

use the 2018 Rights Offer to increase their percentage ownership of the Company beyond their current respective holdings. We also note that none of Pescado, Bioscience or Comvita will be able to increase their respective ownership of SeaDragon above 20% in the future unless it complies with the provisions of the Code and the NZX Listing Rules.

Therefore, in the event the Proposed Transactions are approved by SeaDragon shareholders, then, other than by way of the allotment of shares arising as a result of the Proposed Transactions, Comvita, Pescado and Bioscience will not be able to increase their respective voting control in SeaDragon above 20% unless;

- One or more of them makes a full or partial takeover offer for SeaDragon; or
- An acquisition of further shares by one or more of them is approved by way of an ordinary resolution of SeaDragon shareholders (where the relevant acquirer would be precluded from voting on such a resolution); or
- The Company makes an allotment of shares to one or more of them which is approved by way of an ordinary resolution of SeaDragon shareholders (where the relevant party being allotted the shares would be precluded from voting on such a resolution).

3.7 Impact on the Control of SeaDragon

Shareholder Voting

There are a number of key thresholds in relation to the voting rights of NZSX listed companies such as SeaDragon.

- Ordinary resolutions require passing by more than 50% of votes of holders of securities who are eligible to vote and voting.
- Special resolutions require passing by 75% or more of votes of holders of securities who are eligible to vote and voting.
- A shareholder holding more than 25% of the voting securities of a company is able to block a special resolution.
- A shareholder holding more than 50% of the voting securities of a company is able to pass an ordinary resolution.
- A shareholder holding 50% or more of the voting securities of a company is able to block an ordinary resolution.
- A shareholder holding 75% or more of the voting securities of a company is able to pass (or block) both ordinary resolutions and special resolutions.

A shareholder's ability to influence voting on ordinary or special resolutions may be impacted by other legal and regulatory factors such as the Companies Act, Commerce Act, Takeovers Code, NZX Listing Rules, and the Company's constitution.

The typical powers that can be exercised by an ordinary resolution of shareholders include:

- adoption of financial statements;
- appointment or removal of directors;
- appointment of auditors;
- alteration of shareholder rights; and
- decisions involving remuneration and other benefits.

The typical powers that can be exercised by a special resolution of shareholders include:

- adopting, altering or revoking the company's constitution;

- approval of a major transaction;
- approval of an amalgamation; and
- placing the company into liquidation.

A shareholder may also be able to influence voting on ordinary or special resolutions in the event that other shareholders choose not to vote (to the extent that this increases the effective voting power of those shareholders that do vote).

Voting Impact of the Proposed Transaction

Pescado is currently permitted to increase its voting control in SeaDragon to a maximum of 20% without seeking shareholder approval in accordance with the Code. As set out in Section 3.6, SeaDragon shareholders have previously approved Bioscience increasing its control of SeaDragon to a maximum of 45.4% of the voting securities, provided that it does so in accordance with the terms of that approval. SeaDragon shareholders have also subsequently previously approved Comvita increasing its control of SeaDragon to a maximum of 36.50% of the voting securities, provided that it does so in accordance with the terms of that approval.

The maximum potential control positions of Pescado, Bioscience or Comvita arising from the Proposed Transaction (32.54%, 34.27% and 39.16% respectively) are therefore not dissimilar to that previously approved by shareholders in relation to Comvita and are below the level previously approved by shareholders in relation to Bioscience.

SeaDragon has subsequently issued further new shares in the Company. As a result, the prior approvals described above would currently permit Bioscience to reach a maximum control position of 21.92% of the voting securities on issue and would currently permit Comvita to reach a maximum control position of 27.70% of the voting securities on issue.

In the event the Proposed Transactions proceed it is possible that Bioscience, Pescado or Comvita could increase their respective voting control of SeaDragon above the 25% threshold required to block a special resolution. However, none of these parties would individually be able to pass or block an ordinary resolution in their own right (assuming that all SeaDragon shareholders cast their vote on any given resolution).

Given the large number of small shareholders on the SeaDragon share register, we believe it is possible that a significant number of minority shareholders who are eligible to vote may not choose to vote on a given resolution. This would increase the effective voting power of those shareholders which do cast their vote. It is therefore possible that, in the event that the Proposed Transaction is approved, Pescado, Bioscience or Comvita could effectively control more than their percentage holding of voting securities based on the number of votes cast on a given resolution.

We also note that the Proposed Transactions are likely to result in an increase in the overall concentration of control of SeaDragon by its major shareholders. Based on the current shares on issue, the four largest shareholders, Pescado, Bioscience, Comvita and SDMO Trustee, collectively control 53.99% of the voting securities on issue. Under the existing approvals previously granted by SeaDragon shareholders, Bioscience and Comvita can already increase their shareholding such that the four largest shareholders could increase their collective control to 65.39% of the voting securities on issue (assuming no change to Pescado and SDMO Trustee's current respective shareholdings). In comparison under our Scenario E (the most likely of our Scenarios) the same four shareholders would increase their collective control to 76.63% of the voting securities on issue.

On the basis that Comvita already has shareholder approval such that it can increase its shareholding in SeaDragon to above 25% of the voting securities on issue, **the Proposed Transaction is unlikely to result in Comvita being able to materially increase its voting**

control of the Company. However, the Proposed Transaction does, in our view, increase the likelihood that Comvita will increase its shareholding in SeaDragon above the 25% threshold.

Bioscience does not currently hold shareholder approvals that would enable it to increase its respective shareholding in SeaDragon to above 25% of the voting securities on issue. **The Proposed Transaction therefore has the potential to materially increase the voting control of the Company by Bioscience.**

Pescado does not currently hold shareholder approvals that would enable it to increase its respective shareholding in SeaDragon to above 20% of the voting securities on issue. **The Proposed Transaction therefore has the potential to materially increase the voting control of the Company by Pescado.**

Board of Directors

The Non-Associated Directors of SeaDragon have advised that the Proposed Transactions are not expected to result in any increase in the number of Directors appointed by Comvita, Pescado or Bioscience to the Board of SeaDragon, nor is it expected to result in any increase in Comvita's, Pescado's or Bioscience's control position on the SeaDragon Board.

Countervailing Power

We note that none of the significant shareholders of SeaDragon, being Pescado, Bioscience, SDMO Trustee and Comvita, are related parties or associates of each other. In our view, it is therefore difficult for any single shareholder to exercise significant control of the Company without the support of other significant shareholders.

3.8 Votes Directed by the Non-Associated Directors

The Non-Associated Directors have advised Campbell MacPherson that they are unanimously in favour of the Resolutions and will be directing the voting of their relevant interests accordingly, all of whom are eligible to vote.

The Non-Associated Directors collectively control interests holding a total of 471,951,243 shares representing 10.46% of the voting securities on issue and 18.79% of the voting securities of eligible shareholders entitled to vote on the Resolutions. Given the large number of small shareholders on the SeaDragon register who may choose not to attend the Meeting or vote, it is likely that the votes directed by the Non-Associated Directors will have a material influence on the voting outcome of the Resolutions.

3.9 Implications if the Resolutions are not Approved

The \$6 million in funding from the Pescado Loan and the Bioscience Loan is urgently required by SeaDragon to ensure that it can meet its short to medium term cashflow requirements and implement its business plan. In the event the Resolutions are not approved by 15 August 2018 then the Increased Cap Conditions would not be met, and the Company would be unable to draw down on the undrawn balance of the Pescado Loan and the Bioscience loan and will be required to repay any amounts drawn down under those Loans.

Furthermore, inability to obtain shareholder approval for the Proposed Transactions by 15 August 2018 would constitute an event of default under the Loan agreement and may result in Comvita also demanding repayment of its Loan in full including any accrued and unpaid interest. If the Resolutions are not passed, it is highly likely that the Company will be unable to repay its debts as they fall due and the directors will have no option but to place the

Company into receivership or liquidation, as the Company does not currently have any means available to it to repay the Loans.

3.10 Voting for or Against the Resolutions

Voting for or against the Resolutions is a matter for individual shareholders to consider. Such a decision by each shareholder would be based on their own views as to control, future market conditions, future share price and other factors. The Non-Associated Shareholders of SeaDragon will therefore need to weigh up carefully these consequences and consult their own professional adviser as appropriate.

3.11 Summary Evaluation of the Merits of the Proposed Transaction

In our opinion, taking into account all of the relevant factors, the positive aspects of the Proposed Transactions outweigh the negative aspects.

A summary of the key factors influencing our opinion are provided below.

Positive Aspects of the Proposed Transactions

- SeaDragon continues to sustain cash operating losses and requires urgent additional funding to remain solvent and execute its business plan. The Proposed Transactions, in particular the \$6.0 million funding line sourced from the Pescado Loan and the Bioscience Loan, and the agreement by Comvita (as part of the Comvita Amendments) to extend the maturity date of the \$3.0 million Comvita Loan to 31 March 2020, will collectively provide essential funding for the Company. Based on the Company's current financial projections, the Proposed Transactions will provide sufficient funding through to December 2019.
- In the event that the Proposed Transactions are not approved, it is highly likely that the Company will be unable to repay its debts as they fall due and the directors will have no option but to place the Company into receivership or liquidation, as the Company does not currently have any means available to it to repay the Loans.
- In line with the Company's current projections, the SeaDragon Board does not expect the full \$6.0 million to be drawn down. However, a \$6.0 million facility does provide the Company with a degree of certainty in the event that additional funding is required in the short to medium-term.
- The Loans have a number of attributes which are favourable to SeaDragon and the Non-Associated Shareholders:
 - We believe that the interest rate structure is favourable to SeaDragon.
 - The funds can be drawn down progressively as required in order to minimise the principal balance outstanding and minimise interest costs. In particular, if the 2018 Rights Offer is strongly subscribed, there is potential for funds to be applied to reduce the planned draw-down on the Loans, reducing the forecast debt level of the Company and its future interest payments on the Loans.
 - The ability of SeaDragon to repay the Loans prior to the maturity date has advantages to the Non-Associated Shareholders.
 - The proposed amendments to the terms of the Comvita Loan remove the potential short-term obligation of SeaDragon to repay the Comvita Loan (in cash). The Comvita Loan is currently due for repayment on 28 September 2018 unless converted to equity prior to that date at the option of Comvita, which we believe is unlikely.

- The mandatory conversion terms of the Loans means that there is no requirement for SeaDragon to repay the Loans in cash on the maturity date. Any positive cashflow generated prior to the maturity date can therefore be made available for other purposes such as business growth or distributions to shareholders.
- The mandatory conversion terms of the Loans and the Mandatory Conversion Right relating to the Comvita Option mean that the holders of the Loans and/or the Comvita Option may be required to convert their respective securities into SeaDragon shares at a price that exceeds the (then prevailing) traded share price. This would result in a transfer of value from Pescado, Bioscience and Comvita to the Non-Associated Shareholders.
- Exercise of the Comvita Option would provide SeaDragon with \$3.0 million of additional cash funding.
- Extending the term of the Comvita Option will provide the Company with additional time to achieve the Mandatory Exercise Milestones and increases the likelihood that SeaDragon will be able to utilise its Mandatory Exercise Right for early conversion of the Comvita Loan to shares at a date that is favourable to SeaDragon.
- The removal of some of the previous Mandatory Exercise Milestones will also increase the likelihood that SeaDragon will achieve the Mandatory Exercise Milestones and increases the likelihood that SeaDragon will be able to utilise its Mandatory Exercise Right for early conversion of the Comvita Loan to shares at a date that is favourable to SeaDragon.
- The maximum control position that Pescado, Bioscience or Comvita could respectfully reach as a result of the Proposed Transactions is 32.54%, 34.27% and 39.16% of the voting securities on issue. However, these maximum positions are mutually exclusive and, in our view, highly unlikely. A more realistic scenario (see our Scenario E in section 3.6) would result in Pescado, Bioscience and Comvita respectively holding 21.65%, 20.18% and 27.35% of the voting securities on issue. It is therefore unlikely, in our view, that Pescado, Bioscience or Comvita would be able to pass or block an ordinary resolution in its own right as a result of the Proposed Transactions.
- The Proposed Transactions are not expected to result in any increase in the number of Directors appointed by Pescado, BioScience or Comvita to the Board of SeaDragon, nor is it expected to result in any increase in Comvita's, Pescado's or Bioscience's ability to control the SeaDragon Board.
- None of Pescado, Bioscience or Comvita are related parties or associates of each other. Each major shareholder therefore provides a degree of countervailing power over the other.
- The 2018 Rights Offer will provide the Non-Associated Shareholders with the opportunity to acquire shares in the Company and participate on a pro rata basis at the same price as the conversion price of the Loans (i.e. \$0.0033 per share).
- The Non-Associated Directors unanimously support the Proposed Transactions.

Negative Aspects of the Proposed Transactions

- Our assessed value per Convertible Loan Note exceeds the consideration offered by Pescado, Bioscience and Comvita for each Note. Campbell MacPherson has assessed the value of the Convertible Loan Notes to be in the range of \$1.03 to \$1.23 per Note. Each Note is being issued for a consideration of \$1.00 per Note. In our view this is the key criteria in assessing that the Proposed Transactions are "not fair" to the Non-Associated shareholders.
- All else being equal, the longer time period an option has until expiry, and the lower the exercise price, the greater its value. The extension of the Comvita Option expiry date and

the reduction in the exercise price from \$0.008 to \$0.0033 therefore represents a transfer of value from the Non-Associated Shareholders to Comvita.

- The conversion price for the Loans and the amended exercise price for the Comvita Option are fixed at \$0.0033 per share, which is below SeaDragon's current traded share price. A price of \$0.0033 per share represents a 17.5% discount to SeaDragon's closing share price as at 13 June 2018.
- The conversion terms of the Loans and the Comvita Option mean that the holders of the Loans and/or the Comvita Option may be able to convert their respective securities into SeaDragon shares at a price that is lower than the (then prevailing) traded share price.
- The potential allotment of shares to Pescado, Bioscience and Comvita as a result of the conversion of the Loans and/or the exercise of the Comvita Option would be dilutive to the Non-Associated Shareholders. The maximum dilution that the Non-Associated Shareholders could suffer would see their collective ownership decrease from 55.65% to 28.27% of the shares on issue.
- On the basis that Comvita already has shareholder approval such that it can increase its shareholding in SeaDragon to above 25% of the voting securities on issue, the Proposed Transactions are unlikely to result in Comvita being able to materially increase its voting control of the Company. However, the Proposed Transactions do, in our view, increase the likelihood that Comvita will increase its shareholding in SeaDragon above the 25% threshold.
- Bioscience does not currently hold shareholder approvals that would enable it to increase its respective shareholding in SeaDragon to above 25% of the voting securities on issue. The Proposed Transactions therefore have the potential to materially increase the voting control of the Company by Bioscience.
- Pescado does not currently hold shareholder approvals that would enable it to increase its respective shareholding in SeaDragon to above 20% of the voting securities on issue. The Proposed Transactions therefore have the potential to materially increase the voting control of the Company by Pescado.
- Given the potential for future allotments of SeaDragon shares at a price of \$0.0033 per share arising from the Proposed Transactions, they have the potential to increase the significant "over-hang" of SeaDragon securities in the market. This may negatively impact on the future SeaDragon share price, investor sentiment and trading liquidity.

4. EVALUATION OF THE FAIRNESS OF THE PROPOSED TRANSACTIONS

4.1 Basis of Evaluation

NZX Listing Rule 1.7.2 requires an Appraisal Report to consider whether or not, in the opinion of the Appraiser, the consideration and the terms and conditions of the Proposed Transactions are fair to the holders of equity securities other than those associated with Comvita, Pescado, Bioscience and their associated persons, and the grounds for that opinion.

This Report is addressed to the Non-Associated Directors of SeaDragon being those persons who are not associated persons of Comvita, Pescado or Bioscience.

There is no legal definition of the term fair in New Zealand in either the NZX Listing Rules or in any statute dealing with securities or commercial law. We note that in Australia an Independent Experts Report prepared in the context of a takeover offer is required to consider whether the transaction is “fair and reasonable” to the non-associated shareholders. Australian Securities and Investments Commission Regulatory Guideline 111 (RG111) provides guidance on the definitions of “fair” and “reasonable” and notes that *“an offer is ‘fair’ if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer.”* Of interest, RG111 also notes that *“An offer is ‘reasonable’ if it is fair. It might also be ‘reasonable’ if, despite being ‘not fair’, the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.”*

It is generally accepted that an assessment of the fairness of a transaction (as required under NZX Listing Rules) is a narrower test than an assessment of the merits of a transaction (under the Takeovers Code). This is because the fairness of a transaction as required under the NZX Listing Rules focuses on the consideration (i.e. price/value issues) and the terms and conditions of the Proposed Transactions.

Given the framework of the NZX Listing Rules as stated above we have evaluated the fairness of the Proposed Transaction focussing on:

- The terms and conditions of the Proposed Transactions (including the consideration received for the Loans relative to their value).
- The impact of the Proposed Transactions on the ownership of SeaDragon by Comvita, Pescado and Bioscience.
- The impact of the Proposed Transactions on the control of SeaDragon by Comvita, Pescado and Bioscience.

However we have also given due consideration to other benefits and risks relating to the Proposed Transactions including:

- The rationale for the Proposed Transactions.
- Alternatives to the Proposed Transactions.
- The likelihood of the Resolutions in respect of the Proposed Transactions being approved.
- The implications of the Resolutions in respect of the Proposed Transactions not being approved.

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

4.2 Evaluation of the Fairness of the Proposed Transaction

Having given due consideration to all of the relevant factors, it is our opinion that the consideration and the terms and conditions of the Proposed Transactions are Not Fair to the Non-Associated Shareholders. However, we are of the view that, taking into account the wider benefits and risks relating the Proposed Transactions, the positive aspects of the Proposed Transactions outweigh the negative aspects.

The grounds for our opinion are provided in Sections 3.2 to 3.10. A summary of the key factors influencing our opinion are provided below.

Positive Aspects of the Proposed Transactions

- SeaDragon continues to sustain cash operating losses and requires urgent additional funding to remain solvent and execute its business plan. The Proposed Transactions, in particular the \$6.0 million funding line sourced from the Pescado Loan and the Bioscience Loan, and the agreement by Comvita (as part of the Comvita Amendments) to extend the maturity date of the \$3.0 million Comvita Loan to 31 March 2020, will collectively provide essential funding for the Company. Based on the Company's current financial projections, the Proposed Transactions will provide sufficient funding through to December 2019.
- In the event that the Proposed Transactions are not approved, it is highly likely that the Company will be unable to repay its debts as they fall due and the directors will have no option but to place the Company into receivership or liquidation, as the Company does not currently have any means available to it to repay the Loans.
- In line with the Company's current projections, the SeaDragon Board does not expect the full \$6.0 million to be drawn down. However, a \$6.0 million facility does provide the Company with a degree of certainty in the event that additional funding is required in the short to medium-term.
- The Loans have a number of attributes which are favourable to SeaDragon and the Non-Associated Shareholders:
 - We believe that the interest rate structure is favourable to SeaDragon.
 - The funds can be drawn down progressively as required in order to minimise the principal balance outstanding and minimise interest costs. In particular, if the 2018 Rights Offer is strongly subscribed, there is potential for funds to be applied to reduce the planned draw-down on the Loans, reducing the forecast debt level of the Company and its future interest payments on the Loans.
 - The ability of SeaDragon to repay the Loans prior to the maturity date has advantages to the Non-Associated Shareholders.
 - The proposed amendments to the terms of the Comvita Loan remove the potential short-term obligation of SeaDragon to repay the Comvita Loan (in cash). The Comvita Loan is currently due for repayment on 28 September 2018 unless converted to equity prior to that date at the option of Comvita, which we believe is unlikely.
 - The mandatory conversion terms of the Loans means that there is no requirement for SeaDragon to repay the Loans in cash on the maturity date. Any positive cashflow generated prior to the maturity date can therefore be made available for other purposes such as business growth or distributions to shareholders.

- The mandatory conversion terms of the Loans and the Mandatory Conversion Right relating to the Comvita Option mean that the holders of the Loans and/or the Comvita Option may be required to convert their respective securities into SeaDragon shares at a price that exceeds the (then prevailing) traded share price. This would result in a transfer of value from Pescado, Bioscience and Comvita to the Non-Associated Shareholders.
- Exercise of the Comvita Option would provide SeaDragon with \$3.0 million of additional cash funding.
- Extending the term of the Comvita Option will provide the Company with additional time to achieve the Mandatory Exercise Milestones and increases the likelihood that SeaDragon will be able to utilise its Mandatory Exercise Right for early conversion of the Comvita Loan to shares at a date that is favourable to SeaDragon.
- The removal of some of the previous Mandatory Exercise Milestones will also increase the likelihood that SeaDragon will achieve the Mandatory Exercise Milestones and increases the likelihood that SeaDragon will be able to utilise its Mandatory Exercise Right for early conversion of the Comvita Loan to shares at a date that is favourable to SeaDragon.
- The maximum control position that Pescado, Bioscience or Comvita could respectfully reach as a result of the Proposed Transactions is 32.54%, 34.27% and 39.16% of the voting securities on issue. However, these maximum positions are mutually exclusive and, in our view, highly unlikely. A more realistic scenario (see our Scenario E in section 3.6) would result in Pescado, Bioscience and Comvita respectively holding 21.65%, 20.18% and 27.35% of the voting securities on issue. It is therefore unlikely, in our view, that Pescado, Bioscience or Comvita would be able to pass or block an ordinary resolution in its own right as a result of the Proposed Transactions.
- The Proposed Transactions are not expected to result in any increase in the number of Directors appointed by Pescado, BioScience or Comvita to the Board of SeaDragon, nor is it expected to result in any increase in Comvita's, Pescado's or Bioscience's ability to control the SeaDragon Board.
- None of Pescado, Bioscience or Comvita are related parties or associates of each other. Each major shareholder therefore provides a degree of countervailing power over the other.
- The 2018 Rights Offer will provide the Non-Associated Shareholders with the opportunity to acquire shares in the Company and participate on a pro rata basis at the same price as the conversion price of the Loans (i.e. \$0.0033 per share).
- The Non-Associated Directors unanimously support the Proposed Transactions.

Negative Aspects of the Proposed Transactions

- Our assessed value per Convertible Loan Note exceeds the consideration offered by Pescado, Bioscience and Comvita for each Note. Campbell MacPherson has assessed the value of the Convertible Loan Notes to be in the range of \$1.03 to \$1.23 per Note. Each Note is being issued for a consideration of \$1.00 per Note. In our view this is the key criteria in assessing that the Proposed Transactions are "not fair" to the Non-Associated shareholders.
- All else being equal, the longer time period an option has until expiry, and the lower the exercise price, the greater its value. The extension of the Comvita Option expiry date and the reduction in the exercise price from \$0.008 to \$0.0033 therefore represents a transfer of value from the Non-Associated Shareholders to Comvita.
- The conversion price for the Loans and the amended exercise price for the Comvita Option are fixed at \$0.0033 per share, which is below SeaDragon's current traded share

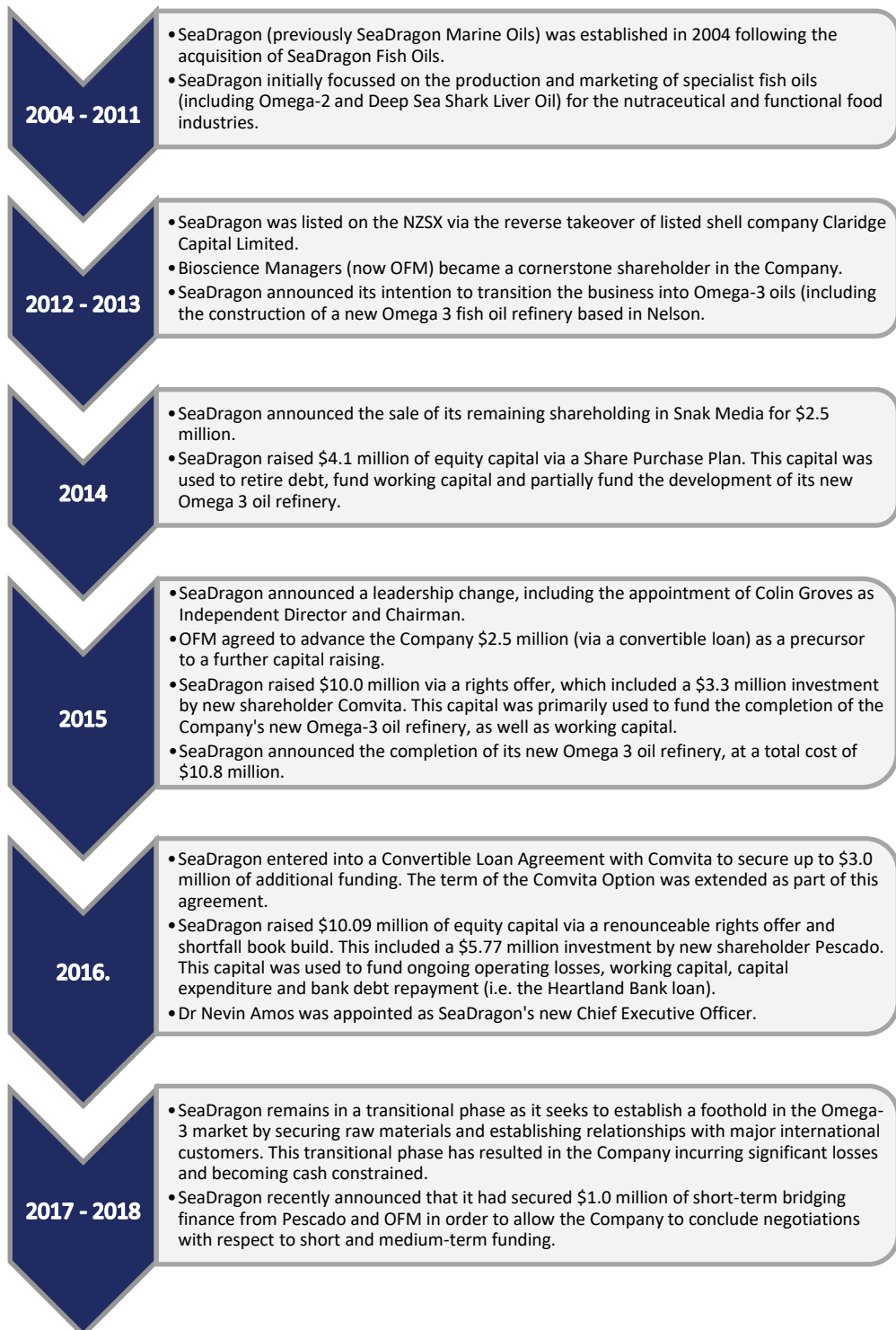
price. A price of \$0.0033 per share represents a 17.5% discount to SeaDragon's closing share price as at 13 June 2018.

- The conversion terms of the Loans and the Comvita Option mean that the holders of the Loans and/or the Comvita Option may be able to convert their respective securities into SeaDragon shares at a price that is lower than the (then prevailing) traded share price.
- The potential allotment of shares to Pescado, Bioscience and Comvita as a result of the conversion of the Loans and/or the exercise of the Comvita Option would be dilutive to the Non-Associated Shareholders. The maximum dilution that the Non-Associated Shareholders could suffer would see their collective ownership decrease from 55.65% to 28.27% of the shares on issue.
- On the basis that Comvita already has shareholder approval such that it can increase its shareholding in SeaDragon to above 25% of the voting securities on issue, the Proposed Transactions are unlikely to result in Comvita being able to materially increase its voting control of the Company. However, the Proposed Transactions do, in our view, increase the likelihood that Comvita will increase its shareholding in SeaDragon above the 25% threshold.
- Bioscience does not currently hold shareholder approvals that would enable it to increase its respective shareholding in SeaDragon to above 25% of the voting securities on issue. The Proposed Transactions therefore have the potential to materially increase the voting control of the Company by Bioscience.
- Pescado does not currently hold shareholder approvals that would enable it to increase its respective shareholding in SeaDragon to above 20% of the voting securities on issue. The Proposed Transactions therefore have the potential to materially increase the voting control of the Company by Pescado.
- Given the potential for future allotments of SeaDragon shares at a price of \$0.0033 per share arising from the Proposed Transactions, they have the potential to increase the significant "over-hang" of SeaDragon securities in the market. This may negatively impact on the future SeaDragon share price, investor sentiment and trading liquidity.

5. PROFILE OF SEADRAGON

5.1 Background

SeaDragon is New Zealand's largest refiner and blender of high-quality, internationally certified concentrated fish oils and fractions, including Omega-3 oils. SeaDragon is listed on the main board of the New Zealand Stock Exchange with a current market capitalisation of approximately \$18 million. An overview of SeaDragon's history is set out below.



5.2 Overview of Operations

Vision & Strategy

SeaDragon's vision is to be recognised as a world-class provider of premium marine ingredients which are sustainably sourced from the fisheries in the Southern Oceans and manufactured in New Zealand.

Over the past 12 months, SeaDragon has established itself as a reliable supplier of commercial quantities of Omega 3 oil. This has included:

- Securing access to raw materials with shorter lead times (i.e. continuity of supply).
- Establishing relationships with several major international customers.

These developments have provided the Company with a strong foundation to execute its Omega-3 strategy, which includes;

- Leveraging the capabilities of its state of the art refinery to produce high-quality Omega-3 fish oils, including:
 - High DHA Tuna oil for infant formula and functional food applications.
 - New Zealand sourced Hoki oil which provides a point-of-difference to key customers.
 - New Zealand King Salmon oil which leverages SeaDragon's proximity to the largest producer of farmed king salmon in the world.
- Grow its international customer base and sales, focussing on three key segments:
 - Tier 1: Brand sponsors.
 - Tier 2: Fortified food manufacturers.
 - Tier 3: Refiners.
- Eventually develop a balanced portfolio of Omega-3 products, ranging from bulk refined oil through to more advanced products such as micro-encapsulated powder.

Refinery

In 2016 SeaDragon's commissioned its new Omega-3 fish oil refinery. 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 per annum. 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 agents and fortified food manufacturers.

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

5.3 Board of Directors and Senior Management

The current Directors and Senior Management of SeaDragon are listed below. The Company's four substantial shareholders all have representation on the Board.

SeaDragon - Directors	
Name	Role
Colin Groves	Independent Chairman
Richard Alderton	Independent Director
Mark Stewart	Non-Executive Director (Representative of Pescado)
Matthew McNamara	Non-Executive Director (Representative of OFM)
Stuart Macintosh	Non-Executive Director (Representative of SDMO Trustee)
Mark Sadd	Non-Executive Director (Representative of Comvita)
Nevin Amos	Chief Executive Officer

SeaDragon recently announced that Richard Alderton intends to step down from the Board latter this year. The Company has initiated a search process for a suitable replacement Independent Director with the appropriate skills and experience.

In 2016 Dr Nevin Amos was appointed as SeaDragon's Chief Executive Officer (replacing interim CEO Richard Alderton).

5.4 Current Capital Structure and Substantial Shareholders

SeaDragon is a public company listed on the NZSX. The Company has a single class of shares on issue comprising 4,513,618,718 ordinary shares collectively held by over 3,500 shareholders.

Shareholders

The top ten shareholders of SeaDragon are shown in the table below.

SeaDragon - Top Ten Shareholders (as at 17 May 2018)		
Shareholder	No. of Shares	%
Pescado Holdings Limited	855,433,823	18.95%
One Funds Management Limited	735,264,802	16.29%
SDMO Trustee Limited	435,388,743	9.65%
Comvita Limited	410,987,830	9.11%
Skylog Limited	75,902,750	1.68%
Leveraged Equities Finance Limited	54,545,750	1.21%
Forsyth Barr Custodians Limited	40,602,129	0.90%
FNZ Custodians Limited	40,026,393	0.89%
Darrell Crozier	32,326,757	0.72%
Longview Te Pirita Limited	31,110,855	0.69%
Other	1,802,028,886	39.92%
Total	4,513,618,718	100.00%

OFM holds its shares in SeaDragon through New Zealand Central Securities Depository Limited.

2015 Rights Offer Option Holders

As part of the rights offer undertaken by SeaDragon in 2015, participating investors were issued a total of 1,251,142,517 Rights Offer Options. The 2015 Options are exercisable by the holder in full or in part at any time before 29 September 2018 at an exercise price of \$0.015 per share. The top ten 2015 Option holders of SeaDragon are shown in the table below.

SeaDragon - Top Ten 2015 Option holders (as at 17 May 2018)		
Option Holder	No. of Options	%
Comvita Limited	410,987,830	33.12%
One Funds Management Limited	325,393,835	26.22%
Leveraged Equities Finance Limited	70,651,800	5.69%
Skylog Limited	27,601,000	2.22%
Tamahere Limited	18,750,000	1.51%
Forsyth Barr Custodians Limited	18,237,640	1.47%
Geoffrey Richard Brophy	13,642,500	1.10%
Yun Li	12,500,000	1.01%
Hotwater Nominees Limited	10,200,000	0.82%
ChangeQ Limited	9,375,000	0.76%
Other	323,535,246	26.07%
Total	1,240,874,851	100.00%

SeaDragon Chairman, Colin Groves, holds 18,750,000 2015 Options through Tamahere Limited, and Non-Executive Director, Richard Alderton, holds 9,375,000 2015 Options through ChangeQ Limited.

Comvita Option

As summarised in Section 3.4, Comvita currently holds an option to acquire 375 million shares in SeaDragon. The Comvita Option is currently exercisable at any time before 28 September 2018 at an exercise price of \$0.008 per share.

However, in the event that the Proposed Transactions are approved, the terms of the Comvita Option will be amended such that Comvita has the option to acquire 909,090,909 shares, the expiry date will be extended until 31 March 2020 and the exercise price will be reduced to \$0.0033 per share.

Employee Share Options

In accordance with the Company's Employee Share Option Scheme, 104 million employee share options have been issued to selected senior management and directors. These options are exercisable at any time on or before 31 July 2019 at differing exercise prices (ranging from \$0.008 to \$0.011 per share). The SeaDragon Employee Share Option holders are shown in the table below.

SeaDragon - Employee Share Option Holders (as at 17 May 2018)		
Option Holder	No. of Options	%
Colin Groves	25,000,000	24.04%
Richard Alderton	15,000,000	14.42%
Nevin Amos	40,000,000	38.46%
Campbell Berry-Kilgour	8,000,000	7.69%
Deanna Rangitakatu	8,000,000	7.69%
Tracey Castleton	8,000,000	7.69%
Total	104,000,000	100.00%

5.5 Summary Financial Information

Financial Performance

SeaDragon's historical financial performance over the 3-year period ending 31 March 2018 is set out below.

SeaDragon - Summary Financial Performance			
NZ\$000	Audited Mar-16	Audited Mar-17	Unaudited Mar-18
Revenue	5,585	4,331	3,028
Cost of Sales	(4,278)	(6,549)	(5,664)
Impairment of Inventory	(4,263)	(297)	(351)
Gross Profit	(2,956)	(2,515)	(2,987)
Gains / Losses from Foreign Exchange	121	15	(26)
Other Income	175	-	40
Other Expenses	(2,637)	(3,721)	(2,437)
Operating Profit	(5,297)	(6,221)	(5,410)
Net Finance Cost	(226)	(438)	(647)
Profit Before Tax	(5,523)	(6,659)	(6,057)
Tax Expense	-	-	-
Total Comprehensive Income	(5,523)	(6,659)	(6,057)

SeaDragon reported a 30% decline in revenue to \$3.0 million for the 12-month period ending 31 March 2018, reflecting the Company's ongoing transition into the Omega 3 market. Whilst revenue from Omega 3 sales increased to circa \$1.0 million in FY18 (up from circa \$0.5 million in FY17), revenue from Omega 2 sales fell to circa \$2.0 million in FY18 (down from circa \$3.8 million in FY17).

The Company reported a net loss of \$6.1 million in FY18, down from a loss of \$6.7 million in FY17.

On 8 May 2018 SeaDragon announced its financial forecast for the financial year ending 31 March 2019, as summarised below:

- Revenue: \$10.0 million to \$14.0 million
- Normalised EBITDA: Negative \$2.0 million to negative \$ 2.8 million
- Net loss after tax: Negative \$3.6 million to negative 4.6 million.

Approximately 50% of the Company's forecast FY19 revenue is underpinned by indicative orders already received from key customers.

Financial Position

SeaDragon's summary historical financial position over the 3-year period ending 31 March 2018 is set out below.

SeaDragon - Summary Financial Position			
NZ\$000	Audited Mar-16	Audited Mar-17	Unaudited Mar-18
<u>Current Assets</u>			
Cash and Equivalents	195	4929	1,009
Trade and Other Receivables	685	325	495
Inventory	2,970	1943	1,601
Other	35	0	0
	<u>3,885</u>	<u>7,197</u>	<u>3,105</u>
<u>Current Liabilities</u>			
Trade and Other Payables	1,333	1096	1,060
Loans and Borrowings	3,874	1429	2,758
	<u>5,207</u>	<u>2,525</u>	<u>3,818</u>
<u>Non-Current Assets</u>			
Property, Plant and Equipment	13,127	12243	11,625
Other Receivables	75	75	75
	<u>13,202</u>	<u>12,318</u>	<u>11,700</u>
<u>Non-current Liabilities</u>			
Asset Retirement Obligation	240	248	255
Net Assets	<u>11,640</u>	<u>16,742</u>	<u>10,732</u>

As at 31 March 2018 SeaDragon's current liabilities exceeded its current assets by \$713,000, largely reflecting the book value of the Comvita Loan (which is set to expire in September 2018). However, the Company had positive net assets of \$10.7 million as at 31 March 2018, underpinned by the value of the Company's modern Omega-3 refinery.

As a 31 March 2018, SeaDragon had fully drawn down its \$3.0 million convertible loan facility with Comvita. However, for accounting purposes the book value of this loan is reported at less than \$3.0 million.

SeaDragon is currently cash constrained and has recently entered into a series of transactions in order to raise additional capital to fund its business plan implementation. On 15 May 2018 the Company announced a \$1.0 million Bridge Loan with OFM and Pescado.

Cash Flow

SeaDragon's summary historical cash flow over the 3-year period ending 31 March 2018 is set out below.

SeaDragon - Summary Cash Flow			
NZ\$000	Audited Mar-16	Audited Mar-17	Unaudited Mar-18
Cash Flow from Operating Activities	(3,342)	(3,882)	(4,650)
Cashflow from Investing Activities	(6,890)	(138)	(270)
Cash Flow from Financing Activities	9,122	12,628	1,000
Net Increase / (Decrease) in Cash	<u>(1,110)</u>	<u>8,608</u>	<u>(3,920)</u>

SeaDragon has continued to sustain significant cash losses from its business operations as it transitions its business model into the Omega 3 market. The Company's cumulative operating

cash flow over the 3-year period ending 31 March 2018 totalled negative \$11.9 million, this has placed ongoing pressure on the Company's cash reserves.

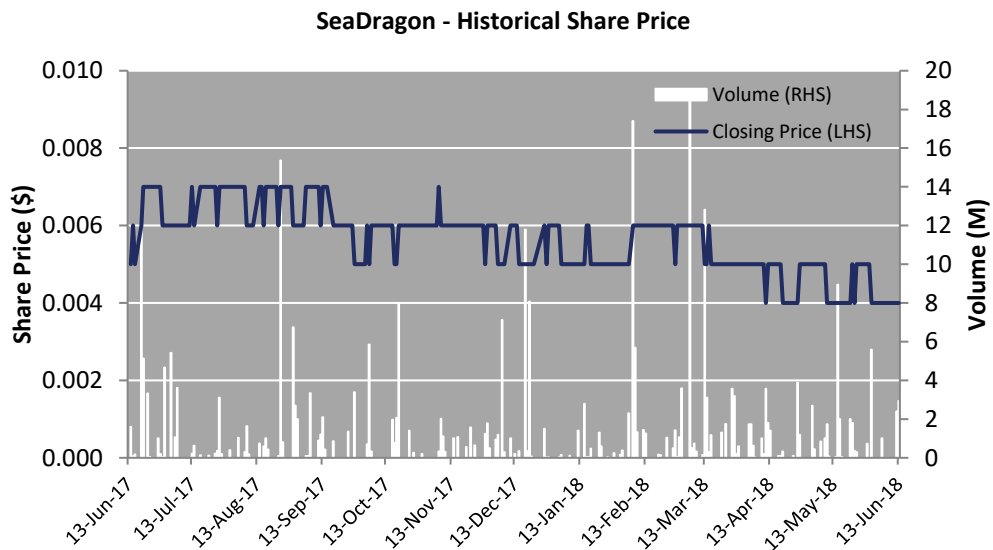
The Company has historically funded its operating losses and capital expenditure (i.e. its new Omega 3 refinery) by raising additional debt and equity capital, including:

- A \$10.0 million equity capital raising in September 2015.
- A 3.0 million convertible loan facility with Comvita in May 2016.
- A \$10.9 million equity capital raising in October 2016.

5.6 Share Price History

As at 13 June 2018, SeaDragon shares were trading at \$0.004 per share, representing a market capitalisation of approximately \$18 million. Over the 12-month period to 13 June 2018, SeaDragon shares have traded between \$0.004 and \$0.007 per share (based on the closing daily price).

SeaDragon's historical share price performance and trading volumes are summarised below.



The total volume of SeaDragon stock traded on the NZSX over the 12-month period to 13 June 2018 was equivalent to approximately 6.7% of the current total ordinary shares on issue.

6. SUMMARY PROFILES OF PESCADO, BIOSCIENCE MANAGERS AND COMVITA

6.1 Pescado Holdings Limited

Pescado is a private New Zealand company incorporated on 14 April 2016. The ultimate holding company of Pescado is Masthead Limited (**Masthead**), a New Zealand investment company owned by the Stewart family.

The sole director of Pescado is Mark Stewart. Mr Stewart is head of the Stewart family investment vehicle, Masthead, an active corporate investor in New Zealand public and private equity markets. He has been a Director of four publicly-listed companies, and is currently a Director of the successful export pet nutrition business Ziwi Limited. He has more than 34 years of commercial experience, primarily building successful export companies.

Pescado was formed to hold Masthead's investment in SeaDragon. This investment was largely made through the acquisition of rights in SeaDragon's 2016 rights offer when Pescado acquired a beneficial interest in 722,029,123 ordinary shares in SeaDragon to add to its existing interest at that time of 133,404,700 shares. As a result, Pescado currently holds 855,433,823 shares in SeaDragon making it the Company's largest shareholder with 18.952% of the ordinary shares.

Mark Stewart was appointed as a Director of SeaDragon on 22 November 2017.

6.2 Bioscience Managers

BioScience Managers (formerly Octa Phillip BioScience Managers) is a long-standing cornerstone shareholder in Sea Dragon, with a 16.29% equity stake held via the Asia Pacific Healthcare Fund II administered by OFM (formerly Octa Phillip Asset Management).

BioScience Managers is a leading life sciences investment firm, headquartered in Melbourne, Australia. The firm provides assistance and support to portfolio companies via a multi-disciplinary global team and international network of independent industry advisors. BioScience Managers' current funds under management comprise:

- Asia Pacific Healthcare Fund II - a 10 year Australian Unit Trust with A\$56 million under management.
- BioScience Managers Ventures 1 – a Venture Capital Limited Partnership with A\$13 million in committed capital, focused on Australian emerging companies.
- Bioscience Managers Translation Fund 1 – a \$101 million fund focused on Australasian public and private company investments in the healthcare sector.
- Downing FOUR Healthcare Share Class – a Venture Capital Trust focused on investing in healthcare & biomedical science companies in the UK.

Bioscience Managers has been an investor in SeaDragon since its initial reverse-listing on the NZX in 2012. Jeremy Curnock Cook, Managing Director and Founder of Bioscience Managers joined the Board of SeaDragon in October 2012. In 2015 OFM provided a \$2.5 million convertible loan to SeaDragon, which was subsequently converted into ordinary shares as part of the rights offer in 2015.

As noted in Section 2, the Proposed Transactions have been entered into by Bioscience, defined in this Report as "OFM and such other fund or funds managed by Bioscience Managers or associated with Bioscience Managers".

6.3 Comvita Limited

Comvita is an international natural health products company with a major focus on selling Manuka honey and related products including functional foods, healthcare products, medical products and personal care products. The company also manufactures and sells its own Australian olive leaf extract.

Comvita first listed on the NZX in 2003 and has a current market capitalisation of approximately \$262 million (as at 17 June 2016). Annual sales for FY17 were \$155.9 million with a net profit after tax of \$9.8 million.

Comvita first invested in SeaDragon in September 2015 taking a 13.06% equity stake as part of the 2015 rights offer. The agreement with SeaDragon also provided for the grant to Comvita of the Comvita Option and a Supply Agreement between SeaDragon and Comvita. In May 2016 Comvita agreed to provide a \$3 million convertible loan facility to SeaDragon. The agreement also provided for an extension to the expiry date of the Comvita Option from 30 September 2017 to 28 September 2018.

SeaDragon represents a strategic investment for Comvita. In its 2017 Annual Report Comvita noted that it had completed a significant amount of work in preparation for commercialisation of a New Zealand-sourced fish oil range, which it believes holds strong consumer appeal and market opportunity in its Asian markets.

Current Comvita Director Mark Sadd was appointed as a Director of SeaDragon on 22 November 2017, replacing Brett Hewlett as the Comvita representative on the SeaDragon Board.

APPENDIX I. INFORMATION, DISCLAIMER & INDEMNITY

I.a Sources of Information

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

- The draft Notice of Meeting.
- The Term Sheet between SeaDragon, Pescado, Bioscience and Comvita.
- The draft Loan Agreement between SeaDragon, Pescado, Bioscience and Comvita.
- Various NZSX announcements by SeaDragon including SeaDragon's FY18 unaudited preliminary result.
- Cashflow forecast by SeaDragon management as at June 2018.
- Seadragon 2018 strategy documents.
- Publicly available information on SeaDragon, Comvita, Bioscience and Pescado.

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

The Non-Associated Directors of SeaDragon have confirmed that we have been provided, for the purpose of this Report, with all information relevant to the Proposed Transaction that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is necessary for the purpose of preparing this Report.

In our opinion, the information set out in this Report is sufficient to enable the Non-Associated Directors and the Non-Associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Resolutions.

I.b 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.

I.c Disclaimer

We have prepared this Report with care and diligence and the statements in this Report are given in good faith and in the belief, on reasonable grounds, that such statements are true and correct.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of this Report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the Report or assumptions reasonably taken as implicit.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this Report. Such conditions may change significantly over relatively short periods of time. We have no obligation to advise any person of any change in circumstances which comes to our attention after the date of this Report or to review, revise or update our Report.

We have had no involvement in the preparation of the Notice of Meeting issued by SeaDragon and have not verified or approved the contents of the Notice of Meeting. We do not accept any responsibility for the contents of the Notice of Meeting except for this Report.

I.d Indemnity

SeaDragon has agreed that, to the extent permitted by law, it will indemnify Campbell MacPherson and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of this Report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law.

SeaDragon has also agreed to indemnify Campbell MacPherson and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Campbell MacPherson or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Campbell MacPherson shall reimburse such costs.

APPENDIX II. QUALIFICATIONS, DECLARATIONS & CONSENTS

II.a Qualifications

Campbell MacPherson Limited

Campbell MacPherson is a private New Zealand-owned investment bank and corporate finance advisory firm. It advises on mergers and acquisitions, debt and equity capital-raising and prepares independent corporate advisory reports, valuation reports and strategic advice to a wide range of private and public New Zealand companies, local bodies and other organisations. Further information on Campbell MacPherson can be found on our website www.campbellmacpherson.com.

The persons in Campbell MacPherson responsible for issuing this Report are Alistair Ward, Tony Haworth and Brad Caldwell. These individuals are experienced corporate finance practitioners with relevant expertise in preparing a report of this nature.

Summary profiles on each individual are provided below.

Alistair Ward B.Com (Hons), M INST D, AFNZIM

Alistair is an Executive Director of Campbell MacPherson Limited and co-founded the firm in 2002 with Stephen Burns. Alistair is a former principal of Waitiri Capital Ltd, an Auckland-based venture capital and advisory company established in 1997, the interests of which were acquired by Campbell MacPherson. He has advised many companies, business leaders and owners on issues relating to corporate governance and strategy, mergers, acquisitions and capital raising.

Alistair is a former CEO of Golden Bay Cement, the largest cement company in New Zealand and a key part of NZX-listed Fletcher Building. As a reflection of this position Alistair also chaired a variety of industry groups including the Cement and Concrete Association of NZ and the Major Energy Users Group. Alistair is a former Director of Solid Energy and continues to hold several private company directorships.

Alistair holds a Bachelor of Commerce degree (Honours) from the University of Otago and is a member of the New Zealand Institute of Directors and an Associate Fellow of the NZ Institute of Management.

Tony Haworth M.Sc (Tech), M.Sc (Fin), M.AusIMM, MAICD

Tony is a Director at Campbell MacPherson Limited and has worked for the Company since 2004. Tony is a former General Manager of National Mining Company in Oman and a former Director of Liberty Gold Corporation in London. Prior to joining Campbell MacPherson, Tony completed a Masters in Finance at London Business School. Prior to working and studying overseas Tony held the position of geologist with Heritage Gold Limited.

Tony specialises in mergers and acquisitions, corporate valuation and financial analysis and has advised on a wide range of corporate finance transactions and assignments for public and private New Zealand companies and organisations across a variety of industry/public sectors.

Tony holds a Master of Science and Technology degree (First Class Honours) from the University of Waikato and a Master of Science (Finance) degree from London Business School. He is a Member of the Australasian Institute of Mining and Metallurgy and a Member of the Australian Institute of Company Directors.

Brad Caldwell B.Com, M.Bus

Brad is a graduate of the University of Otago where he completed a Bachelor of Commerce, majoring in finance, followed by a Masters in Business, majoring in finance. Brad joined

Campbell MacPherson in 2010 and has worked on numerous corporate advisory assignments including mergers and acquisitions, capital raising and other projects. His expertise includes valuation, financial modelling and market/industry research.

II.b Independence

Campbell MacPherson does not have at the date of this Report, and has not had, any shareholding in or other relationship with SeaDragon Pescado, Bioscience or Comvita that could affect our ability to provide an unbiased opinion in relation to this Report.

Campbell MacPherson has not had any part in the formulation of the Proposed Transactions nor any aspects thereof. Our sole involvement has been the preparation of this Report.

Campbell MacPherson will receive a fixed fee for the preparation of this Report. This fee is not contingent on the conclusions of this Report. We will receive no other benefit from the preparation of this Report.

II.c Declarations

Advance drafts of this Report were provided to the Non-Associated Directors for their comments as to factual accuracy as opposed to opinions, which are the sole responsibility of Campbell MacPherson. Changes made to the Report as a result of circulation of the drafts have not changed the methodology or conclusions reached by Campbell MacPherson.

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

II.d 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 Meeting to be sent to all SeaDragon shareholders. Neither the whole nor any part of this Report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.