



SEADRAGON LIMITED

**INDEPENDENT ADVISER'S REPORT &
INDEPENDENT APPRAISAL REPORT**

**In respect of the proposed allotment of shares and options to
One Funds Management Limited arising from conversion of its
Convertible Loan**

CAMPBELL MACPHERSON LTD
CORPORATE ADVISORS

14 August 2015

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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1. INTRODUCTION

1.1 Background

SeaDragon Limited (**SeaDragon**; the **Company**) is a public listed company which specialises in manufacturing high quality Omega2 and Omega3 oils. SeaDragon is listed on the main board of the New Zealand Stock Exchange (**NZSX**) operated by NZX Limited (**NZX**). The Company has 1,876,904,194 ordinary shares on issue and a market capitalisation of \$22.5 million as at 29 July, 2015 (\$0.012 per share).

SeaDragon's two largest shareholders are Mersea Holdings Limited (**Mersea**), with 793,983,334 shares representing 42.30% of the voting securities on issue, and One Funds Management Limited (**OFM**), with 409,870,967 shares representing 21.84% of the voting securities on issue.

Mersea currently has two representatives on the SeaDragon Board of Directors (the **Board**), Ross Keely and Stuart Macintosh. OFM has two representatives, Jeremy Curnock Cook and Matthew McNamara. The balance of the Board currently comprises Colin Groves, Patrick Geals and Tim Preston (the **Independent Directors**). The Company recently announced that Ross Keely, Jeremy Curnock Cook and Tim Preston will step down at the Company's upcoming AGM on 17 September, 2015.

On 24 June, 2015, SeaDragon announced that it had entered into a term sheet with OFM under which OFM would advance the Company up to \$2.5 million via a convertible loan (**Convertible Loan**) to fund ongoing working capital requirements. The terms of the Convertible Loan are summarised below in Section 1.3. The Convertible Loan was drawn in two tranches of \$1.25 million. The first tranche was drawn on 24 June, 2015 and the second tranche was drawn on 14 July, 2015.

On 2 July, 2015, SeaDragon announced that it intends to undertake an offer to subscribe for new shares (**Shares**) and options (**Options**) to raise \$5.0 million via a pro-rata rights issue (**Rights Offer**) and a shortfall bookbuild (**Shortfall Bookbuild**) of the securities attributable to the Rights (collectively the **Proposed Capital Raising**). The terms of the Rights Offer were announced on 10 August 2015 and are summarised below in Section 1.4.

Subject to shareholder approval, the Convertible Loan will be mandatorily converted to new ordinary Shares and Options in SeaDragon in conjunction with the Rights Offer, and OFM will be entitled to exercise its Options on an unrestricted basis to acquire additional new shares in SeaDragon in accordance with the terms of the Options (collectively the **Proposed Transaction**).

In the event that shareholders approve the allotment of Shares and Options to OFM via conversion of the Convertible Loan, it is likely that OFM's percentage ownership in the voting securities of SeaDragon will increase above its current level.

SeaDragon is a Code company under the Takeovers Code (the **Code**) and an Issuer under the NZX Listing Rules. The Directors of SeaDragon who are not associated with OFM (**Non-associated Directors**) have engaged Campbell MacPherson Limited (**Campbell MacPherson**) to prepare an Independent Adviser's Report in accordance with Rule 18 of the Code and an Appraisal Report in accordance with NZX Listing Rule 7.5.1, 9.2 and 1.7.2 (the **Report**). This Report provides an evaluation of the merits and the fairness of the Proposed Transaction.

1.2 Bioscience Managers & OFM

OFM holds 409,870,967 shares in SeaDragon and administers the shares as trustee for the Asia Pacific Healthcare Fund II (the **Fund**). The Fund was launched by BioScience Managers Pty Limited (**BioScience Managers**) who also manage the Fund on a day-to-day basis.

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. Further information on Bioscience Managers is provided in Section 5.

1.3 Key Terms and Conditions of the Convertible Loan and the Proposed Transaction

Key terms and conditions of the Convertible Loan and the Proposed Transaction are summarised below.

Convertible Loan: Key Terms and Conditions

Loan Amount / Price	OFM will advance the Company up to \$2.5 million via the issue of up to 2.5 million notes (issue price of \$1 per note).
Convertibility	<p>The Convertible Loan will automatically convert on a mandatory basis to ordinary Shares and Options in the Company as part of the Shortfall Bookbuild, subject to any required shareholder approvals. The number of Shares and Options into which the Convertible Loan shall be converted will be determined in accordance with the following formulas:</p> <p style="text-align: center;">$A = B/C$ $D = A$</p> <p>Where: A = the number of Shares to be issued to OFM. B = The principal amount of the Convertible Note (including any capitalised interest). C = The conversion price. D = the number of Options to be issued to OFM.</p>
Loan Maturity	26 June, 2017 (unless converted)
Conversion Price (Scenario A)	The conversion price for the Proposed Transaction will be \$0.008 per share, provided that at least \$5.0 million is raised under the Proposed Capital Raising.
Conversion Price (Scenario B)	The conversion price for the Proposed Transaction will be \$0.0064 per share if the amount of capital raised under the Proposed Capital Raising is less than \$5.0 million (i.e. a 20% discount to the offer price under the Rights Offer).
Drawdown of Funds	The Convertible Loan will be drawn down in two tranches of NZ\$1.25 million. The first tranche was drawn on 24 June, 2015 and the second tranche was drawn on 14 July 2015.
Interest	Interest will accrue on the outstanding balance at 18% per annum, reducing to 13% per annum once shareholders have granted any required approvals for the Proposed Transaction. Interest will accrue on a daily basis and may be capitalised at the option of OFM.
Security	Unsecured.

Shareholder Approval	SeaDragon shareholders are to vote on the Proposed Transaction at SeaDragon's Annual Meeting, scheduled to be held on 17 September, 2015.
Proposed Capital Raising	The Company has agreed that it will launch the Rights Offer prior to 31 August 2015.

1.4 Key Terms of the Proposed Capital Raising

SeaDragon is proposing to undertake a non-underwritten, renounceable Rights Offer and Shortfall Bookbuild seeking to raise \$5.0 million in new equity capital (excluding proceeds from the Convertible Loan). Proceeds from the Proposed Capital Raising will be used to fund ongoing construction of the Company's new Omega-3 fish oil factory in Nelson, add a fractionation plant to the facility, upgrade the Omega-2 facility, pay the costs of the Rights Offer and to meet the Company's working capital requirements.

The subscription price for the Rights Offer has been set by the SeaDragon Board at \$0.008 per share (i.e. 0.8 cents per share). Shareholders will be entitled to subscribe for 3 new SeaDragon shares for every 5 shares held and will also be entitled to receive one Option (for no additional consideration) for every Share they subscribe for.

Key terms of the Rights Offer and Shortfall Bookbuild are summarised below. Further information is provided in the Rights Offer Document.

Rights Offer – Key Terms

Entitlement	Eligible shareholders will be entitled to subscribe for 3 Shares for every 5 Shares currently held. Subscribing shareholders will also receive one Option for every new Share subscribed.
Over-Subscriptions	Eligible shareholders will be entitled to apply for oversubscriptions. These will be accepted (in full or in part) or rejected at the Board's discretion. However, all shares subscribed for by existing shareholders will be accepted ahead of any shares subscribed for by external parties via the Shortfall Bookbuild.
Issue Price	\$0.008 per share
Renounceability	The Rights Offer will be fully renounceable.
Size	The maximum number of Shares to be allotted pursuant to the Rights Offer is 1,126,142,517 (\$9,009,140). The maximum number of Options to be allotted pursuant to the Rights Offer is 1,126,142,517.
Terms of the Options	Each Option will entitle the holder to subscribe for one new SeaDragon share at an exercise price of \$0.015 per share, exercisable at any time within 3 years of the date of issue.
Underwriting	The Rights Offer is not underwritten.
Shortfall Bookbuild	Any unsubscribed SeaDragon shares associated with the Rights Offer will be offered to eligible investors via a bookbuild process at a price of not less than \$0.008 per share. In the event an investor participates in the Shortfall Bookbuild at a price greater than \$0.008 per share the aggregate difference will be paid on a pro-rata basis to existing SeaDragon shareholders.

OFM has advised that it will not be participating in the Rights Offer other than in respect of the conversion (subject to shareholder approval) of its Convertible Loan. Based on a maximum capital raising of approximately \$9.01 million (including the conversion of the Convertible Loan), the amount of capital that can be raised from shareholders other than OFM is capped at approximately \$6.42 million (assuming OFM elects to capitalise all interest on the Convertible Loan).

Mersea has indicated that the maximum it intends to subscribe for in the Rights Offer is \$100,000. This represents only 2.6% of Mersea's pro-rata allocation of \$3.81 million. Mersea has advised SeaDragon that it intends to assign, for nil consideration, Rights to Chairman Colin Groves and Director Richard Alderton to allow Mr Grove and Mr Alderton to participate in the Rights Offer to a combined amount of approximately \$200,000. Mersea intends to market the balance of its Rights for sale to third party investors via the Shortfall Bookbuild process.

The terms of the Shortfall Bookbuild include a requirement that pricing of the securities offered will not be less than the pricing under the Rights Offer. In our view it is likely that the Shortfall Bookbuild (if any) to new investors will be priced on the same terms as the Rights Offer.

1.5 Takeovers Code Requirements

Rule 6 of the Code prohibits:

- A person who holds or controls less than 20% of the voting rights in a Code Company from increasing its control of voting rights beyond 20%.
- A person holding 20% or more of the voting rights in a Code Company from increasing its control of voting rights.

Unless the person complies with the exceptions to the fundamental rule.

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 interest of those persons who will vote to approve the Proposed Transaction.

In the event that the Proposed Transaction proceeds, the allotment of Shares and Options to OFM may result in OFM increasing its control of voting rights in SeaDragon above its current level of 21.84%. The Independent Directors of SeaDragon have therefore engaged Campbell MacPherson to prepare this Independent Adviser's Report in accordance with Rule 18 of the Code.

1.6 NZSX 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.

In the event that the Proposed Transaction proceeds, it is possible that the allotment of Shares and Options to OFM, and the subsequent exercise of those Options, may result in OFM increasing its ability to exercise effective control of SeaDragon. The Independent Directors of SeaDragon have therefore engaged Campbell MacPherson to prepare this Independent Appraisal Report.

NZX Waivers - 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 an Issuer) if a Related Party is a party to at least one of a related series of transactions of which the Material Transaction forms part. One Funds is a Related Party because it holds more than 10% of the shares of the Company. Although the Agreement is not a Material Transaction, it, taken together with the Rights Offer, forms a related series of transactions which require approval by ordinary resolution of the Company's shareholders in accordance with Listing Rule 9.2.1.

In connection with Resolution 6(c), the Company has applied for, and has been granted, waivers from the NZX of the following Listing Rules:

- (a) Listing Rule 9.2.5(b) to the extent that this rule requires the Company to prepare an Appraisal Report addressing the Rights Offer. The implication for shareholders is that they will not receive an Appraisal Report in respect of the Rights Offer. However, shareholders will receive an Appraisal Report under Listing Rule 7.5 and Listing Rule 9.2 to the extent that the waiver does not apply; and
- (b) Listing Rule 9.3.1 to the extent that this rule excludes persons from voting on Resolution 6(c) only because of the benefits they will receive as a participant in the Rights Offer who participates on the same terms and conditions as all other shareholders of the Company. The implication for shareholders is that Mersea (the Company's largest shareholder) and other Related Parties of the Company (as defined in the Listing Rules) subject to that waiver may vote on Resolution 6(c). Mersea has advised that it intends to vote in favour of Resolution 6. Neither OFM, nor any of its associated persons are entitled to vote or exercise discretionary proxies in respect of this resolution.

The waiver decision can be viewed at www.nzx.com and also gives the reasons for that decision.

1.7 Notice of Meeting

The Company is holding its annual meeting of shareholders on 17 September, 2015 where the SeaDragon shareholders will vote on a number of resolutions as contained in the notice of annual meeting (**Notice of Meeting**). These resolutions shall include Resolution 6 relating to the Proposed Transaction (the **Resolution**):

Resolution 6 – Convertible Notes and Rights Offer

“That

- (a) for the purposes of Listing Rule 7.3.10(b)(ii), and in accordance with the term sheet for the convertible loan notes issued by the Company to One Funds Management Limited, dated 23 June 2015 (the Agreement):*
 - (i) the Company may issue such number of ordinary shares to One Funds Management Limited as may be required on the conversion of the convertible loan notes (the Conversion) pursuant to the Agreement, up to a maximum of 404,730,313 ordinary shares (the Conversion Shares); and*
 - (ii) the Company may issue such number of ordinary shares on the exercise of options to acquire shares which will be granted to One Funds Management Limited as part of the Conversion pursuant to the rights offer (via the bookbuild process), up to a maximum of 404,730,313 ordinary shares (the Option Shares); and*
- (b) subject to Resolution 6(a) being passed, for the purposes of Listing Rule 7.5 and Rule 7(d) of the Takeovers Code, the issue of the Conversion Shares and the Option Shares to One Funds Management Limited is approved; and*
- (c) for the purposes of Listing Rule 9.2.1, the rights offer and the Agreement, as a related series of transactions of which a Material Transaction (as defined in Listing Rule 9.2.2) forms part, are approved.”*

OFM will not be entitled to vote on Resolution 6 in respect of the Proposed Transaction.

1.8 Issue of the Report

The Non-associated Directors of SeaDragon 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 Rule 7.5.1, 9.2 and 1.7.2.

Campbell MacPherson was approved by the Takeovers Panel on 20 July, 2015 to prepare the Independent Adviser’s Report.

Campbell MacPherson was approved by the NZX on 28 July, 2015 to prepare the Independent Appraisal Report.

Campbell MacPherson issues this Report to the Non-associated Directors to assist the shareholders of SeaDragon who are not associated with OFM (**Non-associated Shareholders**) in forming their own opinion on whether to vote for or against Resolution 6. The Non-associated Shareholders are those shareholders other than OFM.

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 Resolution 6 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 our prior written consent.

2. EVALUATION OF THE MERITS OF THE PROPOSED TRANSACTION

2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the allotment of Shares and Options to OFM under the Proposed Transaction. 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 guidance note on the role of Independent Advisers dated March 2015;
- Definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction;
- Overseas precedents; and
- The ordinary meaning of the term “merits”.

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

- Rationale for the Proposed Transaction.
- The terms and conditions of the Proposed Transaction.
- Potential alternatives to the Proposed Transaction.
- Potential impact on the ownership of SeaDragon by OFM.
- Potential impact on the control of SeaDragon by OFM.
- Other benefits and disadvantages to SeaDragon and the Non-associated Shareholders.
- The likelihood of the Resolution in respect of the Proposed Transaction being approved.
- The implications of the Resolution in respect of the Proposed Transaction 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.

2.2 Rationale for the Proposed Transaction

SeaDragon is currently in a business transition phase as it implements a long-term growth strategy which will see the Company develop the capability to manufacture and distribute commercial quantities of Omega 3 fish oils. This has included significant investment in a new Omega-3 fish oil refinery in Nelson and increased investment in skilled staff to support future growth.

As previously announced to the market, SeaDragon has faced a number of challenges with the construction of its new refinery resulting in a material increase in the time and cost to complete. The original 2013 budget for the refinery was approximately \$4.0 million on the basis of building the plant on the existing site. However, this was subsequently not seen as being practical given the space constraints and restriction on expansion. On that basis, SeaDragon selected a Greenfield design and build, which was estimated to cost \$6.5 million. The latest estimates by the Company indicate the final budget is now approximately \$9.2 million as a result of several factors including:

- (a) the reallocation of costs from the landlord to SeaDragon;
- (b) changes in the building regulations following the 2013 Seddon earthquake;
- (c) the addition of extra equipment; and
- (d) the reconfiguration of some of the internal plant layout.

SeaDragon is also a very working capital intensive business due to the requirement to advance-fund large raw material inventory orders from international suppliers.

The unaudited financial position of the Company as at 31 May 2015 indicates that SeaDragon had drawn bank facilities of \$3.2 million. The Company was also facing a significant projected shortfall in available funds to maintain the refinery construction programme and cover other working capital requirements.

The SeaDragon Board had recognised the need for urgent action including seeking additional debt and equity capital. The Board approached its lender and secured an additional \$1 million in working capital facilities (new facility limit of \$4 million). The Board also approached the two major SeaDragon shareholders to seek interim funding ahead of a planned Rights Offer. Whilst Mersea was not in a position to provide immediate funding, Bioscience Managers, on behalf of OFM, agreed to provide up to \$2.5 million with the intention that this would be converted into equity in the Rights Offer in due course.

The \$2.5 million provided by OFM, together with the additional \$1 million in debt funding from SeaDragon's bank, is still insufficient to meet the Company's projected funding requirements over the second half of the 2015 calendar year. The Company is therefore seeking to raise a further \$5.0 million via the Proposed Capital Raising. The SeaDragon Board considers this to be the minimum additional funding required in the short-term to allow the Company to proceed with its current business plan.

SeaDragon's bankers have indicated that, subject to a minimum equity capital raising of \$3 million (inclusive of conversion of the Convertible Loan), a further \$2 million is expected to be made available in working capital facilities i.e. increase the total facility limit to \$6 million.

2.3 Terms and Conditions of the Proposed Transaction

A summary of the terms of the Proposed Transaction is provided in Section 1.3. Our views on key aspects of the Proposed Transaction are provided below.

SeaDragon advises that the terms of the Convertible Note were negotiated on an arm's length basis between OFM (represented by a Bioscience Managers director who was not a member of the SeaDragon Board) and SeaDragon (represented by a subcommittee comprising the three Independent Directors). Neither of the two OFM appointees to the Board of SeaDragon participated in the negotiations.

Size of the Proposed Transaction

OFM has agreed to advance the Company up to \$2.5 million to fund ongoing working capital requirements. As at the date of this Report, SeaDragon has already drawn down the full amount of the Convertible Loan (i.e. \$2.5 million).

Campbell MacPherson understands that the \$2.5 million of capital advanced from OFM to the Company was determined by the SeaDragon Board based on a number of factors including:

- The Board's estimate of the level of capital that was required to help fund immediate cash requirements until additional capital could be sourced via the Proposed Capital Raising.

- The ability of OFM and Mersea to invest further capital into the Company prior to the Proposed Capital Raising.

We note that OFM's pro-rata entitlement under the terms of the Rights Offer would be up to 245,922,580 Shares and 245,922,580 Options with a total subscription value of \$1,967,381. This is a lower investment than the \$2.5 million it has contributed by way of the Convertible Loan, effectively enabling OFM to "oversubscribe" into the Rights Offer. However, we note that, under the terms of the Rights Offer, all existing shareholders will be entitled to apply for oversubscriptions. It is possible that oversubscriptions may be scaled in the event of excess demand, however, we view this as unlikely, given the scale of the Rights Offer.

Conversion Ratio / Pricing

Subject to shareholder approval, the Convertible Loan will automatically convert to ordinary Shares and Options in the Company upon the closing of the Proposed Capital Raising, either at the Rights Offer price or at a 20% discount to the Rights Offer price in the event that less than \$5.0 million is raised through the Proposed Capital Raising.

OFM committed \$2.5 million in funding to SeaDragon on an urgent and unsecured basis prior to the Proposed Capital Raising being undertaken. There is no guarantee that SeaDragon will be able to raise the desired \$5.0 million under the Proposed Capital Raising, and therefore it is possible that the Company could remain undercapitalised, limiting its ability to successfully implement its growth strategy. This presents additional risk to OFM and is reflected in the 20% discount negotiated for the conversion price under these circumstances.

Whilst we are not aware of any equivalent recent transactions in the New Zealand market where a convertible loan has converted into shares in a rights issue, there have been a number of recent examples of NZX-listed companies issuing mandatory convertible loans which have converted at a discount to the prevailing share price. In February 2015 Chatham Rock Phosphate Limited announced a private placement of a mandatory convertible loan convertible into ordinary shares at a 15% discount to the 20 day VWAP prior to the conversion date. In March 2015 Lateral Corporation Limited announced a private placement of mandatory convertible notes convertible into shares at a price (subject to various conditions) equal to a 15% discount to the volume weighted average price (**VWAP**) over the 20 business days preceding the maturity date.

The Independent Directors of SeaDragon have indicated to Campbell MacPherson that they are confident that a minimum of \$5 million (excluding conversion of OFM's Convertible Loan) will be raised via the Rights Offer and Shortfall Bookbuild. They consider the terms of the Proposed Capital Raising to be attractive to both existing shareholders and new investors, and they expect this will generate significant interest. (Under these circumstances the 20% discount to the conversion price for the Convertible Loan will not be triggered).

Interest Rate

Interest will accrue on the outstanding balance of the Convertible Loan at 18% per annum, reducing to 13% per annum in the event that the Non-associated Shareholders approve Resolution 6 relating to its conversion. A two-tier interest rate mechanism has been incorporated into the Convertible Loan to:

- Reflect the higher initial risk of providing urgent interim unsecured funds to SeaDragon prior to determining whether the Company can fully fund its current Business Plan.
- Encourage Non-associated Shareholders to approve the Proposed Transaction.

The Convertible Loan has effectively been designed to provide short-term bridging finance for the Company prior to the Proposed Capital Raising. Interest will accrue on a daily basis prior to conversion and may be capitalised and converted into Shares and Options at the option of

OFM. In the event that OFM elects to capitalise all interest and convert it into Shares and Options, there will be a direct cash saving to the Company. However, this will also result in additional shares being issued to OFM, with a flow on effect on OFM's ownership and control of SeaDragon.

Given that the anticipated date for allotting new Shares and Options from the Proposed Transaction is only 1 day after the AGM date, any switch to the lower interest rate will have negligible effect. We have therefore focussed on the 18% rate that will apply until and unless the Non-associated Shareholders approve the Proposed Transaction.

Based on current short-term unsecured loan rates in the retail banking market we consider the 18% interest rate to be relatively expensive but still falls within the range that we would expect. These unsecured rates range from approximately 12 – 19% and are typically greater than 15%. Direct comparisons with business loans are difficult to find given almost all examples that we are aware of in the New Zealand market are secured by the assets of the Company and/or have personal guarantees from the shareholders and/or directors, and therefore attract significantly lower interest rate terms.

2.4 Value of the Convertible Loan without Conversion Approval

As a baseline position Campbell MacPherson has assessed the current value of the Convertible Loan on the basis that Resolution 6 is not approved and the Convertible Loan must be repaid on the maturity date (i.e. we have valued the Convertible Loan as a debt security).

The value of a debt security is calculated as the present value of all future coupon and principal payments over the life of the security, and is therefore primarily a function of:

- The coupon rate;
- The principal paid on maturity; and
- The discount rate (required rate of return) applied to future coupon and principal payments.

Key assumptions made by Campbell MacPherson in assessing the value of the Convertible Loan are set out below.

Convertible Loan Valuation – Inputs & Assumptions

Valuation Date	18 September 2015 (the proposed conversion date)
Term	1.8 years (based on a maturity date of 26 June, 2017)
Coupon Rate	18% p.a.
Coupon Frequency	Monthly in arrears
Coupon Payment	All coupons are capitalised and paid at maturity (as per the Convertible Loan Agreement)
Principal Value as the Valuation Date	\$2.59 million (assumes all accrued interest is capitalised)
Nominal Discount Rate	14% to 19% p.a.

Based on the Inputs and assumptions set out above, Campbell MacPherson has assessed the value of the Convertible Loan as at 18 September, 2015 to range from \$2.53 million to \$2.77 million. Our assessed value range captures the value of all interest accrued on the Convertible loan since the initial draw-down date.

2.5 Potential Transfer of Value to OFM with Conversion Approval

Overview

The Proposed Transaction will likely result in a transfer of value from the Non-associated Shareholders of SeaDragon to OFM. This can principally be attributed to the quantum of the Convertible Loan (including any capitalised interest) relative to OFM's pro-rata entitlement under the Rights Offer, and also the discounted conversion price in the event that less than \$5.0 million of new equity capital is raised under the Proposed Capital Raising.

Rights Offer is Renounceable

The Rights Offer is to all existing shareholders, including OFM and is renounceable. This means that shareholders will be able (subject to supply and demand) to sell their Rights (or buy additional Rights) should they wish to do so. Whilst we are not required to opine on the terms of the Rights Offer, the potential for shareholders to receive value for their Rights is an attractive feature of the Proposed Capital Raising. We also note that all shareholders shall have the ability to apply for oversubscriptions.

OFM Entitlement under the Rights Offer

OFM is not participating in the Rights Offer directly and does not intend to market its Rights for sale. However, by virtue of the Proposed Transaction, OFM will be allotted more Shares and Options than its pro-rata entitlement under the Rights Offer. This is expected to result in a transfer of value from the Non-associated Shareholders to OFM. The extent of any transfer of value will depend on a wide range of factors as discussed in further detail below in this Section.

The total outstanding principal on the Convertible Loan, assuming all interest is capitalised, will be equal to approximately \$2.59 million as at the proposed conversion date of 18 September, 2015. This is \$0.62 million higher than OFM's pro-rata entitlement under the Rights Offer of approximately \$1.97 million.

Conversion Price

As set out above, the conversion price, and therefore the number of Shares and Options to be issued to OFM under the Proposed Transaction, is linked to the amount of capital raised under the Proposed Capital Raising. In the event that the Company is unable to raise a minimum of \$5.0 million (excluding the proceeds from the Convertible Loan), the conversion price will be set at \$0.0064 per share. This is equivalent to a 20% discount to the issue price of shares under the terms of the Rights Offer.

If the Convertible Loan is converted to equity based on a share price which is lower than the issue price under the Rights Offer, OFM will be issued additional Shares and Options at no extra cost, resulting in additional transfer of value to OFM.

Key factors to Consider in Assessing the Potential Transfer of Value

In order to assess the potential transfer of value to OFM as a result of the Proposed Transaction, Campbell MacPherson has considered the following factors:

- The number of Shares and Options to be issued to OFM and the Non-associated shareholders under the Proposed Capital Raising and the Proposed Transaction.
- The theoretical impact of the Proposed Capital Raising and the Proposed Transaction on SeaDragon's share price.
- The theoretical value of the Options to be issued under the Proposed Capital Raising and the Proposed Transaction.

We recognise that the nature of the Proposed Transaction when combined with the possible outcomes of the Rights Offer and the Shortfall Bookbuild results in a significant level of complexity when assessing the potential transfer of value to OFM as a result of the Proposed Transaction.

Given the level of uncertainty around the precise quantum of capital which will be raised under the Proposed Capital Raising, and therefore the number Shares and Options which will be issued under the Proposed Capital Raising and the Proposed Transaction, Campbell MacPherson has assessed the potential transfer of value of OFM under three key scenarios on the basis that the Proposed Transaction is approved by shareholders.

<p>Scenario 1: OFM maximum ownership position</p> <ul style="list-style-type: none"> ▪ OFM is the only party to contribute to the Proposed Capital Raising. ▪ OFM's capitalises all interest on its Convertible Loan. ▪ The Convertible Loan is converted to Shares and Options at a price of \$0.0064 per Share. ▪ OFM exercises all of its Options.
<p>Scenario 2: Rights Offer closes raising \$5 million</p> <ul style="list-style-type: none"> ▪ Existing shareholders contribute \$5 million to the Rights Offer. ▪ OFM's capitalises all interest on its Convertible Loan. ▪ The Convertible Loan is converted to Shares and Options at a price of \$0.008 per Share. ▪ All holders exercise their Options.
<p>Scenario 3: Rights Offer + OFM Loan Conversion raises the maximum of \$9.0 million</p> <ul style="list-style-type: none"> ▪ Existing shareholders contribute \$6.4 million to the Rights Offer. ▪ OFM's capitalises all interest on its Convertible Loan. ▪ The Convertible Loan is converted to Shares and Options at a price of \$0.008 per Share (raising \$2.6 million). ▪ All holders exercise their Options.

We note that these scenarios are based on levels of participation by existing shareholders. We have specifically excluded from the scenarios the introduction of new shareholders via the Shortfall Bookbuild as this would impact separately on the ownership position of OFM and the Non-associated shareholders and would further distort our ability to explain the potential impact of the Proposed Transaction.

As noted in Section 2.3, the Independent Directors are confident that at least \$5 million (excluding conversion of OFM's Convertible Loan) will be raised via a combination of the Rights Offer and the Shortfall Bookbuild.

In our view, Scenario 1 is therefore an extreme position that is unlikely to eventuate. We believe it is more likely that the maximum percentage ownership position that OFM will reach will be closer to that derived under Scenario 2 (notwithstanding that some of the capital raised may come from the Shortfall Bookbuild). Scenario 3 is also considered less likely than Scenario 2 given the large quantum of capital required to be raised under this Scenario.

Scenarios 2 and 3 also assume exercise of the existing 8 million options currently on issue to Mr Sean Joyce. These Options are exercisable at a price of \$0.01 per share (i.e. 50% below the strike price of the Options to be issued via the Rights Offer). These options are not material to our overall analysis.

Allotment of Shares and Options

The potential number of Shares and Options to be issued to OFM and the Non-associated Shareholders as a result of the Proposed Capital Raising is summarised below for each Scenario. Further analysis of the impact of the Proposed Transaction on the ownership and control of SeaDragon is provided in Section 2.7.

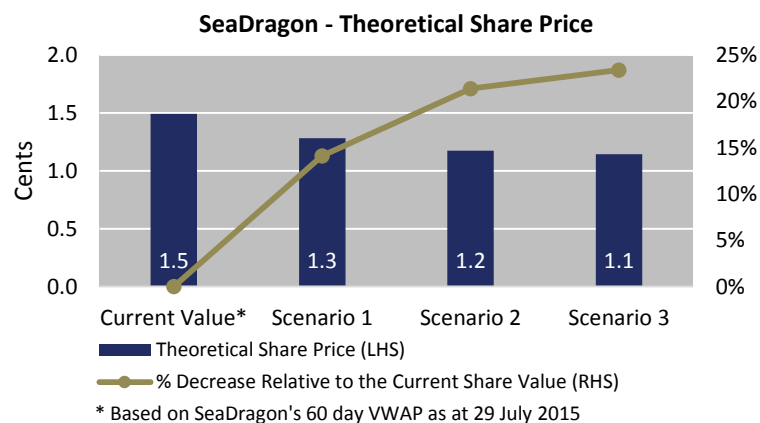
SeaDragon - Shares and Options issued Under the Proposed Capital Raising and the Proposed Transaction				
Millions	Current	Scenario 1	Scenario 2	Scenario 3
Shares Issued to Shareholders other than OFM	-	-	625	802
Shares Issued to OFM	-	405	324	324
Total Number of Shares on Issue	1,877	2,282	2,826	3,003
Options Issued to Shareholders other than OFM	-	-	625	802
Options Issued to OFM	-	405	324	324
Total Number of Options on Issue	8	413	957	1,134

Theoretical Share Price

The current price of SeaDragon shares (based on the 60 day VWAP as at 29 July 2015) is \$0.015 cents per share. Campbell MacPherson has considered the following factors in assessing the theoretical value of SeaDragon shares immediately after the Proposed Capital Raising (including the Proposed Transaction) but before the exercise of any Options:

- The value of SeaDragon shares prior to the Proposed Capital Raising.
- The number of Shares on issue prior to the Proposed Capital Raising.
- The issue price for the Shares and Options under the Proposed Capital Raising.
- The conversion price under the Proposed Transaction.
- The number of Shares issued pursuant to the Proposed Capital Raising.
- The number of Options issued pursuant to the Proposed Capital Raising and the associated impact on the SeaDragon share price.

As summarised below, Campbell MacPherson has assessed the theoretical price of SeaDragon shares following the completion of the Proposed Capital Raising and the Proposed Transaction to range from \$0.013 per share under Scenario 1 to \$0.011 per share under Scenario 3. This represents a discount of between 14% and 23% to the current price.



Option Value

As discussed in Section 1.3, each Share subscribed for under the Proposed Capital Raising will come with a free Option. OFM will therefore be issued a significant number of Options as a

result of the Proposed Transaction. The Options can be exercised at any time within 3 years of the date of issue.

Key assumptions made by Campbell MacPherson in assessing the value of the Options to be issued under the Proposed Transaction are summarised below.

SeaDragon Option Valuation – Inputs and Assumptions

Option Valuation Model	Black-Scholes (adjusted for future dilution)
Value of SeaDragon Shares following the Proposed Transaction	Variable - the theoretical value of SeaDragon shares following the completion of the Rights Offer and the Proposed Transaction will be determined by the total amount of capital raised.
Exercise Price	\$0.015 per Share
Expected Life	3 years
Expected Dividends	SeaDragon does not currently pay dividends. For the purposes of this Option valuation Campbell MacPherson has assumed that no dividends are paid over the life of the Options.
Risk Free Rate	2.9% - Based on the 3 year risk free rate reported by the NZ Treasury as at 30 June 2015.
Volatility	45% - Based on SeaDragon's observed historical share price volatility.

The standard Black-Scholes formula for valuing options assumes that an option relates to acquiring existing shares. In the case of the Options to be issued under the Proposed Capital Raising and the Proposed Transaction, SeaDragon will issue one new share for each Option exercised. The Options therefore have the characteristics of a warrant. Campbell MacPherson has made an adjustment to the value derived from the Black-Scholes formula to reflect the future dilutive effect of the Options. The size of this adjustment, and therefore the value of the Options, varies depending on the number of Options issued, which is determined by the amount of capital raised under the Proposed Capital Raising.

Utilising the inputs and assumptions outlined above, Campbell MacPherson has assessed the value of the Options to range from \$0.0024 (0.24 cents) to \$0.0033 (0.33 cents) per Option. The Options are therefore a significant contributor to our overall value analysis. All existing shareholders who exercise their Rights will benefit from receiving the value imbedded in each Option. OFM will also receive significant value through the Options it receives as part of the conversion of the Convertible Loan.

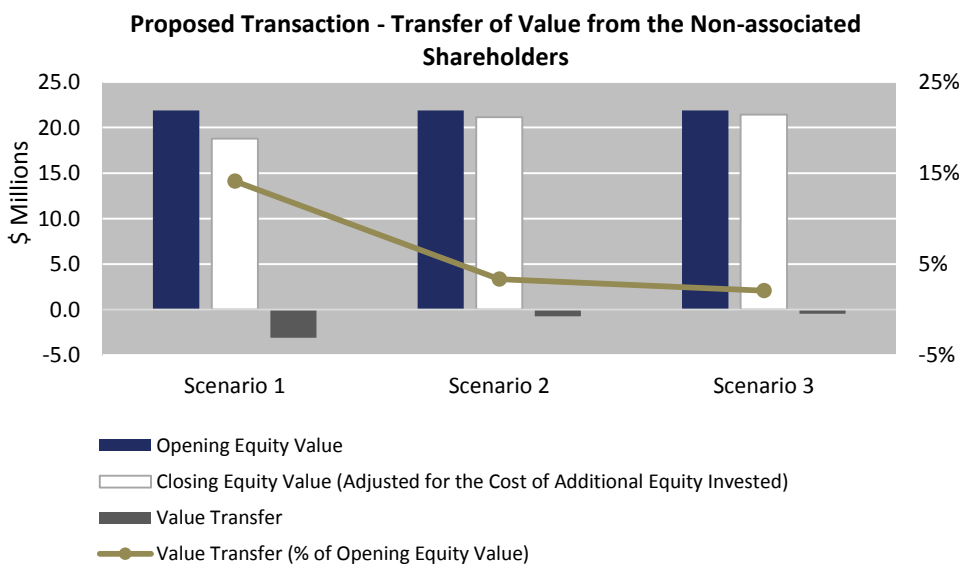
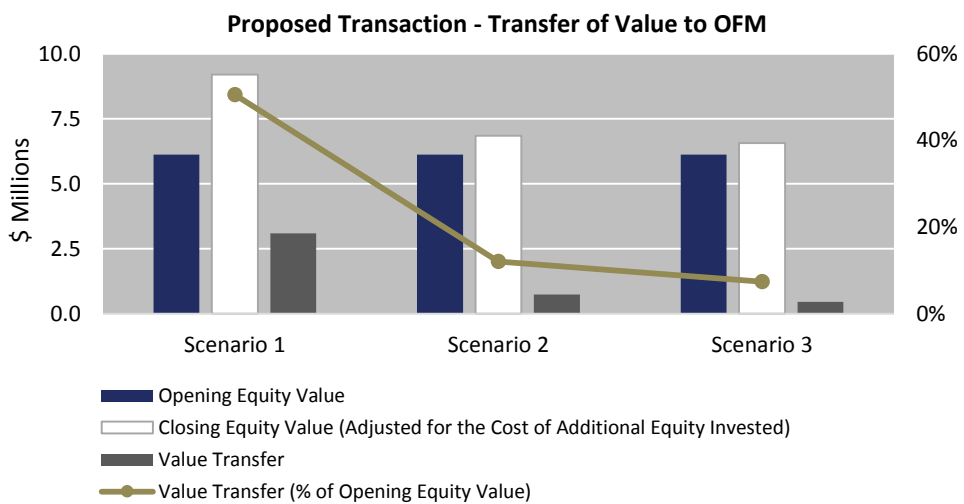
Transfer of Value – Summary Results

Based on our analysis of Scenarios 1, 2 and 3 above, including taking into consideration the potential number of Shares and Options to be issued, the theoretical price of SeaDragon shares following the Proposed Capital Raising, and the value of the Options issued as part of the Proposed Capital Raising, we have assessed the transfer of value to OFM as a result of the Proposed Transaction under each Scenario.

The assessed transfer of value to OFM ranges from a maximum of \$3.09 million in Scenario 1 through to a minimum of \$0.45 million under Scenario 3. Scenario 2 (in our view the most likely Scenario) results in transfer of value of \$0.74 million to OFM. This is equivalent to 12.0% of OFM's opening equity value and only 2.1% of the Non-associated Shareholder's opening equity value.

The \$3.09 million transfer of value under Scenario 1 is equivalent to 14.1% of the Non-associated Shareholder’s opening equity value. This is a significant transfer of value and is largely attributable to the discounted conversion price of \$0.0064 for the Convertible Loan (i.e. it is assumed that a minimum of \$5.0 million is not raised under the Proposed Capital Raising). Non-participation in the Rights Offer by the Non-associated Shareholders further increases the transfer of value to OFM under this Scenario.

Our assessed transfer of value to OFM under Scenarios 2 and 3 is significantly lower, being \$0.74 million (3.4% of the Non-associated Shareholder’s opening equity value) and \$0.45 million (2.1% of the Non-associated Shareholder’s opening equity value) respectively. This is a result of the discounted conversion price for the Convertible Loan is not being triggered under these scenarios (i.e. it is assumed that a minimum of \$5.0 million is raised under the Proposed Capital Raising). Furthermore, any transfer of value to OFM as a result of the Proposed Transaction decreases as the amount of capital raised under the Proposed Capital Raising increases.



Any transfer of value from the Non-associated Shareholders as a result of the Proposed Transaction will ultimately be determined by the level of support for the Rights Offer and the Shortfall Bookbuild.

2.6 Potential Alternatives to the Proposed Transaction

As noted in Section 2.2 the Board of SeaDragon was faced with an urgent requirement for cash funding in early June. An additional \$1 million in bank funding was made available. However, the only other realistic alternative was to source additional funding made available by OFM at short notice. Any delays in receiving this funding are likely to have significantly negatively impacted SeaDragon’s ability to progress its business plan and construction of the fish oil refinery.

We understand the SeaDragon Board would have been comfortable issuing equity to OFM prior to the Rights Offer. However, due to the restrictions under the Takeovers Code and NZX Listing Rules, this was not possible until such time as SeaDragon shareholders had approved the terms of issue. Therefore the funding was structured as a mandatory convertible loan.

2.7 Impact on the Ownership and Control of SeaDragon

Ownership

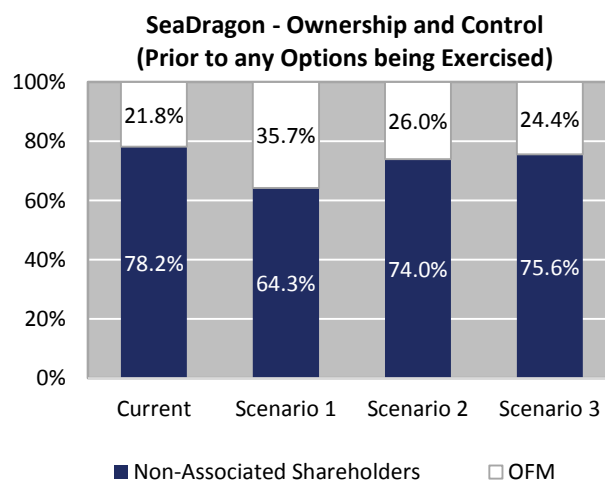
The ultimate impact of the Proposed Transaction on the ownership of SeaDragon will depend on the following key factors:

- The extent to which Rights holders take up their entitlement to acquire new Shares and Options under the Proposed Capital Raising (i.e. the amount of capital raised under the Proposed Capital Raising).
- The conversion price of the Convertible Loan and whether or not OFM decides to capitalise its interest on the Convertible Loan and convert this into Shares and Options as part of the Proposed Transaction.
- The extent to which the Options issued as part of the Proposed Capital Raising and the Proposed Transaction are exercised in the future.

Whilst any future issue of voting securities based on the above factors is unknown, the Proposed Transaction gives rise to a wide range of potential future shareholding levels for key groups of shareholders, including OFM and the Non-associated Shareholders. Utilising our three Scenarios from Section 2.5 we have assessed the impact of potential changes in the ownership and control of SeaDragon as a result of the Proposed Transaction, as explained in more detail below.

Ownership Impact of the Issue and Allotment of the Shares and Options

The ownership impact immediately following allotment of the Shares and Options is shown below for the three Scenarios.



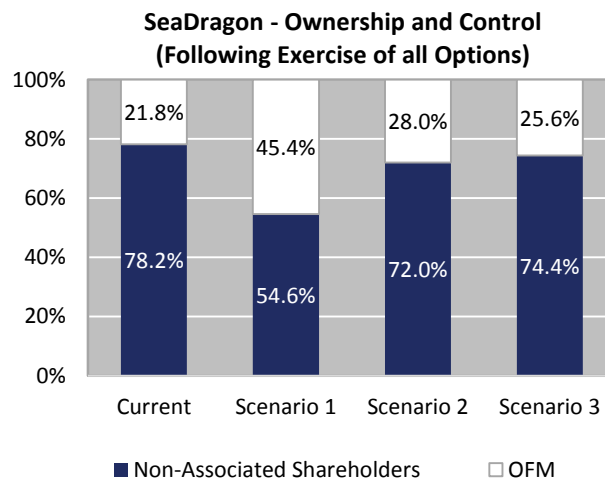
Under Scenario 1, whereby only OFM participates in the Proposed Capital Raising, OFM’s shareholding in SeaDragon as at the date of allotment of the Shares and Options would increase from 21.8% to 35.7%.

Under Scenario 2, whereby \$5.0 million is raised from the Non-associated shareholders via the Rights Offer, OFM’s shareholding in SeaDragon as at the date of allotment of the Shares and Options would increase from 21.8% to 26.0%.

Under Scenario 3, whereby the Proposed Capital Raising is fully subscribed by existing Shareholders (by way of the Rights Offer and OFM Convertible Loan conversion), OFM’s shareholding in SeaDragon as at the date of allotment of the Shares and Options would increase from 21.8% to 24.4%.

Additional Ownership Impact due to the Exercise of the Options

Applying the same three Scenarios we have also examined the potential impact of the Proposed Transaction on the ownership of SeaDragon in the event that holders (including OFM) exercise all of their Options in the future (i.e. Scenarios 1, 2 and 3 on a “fully diluted” basis). We have assumed that no further securities are issued by SeaDragon in the future. Results are summarised in the graph below.



Under Scenario 1 OFM’s shareholding in SeaDragon would increase from its current level of 21.8% to 45.4%. Under Scenario 2 OFM’s shareholding in SeaDragon would increase from its current level of 21.8% to 28.0%. Under Scenario 3, OFM’s shareholding in SeaDragon would increase from its current level of 21.8% to 25.6%.

Ability of OFM to Increase its Ownership of SeaDragon in the Future

In the event the SeaDragon shareholders approve the Proposed Transaction then (other than by way of exercise of its Options), OFM will not be able to increase its shareholding in SeaDragon in the future unless it complies with the provisions of the Code and the NZX Listing Rules. Effectively this means that OFM will only be able to acquire a greater percentage shareholding in SeaDragon if:

- It makes a full or partial takeover offer; or
- Acquisition of further shares by OFM is approved by way of an ordinary resolution of SeaDragon shareholders, (where OFM would be precluded from voting on such a resolution); or

- The Company makes an allotment of shares to OFM which is approved by way of an ordinary resolution of SeaDragon shareholders, (where OFM would be precluded from voting on such a resolution).

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 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, 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

OFM currently holds 21.8% of the voting securities on issue. OFM is therefore already a significant shareholder of SeaDragon. OFM is currently unable, in its own right, to pass or block ordinary resolutions. However, its current holding is relatively close to the threshold required to block a special resolution. In order for OFM to block a special resolution at least 12.8% of all shareholders would need to be ineligible to vote or not vote on the relevant resolution.

In the event that the Proposed Transaction proceeds, it is possible that OFM could reach a maximum control position of 45.4% of the voting securities in SeaDragon (see Scenario 1 on a fully diluted basis). Under this Scenario OFM would have the ability to block a special resolution. However it would not, in its own right, be able to pass or block an ordinary resolution unless at least 9.3% of all shareholders were ineligible to vote or did not vote on the relevant resolution.

Given the large number of small shareholders on the SeaDragon register we believe it is possible that significant numbers of votes would not be cast by minority shareholders on any given ordinary resolution and that, under the maximum control position outlined above, OFM would, in our opinion, be able to materially increase its voting control of the Company. However, as noted in Section 2.4, we consider Scenario 1 to be an extreme Scenario which is highly unlikely to eventuate.

In our view it is more likely that the ultimate ownership position of OFM in SeaDragon, in the event the Proposed Transaction proceeds, will be closer to Scenario 2. Under this Scenario OFM's voting control of the Company would not exceed 28.0%. OFM would therefore have the ability to block a special resolution but would not have the ability to pass or block ordinary resolutions and would therefore not, in our opinion, be able to materially increase its voting control of the Company.

Board of Directors

The Proposed Transaction is not expected to have any impact on the number of Directors appointed by OFM to the Board of SeaDragon, nor is it expected to result in any increase in OFM's control position on the SeaDragon Board. As noted in Section 4.9 the Board is currently being restructured and will be reduced in size from 8 Directors to 5 Directors following the AGM on the 17th September 2015. As part of this process OFM has agreed to reduce the number of its appointed Directors from two to one.

2.8 Resolutions are Highly Likely to be Approved

Mersea is eligible to vote on Resolution 6 and is currently the largest shareholder in SeaDragon, holding 793,983,334 shares (42.3%) out of a total of 1,876,904,194 ordinary shares on issue. Given that OFM is not eligible to vote, the total number of shares able to be voted on Resolution 6 by eligible shareholders is 1,467,033,227 shares. Mersea therefore holds 54.12% of the voting securities of those shareholders eligible to vote on Resolution 6.

Resolution 6 is an ordinary resolution requiring approval of more than 50% of votes of holders of securities who are eligible to vote and voting. Mersea has advised SeaDragon that it intends to vote in favour of Resolution 6 to approve the conversion of the Convertible Loan. It is therefore highly likely that Resolution 6 will be approved.

2.9 Implications if the Resolutions are not Approved

In the unlikely event that Resolution 6 is not approved, the Convertible Loan will not convert to Shares and Options under the Proposed Capital Raising and will need to be repaid by the Company on the maturity date of 26 June, 2017. Interest at 18% p.a. will continue to accrue (or be required to be paid) on the Convertible Loan until maturity.

Non-conversion of the Convertible Loan would likely have a number of negative implications for the Company including:

- The requirement to pay a high interest rate of 18% p.a. on the unsecured Convertible Loan.
- An ongoing negative impact on the debt/equity ratio (through non-conversion of the Convertible Loan debt into equity).
- SeaDragon may not be able to access some or all of the \$2 million in additional working capital facilities from its bankers that is expected to be made available in the event the Company raises at least \$3 million in new equity via the Proposed Capital Raising.
- The ability to fund SeaDragon's current business plan may be negatively affected, subject to the results of the Proposed Capital Raising.

2.10 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. Non-associated Shareholders of SeaDragon will therefore need to weigh up carefully these consequences and consult their own professional adviser as appropriate.

2.11 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 Transaction outweigh the negative aspects.

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

Positive aspects

- The \$2.5 million Convertible Loan from OFM has enabled SeaDragon to secure urgently required funding needed to meet its ongoing working capital and capital expenditure requirements over the three month period prior to the Rights Offer closing.
- No other major shareholders were in a position to provide this level of additional short-term capital and the Company's bankers had already agreed to provide up to an additional \$1 million in debt facilities.
- All shareholders are being offered the opportunity to participate in the Rights Offer and, in the event that at least \$5 million is raised via the Proposed Capital Raising, the price of the Shares and Options under the Rights Offer will be the same as those for the conversion of the Convertible Loan.
- The Rights Offer is also renounceable, providing the potential opportunity for the Non-associated Shareholders to receive value for their Rights in the event that they do not wish to subscribe for Shares and Options under the Rights Offer.
- The 18% interest rate currently applicable to the Convertible Loan is considered reasonable.
- The injection of capital by OFM is a significant "vote of confidence" in the future prospects of the Company and was provided without any assurance that further equity capital would be raised from other sources via the Proposed Capital Raising.
- SeaDragon's largest shareholder, Mersea, has indicated that it intends to vote in favour of Resolution 6 to approve the Proposed Transaction. This is significant for two reasons; firstly, Mersea, as the largest Non-associated Shareholder, has the most to lose in absolute terms through any transfer of value or control to OFM as a result of the Proposed Transaction; secondly, in the event that Mersea does vote in favour of

Resolution 6, Mersea holds sufficient eligible voting securities to ensure that the Resolution will be passed.

- The mandatory conversion feature (subject to shareholder approval) of the Convertible Loan will provide SeaDragon with at least \$2.5 million in new equity capital on its balance sheet.
- The mandatory conversion feature (subject to shareholder approval) will also provide for a substantial component of the \$3 million in new equity capital that the Company's bankers have indicated is required in order for the bank to advance a further \$2 million in working capital facilities to SeaDragon. The interest rate applicable to the additional bank facilities is likely to be considerably lower than the 18% interest rate currently applicable to the Convertible Loan.
- In the event that OFM receives and subsequently exercises some or all of its Options, then SeaDragon shall receive additional cash equal to \$0.015 per Option exercised. This would equate to up to a further \$6.07 million in additional equity capital.
- We do not believe that the Proposed Transaction will result in any increase in OFM's control position on the Board of SeaDragon.

Negative aspects

- In the event that the Proposed Transaction is approved we estimate there could be a potential transfer of value to OFM ranging from \$0.45 million to \$3.09 million. The maximum value transfer (under our Scenario 1) is considered highly unlikely. In our most likely scenario (our Scenario 2) the estimated transfer of value to OFM would be \$0.74 million. This is equivalent to 12.0% of OFM's opening equity value and 2.1% of the Non-associated Shareholder's opening equity value.
- In the event that less than \$5 million is raised from the Proposed Capital Raising then the Convertible Loan will be converted to Shares and Options at a 20% discount to the Rights Offer price (i.e. \$0.064 per Share). This will result in an additional value transfer from other existing shareholders to OFM. The extent of this value transfer will depend on a number of factors. In the unlikely event that only OFM participates in the Proposed Capital Raising and its Convertible Loan (including capitalised interest) is converted into Shares and Options, then the value transfer could be up to \$3.09 million.
- OFM's pro-rata entitlement under the Rights Offer is \$1.97 million. However, OFM is not participating in the Rights Offer (other than via conversion of the Convertible Loan). Therefore the ability of SeaDragon to reach its minimum Proposed Capital Raising target of \$5.0 million is reduced and the likelihood of OFM converting its Convertible Loan at the discounted price of \$0.064 per Share is increased. However, this is balanced by the planned Shortfall Bookbuild process which increases the likelihood of SeaDragon reaching the \$5 million minimum threshold.
- Mersea has indicated that the maximum it intends to subscribe for in the Rights Offer is \$100,000. This represents only 2.6% of Mersea's pro-rata allocation of \$3.81 million and is likely to reduce the ability of SeaDragon to reach its minimum Proposed Capital Raising target of \$5.0 million, unless Mersea is successful in selling a significant proportion of it unutilised Rights to a third party investor who then exercises those Rights.
- We expect that OFM's percentage holding of voting securities in SeaDragon will increase above its current level of 21.8% as a result of the Proposed Transaction. The maximum that OFM could reach (our Scenario 1) is 45.4% of the voting securities. However, this Scenario is considered unlikely. We consider that OFM is more likely to reach a level of up to 28.0% of the voting securities (our Scenario 2).
- In the event the Proposed Transaction proceeds we expect that OFM will have sufficient voting securities to be able to block a special resolution of the Company. However, OFM's

existing 21.8% stake could already provide this ability under circumstances where sufficient numbers of other shareholders do not vote.

- In our view, it is possible, but unlikely, that OFM will be able to exercise a material increase in its voting control of the Company as a result of the Proposed Transaction.

3. EVALUATION OF THE FAIRNESS OF THE PROPOSED TRANSACTION

3.1 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 Transaction are fair to the holders of equity securities other than those associated with OFM and its 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 OFM. This Report is for the benefit of the Non-associated Shareholders of SeaDragon, being those shareholders who are not associated persons of OFM.

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. However, 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). Notwithstanding this we have evaluated the fairness of the Proposed Transaction with reference to:

- The rationale for the Proposed Transaction.
- The terms and conditions of the Proposed Transaction.
- Potential alternatives to the Proposed Transaction.
- Potential impact on the ownership of SeaDragon by OFM and its Associates.
- Potential impact on the control of SeaDragon by OFM and its Associates.
- Other benefits and disadvantages to SeaDragon and the Non-associated Shareholders.
- The likelihood of the Resolution in respect of the Proposed Transaction being approved.
- The implications of the Resolution in respect of the Proposed Transaction 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.

3.2 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 Transaction are fair to the Non-associated Shareholders.

The grounds for our opinion are provided in Section 2.2 to 2.10 and are summarised below.

- The \$2.5 million Convertible Loan from OFM has enabled SeaDragon to secure urgently required funding needed to meet its ongoing working capital and capital expenditure requirements over the three month period prior to the Rights Offer closing.
- No other major shareholders were in a position to provide this level of additional short-term capital and the Company's bankers had already agreed to provide up to an additional \$1 million in debt facilities.

- The injection of capital by OFM is a significant “vote of confidence” in the future prospects of the Company and was provided without any assurance that further equity capital would be raised from other sources via the Proposed Capital Raising.
- All shareholders are being offered the opportunity to participate in the Rights Offer and, in the event that at least \$5 million is raised via the Proposed Capital Raising, the price of the Shares and Options under the Rights Offer will be the same as those for the conversion of the Convertible Loan.
- The Rights Offer is also renounceable, providing the potential opportunity for the Non-associated Shareholders to receive value for their Rights in the event that they do not wish to subscribe for Shares and Options under the Rights Offer.
- The 18% interest rate currently applicable to the Convertible Loan is considered reasonable.
- OFM’s pro-rata entitlement under the Rights Offer is \$1.97 million and Mersea’s pro-rata entitlement is \$3.81 million. However, OFM is not participating in the Rights Offer (other than via conversion of the Convertible Loan) and Mersea is only intending to participate to a very minor extent. Therefore the ability of SeaDragon to reach its minimum Proposed Capital Raising target of \$5.0 million is reduced and the likelihood of OFM converting its Convertible Loan at the discounted price of \$0.064 per Share is increased. This is balanced by the planned Shortfall Bookbuild process which increases the likelihood of SeaDragon reaching the \$5 million minimum threshold.
- In the event the Proposed Transaction proceeds we estimate a transfer of value to OFM ranging from \$0.45 million (our Scenario 3) to a maximum of \$3.09 million (our Scenario 1). However, the maximum value transfer is considered highly unlikely and is based on no other capital being raised via the Rights Offer or the Shortfall Bookbuild.
- In our most likely scenario (our Scenario 2) the estimated transfer of value to OFM would be \$0.74 million. Whilst the value transfer is significant it largely reflects the impact of the discounted pricing of the Rights Offer relative to SeaDragon’s quoted share price.
- SeaDragon’s largest shareholder, Mersea, has indicated that it intends to vote in favour of Resolution 6 to approve the Proposed Transaction. This is significant for two reasons; firstly, Mersea, as the largest Non-associated Shareholder, has the most to lose in absolute terms through any transfer of value or control to OFM as a result of the Proposed Transaction; secondly, in the event that Mersea does vote in favour of Resolution 6, Mersea holds sufficient eligible voting securities to ensure that the Resolution will be passed.
- We expect that OFM’s percentage holding of voting securities in SeaDragon will increase above its current level of 21.8% as a result of the Proposed Transaction. The maximum that OFM could reach (our Scenario 1) is 45.4% of the voting securities. However, this Scenario is considered unlikely. We consider that OFM is more likely to reach a level of up to 28.0% of the voting securities (our Scenario 2).
- In the event the Proposed Transaction proceeds we expect that OFM will have sufficient voting securities to be able to block a special resolution of the Company. However, OFM’s existing 21.8% stake could already provide this ability under circumstances where sufficient numbers of other shareholders do not vote. In our view, it is possible, but unlikely, that OFM will be able to exercise a material increase in its voting control of the Company as a result of the Proposed Transaction.
- We do not believe that the Proposed Transaction will result in any increase in OFM’s control position on the Board of SeaDragon.
- The mandatory conversion feature (subject to shareholder approval) of the Convertible Loan will provide SeaDragon with at least \$2.5 million in new equity capital on its balance sheet.

- The mandatory conversion feature (subject to shareholder approval) will also provide for a substantial component of the \$3 million in new equity capital that the Company's bankers have indicated is required in order for the bank to advance a further \$2 million in working capital facilities to SeaDragon. The interest rate applicable to the additional bank facilities is likely to be considerably lower than the 18% interest rate currently applicable to the Convertible Loan.
- In the event that OFM receives and subsequently exercises some or all of its Options, then SeaDragon shall receive additional cash equal to \$0.015 per Option exercised. This would equate to up to a further \$6.07 million in additional equity capital.

4. PROFILE OF SEADRAGON

4.1 Background

SeaDragon Marine Oils Limited was established in August 2004 and originally focused on the production and marketing of specialist Omega 2 products (also known as Squalene). After a change in strategy in recent years SeaDragon has become Australasia's largest refiner and blender of internationally certified concentrated Omega 2 fish oils and fractions.

SeaDragon oils are sourced from fish caught in waters surrounding New Zealand, the Southern Ocean and other global locations. The Company claims to have more than 20 years' experience processing fish oils and is recognised for the quality and purity of its products. The target market is health supplement manufacturers around the world where there is increasing demand for pure, high quality fish oils, which are scientifically proven to deliver significant human health benefits such as lowering the risk of heart disease, improving brain function and joint health. The majority of SeaDragon's products are exported.

In October 2012 the SeaDragon business was listed on the NZSX via the reverse takeover of listed shell company Claridge Capital Limited (**Claridge**).

Under the terms of the reverse takeover, the acquisition of the business of SeaDragon Marine Oils Limited was settled by the issue of 600 million shares in Claridge at a price of 0.365 cents per share. Subsequently, 250 million shares were issued in June 2013 and a further 12.95 million shares were issued in June 2014 to the vendors under an earn-out scheme for the financial years ending 31 March 2013 and 31 March 2014. The earn out shares were to be allocated to Mersea as to 75% and Octa Phillip Asset Management Limited (now OFM) as to 25%.

In conjunction with the acquisition of the SeaDragon business, the Company also issued 312.5 million ordinary fully paid shares to Octa Phillip Asset Management Limited (now OFM) and 12.5 million ordinary fully paid shares to the holders of certain convertible notes. The issue price for these share placements was at 0.8 cents per share.

On 1 November 2013 SeaDragon announced its plans to build a new state-of-the-art fish oil refinery on the outskirts of Richmond, 20km from Port Nelson (and the centre of New Zealand's commercial fishing industry). In that announcement, the plant was planned to have capacity to produce in excess of 5,000 tonnes of refined fish oil, with potential to generate annual sales worth as much as \$50 million.

In late November 2013 a share placement book-build was announced to raise \$2.0 million to assist with funding the construction of the new fish oil refinery. The placement was successful and 142.86 million new shares were issued at a price of 1.6 cents per share. In an NZX release, the Company said the budgeted cost of the factory was approximately \$4.0 million. This budget was on the basis of building the plant on the existing site.

On 24 January, 2014 SeaDragon announced the sale of its remaining shareholding in Snakk Media for \$2.5 million. One week later SeaDragon announced it had raised \$4.1 million at a price of 1.6 cents per share from its Share Purchase Plan, well in excess of its \$2.5 million target. This new capital and the proceeds from the sale of the Company's shares in Snakk Media were used to retire debt, provide working capital support and fund the development of the new Omega-3 fish oil refinery.

Sea Dragon announced an agreement with Orange Building Group, whereby Orange Building Group had agreed to fund and construct the Company's new fish oil refinery. SeaDragon would lease the building and property from Orange Building Group. Desmet Ballestra, a world leader

in engineering and equipment supplier for oil and fat production would supply the fish oil refining equipment. This equipment supply cost was included in the \$4 million project budget.

To underpin the raw material supply requirements of the business, SeaDragon announced in March 2014 that it had entered into a term supply agreement for the supply of Omega 2 livers and oil with Pescarias Cayon and Garcia Ltd.

In May 2014, the SeaDragon Chairman Dr Doug Wilson announced the Company was in good financial position, with no external debt and \$5.2 million in cash from successful capital raising initiatives.

In anticipation of future growth in production and sales from the new fish oil refinery, SeaDragon announced on 27 August, 2014 that it had entered into a new \$3 million working capital facility with Heartland Bank.

Later in October 2014 SeaDragon made several new appointments (e.g. Heads of Sales and Marketing, and also a new CFO) to strengthen its senior management team ahead of the commissioning of the new Omega-3 refinery targeted to commence in June 2015. During October 2014 the Company also advised the market it had entered into a new lease to allow construction of the new refinery to commence. The total build cost had now increased to around \$7.5 million and would be shared between the landlord (Orange Building Group) and SeaDragon.

On March 26, 2015 SeaDragon provided a trading update to the market:

- Revenue to March 31, 2015 would be around \$6.5 million, more than twice the \$3.1 million achieved the previous year.
- News that it had secured further raw material supply agreements to ensure adequate Omega-2 production to late 2016.
- Good progress on the construction of its new fish oil refinery that would produce a range of Omega 3 rich fish oils. SeaDragon also believed a major opportunity existed for oils produced from sustainably harvested Hoki and Tuna sourced from New Zealand and other South Pacific waters.
- The expected costs of the new factory had increased again to around \$9.2 million. This cost increase was due to several factors including:
 - The reallocation of costs from the landlord to SeaDragon.
 - Changes in the building regulations, following the 2013 Seddon earthquake.
 - The addition of extra equipment.
 - The reconfiguration of some of the internal plant layout.

During early May 2015, SeaDragon announced leadership changes to the Company. The Chairman since October 2012, Dr Doug Wilson, resigned to reduce his workload and focus on his pharmaceutical interests. It was also announced that Ross Keeley, the CEO for the previous 11 years had also resigned but would stay on until a new CEO had been appointed and act as a consultant to the Company in the future. Both Dr Wilson and Ross Kelley are directors of SeaDragon's largest shareholder Mersea Holdings Limited. Mr Colin Groves was subsequently appointed to the Board as Independent Director and Chairman in June 2015.

In June 2015 the Company announced that BioScience Managers, a cornerstone shareholder had agreed to advance SeaDragon \$2.5 million via a Convertible Loan as a precursor to a further capital raising. At the same time, Richard Alderton was appointed interim CEO effective from 27th July 2015 and it was announced that he would also join the Board.

4.2 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 1,876,904,194 ordinary shares collectively held by approximately 2860 shareholders.

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

SeaDragon - Top Ten Shareholders (as at 29 July 2015)		
Shareholder	No. of Shares	%
Mersea Holdings Limited	793,983,334	42.30%
One Funds Management Limited	409,870,967	21.84%
Skylog Limited	23,000,833	1.23%
Welch Securities Limited	16,580,666	0.88%
FNZ Custodians Limited	14,863,275	0.79%
Custodian Nominee Company Limited	12,000,000	0.64%
Forsyth Barr Custodians Limited	10,965,200	0.58%
Rodney Innes & Neil Govenlock	10,265,459	0.55%
Rodney Wallace	10,143,560	0.54%
David Thomas	9,270,833	0.49%
Other	565,960,067	30.15%
Total	1,876,904,194	100.00%
Mersea Holdings Limited	793,983,334	42.30%

We note that SeaDragon shareholder, McNamara Investment Group, is not a related party of OFM or SeaDragon Director Matthew McNamara.

As at the date of this Report, there were 8.0 million existing SeaDragon Options outstanding. These options, held by Sean Joyce, have an exercise price of 1.0 cent and expire on 15 October 2015.

Following the completion of the Proposed Capital Raising and the Proposed Transaction, the Company will undertake a 1 for 20 share consolidation.

4.3 Board of Directors

The current Directors of SeaDragon are listed below.

SeaDragon - Directors	
Name	Role
Colin Groves	Independent Chairman
Tim Preston	Independent Director
Patrick Geals	Independent Director
Jeremy Curnock Cook	Non-Executive Director
Stuart Macintosh	Non- Executive Director
Matthew McNamara	Non-Executive Director
Ross Keeley	Executive Director
Richard Alderton	Executive Director

As noted in Section 1, the Company recently announced that Ross Keeley, Jeremy Curnock Cook and Tim Preston will step down at the Company's upcoming AGM on 17 September, 2015. As a result of these changes, the Board size will reduce from 8 Directors to 5 Directors.

The current senior management team of SeaDragon is listed below:

- Richard Alderton – Interim CEO Designate
- Stephen Bayley – CFO
- Campbell Berry-Kilgour- Director of Sales
- Michael Baird- Production Manager
- Jorn Frisk- Procurement Manager
- Mark Gornall- Compliance Manager
- Jo Singer- Administration Manager

4.4 Overview of Operations

SeaDragon's vision is to be the leader in the supply of high quality New Zealand and South West Pacific derived bulk fish oil products and added value products, with a commitment to purity, sustainability and environmental responsibility. Its current strategy is to:

- Deliver Omega-2 and related oil products to customers in Australasia, Asia and the USA.
- Build a platform for expansion into Omega-3 fish oils.
- Leverage processing capability into new opportunities.

SeaDragon is now making a significant investment to build a new refined fish oil plant to produce high quality Omega -3 fish oils in order to:

- add value to the Company,
- enable expansion into the international market for Omega-3 fish oils; and,
- benefit from New Zealand's location and reputation for producing high quality food products and its robust food safety standards.

In the future the Company foresees a series of product line extensions based on Omega-3 fish oils using micro-encapsulation to enable the oils to be incorporated into functional and fortified foods and beverages including infant formula. Another product extension may include Omega-3 concentrates for dietary supplements and pharmaceutical markets.

Over the past year SeaDragon has been able to source and refine a greater quantity of fish oils which has allowed the Company to extend its market reach. International sales are expected to grow further when the new refined fish oil plant is commissioned. Currently the Company's products are sold on every continent with the exception of South America. Whilst opportunities exist to sell in other markets, current demand from existing customers in Australasia prevents entry into other geographic regions. SeaDragon claims that its new fish oil refinery will be the most technically advanced plant in Australasia. It will also be the largest, with the capacity to produce 5,000 tonnes of Omega-3 fish oil each year, or the equivalent of twenty times New Zealand's annual consumption. The current capacity of the Company's existing Omega-2 plant is only 500 tonnes per annum.

The current target timeline for the new factory is:

- Completion date, 3rd quarter 2015.
- Commissioning date, 3rd/4th quarter 2015.

- Commercial production, 4th quarter 2015.

SeaDragon is now finalising its plans for launching a range of Omega-3 products from the new refinery. This new refinery will process several fish species including Hoki, Tuna and Anchovy. (Salmon oil will continue to be produced in the existing factory at Stoke near Nelson). South West Pacific caught Tuna and South American sourced Anchovy will provide the initial oils for processing into high value Omega-3 bulk oils. The Company also plans to refine New Zealand caught Hoki, from one of the oldest Marine Stewardship Council certified fisheries in the world. This should enable SeaDragon to leverage traceability and sustainability for New Zealand sourced Hoki and Salmon as a key point of difference in international markets.

4.5 Summary Financial Information

Financial Performance

SeaDragon's summary historical financial performance over the 3 year period ending 31 March 2015 is set out below.

SeaDragon - Summary Financial Performance			
NZ\$000	Audited Mar-13	Audited Mar-14	Audited Mar-15
Revenue	8,999	3,058	6,322
Cost of Sales	(7,829)	(2,260)	(5,815)
Gross Profit	1,170	798	507
Other Income	-	2,285	198
Operating Expenses	(1,409)	(2,613)	(3,454)
Operating Profit	(239)	470	(2,749)
Net Finance Cost	(57)	(39)	(60)
Profit Before Tax	(296)	431	(2,809)
Tax Expense	-	-	(29)
Profit After Tax	(296)	431	(2,838)
Other Comprehensive Income / (Loss)	3,650	(3,650)	-
Total Comprehensive Income	3,354	(3,219)	(2,838)

SeaDragon has exhibited volatile earnings over the FY13 – FY15 period as the business transitions towards becoming a large-scale Omega-3 oils producer. A key constraint for SeaDragon has been securing access to raw materials. This was particularly evident in FY14, with revenue falling from \$9.0 million in FY13 to \$3.1 million in FY14, despite strong demand for SeaDragon's products. We note that SeaDragon benefitted from a one off opportunity to sell krill oil in FY13 that contributed \$6.5 million to revenues.

SeaDragon's FY14 financial result was positively impacted by a \$2.3 million gain from the sale of 25 million shares in Snakk Media and a \$3.7 million non-cash revaluation reserve adjustment. SeaDragon's revenue increased significantly in FY15 to \$6.3 million as a result of improved supply of raw materials and forward sales agreements. However, increased investment in staff to support future growth and also a one-off non-cash inventory write-down of \$0.9 million contributed to a loss of \$2.8 million.

As reported in the Company's market update released on 28 July 2015, SeaDragon is forecasting annual revenue in excess of \$12 million in FY16 and EBITDA of approximately \$144,000. Key assumptions behind this forecast include:

- The completion of the new Omega-3 refinery in Q4 2015.
- The construction of a fractional plant capable of producing higher margin product. This will cost circa \$3.0 million and be completed by July 2016.
- Export sales conducted in US\$, which will comprise 25% of all Hoki products and most Omega-2, Anchovy and Tuna products, will be converted at an exchange rate of NZ/US\$0.70.
- Existing stock of Omega 2 by-product will be further refined to produce Omega-2 during Q4 2015.
- Gross margin per product is static throughout the period, except for Omega-2 products which are subject to a fixed sales price until 1 October, 2015.
- Additional bank funding of \$3.0 million (\$1 million already provided) and a shareholder loan of \$2.5 million (being the Convertible Loan already provided).
- An equity capital raising of \$5m (excluding the Convertible Loan).
- Conversion of the Convertible Loan.

Financial Position

SeaDragon's summary historical financial position over the 3 year period ending 31 March 2015 is set out below.

SeaDragon - Summary Financial Position			
NZ\$000	Audited Mar-13	Audited Mar-14	Audited Mar-15
<u>Current Assets</u>			
Cash and Equivalents	418	5,161	500
Trade and Other Receivables	4,873	1,182	2,974
Inventory	1,375	1,903	1,906
Other	3,875	8	16
	<u>10,541</u>	<u>8,254</u>	<u>5,396</u>
<u>Current Liabilities</u>			
Trade and Other Payables	4,975	1,393	1,086
Loans and Borrowings	1,403	-	2,994
Other	-	-	19
	<u>6,378</u>	<u>1,393</u>	<u>4,099</u>
<u>Non-Current Assets</u>			
Property, Plant and Equipment	3,740	3,915	6,641
Intangible Assets	118	-	-
	<u>3,858</u>	<u>3,915</u>	<u>6,641</u>
Net Assets	<u>8,021</u>	<u>10,776</u>	<u>7,938</u>

SeaDragon had working capital of \$1.3 million and net assets of \$7.9 million as at 31 March 2015. During FY14 SeaDragon completed a \$6.1 million capital raising via a share purchase plan and private placement. This capital was primarily used to fund the development of the Company's new fish oil refinery in Nelson, which is expected to be completed in late 2015. The total cost of the new refinery is now expected to be \$9.2 million.

SeaDragon is a working capital intensive business due to the requirement to advance-fund large raw material inventory orders from international suppliers. The Company's cash cycle

(the time between paying for raw materials and receiving cash payment for finished products) can be as long as 180 days.

SeaDragon has a working capital facility with Heartland Bank. The balance of this facility as at 31 March 2015 was \$3.0 million with an applicable interest rate of 7.95% p.a. Heartland recently increased the facility to \$4.0 million and has indicated that, subject to a minimum equity capital raising of \$3 million (including the conversion of the Convertible Loan), it would consider providing a further \$2 million in working capital facilities that would increase the total facility limit to \$6 million.

The Company is forecasting net assets of \$13.3 million and cash reserves of \$4.5 million as at 31 March, 2016 (as reported in the Company's market update released on 28 July 2015).

Cashflow

SeaDragon's summary historical cashflow over the 3 year period ending 31 March 2015 is set out below.

SeaDragon - Summary Cashflow			
NZ\$000	Audited Mar-13	Audited Mar-14	Audited Mar-15
Cashflow from Operating Activities	(1,166)	(1,571)	(4,341)
Cashflow from Investing Activities	(254)	1,743	(3,314)
Cashflow from Financing Activities	1,243	4,571	2,994
Net Increase / (Decrease) in Cash	(177)	4,743	(4,661)

SeaDragon has sustained significant cash losses from its existing business operations over the past three years, with net operating cashflow totalling negative \$7.1 million over the FY13-FY15 period. Significant investment in the new Omega-3 fish oil refinery has also placed additional pressure on the Company's cash reserves. The Company has funded historical losses and new investment by divesting non-core assets (e.g. Snakk Media) and raising addition external debt and equity capital.

The Company is forecasting operating cashflow of positive \$2.2 million in FY16 following the completion of its fish oil refinery and improved Omega 2 sales (as reported in the Company's market update released on 28 July 2015).

Use of Funds from the Proposed Capital Raising

A summary of how SeaDragon will allocate the new capital raised under the Proposed Capital Raising is summarised below.

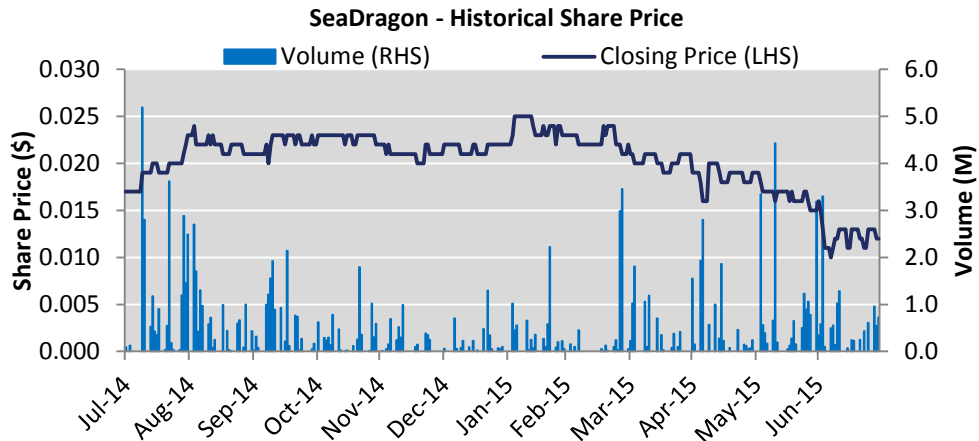
SeaDragon - Proposed Capital Raising - Use of Funds	
NZ\$000	
Completion and commissioning of the Omega 3 plant	3,500
Completion of the Omega-3 fractioning plant and Omega 2 upgrade	3,000
Working capital and costs	1,000
Total	7,500

After taking into account the \$2.5 million already drawn down via the Convertible Loan, the remaining funding requirement of \$5.0 million is reflected in the minimum quantum of capital sought via the Rights Offer and Shortfall Bookbuild.

4.6 Share Price History

As at 29 July, 2015 SeaDragon shares were trading at 1.2 cents per share, representing a market capitalisation of approximately \$22.5 million. Over the 12 month period to 29 July, 2015 SeaDragon shares have traded between 1.0 cents and 2.5 cents per share (closing daily price).

SeaDragon's share price performance and trading volumes over the 12 month period to 29 July, 2015 are shown below.



Source: Capital IQ

The total volume of SeaDragon stock traded on the NZX Main Board over the last 12 months was equivalent to approximately 6.9% of the current total ordinary shares on issue.

SeaDragon - VWAP and Trading Liquidity (as at 29 July 2015)			
Period	VWAP (\$)	Volume Traded (M)	Liquidity*
30 Days	0.0133	15.1	0.8%
90 Days	0.0158	42.1	2.2%
180 Days	0.0179	64.4	3.4%
365 Days	0.0196	129.3	6.9%

* Volume traded / total current shares on issue

Source: Capital IQ

5. PROFILE OF BIOSCIENCE MANAGERS

5.1 Background

BioScience Managers (formerly Octa Phillip BioScience Managers) is a cornerstone shareholder in Sea Dragon, with a 21.84% equity stake held via a fund 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' website indicates that its team has combined experience of over 170 investments, more than 40 IPO's/reversals in Europe, the USA and Australia, and a diverse skill set specific to bio-based Industries. It aims to provide investee companies with significant value-add over and above capital invested.

Alongside its funds management business, Phillip Bioscience Advisory also provides specialist corporate advisory services to healthcare and life science companies.

BioScience Managers' current funds under management include the Asia Pacific Healthcare Fund II which is a 10 year Australian Unit Trust with A\$55 million under management.

The current Directors of BioScience Managers are shown below.

BioScience Managers - Directors	
Name	Role
Jeremy Curnock Cook	Managing Director
Matt McNamara	Chief Investment Officer
Dr Stewart Washer	Investment Director
Dr Nicholas Draeger	Investment Director

5.2 Investment in SeaDragon

In July 2012 BioScience Managers announced it had signed a conditional subscription agreement to invest NZ\$2.5million into Claridge Capital in conjunction with Claridge's acquisition of the SeaDragon Marine Oils business.

The transaction was completed on 15 October 2012 and Jeremy Curnock-Cook and Matt McNamara were appointed as Directors of SeaDragon, representing Octa Phillip Asset Management Limited (now OFM).

On 24 June 2015 SeaDragon announced it had entered into a term sheet for a Convertible Loan under which it would borrow up to \$2.5 million from its shareholder, Bioscience Managers via a fund administered by OFM (as trustee for Asia Pacific Healthcare Fund II).

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 draft Convertible Loan Agreement with OFM.
- The draft Offer Document in relation to the Rights Offer.
- SeaDragon's audited annual reports for the years ended 31 March 2014 and 31 March 2015.
- New Zealand Companies Office records.
- Various NZSX announcements by SeaDragon.
- Publicly available information on OFM and BioScience Managers.
- Capital IQ (share price data and company financials).
- Correspondence and / or discussions with the Independent Directors of SeaDragon.
- Discussions with representatives of BioScience Managers.

During the course of preparing this Report, we have had discussions with and/or received information from the Directors who are not associated with OFM, executive management of SeaDragon and SeaDragon's legal advisers.

The Independent 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 Directors who are not associated with OFM and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of Resolution 6.

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

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.

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 or OFM 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 Transaction 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 Independent Directors who are not associated with OFM 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 SeaDragon's 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.