



30 September 2022

Annual Shareholders Meeting

Executive Chairman and Chief Operating Officer Addresses

EXECUTIVE CHAIRMAN – Bryan Mogridge

As we noted in the annual report, we are making progress with our enhanced value strategy but as I am sure you are all well aware it is taking longer than any of us would like.

Our revenue was up 17%, \$775,000, but inflation and delays caused by Covid increased our cost of goods and so our gross loss was greater than last year by \$299,000. This coupled with recording an impairment against property, plant and equipment, and right of use assets of \$1,671,000 brought the total comprehensive loss of the year to \$5,123,000 compared to last year's comprehensive loss of \$3,134,000. The difference of \$1,989,000 is almost all made up of the gross loss and the impairment which together totalled \$1,970,000 of that \$1,989,000 difference.

Rather than talk about last year I would like to talk about the last 3 years since I have been chairman, what we are trying to change to improve the value of SeaDragon, what have been our impediments, where we would like to drive the business and the costs and cash requirements attached to that plan.

From my first meeting I could see that we couldn't just continue doing what we had always done and expect different results. Our infant formula business was solid but not large enough to support the plant and team required to keep the business going. So, we decided we needed to use that infant formula business as a base and as well migrate to higher value products still based on Omega 3 but with some interesting twists and consumer offerings.

During the year March 2019 to March 2020, we did a lot of analysing, research, and product invention to the point where we had some concepts for a new direction. However, those were not market tested and then along came Covid and that has kept us locked up until May this year when we were able to make our first overseas market and sales visit to really test our concepts. Our overseas visits are showing promise, but as you can imagine getting from ideas to production of new products takes time and money. For instance, we had to buy new equipment and of course begin to increase working capital to support any change and growth. So, we lost 2 years effectively but not confidence in our plans and we had to keep funding the losses until we got out the other side of Covid.

During the past 2 years we have either raised or borrowed a net \$7,084,000 of which \$4,084,000 was new equity issued in 2020 and of that amount only \$681,432 came from parties other than those around the board table. Of that \$7,084,000 a total of \$5,500,000 has been provided by Pescado and since April 1 this year Pescado have provided another \$2,500,000.

Some people have questioned why Pescado and how deep is their support?

Following deep and ongoing discussion around the board table and with Pescado it was decided that due to a very low level of support from shareholders outside of the board to the 2020 capital raising, the intermittent nature of cash requirements (due to SeaDragon's lumpy and often large debtor file) as long as Pescado was supportive and if they are able then loans are the most efficient way to manage the cash requirements.

Out of interest I hold a weekly cash flow meeting with the senior team at which Warwick Webb (a Pescado alternate director) attends.

SeaDragon is very fortunate to have a cornerstone shareholder like Pescado and as you will have seen the board has recently approved to convert \$5.25m of their existing debt and interest into equity at a rate of 3 cents per share. This conversion rate was recommended by an independent financial report and the conversion will see Pescado hold 72.75% of the company's shares on issue and save SeaDragon around \$500,000 in interest per year.

In conclusion we are confident that our new plan which is showing early signs of promise will be successful but given the nature of what SeaDragon does it will take time and require more capital, and very likely to be around \$3.5m over the next 2 years.

I would now like to hand over to our Chief Operating Officer Dr Nevin Amos to provide you with some further detail about operations and product developments.

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

CHIEF OPERATING OFFICER – Dr Nevin Amos

Thank you, Bryan. Good afternoon, everyone. I will update you on the operations of the business and our product development activities, which have led to our launch of an innovative airless packaging system, the "SmartPac™".

Our sales of high DHA tuna oil for infant nutrition have grown over the last year, and we now have two major customers for these oils. There has continued to be a tightening of quality specifications for this oil. We have continued to invest in additional capital and staff time to ensure we can meet our customers' requirements. We have a talented team of professional Chemical Engineers on staff who have assisted us to make these design and operation changes. These capital changes have also now enabled us to improve productivity of the key processes we use to meet these tightening quality standards.

There were continuing headwinds from logistics and inflationary pressures on our cost base over the last year.

As we reported last year, significant shipping delays are affecting both our inwards deliveries of materials and for our export shipments. These delays are a combination of delays in shipping and/or a lack of availability of containers in New Zealand for export consignments. This has added three to four months to our usual cash-to-cash cycle time increasing our working capital needs.

Inflationary pressures have seen significant increases in the cost of our raw materials and processing aids. These have pushed up our costs. We have been increasing prices to customers, where possible and when longer term purchase orders are renewed, to recover lost margin. However, our overall margin has been affected negatively by these cost increases.

We have made progress on pivoting the business into higher value products that will provide SeaDragon with higher margins and ongoing profitability. These includes:

- New Zealand derived Hoki oils, for which we are starting to see large increases in ongoing demand;
- High quality Algal DHA oils. Where we have had meaningful orders from customers across North America and Asia. We anticipate this demand will continue to grow as many consumers are seeking plant-based alternatives to fish derived oils; and
- White-labelled consumer products containing our oils.

We reported last year that we had developed a novel consumer packaging solution for delivering Omega-3s, the “SmartPac™”.

The SmartPac™ has the following key attributes:

- It is an airless pump system which means it prevents oxygen inclusion into Omega-3 oils during consumption, maintaining quality, unlike competitor products.
- It is manufactured largely from sugar-derived plastic.
- It is designed to deliver a 2g per day dose of Omega-3, which is increasingly becoming recognised as being required for assisting in maintaining health.
- The daily dose can easily be taken on a spoon, or by adding to other foods, e.g. smoothies.
- We have developed a formulation that produces a gelled consistency under refrigeration for pleasant mouth feel.
- Other oil soluble ingredients can easily be included in the formulation.

We have developed several standard product formulations that we have been actively launching to customers globally over the last few months. That process was delayed due to Covid travel restrictions making it difficult to travel until quite recently. We have now pitched the product concept to key customers globally and have received very positive feedback.

Commercial orders for the product have been received in both the pet and human space and we have received packaging and filled the first commercial orders.

We have invested in equipment necessary to fill the SmartPacs, with a filling system recently being landed in New Zealand. We expect to have that installed and commissioned over the next four to six weeks. This will give us the ability to increase our production capacity alongside customer orders.

There is growing value in the pet space for high-value supplements. We have developed a range of pet toppers for a customer, using Omega-3 powder, that we have developed and dried using a partner company in New Zealand, along with a mix of other New Zealand dried ingredients. We expect there is good potential for these product concepts in the future.

We have been building our customer base for these higher value products over the last year. We have appointed distributors in both Taiwan and Thailand. We have built close customer relationships with key customers in Korea, Europe (Germany, Poland, The Netherlands), Scandinavia and North America. We expect sales of our higher value products to accelerate to these customers over the coming year.

In summary, SeaDragon continues to focus on a strong base of infant nutrition tuna oils for which we have made pleasing progress on meeting ever tightening quality requirements. We have made good progress on pivoting the business toward higher value products and are in the initial launch stage of a novel airless packaging solution, as a white-labelled consumer offering that we expect will provide the company with ongoing profitability. We feel confident but as with all new ventures only time will tell.