

# INVESTOR UPDATE

APRIL 2015

## OMEGA 3 REFINED FISH OIL FACTORY TAKES SHAPE

The hot summer has been a boon for SeaDragon. Since its new Omega 3 refined fish oil factory began to rise out of the ground in November 2014, the company has only lost two construction days to poor weather and the factory is on track for commissioning by the end of this year.

"Although farmers probably wouldn't agree with us, we have been very fortunate to have had calm dry weather, which is ideal for this sort of ground-up work," says Project Manager Vanessa Anderson of Delta Projects.

SeaDragon plans to manufacture a range of Omega 3 oils from the factory, but believes a significant opportunity exists for oils produced from sustainably harvested Hoki and Tuna sourced from New Zealand and other South Pacific waters.

The 12 metre-high refining building is now largely complete.

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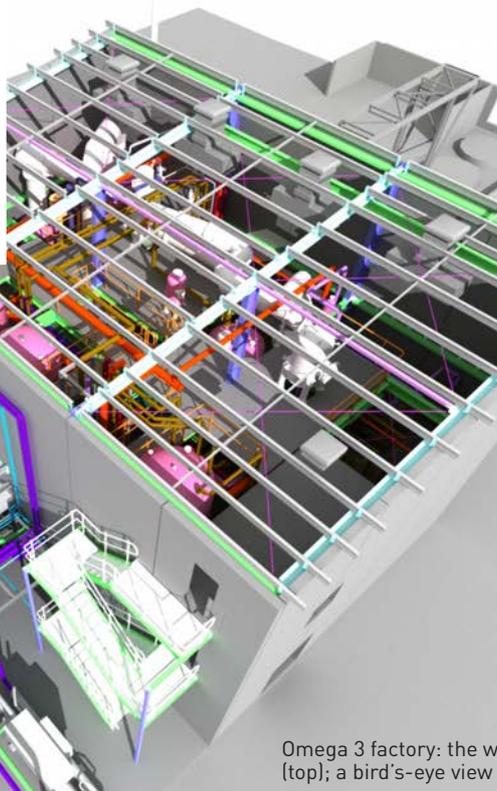
### TRADING: FY 2015 SALES TO DOUBLE

SeaDragon recently announced it will report sales for the year to 31 March 2015 of around \$6.5 million, more than double the \$3.1 million sales achieved in the prior year.

The company also announced it had negotiated new raw material supply agreements that have the potential to keep its Squalene operations running through to late 2016 and underpin the financial performance of the existing business in the new financial year. The company will report an annual operating loss (loss before interest, tax, depreciation and amortisation) as it continues to invest to position itself ahead of the refinery start up.

SeaDragon Chief Executive Ross Keeley says: "Our Squalene operations have demonstrated their potential, when not constrained by the supply of raw materials. The considerable effort we made to overcome prior supply difficulties has been well rewarded. Meanwhile, we are delighted with the progress we have made on the new Omega 3 fish oil factory, which will open up new growth opportunities for the company."

SeaDragon will release its results for the 2015 financial year in late May 2015.



Omega 3 factory: the walls of the refining hall in place (top); a bird's-eye view of the new plant (bottom).

# Omega 3 refined fish oil factory takes shape CONTINUED FROM PAGE 1

Last week contractors craned in the large processing vessels and are now moving to 'top off' the facility with the roof. The vessels include oil purification equipment, which will reach the full height of the hall, as well as four 20,000-litre stainless steel vats to store crude oil and refined product.

Once the factory is water tight, work will begin, in conjunction with the refining equipment supplier Desmet Ballestra, on hooking up the key three-stage refining equipment together with completing the staff amenities, testing and product storage spaces.

Once complete, SeaDragon will have the capacity to produce up to 5000 tonnes of Omega 3 fish oil per year, although actual production will depend on market demand and the availability of raw materials.

The factory project has not been without hiccups, but Anderson says all contractors have worked together well to resolve problems when they occurred. A key to the success of the relationship has been SeaDragon's extensive 3D modelling of the project, which has given the developer and the builder clarity on the project's complexity and the interdependence of structure and the refining process.

In one instance modelling of the project revealed one of the structural beams was interfering with the opening of a tank manway, but within a day a solution was found that did not involve time consuming structural changes.

Anderson says: "We have a great relationship with the developer Airport Orange Partnership and the main contractor Coman Construction. We have been able to sit down with them and walk them through the building so they have an understanding of why the facility requires so much structural steel and why the tolerances are so tight. It has worked really well."

Anderson says commission testing of the facility should last for about six weeks. All things going to plan, the factory should be ready to produce its first commercial-grade oil by the end of this year.

## KEY FACTS:

**Capacity:**  
5,000 tonne per annum

**Production:**  
Refined Hoki, Tuna and Anchovy Omega 3-rich oils.

**Commissioning:**  
By the end of 2015

## Keep up with progress:

Investors can keep up with the progress of the factory at the SeaDragon website, where the company is streaming webcam footage of the project from a neighbouring property. The website shows work in weekly increments. Investors can check out the footage here:

[www.tinyurl.com/n54ko82](http://www.tinyurl.com/n54ko82)



## PICKING THE BEST OPPORTUNITIES

Faced with a world of opportunities for its Omega 3 fish oils, one of the biggest challenges SeaDragon faces is deciding which ones to pursue.

Ahead of the commissioning of the company's new refined fish oil plant in September, SeaDragon Head of Marketing Alex de Monchy is working to ensure the strategy is set and the company has lined up customers ready to buy when the oil starts flowing.

"The commissioning of the new factory will represent a watershed moment for SeaDragon," says de Monchy, who joined SeaDragon last year after a long career at the head of marketing teams for pharmaceutical industry leaders such as Merck Sharp & Dohme and Baxter Healthcare.

"It is likely SeaDragon will bring a range of Omega 3

products to market which will appeal to a variety of customers.

Given that there are differing customer segments for the various products we will bring to market, we must ensure we use the right marketing tools to position our range for each segment.

"SeaDragon will create a 'best in class' range of Omega 3 products and intends to sell these into growing markets, particularly in Australasia and North Asia.

"We have a great opportunity to take advantage of New Zealand's 'clean-green' image and its enviable reputation for food manufacturing."

## OMEGA 3S MAY ALLEVIATE DEPRESSION

New research suggests Omega 3s may help to alleviate depression.

An article published in February in *Clinical Psychological Science* said Omega 3s taken with B Vitamins "may be effective in the treatment of depression when they are used as adjuncts to other evidence-based therapies".

The research suggested Omega 3s and B Vitamins may also be useful for patients who are otherwise resistant to trying pharmacological treatment.

"The research is far from unequivocal but there is a small body of research, which indicates that nutritional influences on depression are underestimated," says the study's author

Kaitlyn Rechenberg, of the Yale School of Public Health.

The research adds to a growing body of work that supports the supplementation of diets with Omega 3s, which are among the most researched compounds in terms of their impact on human health.

International studies have already identified strong evidence supporting the benefits of Omega 3s in alleviating certain conditions, including coronary heart disease, rheumatoid arthritis and secondary cardiovascular disease. The research is available here:

[www.tinyurl.com/m25sbc6](http://www.tinyurl.com/m25sbc6)



# SUSTAINABILITY AT THE HEART OF SEADRAGON PROCUREMENT PLANS

SeaDragon is targeting sustainably sourced fish oils for the new refinery.

Hoki Omega 3 oils sourced from the waters around New Zealand represent a significant opportunity for SeaDragon. The raw material is readily available on SeaDragon's doorstep in Nelson, the heart of the New Zealand fishing industry, and it is certified by the Marine Stewardship Council (MSC) as coming from a sustainably managed fishery.

In addition, Hoki Omega 3 oil will benefit from New Zealand's 'clean-green' or as SeaDragon prefers to describe it "deep-blue" reputation in international markets. And, like all other SeaDragon products, it will be trusted because of the country's high-quality food safety regime and its transparent business environment.

The MSC, an independent non-profit organisation that uses science-based assessments to back up its certification programme, also certifies the South Pacific Tuna fishery where SeaDragon intends to source raw materials for Tuna Omega 3 oil.

SeaDragon is also planning to refine Anchovy Omega 3 oil and use its existing plant to refine Salmon oil, which is prized for its high concentrations of astaxanthin, a powerful antioxidant. The company intends to source product from operators certified by the International Fishmeal and Fish Oil Organisation (IFFO).

IFFO is the international 'not for profit' organisation that represents and promotes the fishmeal, fish oil and wider marine ingredients industry worldwide. It is globally respected and regularly represents the industry at international forums, as well as holding observer status at the UN Food and Agriculture Organization (FAO) and the EU Commission and Parliament.

SeaDragon has also been working hard to maintain a secure supply for its Squalene operations. The company recently announced it had secured new supply contracts that should keep the company's Squalene operations running through to late 2016.

## INVESTOR CENTRE

### New share registrar

SeaDragon has moved the management of its share register to Link Market Services Limited from Computershare. The change, effective in February, will have little impact on you other than a new format to documents sent by the company.

### Edison research

Internationally-respected independent equity research house Edison Investment Research maintains research coverage of SeaDragon. Edison independently assesses SeaDragon's prospects, forecasts its expected earnings, and estimates the value of its shares. Edison plans on publishing its next report in June.

See: [www.seadragon.co.nz/investors.html](http://www.seadragon.co.nz/investors.html)

### Electronic shareholder communications

Many of our investors now receive communications from us electronically. If you would like to receive other investor information from SeaDragon electronically, please register at:

[www.tinyurl.com/ludz7aj](http://www.tinyurl.com/ludz7aj)

To register your email address to receive notifications, you will need your CSN and FIN.

### Investor calendar

#### Financial year end:

31 March 2015

#### Full-year results announcement:

May 2015

#### Annual shareholders' meeting:

24 August 2015

#### Next Investor Update:

October 2015

## NEW PROCUREMENT MANAGER

Reflecting SeaDragon's commitment to maintain a diverse and secure supply of raw materials, the company has appointed Jorn Frisk into a new role as Procurement Manager. Mr Frisk has held numerous procurement roles in New Zealand and offshore during his 25-year career.



# THE GOOD OIL

Ross Keeley says it is satisfying for the SeaDragon team to see the company's plans coming to fruition.



## **The new factory is well under way; are you pleased with progress?**

It is very satisfying to see the factory take shape after five years of hard work. It is good to be able to deliver on the long-term support and encouragement we have received from shareholders. It is also pleasing that construction is proceeding so smoothly. Desmet Ballestra, supplier of the refining equipment, was on site last week assisting with the installation of the first process vessels in the refinery building. And now we are moving to top the building off and begin hooking up the equipment. All things going well, we will have commissioned the plant by the end of this year.

## **Costs are higher than you expected, can you explain why?**

Changes in building regulations following the 2013 Seddon earthquake have led to building cost increases across the region. SeaDragon has not been able to escape these increases. Meanwhile, we have added additional equipment, reconfigured the plant and agreed with the landlord, the Airport Orange Partnership, to reallocate certain costs, which in retrospect are better carried within SeaDragon. We have also 'future proofed' where possible to enable expansion of the existing operations and introduce new technology at a later date. As a result we expect the plant to cost around \$9.2 million, ahead of the \$6 million we originally forecast.

## **How will you fund the increases?**

SeaDragon is considering a number of funding alternatives including using debt and equipment leasing, new equity and using the cash generated from the Squalene business, which has been performing well.

## **To whom are you planning to sell the Omega 3 oil?**

Last year, we expanded the sales and marketing capability of the business with the appointment of Alex de Monchy as Head of Marketing and Campbell Berry-Kilgour as Director of Sales. Both have made great strides in developing our strategy for international markets and identifying and then engaging with potential customers.

We are planning to produce oil manufactured from New Zealand Hoki, South Pacific Tuna and Anchovies at the factory. We are also exploring the refining of Salmon oil at our existing plant, to ensure that the astaxanthin, which imparts the pink colour to salmon is retained. Astaxanthin adds an additional health benefit to that of Omega 3 as it is a powerful antioxidant.

The Hoki, Tuna and Salmon oils have the potential to carve out a niche in the market for Omega 3 supplements. They have unique Omega 3 properties and they will be produced from materials sourced from sustainably managed fisheries in seas regarded as the cleanest in the world. They will also benefit from international confidence in New Zealand's food safety regime and its transparent business environment.

Our Anchovy oil will enjoy many of these advantages. But as a commodity product, it will also help us to recover the operating and capital costs of the plant as we develop the niche Hoki, Salmon and Tuna Omega 3 markets. Feedback from potential customers on our plans has been excellent.

## **How is the Squalene business going?**

The Squalene business is performing well, reflecting the significant efforts we have made over the last year to put in place more secure raw material supply contracts and the back-to-back sales contracts we negotiated to take our finished products. Meanwhile, we have recently negotiated additional raw material supply agreements that have the potential to keep the company's Squalene operations running through to late 2016 and underpin the financial performance of the existing business in the new financial year.

Worldwide demand for Squalene remains strong and well ahead of available raw materials, so prices are high. Meanwhile, we are looking forward to the commissioning of the new Omega 3 refined fish oil factory which will reduce our reliance on the Squalene operations.

## **When will SeaDragon give its next update to shareholders?**

We expect to announce our results for the year to 31 March 2015 in May and we will release our annual report shortly after that. We are looking forward to the rest of this calendar year with great confidence.



SeaDragon's Investor Update is published twice a year to keep investors informed of progress between its annual and interim results announcements.

SeaDragon (NZX:SEA) is New Zealand's largest refiner and blender of high-quality, internationally certified concentrated fish oils and fractions, including Omega 3 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. Our oils are sourced from fish caught in the clean and pure waters around New Zealand, in the Southern Ocean, and elsewhere. We have more than 20 years' experience processing fish oils and we are recognised for the quality and purity of our products. We supply health supplement manufacturers around the world to meet the burgeoning demand for pure, high-quality fish oils. The majority of our supply is exported.

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