

# ANNOUNCEMENT



SEA: FULL YEAR RESULT

29 May 2015

## FINANCIAL RESULTS FOR THE 12 MONTHS TO 31 MARCH 2015

### SeaDragon annual sales double; Omega 3 refinery on track for start-up in Q4 2015

#### Highlights:

- New Omega 3 fish oil refinery on track for commissioning later this year, realising a 10 year strategic plan
- Additional Squalene raw material supply contracts position SeaDragon for increased sales for the 2016 financial year after 2015 supply agreements more than double annual sales to \$6.3 million
- Net loss of \$2.8 million reflects investment in human resources as the group transitions to Omega 3 fish oil markets, supply issues at the start of the financial year and a one-off non-cash inventory write-down of \$905,000
- Heartland Bank extends working capital facilities as the demand for working capital intensifies

SeaDragon (NZX.SEA), New Zealand's largest refiner and blender of high quality, fish oils and fractions, including Omega 3 oils, today reports financial results in line with its March forecasts and continued progress on the development of its new Omega 3 fish oil refinery.

The group also announces it has secured further Squalene raw material supplies that should ensure Squalene sales for the 2016 financial year exceed the 2015 result.

Total revenue, including other income, for the twelve months to 31 March 2015 more than doubled to \$6.5 million from \$3.1 million in the prior year as the group benefited during the latter part of the year from improved Squalene raw material supply and forward sales agreements struck during the year.

As foreshadowed in March, SeaDragon recorded a loss for the year of \$2.8 million against a net profit of \$431,000 in 2014. This reflected investment in new sales, marketing, procurement, finance and support service staff ahead of the start-up of the Omega 3 fish oil refinery.

Additionally, a fall in the global price for Alkoxyglycerol (AKG), a by-product of the Squalene refining process, necessitated a one-off non-cash write-down of \$905,000. These stocks are being retained for additional processing through the new refinery facility post commissioning to enable extraction of residual Squalene within the existing facility, potentially recovering some of this write down via future sales in FY16.



SeaDragon's outgoing Chairman Dr Doug Wilson says: "SeaDragon is on the cusp of realising a 10-year goal. New Zealand has a unique opportunity to produce Omega 3 oils from sustainably harvested South Pacific Hoki and Tuna. Our new Omega 3 refinery, which is on track for commissioning later this year, will allow SeaDragon to realise this ambition.

"Our 2015 financial results reflect the group's transition to this new opportunity. The Board, soon to be led by Colin Groves as the new Chairman when I step aside at the end of this month, is looking forward to an improved financial performance in the coming year."

SeaDragon Chief Executive Ross Keeley says: "SeaDragon has made good progress in the 2015 financial year. The Squalene operations, despite trying conditions, are now in a stronger position than they have been for years. Meanwhile, we are satisfied with the progress we have made with the new Omega 3 fish oil refinery.

"We are looking forward to beginning producing commercial quantities of Omega 3-rich Hoki, Tuna and Anchovy fish oils at the new plant and Salmon oils from our existing facility, bringing to fruition a long-held vision for the company.

"We have built upon the market research conducted prior to the decision to build the new refinery and have been testing the market for the oils. Feedback from potential customers has been positive.

"International consumers continue to attribute significant value to New Zealand's food safety regime, the country's 'deep-blue ocean' cachet and the fact that we intend to source our products from sustainably managed fisheries."

**Fish oil refinery:**

SeaDragon's fish oil refinery will have the capacity to produce up to 5000 tonnes of Omega 3 fish oil per year. Contractors have completed the installation of the plant's refining vessels and storage tanks, topped out the main fish oil refining hall and completed the main internal walls and subdivisions.

In conjunction with the refining equipment supplier, Desmet Ballestra, the group has started installing the refining equipment. Contractors are meanwhile making progress on the staff amenities and testing and product storage spaces.



As foreshadowed in March, SeaDragon expects a final cost for the refinery of around \$9.2 million, compared to the \$6 million originally forecast. This increase reflects changes in the refinery site and building regulations following the 2013 Seddon earthquake, which had implications for tank design. Higher labour rates, the addition of extra equipment in order to future proof the business and the reconfiguration of the internal layout, together with SeaDragon assuming what were originally planned to be landlord costs, also contributed to the increase.

"We expect to begin commission testing of the plant in the last quarter of this Calendar year and aim to begin commercial production at the tail end of the current financial year," Mr Keeley says.

**Squalene operations:**

SeaDragon's Squalene operations are in a strong position following the conclusion of new raw material supply agreements, which should see a further growth in sales. Existing customers have indicated a strong desire to enter into new agreements with increased volumes and prices.

The Squalene operations performed well in the 2015 financial year despite a backdrop of intense competition for raw material supply.

Gross profit for the Squalene operations (sales less production costs) for the 12 months to 31 March 2015 was \$507,000 compared with the prior year's \$798,000. Were it not for the \$905,000 stock write down, the Squalene operations would have realised a gross profit of \$1.4 million. In addition to the AKG write down, the fall in margin (revenue to revenue less cost of goods) also reflected competition driving up the price of Squalene raw materials.

"The requirement to source finished product to meet earlier volume commitments has weighed on margins, however in all cases our strong relationships and our reputation for product integrity and quality have ensured these sales have made a positive contribution to the group," Mr Keeley says.

**Balance sheet and funding:**

As at 31 March 2015 net debt stood at \$3.0 million and gearing, as measured by net debt to total assets was 25%. This represents an increase on the prior year, when the group was carrying net cash of \$5.2 million and reflects ongoing expenditure on the Omega 3 factory, the increased working capital requirements of the Squalene operation and the AKG write down.

As previously signaled to the market, SeaDragon is presently reviewing its capital structure. That review covers a number of funding alternatives including using existing cash flows, debt and new



equity. The group continues to enjoy the strong support of its lender Heartland Bank, which has extended the group's working capital facility. SeaDragon will update the market once the review is concluded.

**Outlook:**

"SeaDragon is on the verge of realising its long-held ambition to diversify into Omega 3 fish oil markets and is looking to an improved financial performance for the 2016 financial year," Mr Keeley says. "The commissioning of the new fish oil refinery positions the group for a new phase of growth and the new raw material supply agreements should underpin the financial performance of the Squalene business.

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**About SeaDragon [www.seadragon.co.nz](http://www.seadragon.co.nz)**

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. 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, 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 our supply is exported.