

ANNOUNCEMENT



NZX / MEDIA RELEASE

18 November 2016

SeaDragon continues transition from Omega-2 to Omega-3

Fish oil refiner announces update for 1H 2017; sales of existing Omega-2 inventory largely complete

New Zealand's largest refiner and blender of high-quality fish oils SeaDragon (NZX:SEA) today announces that it will be publishing full half year results, to 30 September 2016, next week and the provisional high-level numbers are shown below:

	Unaudited 6 months ended 30 September 2016 \$'000	Unaudited 6 months ended 30 September 2015 \$'000	Audited 12 months ended 31 March 2016 \$'000
Revenue	3,137	4,800	5,585
Gross (loss) profit	(1,221)	1,042	(2,956)
Total comprehensive loss for the period	<u>(3,400)</u>	<u>(688)</u>	<u>(5,523)</u>
Normalised EBITDA	<u>(2,017)</u>	<u>(146)</u>	<u>(389)</u>

The first six months of this financial year has seen SeaDragon progress its transition and business repositioning from Omega-2 to Omega-3 markets. The negative normalised EBITDA reflects the on-going impact of exiting Omega-2, including sales of Omega-2 inventories previously impaired, and the transition and start-up nature of the Omega-3 business.

We continue to restructure our business processes to be customer led, rather than historical practices of being largely supply led. This has meant that, at this time, we have made the decision to process smaller quantities of oil through the new Omega-3 refinery to produce samples for prospective customers and to allow us to react in an agile fashion to customer orders. This has resulted in the fixed costs of the refineries being spread over a smaller quantity of oil, which is reflected in the financial results of the first half financial year.

Omega-2 and Omega-3 update

SeaDragon has now largely completed sales of its existing Omega-2 inventory. We announced on 30 June this year that we had agreed to sell \$2.5 million worth of existing Omega-2 inventory to a major international food and fine chemicals company – we have now fulfilled this order, having shipped and received payment for four full container loads of Omega-2 (being 64 tonnes of product in total). We had one container (being 16 tonnes of product) remaining at the end of the financial half-year end, which has now also been shipped to this customer.

ANNOUNCEMENT



We continue to progress discussions with major multinational companies towards securing agreements for the supply of Omega-3 and samples and specifications have been provided to several of these prospective customers. We are seeking arrangements with customers in key target markets around the globe, which requires us to meet a variety of customer and regulatory requirements. We have successfully completed audits and supply clearances by some key potential customers and regulators. As a result, our new Omega-3 refinery is capable of processing Omega-3 oil for supply to certain key target markets including Europe, the US, China, Australia and Japan.

We have also been approached by several major multinational companies to toll process oil in our new Omega-3 refinery (where the customer provides the raw material) – which, if discussions result in a contract, we expect to give us some certainty of cash flow as we continue the transition to Omega-3.

Discussions with these key potential customers are ongoing and there is no guarantee that these discussions will lead to a contract at this stage.

During the first half of the financial year we have sold 115 tonnes of Omega-3 tuna oil. At this time, given the uncertainty surrounding potential sales of Omega-3 and remaining Omega-2 inventories, we are not in a position to provide the market with guidance around year-end financial performance, but at this stage we expect the company to have a negative EBITDA result for FY17 with a view to working towards positive EBITDA in FY18.

Supply update

Each of our key target markets has specific requirements for traceability through the supply chain from fishing vessels forward. We continue to identify suitable and ongoing sources of unrefined Omega-3 oil for many of these key target markets.

Capital investment projects

The recent \$10.9 million rights issue has provided us with additional capital to allow us to procure the supply of unrefined oil to be able to process and respond to customer demand rapidly once we have completed supply negotiations with key customers. As previously announced to the market, some of the rights issue proceeds will also be used to reduce the company's external debt facilities.

We have also initiated steps to repurpose our legacy Omega-2 refinery to become a "Boutique" refinery to refine smaller volume, specialised and premium Omega-3 products. We are currently scoping requirements to enable concentration, fractionation and re-esterification at the Boutique refinery. At this time, the expectation is to implement these capabilities at the Boutique refinery in FY18. We expect the capital investment associated with this will be approximately \$2 million. In light of this, we have decided to postpone the prior proposal to add fractionation capability at the new Omega-3 refinery (expected to cost approximately \$5 million).

ANNOUNCEMENT



For further information, contact:

Colin Groves

Chairman

Tel: +64 21 928 003

About SeaDragon: www.seadragon.co.nz

SeaDragon Limited (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.