

ANNOUNCEMENT



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SeaDragon completes Omega-3 factory and is on track to meet FY2016 forecasts

Fish oil refiner also announces results for 1H 2016, posting a doubling in sales and a strong lift in operating cash flow following Omega-2 supply chain improvements

Highlights:

- SeaDragon board gives the green light to commercial production at its new Nelson refinery
- Sales for the six months to 30 September 2015 more than double to \$5.3 million
- First half EBITDA¹ loss narrows to \$147,000 from \$320,000 reflecting operational improvements
- Net loss after tax rises to \$688,000 from \$574,000 in the prior year reflecting interest payments on the new factory,
- On track to meet forecast FY 2016 earnings before interest, tax depreciation and amortisation (EBITDA) of positive \$144,000

New Zealand's leading refiner and blender of high-quality fish oils SeaDragon today announces its new Omega-3 fish oil refinery in Nelson is ready to commence its first commercial production run.

Releasing its results for the six months to 30 September 2015, SeaDragon also announces it is on track to meet the forecasts given during its \$10 million capital raising earlier this year.

In July 2015, SeaDragon forecast sales for the year to 31 March 2016 would rise to \$10.1 million from \$6.3 million a year earlier. It also forecast EBITDA of \$144,000, reversing the prior year's EBITDA loss of \$2.2 million.

SeaDragon Chairman Colin Groves said: "The board's formal sign-off today of our new Omega-3 factory for commercial production is the culmination of many years of hard work and caps off a year of significant progress for the company.

"Our Omega-2 fish oil operations have delivered a significantly better half-year result than the prior year and we are on track to achieve the forecasts we made when we launched our capital raising programme.

¹ EBITDA is earnings before interest, tax, depreciation and amortisation. It is a non-GAAP measure of financial performance it is reconciled to reported profit on page 4 of this release.



“Meanwhile, the success of the capital raising, which we completed in October, has put the company on a strong footing.

“It is a great tribute to the SeaDragon team that we are able to report such progress. The commitment our people have shown delivering the new factory, a company defining project, while building momentum in the Omega-2 operations has been brilliant and it reinforces my confidence in the future of the company,” Mr Groves said.

Financial results

Six months ended 30 September	2015	2014
Sales	5.3m	2.6m
EBITDA	(147k)	(320k)
Operating profit (loss) before interest and tax	(433k)	(598k)
Net profit (loss) after tax	(688k)	(574k)
Operating cash (out) flow	758k	(2.1m)

Sales for the first half of the 2016 financial year more than doubled to \$5.3 million from \$2.6 million in the prior year as the company benefitted from strong improvements in the supply of Omega-2 raw materials.

Operating losses (losses before interest and tax) narrowed to \$433,000 from \$598,000 despite a significant investment in people and capabilities ahead of the commissioning of the new refinery. Half year EBITDA losses narrowed to \$147,000 from \$320,000, while net loss after tax for the period rose to \$688,000 from \$574,000 in the prior year. This result included \$255,000 of interest costs and contrasts with the prior period, when the company was debt free.

Half-year operating cash flow rose to a positive \$758,000, reversing a \$2.1 million cash outflow in the prior year. SeaDragon achieved higher average sale prices on finished Omega-2 products and benefited from higher factory throughput and refining process improvements. Gross profit margins expanded to 32.2% from 28.9% in the same period in the prior year.

SeaDragon is meanwhile in a strong financial position following the company’s \$10 million capital raising, which was largely completed on 2 October 2015. Net debt as at 30 September 2015 stood at \$5.8 million up from the prior year's positive net cash position of \$2.3 million.

Omega-3 refinery

SeaDragon will commence the new refinery’s first commercial production run in the next few days. The factory will first refine retained stocks of Alkoxyglycerol (AKG) to extract residual Omega-2 fish oils before moving to Omega-3 production later next month [December].

The AKG, which is a by-product of the Omega-2 production process, was produced at SeaDragon’s Nayland Road, Stoke Omega-2 facilities. The AKG was retained in anticipation of



the company being able to take immediate advantage of the superior refining capability offered by the new plant.

SeaDragon's transition to the production of high-quality sustainably-sourced Omega-3 fish oils is gaining momentum. The company is making good progress in securing supplies for the new plant and building customer interest in the plant's finished products, said Interim Chief Executive Richard Alderton.

"The company is putting in place the necessary raw material supply agreements and customer interest in our Omega-3 products is gaining momentum.

"Commission testing of the plant proceeded without significant issue. Testing of the services section of the new refinery was completed in October, while testing of the fish oil handling and transport facilities was completed in the last fortnight," Mr Alderton said.

"The investment to date remains in line with our \$9.2 million budget. In the six months to 30 September 2015 \$4.04 million was invested in plant, property and equipment, of which the majority was spent on the new factory.

"We have also begun detailed planning for the addition of the fractionation plant and the upgrade to our existing Omega-2 facility. We expect these projects to gain momentum in the New Year," Mr Alderton said.

Capital raising and special meeting

In a strong endorsement of SeaDragon's strategy to transition to the production of Omega-3 oils, the company raised well in excess of the \$7.5 million it originally sought.

The capital raising programme has given the company sufficient funds to complete the next stage of the Omega-3 refinery, upgrade the existing Omega-2 facility and provide the company with capital to accelerate its growth plans.

As part of the capital raising, SeaDragon secured a strategic investment from natural health and beauty products company Comvita. The investment agreement provides for Comvita and SeaDragon to work with the wider New Zealand fishing industry to maximise the value from sustainably harvested local seafood resources. This is an initiative that will benefit the New Zealand economy as a whole.

Comvita's investment is subject to approval at a special shareholder meeting [to be held next month]. Details of the resolutions and an independent appraisal of the investment will be released to the market early next month.

SeaDragon notes that during October the voluntary liquidation of MerSea Holdings Limited, SeaDragon's former 42.3% shareholder took place.



As disclosed in substantial security holder notices released to the NZX on 24th November 2016 MerSea Holdings shares in SeaDragon have been distributed pro-rata to the underlying MerSea Holdings shareholders, SDMO Trustee Limited and Merinova Holdings Limited. Those entities have confirmed to the SeaDragon board that they intend to support the capital raising.

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Non GAAP profit measures

SeaDragon’s standard profit measure prepared under New Zealand GAAP is net profit after tax. However, it has used the non-GAAP measure of EBITDA when discussing financial performance in this document as directors and management believe it provides useful information since it is used internally to evaluate performance, establish operational goals and allocate resources.

GAAP to Non-GAAP reconciliation

Six months to September 30	2015	2014
Reported net profit (loss) after tax (NPAT)	(688k)	(574k)
Add back:		
Taxation	0	0
Net interest costs (income)	255k	(24k)
Depreciation	287k	278k
EBITDA (EBITDA loss)	(147k)	(320k)

About SeaDragon:

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. For more information visit: www.seadragon.co.nz