

# ANNOUNCEMENT



NZX / MEDIA RELEASE

30 May 2016

UNAUDITED FINANCIAL RESULTS FOR THE TWELVE MONTHS TO 31 MARCH 2016

## SeaDragon reports ongoing transformation

*New Omega-3 fish oil refinery operational and performing ahead of expectations; Omega-2 market volatility weighs on sales, earnings and balance sheet*

### Key points:

- SeaDragon transformed with the new refinery performing well and Omega-3 sales made to customers
- Refreshed board, new Chief Executive, Auditor and systems establish a robust platform for growth
- Omega-2 market volatility weighs on financial performance; market exit underway
- Sales for the 2016 financial year of \$5.6 million compared to the prior year's \$6.2 million sales figure, which has been adjusted to correct the treatment of foreign currency sales
- Normalised EBITDA<sup>1</sup> losses improve to \$0.39 million loss from the prior year's \$2.2 million loss
- Net loss after tax (NPAT) for the period was \$4.9 million, after exit from Omega-2 market and accounting changes necessitated a \$3.6 million inventory write down
- Comvita \$3.0 million convertible loan provides funding for transition to Omega-3 markets

New Zealand's largest refiner and blender of high quality fish oils and fractions SeaDragon Limited (NZX: SEA) today reports on a year that has seen it transform itself into a company ready to capitalise on the strong demand it sees for Omega-3 fish oils.

Over the last year, the company has been fundamentally reshaped with the commissioning of its new Omega-3 fish oil refinery in Nelson. The company has lifted its total refining capacity from approximately 200 tonnes per year to 5,200 tonnes per year, representing a quantum leap for the company.

The new refinery, completed for a final cost of \$10.8 million, allows SeaDragon to produce new products, including high-value niche products such as sustainably-sourced Hoki Omega-3 fish oils, for a wider range of new customers. This is in sharp contrast to the legacy Omega-2 operations which were limited to small volumes of fish oil and subjected the company to long lead times and a highly variable supply chain.

<sup>1</sup>Earnings (or losses) before interest, tax, depreciation and impairments. Normalised EBITDA is a non-GAAP measure of financial performance a defined and reconciled to GAAP measures of financial performance on page 4 of this release.



The company has sold Omega-3 oils refined at the plant and is enjoying strong enquiry for its new products from potential customers, including large international food supplement and nutraceutical manufacturers.

Chairman Colin Groves said: “The difference between the SeaDragon of today, compared to 12 months ago, is quite remarkable. The legacy Omega-2 facility was small, with a business model that primarily focused on two main suppliers and two main customers.

“With the new Omega-3 refinery, the company’s capacity has increased 26-fold. Meanwhile, with the exit from Omega-2 markets, the legacy facilities will be converted to handle low-volume boutique, specialised, higher-value Omega-3 fish oils, such as ocean-farmed New Zealand Salmon oil.

“We now have a business that has many suppliers, many products, and many prospective blue-chip customers. What the operations team, at SeaDragon, has achieved over the last year has been nothing short of fantastic.”

SeaDragon has also secured a strategic partnership with global natural health products company Comvita and raised \$10 million in new equity. It has put in place a new Chief Executive and revised its operational and financial disciplines, including the raw material sourcing and quality-assurance infrastructure necessary to support its transition to Omega-3 markets. It also has a refreshed Board and appointed a new Auditor, PwC.

Weakness in Omega-2 markets during the third and fourth quarters, weighed on the company’s financial performance, at a time when management were also focusing on the commissioning of the new Omega-3 refinery.

Meanwhile, an ongoing review of the company’s financial reporting systems by SeaDragon’s new Auditor has identified shortcomings related to the accounting treatment of sales contracted in foreign currencies and inventory management. These shortcomings have made it difficult to ensure accurate delivery to forecasts.

The review necessitated an adjustment to SeaDragon’s sales for the year to 31 March 2015<sup>2</sup>. Sales for the year to 31 March 2016 were \$5.6 million, compared to the prior year’s restated result of \$6.2 million (previously reported as \$6.3 million), but below the forecast of July 2015.

The review found the inventory management systems were not fit for purpose and not compliant with New Zealand Generally Accepted Accounting Practice (NZ GAAP). These inventory management system issues have now been addressed and mitigating internal controls have been established.

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<sup>2</sup> SeaDragon will also be restating its results for the half year to 30 September 2015, when it releases its interim results later in 2016.



Normalised EBITDA for the 2016 financial year improved to a loss of \$0.39 million from a loss of \$2.2 million in the prior year, but fell short of the \$0.14 million gain forecast. Meanwhile, net loss after tax (NPAT) for the period was \$4.9 million, compared to the loss of \$2.8 million in the prior year.

NPAT reflected a \$3.6 million write down in Omega-2 inventories due to the difficult trading environment, but these effects were diluted by adjustments to the inventory management system following the review.

Comvita's agreement last week to advance SeaDragon \$3 million via a convertible loan, assists the company's funding for its transition to Omega-3 markets.

Mr Groves continued: "Omega-2 markets have been disappointing and really overshadowed the significant achievements of the past year. SeaDragon is now a transformed company, firmly focussed on the opportunities it sees in Omega-3 markets.

"The new refinery is performing well. We are steadily building sources of Omega-3 raw material supply and we are encouraged by the response we have received from potential customers. We are exiting the volatile Omega-2 market, allowing the company to focus on the opportunities that have the greatest potential to drive an uplift in shareholder value.

"We are also driving necessary changes in SeaDragon's systems and processes. Meanwhile, the market for Omega-3 fish oils continues to grow. GOED, the global organisation for the Omega-3 industry, recently estimated<sup>3</sup> the global Omega-3 finished products market was worth €28 billion in 2015 and would reach €33 billion by 2018," Mr Groves said.

"For all of these reasons, we are looking forward to the future and a thriving SeaDragon"

SeaDragon will release its audited results for the year to 31 March 2016 by 30 June 2016.

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<sup>3</sup> <http://www.nutraingredients.com/Markets-and-Trends/Omega-3-hits-28bn-in-2015-growth-predicted>



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**About SeaDragon**

SeaDragon (NZX:SEA) is New Zealand's largest refiner and blender of high-quality, internationally-certified concentrated Omega-3 fish 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. See: [www.seadragon.co.nz](http://www.seadragon.co.nz)

**NOTES: Non-GAAP financial Information**

SeaDragon's standard profit measure prepared under New Zealand GAAP is net profit after tax (NPAT). SeaDragon has used a non-GAAP profit measure of earnings (or losses) before interest, tax, depreciation, amortisation and impairments (EBITDAI), when discussing financial performance in this document. The directors and management believe this measure provides useful information as it is used internally to evaluate performance of business units, to establish operational goals and to allocate resources.

Non-GAAP profit measures are not prepared in accordance with NZ IFRS (New Zealand International Financial Reporting Standards) and are not uniformly defined, therefore the non-GAAP profit measures reported in this document may not be comparable with those that other companies report and should not be viewed in isolation from, or considered as a substitute for, measures reported by SeaDragon in accordance with NZ IFRS.

**GAAP TO NON-GAAP RECONCILIATION**

12 months to 31 March	2016 \$000	2015 \$000
Reported net profit (loss) after tax (NPAT)	(4,909)	(2,838)
Add back:		
Taxation	-	(29)
Interest costs (net)	(226)	(60)
Impairment to inventory	(3,648)	-
Depreciation	(645)	(564)
Normalised EBITDA	(390)	(2,185)