



SEAD<sup>DRAGON</sup>

RESPONSIBLY PURE

# ANNUAL SHAREHOLDERS MEETING

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Eden Park • Auckland • 8 August 2018 • 10:30am





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# COLIN GROVES

CHAIRMAN





# Directors

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**COLIN GROVES**  
INDEPENDENT CHAIRMAN



**STUART MACINTOSH**  
NON-EXECUTIVE DIRECTOR



**RICHARD ALDERTON**  
INDEPENDENT DIRECTOR



**MATTHEW MCNAMARA**  
NON-EXECUTIVE DIRECTOR



**MARK SADD**  
NON-EXECUTIVE DIRECTOR



**MARK STEWART**  
NON-EXECUTIVE DIRECTOR



# Agenda

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CHAIRMAN'S REPORT

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CHIEF EXECUTIVE'S REPORT

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Q&A

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RESOLUTIONS

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GENERAL BUSINESS

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MEETING CLOSE





# Strategic Highlights

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Secured relationships with several major international Omega-3 customers

Omega-3 sales more than double in the 2018 financial year to \$1.0 million

Gained Friends of the Sea, halal and kosher certifications

Net loss after tax and normalised EBITDA\* losses narrow to \$6.1 million and \$4.5 million respectively

Demand is growing strongly and we are expanding the product suite

Forecasting improvements in financial performance for the 2019 financial year

Commitments for \$6 million new funding from cornerstone shareholders

\*Normalised EBITDA is a non-GAAP profit measure. It is defined and reconciled to GAAP measures of profitability on page 21 of this presentation.



**Dr. NEVIN AMOS**  
CHIEF EXECUTIVE



# Our VISION

SeaDragon will be recognised as a world-class provider of marine ingredients which are sustainably sourced from the Southern Oceans and manufactured in New Zealand.



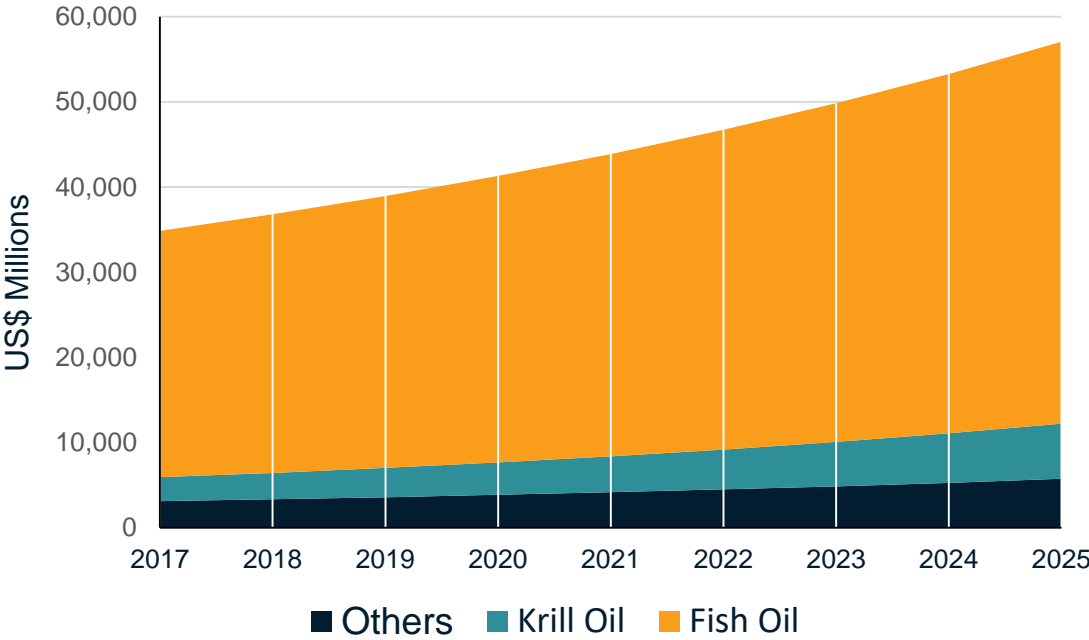
# Our MISSION

We refine and distribute bulk fish oil, converting marine by-products to support human health.



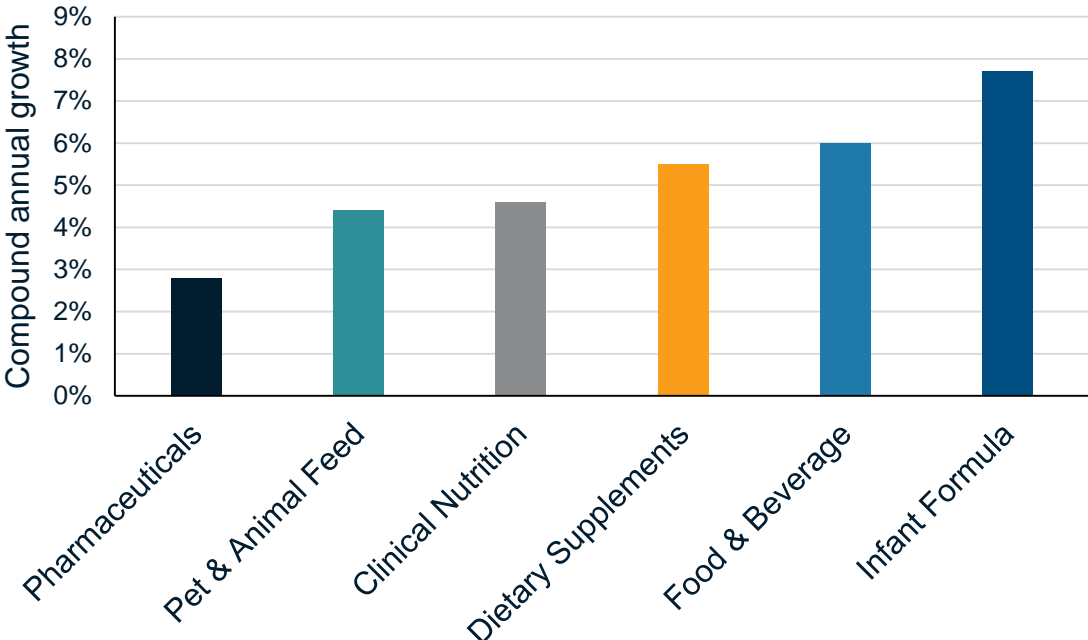
# Robust global market outlook

FORECAST OMEGA-3 SUPPLEMENT MARKET DEMAND BY SOURCE 2017-2025



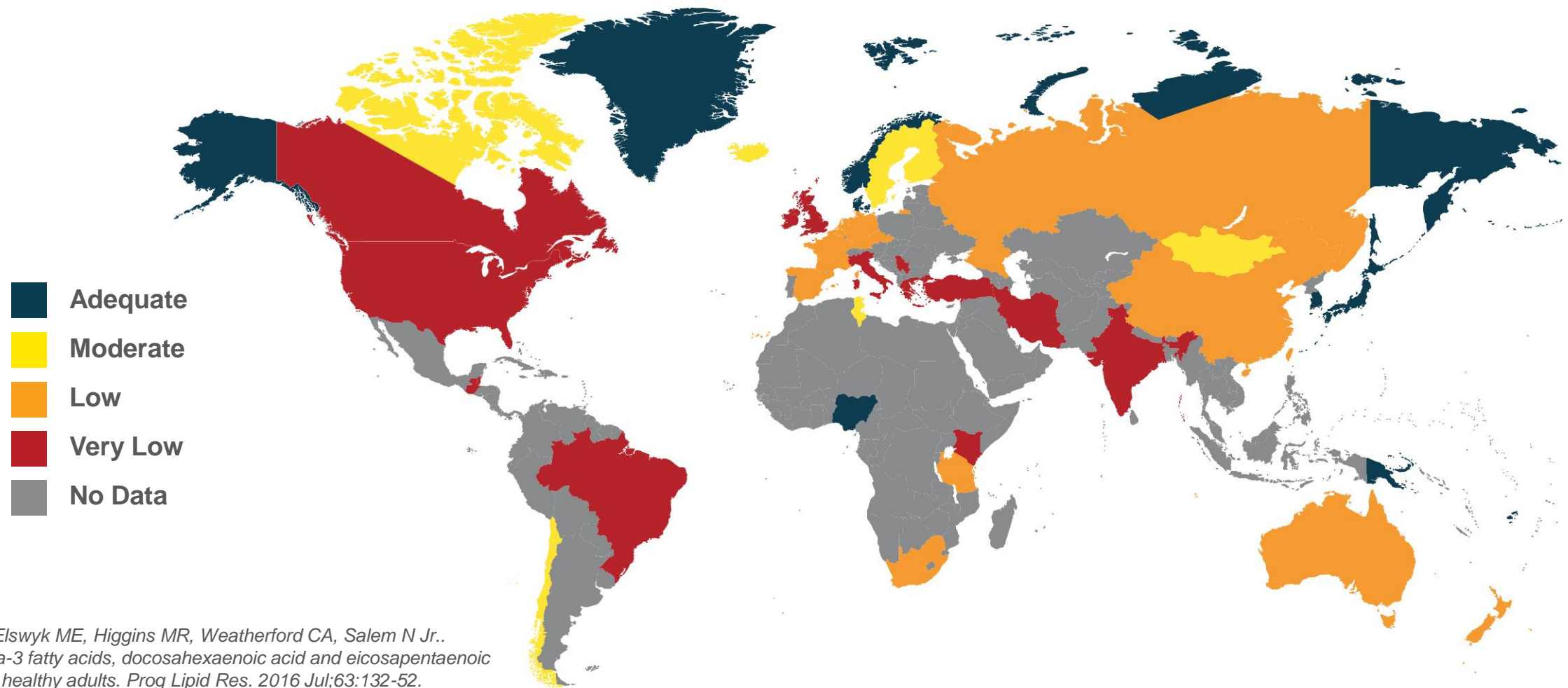
Source: Grand View Research

FORECAST OMEGA-3 SUPPLEMENT DEMAND GROWTH BY APPLICATION 2017-2025



Source: Grand View Research

SEADRAGON'S REFINERY, EVEN AT FULL CAPACITY, REPRESENTS A SMALL FRACTION OF THE TOTAL MARKET





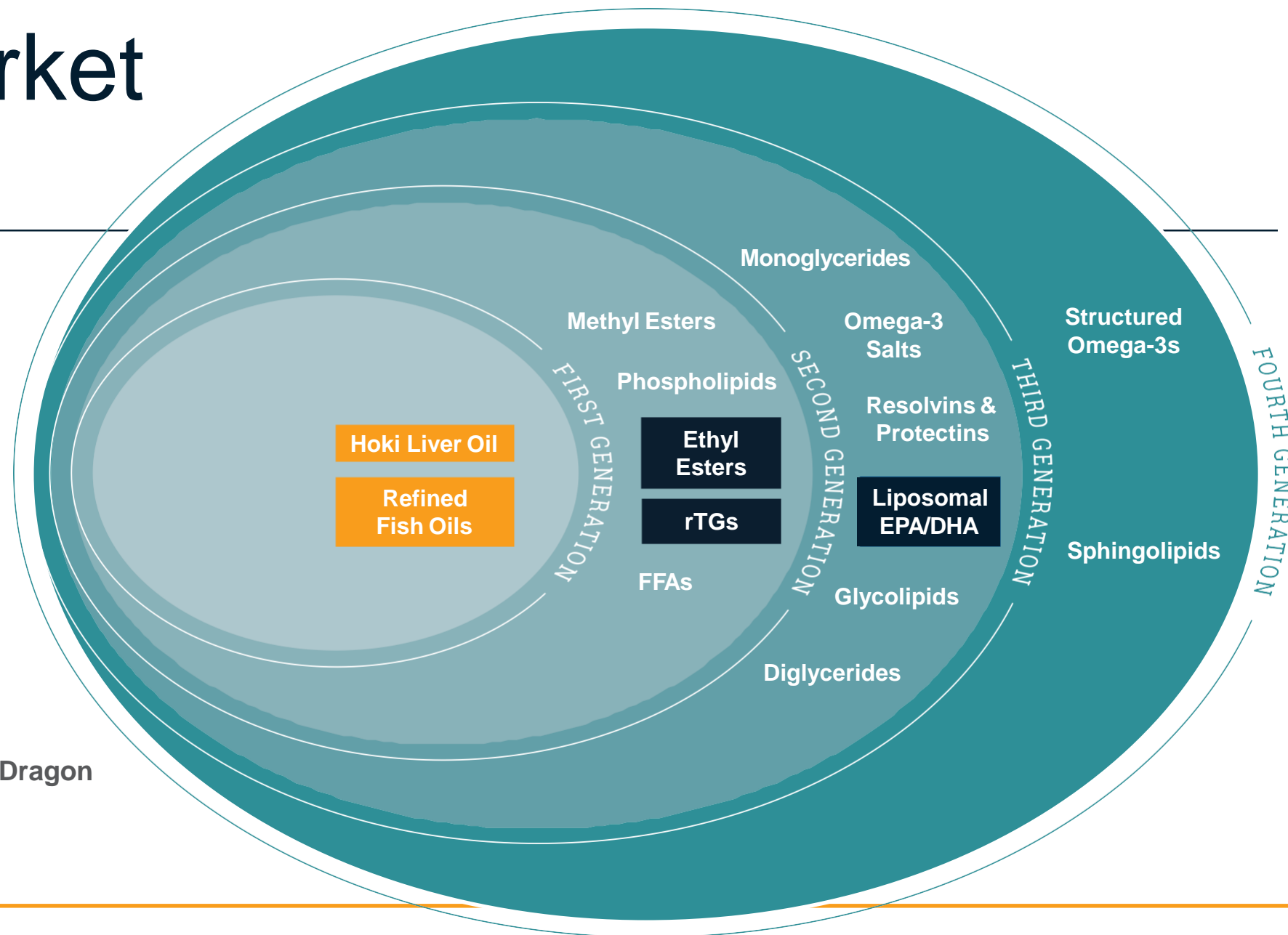


# Omega 3 market evolution

## MARKETS EVOLVING DUE TO:

- ❖ Increasing customer demand for sustainably-sourced products
- ❖ The development of higher value niches
- ❖ Demand for high-potency compounds

-  Currently manufacture
-  Third-party toll manufacture for SeaDragon







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8 AUGUST 2018

# Our STRATEGY

SeaDragon is determined to drive capacity utilisation in our fish oil refinery and build demand for higher-value customised products.

We also seek to build and maintain a diversity of customers and markets to ensure we are protected against external supply fluctuations and changes in customer demands and other market trends.



# Building a global presence

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## ASIAN MARKETS

- ❖ Making strong progress in North and South East Asia
- ❖ Halal certification benefits South East Asian markets
- ❖ China is challenging

## EUROPEAN MARKETS

- ❖ Orders already shipped to the region
- ❖ A complex certification and product specification regime delays SeaDragon's entry into these markets and weighs on earnings
- ❖ Friends of the Sea and MSC certifications will assist us to meet growing demand for Omega-3 oils

## NORTH AMERICAN MARKETS

- ❖ Small but growing presence for applications such as functional foods.



# Delivering for our customers



- Differentiated Omega-3 oils
- Omega-3 powders/ liposomes
- Small-batch bioactives

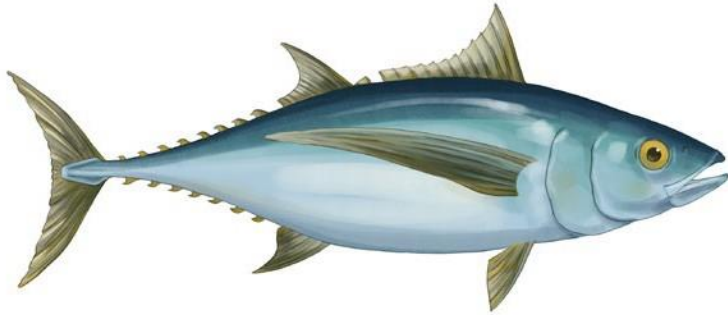
- Differentiated Omega-3 oils
- Omega-3 powders/ liposomes

- Commodity oils for encapsulation and ingredients

- ❖ In the 2018 financial year we sent samples to 34 prospective customers and sold over 150 tonnes of semi-refined Omega-3 oil
- ❖ Three major customers placed orders for semi-refined Omega-3 tuna oil
- ❖ More have indicated a strong interest
- ❖ Making progress on building a market for New Zealand sourced, predominantly hoki, Omega-3 oil

# Focused Omega-3 strategy on two key species

## TUNA



- ❖ EPA:DHA ~ 5:25
- ❖ Achieving Omega-3 concentrations on average of 35% in refined oil
- ❖ Range of supply to meet market access requirements
- ❖ Secured supply to match orders

## HOKI

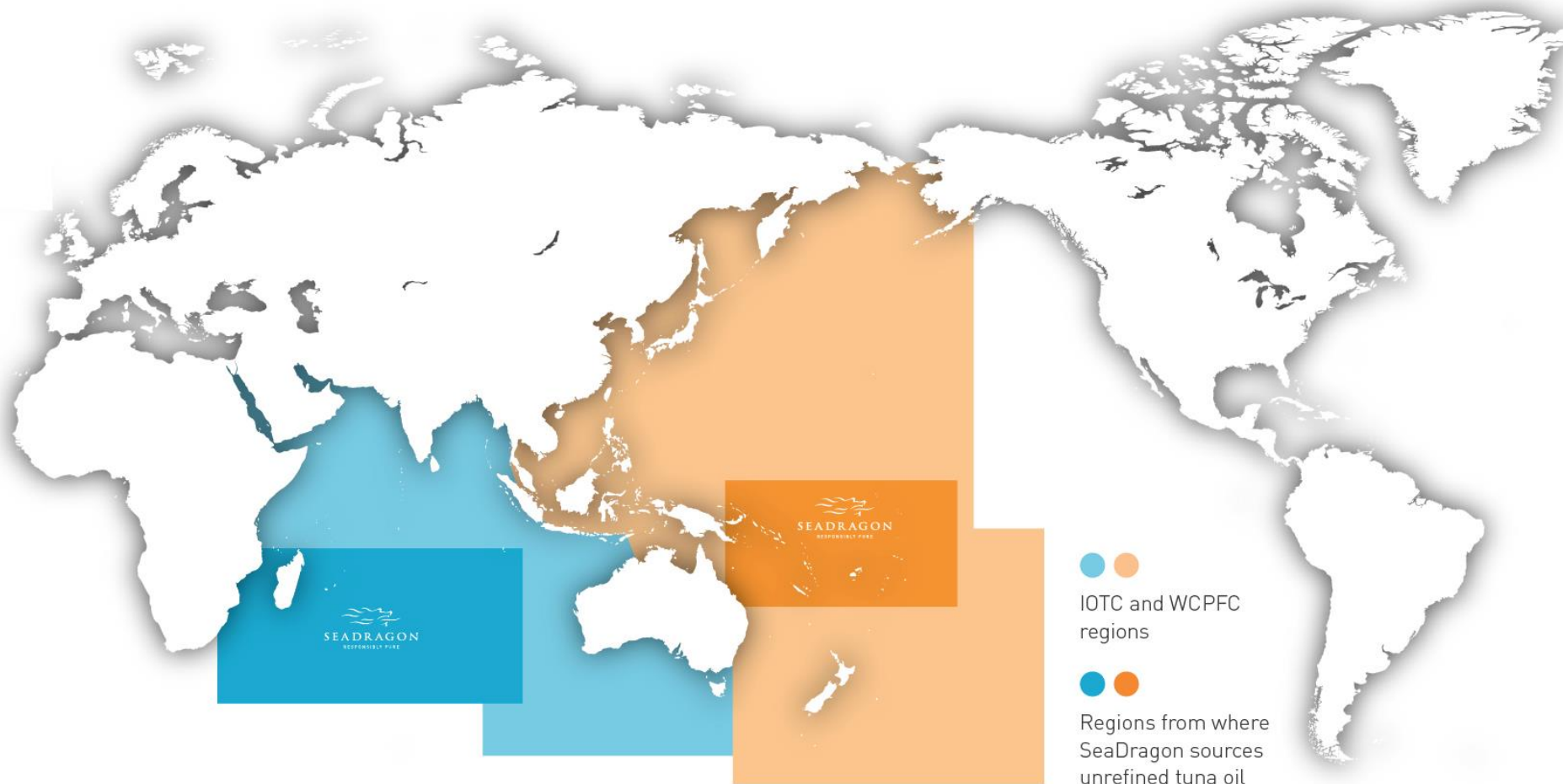


- ❖ EPA:DHA ~ 4:12
- ❖ Achieving concentrations of around 20% in refined oil
- ❖ One supplier has delivered unrefined New Zealand-sourced, predominantly hoki, Omega-3 oil
- ❖ Meets sustainable-sourcing and EU/US provenance requirements
- ❖ Requires concentration or alternative delivery formats to meet customer demands

EPA:DHA concentrations of minimum 30% required to meet market demand



# Sourcing from sustainably-managed tuna fisheries

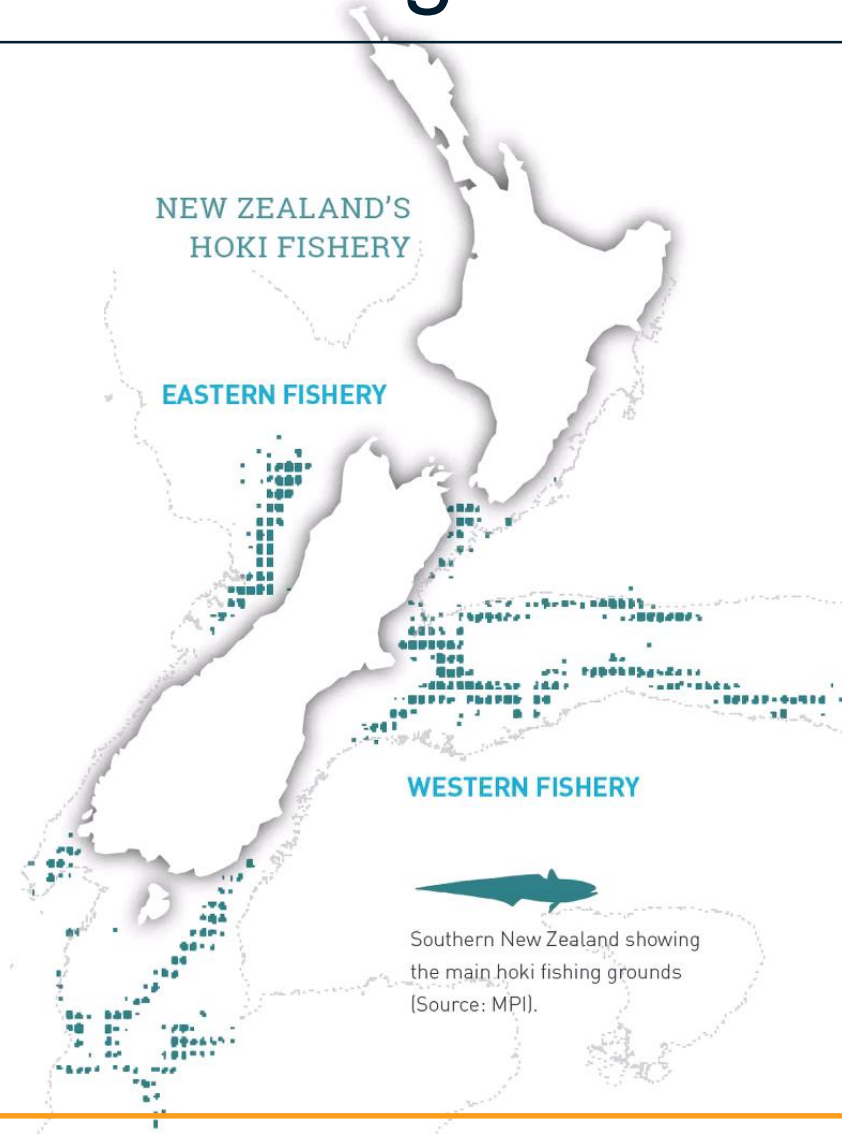


## FISHERIES HEALTHY

- ✓ SeaDragon conducted a review of its sustainability
- ✓ Tuna sourced from fisheries overseen by the Indian Ocean Tuna Commission and the Western and Central Pacific Fisheries Commission
- ✓ International Seafood Sustainability Foundation certified the stocks as healthy



# Sourcing from sustainably-managed hoki fisheries



NEW ZEALAND'S HOKI IS THE **FIRST** WHITE FISHERY IN THE WORLD TO BE **CERTIFIED SUSTAINABLE** BY THE MARINE STEWARDSHIP COUNCIL

*"The eastern and western hoki stocks have been increasing since 2006 and that the biomass of the western stock represents 40-79% of the theoretical unexploited biomass, while the eastern stock represents 44% - 75%"*

– Ministry of Primary Industries





# SeaDragon operations

## OMEGA-3 REFINERY

- ❖ Manufacturing activity in the first 4 months of FY2019 double that of the same period in FY2018 and consistent with management forecasts
- ❖ Achieved kosher and halal certification
- ❖ Achieved Friends of the Sea certification

## BOUTIQUE PLANT

- ❖ Small batch processing of New Zealand derived fish oils
- ❖ Small batch toll processing for strategic partners



# COLIN GROVES

CHAIRMAN



# FY2018 transitioning to Omega-3 markets

12 Months to 31 March*	2018 \$000	2017 \$000
<b>Sales</b>	<b>3,028</b>	<b>4,331</b>
Normalised EBITDA**	(4,522)	(4,703)
Interest cost (net)	(647)	(438)
<b>Non-cash adjustments</b>		
Depreciation	(888)	(877)
Stock options	-	(497)
Loss on disposal of assets	-	(144)
<b>Net loss after tax</b>	<b>(6,057)</b>	<b>(6,659)</b>

## FALLING OMEGA-2 SALES OVERSHADOW OMEGA-3 PROGRESS

- ❖ Omega-3 sales more than double to represent 32% of total sales from 13% in the prior year, but not enough to overcome Omega-2 reduction
- ❖ European market challenges delay SeaDragon progress

\* Summary information only. For a full description of SeaDragon's results for the year to 31 March 2018 please refer to the 2018 Annual Report.

\*\* Normalised EBITDA is a non-GAAP profit measure. Normalised EBITDA is now calculated including inventory impairments, which are now treated as a normal part of the ongoing business. If inventory impairments were excluded in the current period, normalised EBITDA would have been a loss of \$4.2 million (prior year: loss of \$4.4 million) Further notes on SeaDragon's use of this measure are included on page 54 of this presentation and the 2018 annual report.

## Balance sheet restructure required

As at 31 March*	2018 \$000	2017 \$000
Cash and cash equivalents	1,009	4,929
Inventories	1,601	1,943
<b>Total assets</b>	<b>14,805</b>	<b>19,515</b>
Loans and borrowings	—	—
Convertible loan**	2,758	1,429
<b>Total liabilities</b>	<b>4,073</b>	<b>2,773</b>
<b>Net equity</b>	<b>10,732</b>	<b>16,742</b>

- ❖ Net assets fall due to diminution of cash reserves and reduction in inventories
- ❖ Liabilities increase with convertible loan draw down

\*Summary information only. For a full description of SeaDragon's results for the year to 31 March 2018 please refer to the 2018 Annual Report

\*\*Portions of the loan are classified as equity, but as at 31 March 2018 the convertible loan was fully drawn with a face value of \$3 million

# Growth requires further capital

	2018	2017
12 months to 31 March*	\$000	\$000
Receipts from customers	2,839	4,536
Payments to suppliers and employees	(7,247)	(8,104)
Net interest	(242)	(314)
<b>Net operating cash flow</b>	<b>(4,650)</b>	<b>(3,882)</b>
<b>Net investing cashflow</b>	<b>(270)</b>	<b>(138)</b>
Net proceeds from share issue	-	10,628
Proceeds from convertible notes	1,000	2,000
<b>Net financing cashflow</b>	<b>1,000</b>	<b>12,628</b>
Net (decrease) increase in cash and cash equivalents	(3,920)	8,608
Cash at start of period	4,929	(3,679)
<b>End of period cash</b>	<b>1,009</b>	<b>4,929</b>

## CASH OUTFLOW CONTINUES

- ❖ Fixed costs of ~ \$5 million annually requires strong sales growth to achieve breakeven
- ❖ Funding to support strategy is required
- ❖ Funding package presented for shareholder approval

\*Summary information only. For a full description of SeaDragon's results for the year to 31 March 2018 please refer to the 2018 Annual Report





# Cornerstone shareholders committed to funding growth



## KEY PESCADO AND BIOSCIENCE MANAGERS LOAN NOTE TERMS

- ❖ Masthead (via Pescado Holdings) and Bioscience Managers (via One Funds Management) agree each to provide up to \$3 million via convertible loan note, for a total of up to \$6 million
  - Initial \$1.75 million (\$875,000 each) advanced to refinance Bridge Loan
- ❖ Interest at 12.00% pa reducing to 7.95% pa upon shareholder approval of loan notes and other conditions
- ❖ Option to convert all outstanding principal amounts into shares
- ❖ SeaDragon may repay in full at any time
- ❖ At maturity on 31 March 2020 the notes convert automatically to ordinary shares at \$0.0033 per share\*
- ❖ Bioscience Managers and Pescado share Comvita's first ranking security over SeaDragon's assets and extended to include all of SeaDragon's subsidiaries and their assets.

## PESCADO AND BIOSCIENCE LOANS ALSO SUBJECT TO:

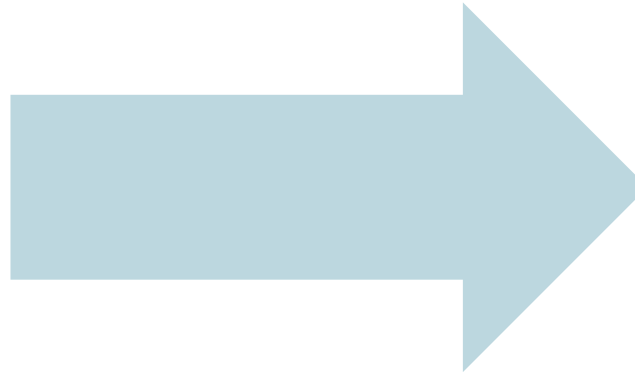
- ❖ Amendment to Comvita option terms (issued December 2015) to reduce the exercise price
- ❖ Amendment to Comvita Loan Note Facility terms (agreed in 2016) to match new loan note terms

\* Conversion is not automatic in the event of SeaDragon being in default of convertible loan note facilities or insolvent.

## Comvita option amended

### CURRENT OPTION

- ❖ Issued: 17 December 2015
- ❖ Expiry: 28 September 2018\*\*
- ❖ Exercise price: \$0.008
- ❖ Shares to be issued: 375,000,000
- ❖ Mandatory exercise conditions



### PROPOSED AMENDMENTS

- ❖ Expiry date extended to 31 March 2020
- ❖ Exercise price \$0.0033
- ❖ Shares to be issued 909,090,909
- ❖ SeaDragon gains greater flexibility to require Comvita to subscribe to new shares company



Shareholders should consult the SeaDragon Notice of Meeting and the related Independent Advisors Report for additional detail on the proposed amendments to the loan notes and options

\* Conversion is not automatic in the event of SeaDragon being in default of convertible loan note facilities or insolvent. \*\*Extension by a year approved by shareholders on 31 August 2016

# Comvita loan to rank with Pescado and BioScience Mgrs

## CURRENT COMVITA LOAN NOTE

- ❖ Issued: 27 May 2016
- ❖ Loan: \$3 million
- ❖ Interest rate: 7.95% before grossing up interest
- ❖ Maturity: 28 September 2018
- ❖ Conversion price at maturity: \$0.008
- ❖ Secured over SeaDragon's assets



## PROPOSED AMENDMENTS

- ❖ Maturity extended to 31 March 2020
- ❖ Rate unchanged at 7.95% before grossing up interest
- ❖ Conversion price reduced to \$0.0033 cents per share and shares convert automatically on maturity\*
- ❖ SeaDragon cannot repay Comvita loan unless all amounts advanced by Bioscience Managers and Pescado are also repaid in full at the same time.
- ❖ Comvita's first ranking security over SeaDragon's assets shared with Bioscience Managers and Pescado and extended

Shareholders should consult the SeaDragon Notice of Meeting and the related Independent Advisors Report for additional detail on the proposed amendments to the loan notes and options

\* Conversion is not automatic in the event of SeaDragon being in default of convertible loan note facilities or insolvent.

# Non-associated directors support transactions

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Colin  
Groves



Richard  
Alderton



Stuart  
Macintosh

“NON-ASSOCIATED DIRECTORS ARE SUPPORTIVE OF THE PROPOSED TRANSACTIONS AND RECOMMEND SHAREHOLDERS VOTE IN FAVOUR OF ALL RESOLUTIONS”

- ❖ Do not currently expect the company to draw fully on \$6 million convertible loan facility

## MINORITY SHAREHOLDERS OFFERED CAPITAL AT DISCOUNTED PRICE

- ❖ Subject to shareholders approving the resolutions, SeaDragon will launch a 1-for-1 renounceable pro-rata rights offer
- ❖ The rights will give shareholders the opportunity to subscribe for new shares at NZ\$0.0033 per share, the same price offered to cornerstone shareholders
- ❖ Comvita, Pescado and BioScience will not exercise their rights under the offer beyond their pro-rata rights





# Independent advisor supports transactions



## TAKEOVERS CODE

- ❖ Shareholder approval required because the transactions could see Pescado Holdings, BioScience Managers and Comvita increasing shareholding above 20%

*“In our opinion, taking into account all relevant factors, the positive aspects of the proposed transactions outweigh the negative aspects.” – Campbell MacPherson*

## LISTING RULES

- ❖ Shareholder approval required because the transactions could see Pescado Holdings, BioScience Managers and Comvita gaining a material increase in control of SeaDragon
- ❖ Transactions are also material and with related parties

*“...the consideration and the terms and conditions of the Proposed Transactions are Not Fair to the Non-Associated Shareholders. However, .... taking into account the wider benefits and risks relating the Proposed Transactions, the positive aspects of the Proposed Transactions outweigh the negative aspects.” – Campbell MacPherson*

# Forecasting momentum

SEADRAGON FY2019 GUIDANCE	2019		2018
	Unaudited Guidance Range		Audited Result
12 months to 31 March	\$000	\$000	\$000
Sales	10,000	14,000	3,028
<b>Normalised EBITDA</b>	<b>(2,800)</b>	<b>(2,000)</b>	<b>(4,522)</b>
Interest costs (net)	(800)	(700)	(647)
Depreciation	(950)	(900)	(888)
<b>Net profit/(loss) after tax</b>	<b>(4,550)</b>	<b>(3,600)</b>	<b>(6,057)</b>

## MARKET GUIDANCE GIVEN 7 JUNE 2018

- ❖ Sales to grow by at least 330% in the current financial year
  - 50% of revenue forecast relies on indicative orders already received
  - Represents 40% of total refining capacity of the new refinery, allowing room for further growth



# Summary & Outlook

- ❖ SeaDragon continuing to forecast a cash outflow in the current financial year
- ❖ Cornerstone shareholders continue to back the company
- ❖ Rights offer planned that gives existing shareholders an opportunity to buy new shares at the same price as cornerstone shareholders
- ❖ Growing customer base of global refiners and supplement manufacturers
  - Manufacturing activity in the first 4 months of FY2019 double that of the same period in FY2018 and consistent with management forecasts
  - Secured supply from sustainably managed fisheries
  - Evolving into differentiated New Zealand-provenance Omega-3 products
- ❖ As indicated on 7 June 2018 sales are forecast to more than triple in the current financial year and net losses to narrow
  - Revenue forecasts 50% covered by indicative orders
- ❖ SeaDragon is building momentum in Omega-3 markets





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# SHAREHOLDER QUESTIONS

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# NOTES

## NON-GAAP PROFIT INFORMATION:

SeaDragon's standard profit measure prepared under NZ GAAP is net profit after tax (NPAT). SeaDragon has used a non-GAAP profit measure of earnings (or losses) before interest, tax, depreciation, and stock options (Normalised EBITDA), when discussing financial performance in this document, and intends to do so in the future allowing investors to compare periods. The directors and management believe this measure provides useful information to readers to assist in understanding the Company's financial performance and position. This measure is also used internally to evaluate performance of the business to establish operational goals and to allocate resources. Non-GAAP profit measures are not prepared in accordance with NZ GAAP (and therefore do not comply with 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. The information contained in this presentation should be considered in conjunction with SeaDragon's latest financial statements and other market announcements, which are available at: <http://www.seadragon.co.nz/#investor>.



# SEADRAGON

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## SEADRAGON LIMITED

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