

# SEADRAGON LIMITED

## INTERIM REPORT

### Chairman and Chief Executive's Report

Over the last six months, SeaDragon has continued to build a presence in Omega-3 markets. However, given changes to the regulatory framework our efforts to access important European markets for fully-refined tuna oil for use in infant formula have proved to be more complex than originally envisioned. It has been necessary for the Directors to consider reviewing the company's sales and profitability forecasts in light of these challenges. We are currently adopting a conservative stance towards future earnings forecasts.

#### **Current performance**

Revenue for the six months to 30 September 2018 increased 52% to \$2.3 million from \$1.5 million in the same period last year. Although this represents significant growth, it is well short of expectations and this has had a corresponding impact upon earnings.

Normalised EBITDA<sup>1</sup> losses for the six months to September increased 14% to \$(2.5) million from \$(2.2) million in the same period last year, while net losses before tax widened to \$(3.4) million from \$(2.7) million a year earlier.

With additional funding from our cornerstone shareholders our financing costs increased to \$0.46 million from \$0.08 million in the same period last year.

#### **Focus on growth**

We are committed to resolving the current market access issues through ongoing dialogue and consultation with regulators and prospective customers as well as through changes to our refining processes. The Directors and Management continue to work hard to enable the Company and its products to access these lucrative markets, but at present we are unable to give clear guidance on timing.

We continue to focus on driving greater volumes of oil through our plant as we work towards covering the fixed overheads that continue to weigh on SeaDragon's financial performance. Management are currently exploring several opportunities including the possibility of toll-processing Omega-3 oils. Discussions are underway with potential partners in this regard.

In addition to these efforts, we continue to investigate longer-term high-value opportunities to refine and further process New Zealand sourced Omega-3 oil. Customers are showing an interest in this oil because it offers them an attractive New Zealand derived product to differentiate themselves from their competitors. In particular, they are keen to leverage New Zealand's strong international reputation for sustainably managed fish stocks and high-quality seafood. We have sourced our first shipment of this raw oil which we have subsequently refined and have provided samples to potential customers. We will provide an update on our progress in this new product line when we release our annual results in May 2019.

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<sup>1</sup> Normalised EBITDA is a non-GAAP profit measure it is defined and reconciled to the SeaDragon standard profit measure prepared under NZ GAAP of net profit after tax (NPAT) on page 3 of the attached accounts.

## **Balance sheet**

As at 30 September 2018 SeaDragon had net cash reserves of \$1.4 million. This followed the company drawing down \$3.75 million of a \$6.0 million convertible loan facility advanced by the company's cornerstone shareholders BioScience Managers and Pescado Holdings. Subsequent to the September 2018, SeaDragon strengthened its balance sheet by raising \$1.1 million through the issue of 329 million shares following a one-for-one renounceable rights issue.

## **Governance**

On the 21st of November 2018, Colin Groves, Chair for the last 4 years stepped down but remains a Director. The Board appointed Mark Stewart as Interim Chair. The Remuneration Committee has commenced a board refreshment process after having assessed its current skills and its future requirements. Further announcements will follow upon these appointments.

## **Outlook**

The results for the half year are disappointing. The Directors however believe SeaDragon is taking the steps necessary for it to reshape to a more sustainable and resilient business in the longer term.

The company retains the revised guidance given to the market on 9 November 2018 for revenue for the year to 31 March 2019 to range between \$6.0 million and \$6.9 million, for normalised EBITDA losses to range between \$(5.0) million and \$(4.8) million and net losses before tax to range between \$(6.6) million and \$(6.4) million.

We are committed to keeping shareholders updated on progress against our objectives.

## SEADRAGON LIMITED

### INTERIM REPORT

### Non-GAAP Financial 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.

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 NZ 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.

	<b>Unaudited</b> <b>6 months ended</b> <b>30 September</b> <b>2018</b> <b>\$'000</b>	Unaudited 6 months ended 30 September 2017 \$'000	Audited 12 months 31 March 2018 \$'000
<b><u>GAAP TO NON-GAAP RECONCILIATION</u></b>			
Reported Net loss after tax (NPAT)	(3,407)	(2,690)	(6,057)
Add back:			
Interest costs (net)	455	56	647
Depreciation	451	446	888
<b>Normalised EBITDA</b>	<b>(2,501)</b>	<b>(2,188)</b>	<b>(4,522)</b>

**SEADRAGON LIMITED**  
**INTERIM FINANCIAL STATEMENTS**  
**Unaudited Statement of Comprehensive Income**  
For the 6 months ended 30 September 2018

	<b>Unaudited</b>	Unaudited	Audited
	<b>6 months ended</b>	6 months ended	12 months ended
	<b>30 September</b>	30 September	31 March
	<b>2018</b>	2017	2018
<b>Note</b>	<b>\$'000</b>	\$'000	\$'000
Revenue	2,317	1,520	3,028
Cost of sales	<b>(3,641)</b>	(2,781)	(5,664)
Impairment of inventory	(4) <b>(178)</b>	(91)	(351)
<b>Gross loss</b>	<b>(1,502)</b>	(1,352)	(2,987)
Other (losses) gains from foreign exchange	<b>(12)</b>	(13)	(26)
Other income	-	-	40
Other expenses	<b>(1,438)</b>	(1,269)	(2,437)
<b>Operating loss</b>	<b>(2,952)</b>	(2,634)	(5,410)
Finance income - interest income	<b>4</b>	23	40
Finance expense - interest on borrowings	<b>(459)</b>	(79)	(687)
<b>Loss before income tax</b>	<b>(3,407)</b>	(2,690)	(6,057)
Income tax expense	-	-	-
<b>Total comprehensive loss for the period</b>	<b>(3,407)</b>	(2,690)	(6,057)
<b>Loss per share</b>			
Basic loss per share (cents per share)	<b>(0.08)</b>	(0.06)	(0.13)
Diluted loss per share (cents per share)	<b>(0.08)</b>	(0.06)	(0.13)

The notes on the attached pages form part of and are to be read in conjunction with these financial statements

## Unaudited Statement of Changes in Equity

For the 6 months ended 30 September 2018

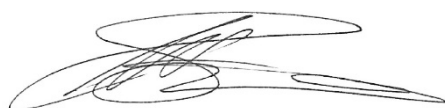
	Share Capital \$'000	Accumulated Loss \$'000	Share Options Reserve	Total Equity \$'000
<b>Balance at 31 March 2017</b>	44,652	(30,061)	2,151	16,742
<b>Total comprehensive loss for the period</b>				
Total comprehensive loss for the period attributable to the owners of the Company	-	(2,690)	-	(2,690)
<b>Total comprehensive loss for the period</b>	-	(2,690)	-	(2,690)
<b>Balance at 30 September 2017</b>	<b>44,652</b>	<b>(32,751)</b>	<b>2,151</b>	<b>14,052</b>
<b>Balance at 31 March 2017</b>	44,652	(30,061)	2,151	16,742
<b>Total comprehensive loss for the period</b>				
Total comprehensive loss for the period attributable to the owners of the Company	-	(6,057)	-	(6,057)
<b>Total comprehensive loss for the period</b>	-	(6,057)	-	(6,057)
<b>Transactions with owners</b>				
Equity portion of convertible loan note	47	-	-	47
<b>Balance at 31 March 2018</b>	<b>44,699</b>	<b>(36,118)</b>	<b>2,151</b>	<b>10,732</b>
<b>Balance at 31 March 2018</b>	44,699	(36,118)	2,151	10,732
<b>Total comprehensive loss for the period</b>				
Total comprehensive loss for the period attributable to the owners of the Company	-	(3,407)	-	(3,407)
<b>Total comprehensive loss for the period</b>	-	(3,407)	-	(3,407)
<b>Transactions with owners</b>				
Equity portion of convertible loan note	5,752	-	-	5,752
Transaction costs	(1,324)	-	-	(1,324)
Recognition of share-based payments	-	-	1,244	1,244
<b>Balance at 30 September 2018</b>	<b>49,127</b>	<b>(39,525)</b>	<b>3,395</b>	<b>12,997</b>

The notes on the attached pages form part of and are to be read in conjunction with these financial statements

## Unaudited Statement of Financial Position

As at 30 September 2018

		Unaudited 30 September 2018 \$'000	Unaudited 30 September 2017 \$'000	Audited 31 March 2018 \$'000
<b>Assets</b>				
Property, plant and equipment	(3)	11,323	12,002	11,625
Other receivable		75	75	75
<b>Total non-current assets</b>		<b>11,398</b>	<b>12,077</b>	<b>11,700</b>
Cash and cash equivalents		1,360	2,291	1,009
Trade and other receivables		526	581	495
Inventories	(4)	1,739	1,652	1,601
<b>Total current assets</b>		<b>3,625</b>	<b>4,524</b>	<b>3,105</b>
<b>Total assets</b>		<b>15,023</b>	<b>16,601</b>	<b>14,805</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Share capital	(5)	49,127	44,652	44,699
Reserves		(36,130)	(30,600)	(33,967)
<b>Total equity attributable to holders</b>		<b>12,997</b>	<b>14,052</b>	<b>10,732</b>
<b>Liabilities</b>				
Trade and other payables		984	869	1,060
Convertible Loans	(6)	783	1,429	2,758
<b>Total current liabilities</b>		<b>1,767</b>	<b>2,298</b>	<b>3,818</b>
Asset retirement obligation		259	251	255
<b>Total non-current liabilities</b>		<b>259</b>	<b>251</b>	<b>255</b>
<b>Total liabilities</b>		<b>2,026</b>	<b>2,549</b>	<b>4,073</b>
<b>Total equity and liabilities</b>		<b>15,023</b>	<b>16,601</b>	<b>14,805</b>



Mark Stewart – Chairman



Nevin Amos – Chief Executive

## Unaudited Statement of Cash Flows

For the 6 months ended 30 September 2018

	<b>Unaudited</b>	Unaudited	Audited
	<b>30 September</b>	30 September	31 March
	<b>2018</b>	2017	2018
<b>Note</b>	<b>\$'000</b>	\$'000	\$'000
<b>Operating activities</b>			
Receipts from customers	2,287	1,270	2,839
Payments to suppliers and employees	(5,116)	(3,686)	(7,247)
Interest received	3	18	29
Interest paid	(184)	(40)	(271)
<b>Net cash flows used in operating activities</b>	<b>(3,010)</b>	<b>(2,438)</b>	<b>(4,650)</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	(149)	(200)	(270)
<b>Net cash flows used in investing activities</b>	<b>(149)</b>	<b>(200)</b>	<b>(270)</b>
<b>Financing activities</b>			
Proceeds from issue of share capital	-	-	-
Proceeds from issue of convertible notes	(6) 3,750	-	1,000
Transaction costs of issue of shares	(240)	-	-
<b>Net cash flows from financing activities</b>	<b>3,510</b>	<b>-</b>	<b>1,000</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>351</b>	<b>(2,638)</b>	<b>(3,920)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1,009</b>	<b>4,929</b>	<b>4,929</b>
<b>Cash and cash equivalents at end of period</b>	<b>1,360</b>	<b>2,291</b>	<b>1,009</b>
<b>Made up as follows:</b>			
Cash and cash equivalents	1,360	2,291	1,009
Loans and borrowings	-	-	-
<b>Total cash and cash equivalents at end of period</b>	<b>1,360</b>	<b>2,291</b>	<b>1,009</b>

The notes on the attached pages form part of and are to be read in conjunction with these financial statements

# Notes to the Financial Statements

For the 6 months ended 30 September 2018

## 1) General Information

SeaDragon Limited is registered in New Zealand under the Companies Act 1993 and is an issuer for the purposes of the Financial Reporting Act 2013. SeaDragon Limited is party to a listing agreement with NZX Limited (NZX), with its ordinary shares quoted on the NZX Main Board. The Group is primarily involved in the refining of fish oils, is a for-profit entity and has its operations in New Zealand. The address of its registered office is 12 Nayland Road, Stoke, Nelson, 7011, New Zealand.

The interim consolidated financial statements of SeaDragon Limited (the Group financial statements) as at and for the six months ended 30 September 2018 comprise SeaDragon Limited, the Parent, and its subsidiaries (together referred to as the Group). These interim consolidated financial statements were approved by the Board of Directors on 28th November 2018.

## 2) Summary of Significant Accounting Policies

These Group financial statements do not include all the information required for full financial statements and consequently should be read in conjunction with the financial statements and related notes included in SeaDragon Limited financial statements for the year ended 31 March 2018. The annual financial statements for the year ended 31 March 2018 were prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

The condensed consolidated interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with NZ IAS 34 Interim Financial Reporting and International Accounting Standard IAS 34: Interim Financial Reporting. The interim financial statements have not been audited or reviewed.

The Group has applied NZ IFRS 15: Revenue from contracts with customers and NZ IFRS 9: Financial Instruments effective from 1 April 2018.

### a) Basis of measurement

These interim consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities (including derivative instruments).

### b) Going Concern

The financial statements have been prepared on a going concern basis meaning the Group has the intention to continue its business for the foreseeable future, without the need to significantly curtail activity.

As at 30 September 2018 the Group had net cash of \$1,360k (March 2018: \$1,009k) and operating cash out flows of \$3,010k (Sept 2017: \$2,438k). These ongoing losses are the result of ongoing difficulties in accessing the European markets as a result of changed regulatory and customer specifications and delays in securing key forecasted sales due to lengthy approval processes.

To date sales prices have been low with minimal overhead recoveries in margin.



The Group has secured \$6.0 million in convertible loan note funding from two major shareholders, being BioScience Managers and Pescado. This funding mandatory converts to equity on 31 March 2020. \$2.25m of this funding has not yet been drawn down.

Material uncertainties still exists, predominately in the sales prices SeaDragon will achieve, the quantity of sales orders, the timing of when sales can be secured and the prevailing foreign exchange rate as at the date of sale.

Management and the Board has in place a series of agreed actions to reduce short term cash demands and secure additional funds if and as these are required.

#### c) Functional and presentation currency

These financial statements are presented in New Zealand Dollars (NZD), which is also the Company's and its subsidiaries functional currency. All financial information presented in New Zealand Dollars has been rounded to the nearest thousand.

#### d) Use of estimates and judgments

These interim financial statements have been prepared using the same accounting policies and methods of computation as set out in the 31 March 2018 annual financial statements. All accounting policies have been applied consistently to all periods presented in these interim financial statements.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. In preparing these condensed interim financial statements the significant judgements and key sources of uncertainty were the same as those applied to the annual financial statements for the year ended 31 March 2018. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected.

#### e) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the SeaDragon Limited Board of Directors. Based on the nature of the operating results reviewed by the chief operating decision maker, Management has determined that the Group itself forms a single operating segment.

#### f) Classification and valuation of share-based payments

The Group has up to \$6.0m in convertible loan funding available from cornerstone shareholders BioScience Managers and Pescado as part of the convertible loan facilities approved at the shareholder meeting on 8 August 2018. The Group has called upon \$3.75m of this as at 30 September 2018. At the annual shareholder meeting the amended terms of the existing \$3.0m convertible loan with Comvita were also approved and this extended the term of the existing \$3.0m convertible loan facility that was due to expire on 28 September 2018. The \$6.0m in convertible loan funding available from BioScience Managers and Pescado plus the existing fully drawn \$3.0m convertible loan with Comvita will mandatory convert to equity at 31 March 2020.

Management has exercised judgment in respect of the accounting treatment of the convertible notes and have deemed it is a compound instrument as it includes characteristics of both debt and equity.

Due to the significant change of its terms Management has determined that the existing \$3.0m convertible loan with Comvita was extinguished when the new compound instrument was approved by shareholders on 8 August 2018.

The shareholders also approved the further amendment of the options first granted to Comvita on 17 December 2015. Management has exercised judgment in respect to the accounting treatment of the fair value of the latest amendments and has determined that they are a transaction cost associated with the new convertible note facility. The transaction costs are accounted for as a deduction to the fair value of the debt and equity components.

### 3) Property plant and equipment

Property, plant and equipment (PP&E) has been tested for impairment as at 30 September 2018 using discounted cash flows on a value in use basis. The Directors, based on the nature of the operations and operating results, has determined that the Group itself forms a single operating segment and that there is a single group of identifiable assets that generates cash inflows to the business. These cash flows have been based on Management's forecast for the next twelve months and has been extended for a further four-year forecast period. The forecast assumes significant growth over this period reflecting the ramp up of Omega-3 production following the securing of future sales orders. These forecast cash flows were then discounted to present value using a discount rate of 15%.

Management has needed to exercise significant judgement in testing for possible impairment, in particular;

- in the absence of many confirmed long-term sales contracts and limited historic sales data of Omega-3 product, sales have been forecast based on current customer demand and negotiations with other potential customers and suppliers.
- toll processing significant volumes of oil has been forecast to utilise production capacity with the expectation that the Company will operate at near 100% of capacity by the end of this five year forecast period. A trial has been planned for a potential toll processing customer and negotiations continue.
- gross margins are expected to grow as the Company secures key contracts over the forecast period with a greater mix of fully refined Omega-3 products and with any increase in material costs offset by production efficiencies.

#### 4) Inventories

As at 30 September 2018 it was Managements judgement that inventory was impaired by \$0.178m (Sept 2017: \$0.091m). The inventory that was impaired does not achieve the market access and accreditation specifications desired by our customers and will be sold at a discount.

At 30 September 2018, \$0.297m of inventory was carried at net realisable value (Sept 2017: \$0.263m).

#### 5) Share Capital

All authorised and issued shares are fully paid and have no par value. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All are ranked equally on the winding up of the Company.

	Number of ordinary shares	Group \$'000
<b>Balance 30 September 2017</b>	<b>4,513,618,718</b>	<b>44,652</b>
<i>Movement during the period</i>		
Transaction costs		
Equity portion of convertible loan note		47
<b>Balance 31 March 2018</b>	<b>4,513,618,718</b>	<b>44,699</b>
<i>Movement during the period</i>		
Transaction costs		(1,324)
Equity portion of convertible loan note		5,752
<b>Balance 30 September 2018</b>	<b>4,513,618,718</b>	<b>49,127</b>

The Company has issued up to a total of \$9.0 million convertible loan notes, \$3.0 million to each of Comvita, BioScience Managers and Pescado. As at September 2018 \$6.75 million of these loan notes have been drawn. These notes mandatory convert to ordinary shares at \$0.0033 per share on 31<sup>st</sup> March 2020 with 2,727,272,727 shares issued if all \$9.0 million notes are drawn. Refer to Note 6 for further details.

The Company has previously granted Comvita an option to acquire a further \$3.0 million in share capital. On 8 August 2018 the amended terms of this option were approved by shareholders. The existing option was due to expire on 28 September 2018 and this has been amended to expire on 31 March 2020. The amended terms grant Comvita an option to acquire 909,090,909 shares at a price of \$0.0033 per share resulting in an aggregate subscription price of \$3.0 million. Refer to Note 7 for further information.

#### 6) Convertible Loans

On 8 August 2018 shareholders approved the amendment of the Comvita \$3.0m convertible loan note and approved a further two \$3.0m convertible loan note facilities to be held by BioScience Managers and Pescado respectively. As at 30 September 2018 the \$3.0m Comvita loan note has been fully drawn and the loans from BioScience Managers and Pescado have each had \$1.875m drawn. In total \$6.75m of the loan had been drawn down and 6,750,000 notes issued. All of these loan notes mature on 31 March 2020 by mandatory conversion to ordinary shares at \$0.0033 per share, unless an event of default subsists at maturity time. The Company has the opportunity to repay the loan notes prior to maturity however given SeaDragon's current position, and the short-

term nature of the convertible loan note, it is unlikely that the company could, or would wish to repay the loan notes.

The amortised cost of the liability component of the convertible loan notes as at 30 September 2018 is \$783k (2017: \$1,429k) after adjusting for associated transaction costs and implied market interest rates. The equity component of \$5,752k (2017: nil) of the notes were recognised in equity. The mandatory conversion feature of the convertible loan notes results in this instrument being predominately equity.

Details of the outstanding loans are as follows:

	Net Interest rate	Year of maturity	30 Sep 2018		30 Sep 2017	
			Face Value \$'000	Carrying amount \$'000	Face Value \$'000	Carrying amount \$'000
Convertible Loan Notes	7.95%	28 Sep 2018			2,000	1,429
Convertible Loan Notes	7.95%	31 Mar 2020	6,750	783		
			<b>6,750</b>	<b>783</b>	2,000	1,429

As part of securing this funding SeaDragon has agreed to pay any note holders associated tax obligations so that the net interest received by note holders is 7.95%.

Refer to Note 2 f) and Note 5 for further information.

## 7) Comvita Option

Integral to securing the Company's access to the convertible loan note facilities, the Company renegotiated the terms of the options previously granted to Comvita. The fair value of the modification of the option term and share price was valued using the Black Scholes model with the following inputs:

Exercise price	8 Aug 2018	\$0.0033
Share price	8 Aug 2018	\$0.0040
Expected volatility		50%
Option life from date of extension		1.64 years
Risk free interest rate	8 Aug 2018	2.5%

Due to the relatively thin trading volumes of the Company's shares, there is insufficient data available to accurately calculate a volatility rate for the model. The change in the fair value of the Comvita Option of \$1.2m has been treated as a transaction cost associated with the new convertible loan notes.

## 8) Related party transactions

Other than the convertible loan notes and options disclosed in notes 6 and 7 there have been no changes to related party transactions.

## 9) Post Balance Date Events

### Capital Raise

The Company successfully raised \$1.088m on 5 October 2018 through the issue of 329,686,009 ordinary shares from the one for one renounceable rights issue.

## SeaDragon Limited - Company Directory

### Registered Office & Postal Address

12 Nayland Road  
Stoke, Nelson 7011  
Ph: (03) 547 0336

### Share Registrar

Link Market Services  
PO Box 91976, Auckland 1142  
Ph: (09) 375 5998

### Solicitors

Minter Ellison Rudd Watts  
Lumley Centre 88 Shortland Street  
Auckland 1010

### Auditor

PricewaterhouseCoopers  
10 Waterloo Quay  
Wellington 6140

### Bankers

Bank of New Zealand  
PO Box 1075  
Nelson 7040

### Board of Directors as at 28 November 2018

Mark Stewart	Chairman, Non-executive
Colin Groves	Independent, Non-executive
Richard Alderton	Independent, Non-executive
Stuart Macintosh	Non-executive
Matthew McNamara	Non-executive
Mark Sadd	Non-executive
Jeremy Curnock Cook	Non-executive (alternate director for Matt McNamara)
Warwick Webb	Non-executive (alternate director for Mark Stewart)