SEADRAGON LIMITED
INTERIM REPORT
Chairman and CEO's Report

SeaDragon is beginning to establish a position in Omega-3 markets.

Since the start of the financial year we have sold 82 tonnes of product to customers. We are working hard to secure additional orders in the near future. Sales momentum is obviously not as strong as the board or shareholders would like, but we are confident the steps we are taking will set up SeaDragon for the long term.

Revenue for the six months to 30 September 2017 reduced to $1.5 million from $3.1 million the same time a year ago, although the composition of sales has changed significantly as the company has moved to establish its presence in Omega-3 markets.

Sales in the current half year are principally Omega-3 fish oils for trial and commercial orders for new and existing customers, while the prior year's figures principally reflect the sales of legacy Omega-2 fish oils stocks.

Half-year normalised EBITDA losses narrowed 2.9% to $2.2 million from the $2.3 million loss in the same period a year ago. Normalised EBITDA losses were also slightly ahead of the guidance of $2.4 million to $2.7 million, given at SeaDragon's annual meeting in September.

In the current period normalised EBITDA has been 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 largely unchanged on the prior year.

Operating costs continue to exceed sales, but SeaDragon continues to work hard to achieve a breakeven position, which (as signalled at the AGM) will be achieved when the company sells 600 to 700 tonnes of fully refined tuna oil (at current market prices, exchange rates and costs) in a single 12-month period.

The half year net loss after tax for the year narrowed 24.2% to $2.7 million from the $3.5 million loss in the same period of the prior year, when the company was exiting Omega-2 markets.

The company has sufficient capital to achieve its immediate growth plans as long as we deliver on sales expectations. As at 30 September 2017 SeaDragon had net cash on hand of $2.29 million. The board has also taken the strategic decision to draw down the remaining $1 million available under Comvita's convertible loan note facility.

The draw down of the remaining $1 million gives SeaDragon the flexibility to build inventory ahead of orders and gives our customers greater assurance over order fulfilment. We are fortunate to have the backing of shareholders such as Comvita who share our vision for success in Omega-3 markets. The board continues to monitor the Company's capital requirements on an ongoing basis.

Focus on sales

A key focus of the last six months had been to build awareness of SeaDragon's capability among global Omega-3 refiners and supplement manufacturers and to build sales.

SeaDragon offers these customers a highly-agile plant that can provide fast turn-around industrial-scale production runs that complement their large mega-scale refineries. We are principally refining tuna oil which is valued for its high concentrations of Omega-3s and DHA in particular.

The sales we have made are to globally significant customers. But progress is slower than we expected. As we indicated at the annual shareholder meeting held in September, we estimate the typical lag between a customer indicating they are interested in SeaDragon supply, and making a commercial order, is 6 to 18 months.

We continue to maintain a dialogue with a further 29 potential customers, who have either tested, or are testing, our oils and we are working to expand the pipeline of potential customers.

We are also making progress in building a sales pipeline in Europe, where - until very recently - complex and changing standards and import regulations had presented an insurmountable barrier.

SeaDragon continues to explore ways to migrate to the highest value niches of Omega-3 markets. To this end, we have agreed with third parties to contract manufacture ethyl esters and re-esterified tri-glycerides. We have also negotiated a global exclusive license for manufacture and sale of tuna and hoki liposomal powders and emulsions.

These agreements, although unlikely to contribute to sales and earnings materially in the short-term are putting in place the elements that, will assist SeaDragon to grow over the long term.

Finally, SeaDragon remains confident the unrefined oil supply agreements in place are sufficient to meet its immediate needs.

Outlook

SeaDragon continues to make steady, but slower-than-expected, progress. It is confident it is putting in place the foundations for sustained growth over the long term.

We continue to work with potential and existing customers to secure sales to drive the company towards breaking even. We believe the additional capital raised through the convertible loan will assist us to achieve that goal.

The final outcome for the year to 31 March 2018 is obviously linked to securing new customers and making further sales to existing customers. SeaDragon will update shareholders on its progress in the New Year.

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.

Directors and management believe EBITDA provides useful information to readers to assist in understanding the Company's underlying financial performance during this start-up phase of the business during which property, plant & equipment is underutilised. This also removes any bias created from the sources of funding during start up.

SeaDragon then normalises this EBITDA by removing any transactions that are not expected to occur on a regular basis either by virtue of quantum or nature, or are a material non-cash financial adjustment required under NZ IFRS that the Board do not believe provides meaningful information on the underlying financial performance. EBITDA is normalised with the reversal of the non-cash financial adjustment required to recognise the deemed value of options offered to staff and the loss on realisation of assets as part of the Omega-2 transition. During the transition away from the Omega2 business Normalised EBITDA also excluded inventory impairments. The directors have resolved that inventory impairments should now be regarded as a normal part of business.

This Normalised EBITDA measure is used by management and the Board to evaluate performance of the business and to establish operational goals.

In the table below the company has provided a reconciliation of the GAAP measure of NPAT to the Normalised EBITDA using the current method and the method used in the same period last year.

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.

	Unaudited 6 months ended 30 September 2017 $'000	Unaudited 6 months ended 30 September 2016 $'000	Audited 12 months 31 March 2017 $'000
GAAP TO NON-GAAP RECONCILIATION			
Reported Net loss after tax (NPAT)	*(2,690)*	*(3,547)*	*(6,659)*
Add back:			
Interest costs (net)	*56*	*338*	*438*
Depreciation	*446*	*482*	*877*
Stock Options	-	*474*	*497*
Loss on disposal of assets	-	-	*144*
Normalised EBITDA	***(2,188)***	*(2,254)*	*(4,703)*

SEADRAGON LIMITED
INTERIM FINANCIAL STATEMENTS
Unaudited Statement of Comprehensive Income
For the 6 months ended 30 September 2017

	Note	**Unaudited 6 months ended 30 September 2017 $'000**	Unaudited 6 months ended 30 September 2016 $'000	Audited 12 months 31 March 2017 $'000
Revenue		**1,520**	3,137	4,331
Cost of sales		**(2,781)**	(4,121)	(6,549)
Impairment of inventory	(4)	**(91)**	(237)	(297)
Gross loss		**(1,352)**	(1,221)	(2,515)
Other gains/losses from foreign exchange		**(13)**	(44)	15
Other expenses		**(1,269)**	(1,944)	(3,721)
Operating loss		**(2,634)**	(3,209)	(6,221)
Finance income - interest income		**23**	0	51
Finance expense - interest on borrowings		**(79)**	(338)	(489)
Loss before income tax		**(2,690)**	(3,547)	(6,659)
Income tax expense		-	-	-
Total comprehensive loss for the period attibutable to the owners of the Company		**(2,690)**	(3,547)	(6,659)
Loss per share				
Basic loss per share (cents per share)		**(0.06)**	(0.11)	(0.18)
Diluted loss per share (cents per share)		**(0.06)**	(0.11)	(0.18)

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 2017

	Issued capital $'000	Accumulated loss $'000	Share options reserve $'000	Total Equity $'000
Balance at 31 March 2016	33,641	(23,402)	1,401	11,640
Total comprehensive loss for the period				
Total comprehensive loss for the period attributable to the owners of the Company	-	(3,547)	-	(3,547)
Total comprehensive loss for the period	-	(3,547)	-	(3,547)
Transactions with owners				
Transaction costs	(19)	-	-	(19)
Equity portion of convertible loan note	276	-	-	276
Recognition of share-based payments	-	-	728	728
Balance at 30 September 2016	**33,898**	**(26,949)**	**2,129**	**9,078**
Balance at 31 March 2016	33,641	(23,402)	1,401	11,640
Total comprehensive loss for the period				
Total comprehensive loss for the period attributable to the owners of the Company	-	(6,659)	-	(6,659)
Total comprehensive loss for the period	-	(6,659)	-	(6,659)
Transactions with owners				
Issue of share capital	10,938	-	-	10,938
Transaction costs	(203)	-	-	(203)
Equity portion of convertible loan note	276	-	-	276
Recognition of share-based payments	-	-	750	750
Balance at 31 March 2017	**44,652**	**(30,061)**	**2,151**	**16,742**
Balance at 31 March 2017	44,652	(30,061)	2,151	16,742
Total comprehensive loss for the period				
Total comprehensive loss for the period attributable to the owners of the Company	-	**(2,690)**	-	**(2,690)**
Total comprehensive loss for the period	**-**	**(2,690)**	**-**	**(2,690)**
Transactions with owners				
Balance at 30 September 2017	**44,652**	**(32,751)**	**2,151**	**14,052**

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 2017

	Note	Unaudited 30 September 2017 $'000	Unaudited 30 September 2016 $'000	Audited 31 March 2017 $'000
Assets				
Property, plant and equipment		**12,002**	12,754	12,243
Other receivable		**75**	75	75
Total non-current assets		**12,077**	12,829	12,318
Cash and cash equivalents		**2,291**	429	4,929
Trade and other receivables		**581**	1,641	325
Inventories		**1,652**	1,439	1,943
Total current assets		**4,524**	3,509	7,197
Total assets		**16,601**	16,338	19,515
Equity and liabilities				
Equity				
Issued capital	(5)	**44,652**	33,898	44,652
Reserves		**(30,600)**	(24,821)	(27,910)
Total equity attributable to holders		**14,052**	9,077	16,742
Liabilities				
Trade and other payables		**869**	962	1,096
Convertible Loan		**1,429**	1,571	1,429
Loans and borrowings		-	4,406	-
Derivative financial liabilities		-	77	-
Total current liabilities		**2,298**	7,016	2,525
Asset retirement obligation		**251**	244	248
Total non-current liabilities		**251**	244	248
Total liabilities		**2,549**	7,260	2,773
Total equity and liabilities		**16,601**	16,338	19,515

Colin Groves – Chairman

Nevin Amos – Chief Executive

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

Unaudited Statement of Cash Flows

For the 6 months ended 30 September 2017

	Note	**Unaudited 30 September 2017 $'000**	Unaudited 30 September 2016 $'000	Audited 31 March 2017 $'000
Operating activities				
Receipts from customers		**1,270**	2,056	4,536
Payments to suppliers and employees		**(3,686)**	(4,041)	(8,104)
Interest received		**18**	0	34
Interest paid		**(40)**	(188)	(348)
Net cash flows from (used in) operating activities		**(2,438)**	(2,173)	(3,882)
Investing activities				
Purchase of property, plant and equipment		**(200)**	(105)	(138)
Net cash flows used in investing activities		**(200)**	(105)	(138)
Financing activities				
Proceeds from issue of share capital		-	-	10,784
Proceeds from issue of convertible notes		-	2,000	2,000
Transaction costs of issue of shares		-	(19)	(156)
Net cash flows from financing activities		-	1,981	12,628
Net increase (decrease) in cash and cash equivalents		**(2,638)**	(298)	8,608
Cash and cash equivalents at beginning of period		**4,929**	(3,679)	(3,679)
Cash and cash equivalents at end of period		**2,291**	(3,977)	4,929
Made up as follows:				
Cash and cash equivalents		**2,291**	429	4,929
Loans and borrowings		-	(4,406)	-
Total cash and cash equivalents at end of period		**2,291**	(3,977)	4,929

Notes to the Financial Statements

For the 6 months ended 30 September 2017

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 2017 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 29th November 2017.

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 2017. The annual financial statements for the year ended 31 March 2017 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.

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).

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 2017 the Group had net cash of $2,291k (March 2017: $4,929k) and operating cash out flows of $2,438k (Sept 2016: $2,173k). The Group incurred a loss for the six months to September as a result of the lengthy product testing and approval processes by customers, inability to access several key customers because of regulatory changes and several minor process deficiencies. With one exception, we believe we have addressed these deficiencies.

The Group has called upon the additional $1m in funding available from Comvita in November 2017 to provide working capital over this ongoing initial period of business development. These funds are not required immediately but gives the Company the flexibility to build inventory ahead of orders and gives customers greater assurance over order fulfilment.

Management and the Board has carefully considered its forecast and the sensitivity of key assumptions made. To date sales prices have been low with minimal overhead recoveries in margin. This has been reflective of manufacturing below specification due to challenges of learning the nuances of processing Omega-3 oil, and product not meeting customers specifications. Long-term supply and sales agreements are not yet secure. Material uncertainties still exists, predominately in the sales prices SeaDragon will achieve, the quantity of sale orders, the timing of when sales can be secured, and the prevailing foreign exchange rate as at the date of sale. After an initial period of slow sales and low prices we expect increases in the price and significant increases in sales volume as we move to selling higher margin products. Management has profiled our potential customers and the forecast for the current financial period includes only customers where it is considered by management that the sale is highly probable.

If the average sales price achieved is lower than forecast, the Group would require additional funds. To a lesser extent the forecast is sensitive to changes in the USD exchange rate and both the timing and volume of sales to new customers. While Management have forecast conservatively both the timing and volume of sales to new customers if there were delays in or reduced volumes this could result in the Group requiring additional funds. The Board has discussed a plan to secure additional funds if required. This additional funding is not included in the forecast.

Despite the material uncertainties noted, the Directors are of the view that the underlying assumptions in forecasting the performance and cash flows of the Group for the next year are reasonable and the going concern basis is appropriate.

These interim financial statements do not reflect adjustments in the carrying values of the assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used, that would be necessary if the Group were unable to realize its assets and settle its liabilities in the normal course of operations. Such adjustments could be material.

Functional and presentation currency

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

Use of estimates and judgments

The interim financial statements have been prepared using the same accounting policies and methods of computation as set out in the 31 March 2017 annual financial statements. All accounting policies have been applied consistently to all periods presented in these interim financial statements with the exception outlined in the 'Changes in accounting policies and disclosures' section.

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 2017. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected.

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.

Changes to prior year comparatives

The Group had not determined the accounting treatment for the Convertible Loan note when reporting its interim result as at September 2016. We subsequently concluded the appropriate treatment as reported in March 2017 and have restated our comparative financial performance and position in these financial statements to reflect this treatment.

The impact of the change in treatment is included below:

	30 September 2016 As restated $'000	30 September 2016 As reported $'000	Change $'000
Finance expense - interest on borrowings	(338)	(191)	(147)
Total comprehensive loss for the period attibutable to the owners of the Company	(3,547)	(3,400)	(147)
Issued capital	33,898	35,368	(1,470)
Reserves	(24,821)	(24,720)	(101)
Total equity attributable to holders	**9,077**	**10,648**	**(1,571)**
Trade and other payables	963	963	-
Convertible Loan	1,571	-	1,571
Loans and borrowings	4,406	4,406	-
Derivative financial liabilities	77	77	-
Total current liabilities	**7,016**	**5,446**	**1,571**
Asset retirement obligation	244	244	-
Total non-current liabilities	**244**	**244**	-
Total liabilities	**7,260**	**5,690**	**1,570**
Total equity and liabilities	**16,338**	**16,338**	-

3) Property plant and equipment impairment

Property, plant and equipment (PP&E) has been tested for impairment as at 30 September 2017 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 Managements' forecast for the remainder of this financial year, and has been extended for a further four and a half 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.

Management has needed to exercise significant judgement in the absence of confirmed long term sales contracts and limited historic sales data of Omega-3 product.

Gross Margins are expected to grow with any increase in material costs offset by production efficiencies.

Operating costs are anticipated to increase by 5% each year.

These forecast cash flows were then discounted to present value using a discount rate of 15%. On the basis of this value in use calculation Management and the Directors believe the carrying value of the Company's PP&E is supported and no impairment exists.

4) Inventory Impairment

As at September 2017 it was management's judgement that inventory was impaired by $0.091m (Sept 2016: $0.237m). The inventory that was impaired did not achieve the market specifications for quality and will be sold at a discount. It was subsequently revalued to its net realisable value as at September.

At 30 September 2017, $0.263m of inventory was carried at net realisable value (Sept 2016: $0.827m).

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	Issue price (cents)	Group $'000
Balance 30 September 2016	**3,146,314,377**		**33,898**
Movement during the period			
1,367,304,341 rights shares issued	1,367,304,341	0.8000	10,938
Transaction costs			(184)
Equity portion of convertible loan note			
Balance 31 March 2017	**4,513,618,718**		**44,652**
Balance 30 September 2017	**4,513,618,718**		**44,652**

6) Related party transactions

There have been no changes to related party transactions.

7) Post Balance Date Events

In November 2017 the board made the strategic decision to draw down the remaining $1 million available under Comvita's convertible loan note facility.

SeaDragon Limited - Company Directory

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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
113-119 The Terrace
Wellington 6140

Bankers

Bank of New Zealand
PO Box 1075
Nelson 7040

Board of Directors as at 29 November 2017

Colin Groves	Chairman, Non-executive
Richard Alderton	Independent, Non-executive
Patrick Geals	Independent, Non-executive
Stuart Macintosh	Non-executive
Matthew McNamara	Non-executive
Mark Sadd	Non-executive (appointed 22nd November 2017)
Mark Stewart	Non-executive (appointed 22nd November 2017)
Jeremy Curnock Cook	Non-executive (alternate director for Matt McNamara)
Warwick Webb	Non-executive (alternate director for Mark Stewart)