

SEADRAGON LIMITED
INTERIM FINANCIAL STATEMENTS

Unaudited Statement of Comprehensive Income

For the 6 months ended 30 September 2016

		Unaudited 6 months ended 30 September 2016 \$'000	Unaudited 6 months ended 30 September 2015 \$'000	Audited 12 months 31 March 2016 \$'000
	Note			
Revenue		3,137	4,800	5,585
Cost of sales	(3)	(4,121)	(3,758)	(4,278)
Impairment of inventory	(4)	(237)	-	(4,263)
Gross (loss) profit		(1,221)	1,042	(2,956)
Other gains (losses) from foreign		(44)	189	121
Other income		-	30	175
Other expenses		(1,944)	(1,694)	(2,637)
Operating loss		(3,209)	(433)	(5,297)
Finance expense - interest on borrowings		(191)	(255)	(226)
Loss before income tax		(3,400)	(688)	(5,523)
Income tax expense		-	-	0
Total comprehensive loss for the period		(3,400)	(688)	(5,523)
Loss per share				
Basic loss per share (cents per share)		(0.11)	(0.04)	(0.22)
Diluted loss per share (cents per share)		(0.11)	(0.04)	(0.22)

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

Unaudited Statement of Changes in Equity

For the 6 months ended 30 September 2016

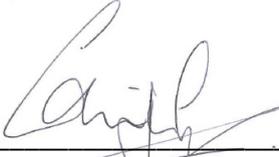
	Issued capital \$'000	Accumulated loss \$'000	Share options reserve \$'000	Total Equity \$'000
Balance at 31 March 2015	25,719	(17,879)	98	7,938
Total comprehensive loss for the period attributable to the owners of the Company	-	(688)	-	(688)
Total comprehensive loss for the period	-	(688)	-	(688)
Balance at 30 September 2015	25,719	(18,567)	98	7,250
Balance at 31 March 2015	25,719	(17,879)	98	7,938
Total comprehensive loss for the year attributable to the owners of the Company	-	(5,523)	-	(5,523)
Total comprehensive loss for the year	-	(5,523)	-	(5,523)
Transactions with owners				
Issue of share capital	10,244	-	-	10,244
Transaction costs	(2,322)	-	-	(2,322)
Recognition of share-based payments			1,303	1,303
Balance at 31 March 2016 (Audited)	33,641	(23,402)	1,401	11,640
Balance at 31 March 2016	33,641	(23,402)	1,401	11,640
Total comprehensive loss for the period attributable to the owners of the Company	-	(3,400)	-	(3,400)
Total comprehensive loss for the period	-	(3,400)	-	(3,400)
Transactions with owners				
Issue of share capital	2,000	-	-	2,000
Transaction costs	(273)	-	-	(273)
Convertible note distribution	-	(45)	-	(45)
Recognition of share-based payments (5)	-	-	726	726
Balance at 30 September 2016	35,368	(26,847)	2,127	10,648

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Unaudited Statement of Financial Position

For the 6 months ended 30 September 2016

	Unaudited 30 September 2016 \$'000	Unaudited 30 September 2015 \$'000	Audited 31 March 2016 \$'000
Assets			
Property, plant and equipment	12,754	10,396	13,127
Other receivable	75	75	75
Total non-current assets	12,829	10,471	13,202
Cash and cash equivalents	429	632	195
Trade and other receivables	1,641	2,943	685
Inventories	1,439	2,138	2,970
Derivative financial assets	-	-	35
Total current assets	3,509	5,713	3,886
Total assets	16,338	16,184	17,087
Equity and liabilities			
Equity			
Share capital	(6) 35,368	25,719	33,641
Reserves	(24,720)	(18,469)	(22,001)
Total equity attributable to holders	10,648	7,250	11,640
Liabilities			
Trade and other payables	963	2,429	1,333
Loans and borrowings	4,406	6,486	3,874
Derivative financial liabilities	77	19	-
Total current liabilities	5,446	8,934	5,207
Asset retirement obligation	244		240
Total non-current liabilities	244	-	240
Total liabilities	5,690	8,934	5,447
Total equity and liabilities	16,338	16,184	17,087



Colin Groves – Chairman



Nevin Amos – Chief Executive

Unaudited Statement of Cash Flows

For the 6 months ended 30 September 2016

	Unaudited 30 September 2016 \$'000	Unaudited 30 September 2015 \$'000	Audited 31 March 2016 \$'000
Operating activities			
Receipts from customers	2,056	5,368	7,211
Payments to suppliers and employees	(4,041)	(4,474)	(10,446)
Interest paid	(188)	(152)	(123)
Taxes received (paid)	-	16	16
Net cash flows from (used in) operating activities	(7) (2,173)	758	(3,342)
Investing activities			
Purchase of property, plant and equipment	(105)	(4,042)	(6,890)
Net cash flows used in investing activities	(105)	(4,042)	(6,890)
Financing activities			
Proceeds from issue of share capital	2,000	-	7,641
Proceeds from issue of convertible notes	-	-	2,500
Transaction costs of issue of shares	(19)	-	(1,019)
Net cash flows from financing activities	1,981	-	9,122
Net decrease in cash and cash equivalents	(298)	(3,284)	(1,110)
Cash and cash equivalents at beginning of period	(3,679)	(2,570)	(2,569)
Cash and cash equivalents at end of period	(3,977)	(5,854)	(3,679)
Made up as follows:			
Cash and cash equivalents	429	632	195
Loans and borrowings	(4,406)	(6,486)	(3,874)
Total cash and cash equivalents at end of period	(3,977)	(5,854)	(3,679)

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

Notes to the Financial Statements

For the 6 months ended 30 September 2016

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 profit oriented 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 2016 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 24th November 2016.

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 2016. The annual financial statements for the year ended 31 March 2016 have been prepared in accordance with New Zealand Equivalent 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.

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.

The Group incurred a loss for the period of \$3.400m (31 March 2016: \$5.523m). In addition, the Group has continued to invest in future cash generation capability with the Omega-3 production facility.

These operating losses and investment in future production capability have contributed to a reduction in the Group's cash position. As at 30 September 2016 the Group has net borrowings of \$3.977m and operating outflows of \$2.173m.

In October 2016 the Company successfully raised \$10.938m (refer to Note 10). On the basis of this capital raise and the continued management of Group costs, sell down of existing inventory holding and planned ramp up of Omega-3 sales, the Directors believe the adoption of the going concern basis is appropriate.

Functional and presentation currency

These financial statements are presented in New Zealand Dollars (NZD), which also is the Group's 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 2016 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 2016. 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 in accounting policies and disclosures

The Group changed how revenues and expenses are presented in the statement of profit or loss and other comprehensive income. The method of allocation has been changed in order to provide a more accurate allocation and depiction of the Group's operational performance. There is no change to profit or loss as a result of this change. The impact of the change in allocation is included below:

	30 September 2015 As restated \$'000	30 September 2015 As reported \$'000	Change \$'000
Revenue	4,800	5,304	(504)
Cost of sales	(3,758)	(3,595)	(163)
Gross (loss) profit	1,042	1,709	(667)
Other gains/losses from foreign exchange	189		189
Other income	30	33	(3)
Other expenses	(1,694)	(2,175)	481
Operating loss	(433)	(433)	-
Finance expense - interest on borrowings	(255)	(255)	-
Loss before income tax	(688)	(688)	-
Total comprehensive loss for the period	(688)	(688)	-

3) Cost of Sales

Included in cost of sales are \$0.502m in operational overhead costs for the new production facility commissioned in December 2015 that is currently operating below capacity (Sept 2015: \$0.00m).

4) Inventory Impairment

As at September 2016 it was management's judgement that inventory was impaired by \$0.237m (Sept 2015: \$0.00m) and recognised this as a loss for the year. The inventory impaired did not achieve market specification and was subsequently revalued to net realisable value.

At 30 September 2016, \$0.827m of inventory was carried at net realisable value (Sept 2015: \$0.000m).

5) Share Options Scheme

Options are granted to selected Employees and Directors. The exercise price of the granted options is the average share price over the five trading days prior to the grant date and have a contractual life of three or less years. Options can be exercised at any time after vesting and unexercised options lapse within 60 days of an employee leaving the Group.

	2016 Weighted average exercise price	2016 Options (000s)	2015 Weighted average	2015 Options (000s)
Granted	\$ 0.0103	128,000	-	-
Outstanding at 30 September 2016	\$ 0.0103	128,000	\$ -	-

The weighted average fair value of options granted during the year, determined using the Black-Scholes valuation model, was \$0.0037 per option (Sept 2015: N/A) being \$0.474m in fair value (Sept 2015: N/A).

The significant inputs into the model were the market share price at grant date, the exercise price shown above, the expected annualised volatility of 50%, an expected option life of between one and three years and an annual risk-free interest rate of 2.5%.

The Company during the period extended the exercise period for the 375,000,000 ordinary shares granted to Comvita to the 28th of September 2018, consistent with other share options granted to shareholders. The fair value of this extension, determined using the Black-Scholes valuation model and applying the same inputs as those in the annual accounts to 31 March 2016, was \$0.254m.

It was management's judgement that the maturity date extension was provided to secure the acceptance of the convertible loan note (refer to Note 6). As a result management has determined that the underlying fair value of the extension be treated as a transaction cost of granting the convertible loan note and deducted from equity

6) 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 2015	1,876,904,194		25,719
<i>Movement during the period</i>			
1,251,142,517 rights shares issued	1,251,142,517	0.8000	10,009
10,267,666 options exercised	10,267,666	1.5000	155
8,000,000 options exercised	8,000,000	1.0000	80
Transaction costs			(2,322)
Balance 31 March 2016	3,146,314,377		33,641
<i>Movement during the period</i>			
Comvita Convertible Loan			2,000
Transaction costs			(273)
Balance 30 September 2016	3,146,314,377		35,368

In May 2016 the Company granted Comvita a \$3.000m convertible loan note with a September 2018 maturity date. As at 30 September 2016 the Company has drawn down \$2.000m from the convertible loan. The loan notes are convertible to ordinary shares at \$0.008 per share. The convertible notes have been recognised as equity.

7) Reconciliation of net deficit with cash flows from operating activities

	Unaudited 30 September 2016 \$'000	Unaudited 30 September 2015 \$'000	Audited 31 March 2016 \$'000
Loss for the period	(3,400)	(688)	(5,523)
Adjustments for:			
Depreciation of property, plant and equipment	482	287	645
Impairment of inventory	237	-	4,263
Non-cash interest expense	2	103	103
Reversal of impaired receivable	-	-	(125)
Bad Debt provision	125	-	-
Stock Options	474	-	-
Impact of changes in working capital items:			
(Increase) decrease in trade and other receivables	(1,082)	31	2,296
(Increase) decrease in inventories	1,294	(232)	(5,210)
(Increase) decrease in derivative financial assets & liabilities	112	-	(54)
(Increase) decrease in current tax assets	-	16	16
Increase (decrease) in trade and other payables	(417)	1,241	247
Net Cash Flow from Operating Activities	(2,173)	758	(3,342)

8) Loans and Borrowings

Security

The Company had identified that as at 30 September 2016 it would not comply with one of its banking covenants with Heartland Bank being the ratio of working capital to debt. Discussions with Heartland Bank took place and the bank has temporarily suspended the requirement to comply with this covenant.

9) Related party transactions

Other than the share options issued to key management, directors and Comvita detailed in Notes 5 and 6, there have been no changes to related party transactions.

10) Post Balance Date Events

Capital Raise

The Company successfully raised \$10.938m through the issue of 1,367,304,341 ordinary shares on the 17th October 2016 under the one for two renounceable rights issue and shortfall book build.

SeaDragon Limited - Company Directory

Registered Office & Postal Address

12 Nayland Road
Stoke, Nelson 7011
Ph: (03) 547 0336
Fax: (03) 547 0337

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

Heartland Bank
PO Box 9919, Newmarket
Auckland 1149

Board of Directors

Colin Groves,	Chairman, Non-executive
Richard Alderton,	Non-executive
Patrick Geals,	Independent, Non-executive
Brett Hewlett,	Non-executive
Stuart Macintosh,	Non-executive
Matthew McNamara,	Non-executive
Jeremy Curnock Cook,	Non-executive (alternate director for Matt McNamara)
Mark Sadd,	Non-executive (alternate director for Brett Hewlett)