SEADRAGON LIMITED
INTERIM REPORT

Chairman and Chief Executive's Report

Over the last six months SeaDragon has achieved growth in its Omega-3 markets, including sales into the European Union infant formula market which have slowly built year to date. Over the six months to 30 September 2019 they represented 26% of sales compared to nil for the same period last year. A number of other infant formula companies in Europe are currently evaluating our product and specifications.

Current Performance

Revenue for the six months to 30 September 2019 increased 34% to $3.110 million from $2.317 million in the same period last year. As a proportion of total sales, Omega-3 sales formed 96% of these sales compared to 65% for the same period last year. Margin achieved in the first six months has been lower than planned, largely as a consequence of lower yields achieved from supplied oil. We are working with suppliers to improve the quality of oil we receive and are also reviewing pricing.

Normalised EBITDA[1] losses for the six months to 30 September 2019 of $(2.378) million were in line with losses of $(2,501) million in the same period last year, while net losses before tax reduced to $(2,202) million from $(3,407) million a year earlier.

With the interest rate on convertible loan notes now at 0% following shareholder approval at the Special Shareholders Meeting on 17 May 2019, there has been an unwinding of a compound instrument treatment of convertible loan notes used prior, which created a gain of $0.647 million before tax.

Balance Sheet

As at 30 September 2019 SeaDragon had net cash reserves of $0.9 million. This followed the company drawing down the final $1.25 million of a $9.0 million convertible loan facility advanced by the company's cornerstone shareholders BioScience Managers, Comvita and Pescado Holdings in 2018, and drawing down $2.5 million of a $4.0 million convertible loan facility advanced by Pescado Holdings in May 2019.

Outlook

As mentioned at our September Annual Shareholders Meeting (ASM) the business is currently forecasting that it has sufficient cash to last until May 2020. Directors are currently reviewing options for providing additional cash to the business.

As also outlined at our ASM we expect the full year result for the business to be a before tax loss of around half of last year's $(9.6) million loss, providing there are no significant other write downs required.

We expect sales of fully refined oil to infant formula producers in Europe to grow over time, however there is a lengthy supplier approval process for access to this market, so we expect sales build to be steady rather than rapid.

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[1] *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 2 of the attached accounts.*

SeaDragon has recently partnered with an experienced producer of high quality DHA powder products. We have commenced production of commercial samples of refined tuna oil and other fish oil into powders for our customers. This enables SeaDragon to offer an ingredient to the higher value infant formula and medical foods space to customers in Australia, New Zealand and Asia, where the market prefers a powdered ingredient. This helps position SeaDragon for the future. Dr Craig Patch, who has recently been appointed to the Board, has significant experience in powdered DHA and other ingredient platforms for infant nutrition.

Non-GAAP Financial Information

SeaDragon's standard profit measure prepared under NZ GAAP is net profit after tax (NPAT). SeaDragon has used Normalised EBITDA, a non-GAAP profit measure of earnings (or losses), when discussing financial performance in this document, and intends to do so in the future allowing investors to compare periods. Normalised EBITDA is the earnings (or losses) before financing costs (including interest and the gain or loss on the extinguishment of convertible loan notes), tax, depreciation, impairment of property, plant and equipment, share options and other non-cash adjustments required under NZ IFRS16 Leases.

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.

	Unaudited 6 months 30 September 2019 $'000	Unaudited 6 months 30 September 2018 $'000	Audited 12 months 31 March 2019 $'000
GAAP TO NON-GAAP RECONCILIATION			
Reported net profit (loss) after tax	*(2,202)*	*(3,407)*	*(9,576)*
Add back:			
Net financing (gains) costs	*(571)*	*455*	*524*
Depreciation	*593*	*451*	*902*
Impairment of property, plant and equipment	-	-	*2,973*
Share options	*99*	-	-
Lease associated with the right of use asset	*(297)*	-	-
Normalised EBITDA	***(2,378)***	***(2,501)***	***(5,177)***

SEADRAGON LIMITED
INTERIM FINANCIAL STATEMENTS
Unaudited Statement of Comprehensive Income
For the 6 months ended 30 September 2019

	Note	**Unaudited 6 months ended 30 September 2019 $'000**	Unaudited 6 months ended 30 September 2018 $'000	Audited 12 months 31 March 2019 $'000
Revenue		**3,110**	2,317	4,887
Cost of sales		**(4,365)**	(3,641)	(7,818)
Impairment of inventory		-	(178)	(424)
Gross loss		**(1,255)**	(1,502)	(3,355)
Other losses from foreign exchange		**(59)**	(12)	(9)
Other income		**1**	-	-
Other expenses		**(1,460)**	(1,438)	(2,715)
Operating loss		**(2,773)**	(2,952)	(6,079)
Finance income - interest income		**5**	4	36
Finance expense - interest on borrowings		**(5)**	(459)	(476)
Finance expense - interest on finance lease	(6)	**(76)**	-	-
Gain (loss) on extinguishment of loan	(5)	**647**	-	(84)
Net financing costs		**571**	(455)	(524)
Impairment of property, plant and equipment		-	-	(2,973)
Loss before income tax		**(2,202)**	(3,407)	(9,576)
Income tax expense		-	-	-
Total comprehensive loss for the period		**(2,202)**	(3,407)	(9,576)
Loss per share				
Basic loss per share (cents per share)		**(0.05)**	(0.08)	(0.20)
Diluted loss per share (cents per share)		**(0.05)**	(0.08)	(0.20)

Unaudited Statement of Changes in Equity

For the 6 months ended 30 September 2019

	Share Capital $'000	Convertible Loans $'000	Accumulated Loss $'000	Share Options Reserve $'000	Total Equity $'000
Balance at 31 March 2018	44,699	-	(36,118)	2,151	**10,732**
Total comprehensive loss for the period					
Total comprehensive loss for the period attributable to the owners of the Company	-	-	**(3,407)**	-	**(3,407)**
Total comprehensive loss for the period	-	-	**(3,407)**	-	**(3,407)**
Transactions with owners					
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**
Balance at 30 September 2018	**49,127**	-	**(39,525)**	**3,395**	**12,997**
Balance at 31 March 2018	44,699	-	(36,118)	2,151	10,732
Total comprehensive loss for the year					
Total comprehensive loss for the year attributable to the owners of the Company	-	-	**(9,576)**	-	**(9,576)**
Total comprehensive loss for the year	-	-	**(9,576)**	-	**(9,576)**
Transactions with owners					
Issue of share capital	1,088	-	-	-	**1,088**
Transaction costs	(1,322)	-	-	-	**(1,322)**
Equity portion of convertible loan note	6,645	-	-	-	**6,645**
Recognition of share-based payments	-	-	-	1,245	**1,245**
Balance at 31 March 2019	**51,110**	-	**(45,694)**	**3,396**	**8,812**
Balance at 31 March 2019	51,110	-	(45,694)	3,396	8,812
Total comprehensive loss for the period					
Total comprehensive loss for the period attributable to the owners of the Company	-	-	**(2,202)**	-	**(2,202)**
Total comprehensive loss for the period	-	-	**(2,202)**	-	**(2,202)**
Transactions with owners					
Equity portion of convertible loan notes	(7,752)	-	-	-	**(7,752)**
Mandatory convertible loan notes		11,500	-	-	**11,500**
Transaction costs	(135)	-	-	-	**(135)**
Recognition of share-based payments	-	-	-	42	**42**
Balance at 30 September 2019	**43,223**	**11,500**	**(47,896)**	**3,438**	**10,264**

Unaudited Statement of Financial Position

As at 30 September 2019

	Note	Unaudited 30 September 2019 $'000	Unaudited 30 September 2018 $'000	Audited 31 March 2019 $'000
Assets				
Property, plant and equipment	(3)	**8,209**	11,323	8,124
Other receivable		**75**	75	75
Right of use asset	(6)	**2,413**	-	-
Total non-current assets		**10,697**	11,398	8,199
Cash and cash equivalents		**896**	1,360	1,214
Trade and other receivables		**484**	526	456
Inventories		**1,941**	1,739	1,671
Total current assets		**3,321**	3,625	3,341
Total assets		**14,018**	15,023	11,540
Equity and liabilities				
Share capital	(4)	**43,223**	49,127	51,110
Convertible loans	(5)	**11,500**	-	-
Reserves		**(44,459)**	(36,130)	(42,298)
Total equity attributable to holders		**10,264**	12,997	8,812
Liabilities				
Trade and other payables		**1,000**	984	1,194
Convertible loans	(5)	-	783	647
Convertible loan paid in advance		-	-	625
Lease liability	(6)	**516**	-	-
Total current liabilities		**1,516**	1,767	2,466
Lease liability	(6)	**1,932**	-	-
Asset retirement obligations		**306**	259	262
Total non-current liabilities		**2,238**	259	262
Total liabilities		**3,754**	2,026	2,728
Total equity and liabilities		**14,018**	15,023	11,540

Bryan Mogridge – 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 2019

	Note	Unaudited 30 September 2019 $'000	Unaudited 30 September 2018 $'000	Audited 31 March 2019 $'000
Operating activities				
Receipts from customers		**3,083**	2,287	4,925
Payments to suppliers and employees		**(6,454)**	(5,116)	(10,060)
Interest received		**3**	3	26
Interest paid		**(198)**	(184)	(519)
Net cash flows used in operating activities		**(3,566)**	(3,010)	(5,628)
Investing activities				
Purchase of property, plant and equipment		**(422)**	(149)	(374)
Net cash flows used in investing activities		**(422)**	(149)	(374)
Financing activities				
Proceeds from issue of share capital		-	-	1,088
Proceeds from issue of convertible notes	(5)	**3,750**	3,750	4,750
Proceeds from early payment of convertible loan		-	-	625
Transaction costs of issue of shares		**(80)**	(240)	(256)
Net cash flows from financing activities		**3,670**	3,510	6,207
Net increase (decrease) in cash and cash equivalents		**(318)**	**351**	**205**
Cash and cash equivalents at beginning of period		**1,214**	1,009	1,009
Cash and cash equivalents at end of period		**896**	**1,360**	**1,214**

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 2019

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 2019 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 2019.

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 2019. The annual financial statements for the year ended 31 March 2019 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 16 Leases effective from 1 April 2019. Refer to Note 6.

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 2019 the Group had net cash of $896k (March 2019: $1,214k) and operating cash out flows of $3,566k (Sept 2018: $3,010k). These ongoing losses are the result of ongoing 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 secured $4.0 million in convertible loan note funding from Pescado Holdings Limited. This funding mandatory converts to equity on 31 March 2021 unless previously repaid or converted and $2.5m of this funding has been drawn down as at September 2019.

Material uncertainties still exist, predominately in the margins 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 agreed actions in an endeavour to reduce short term cash demands and secure additional funds as 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 2019 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 2019. 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 drawn $11.5m in convertible loan funding from cornerstone shareholders BioScience Managers, Pescado and Comvita, being $9.0 million convertible loan facilities approved at the shareholder meeting on 8 August 2018 and $2.5 million drawn from the $4.0 million convertible loan facilities approved at the shareholder meeting on 17 May 2019. The convertible loan funding approved on 8 August 2018 will mandatory convert to equity at 31 March 2020 unless previously repaid or converted and the funding approved on 17 May 2019 will mandatory convert to equity at 31 March 2021 unless previously repaid or converted.

Management has exercised judgment in respect of the accounting treatment of the convertible notes and have deemed it is equity due to the nil interest rate and the mandatory conversion feature resulting in fixed consideration for a fixed number of shares. Refer to Note 5.

3) Property plant and equipment

Property, plant and equipment (PP&E) has been tested for impairment as at 30 September 2019 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%.

The Board and Management has exercised significant judgement in testing for possible impairment, in particular;

• in the absence of some longer-term sales contracts and limited historic sales data of some Omega-3 product lines, sales have been forecast based on current customer demand and negotiations with other potential customers and suppliers.

• gross margins are expected to grow as the Company secures key contracts over the forecast period with a greater mix of fully refined and value-add Omega-3 products, improved yields through supplier and processing initiatives, and by offsetting any increase in material costs with production efficiencies.

4) 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 2018	**4,513,618,718**		**49,127**
Movement during the period			
Issue of share capital	329,686,009	0.33	1,088
Transaction costs			2
Equity portion of convertible loan note			893
Balance 31 March 2019	**4,843,304,727**		**51,110**
Movement during the period			
Transaction costs			(135)
Equity portion of convertible loan note			(7,752)
Balance 30 September 2019	**4,843,304,727**		**43,223**

The Company has issued up to a total of $13.0 million convertible loan notes and as at September 2019 $11.5 million of these loan notes have been drawn. Refer to Note 5.

The share option granted to Comvita to acquire $3.0 million in share capital, being 909,090,909 shares at a price of $0.0033 per share, expires on 31 March 2020.

5) Convertible Loans

On 17 May 2019 the Company entered into an agreement with Pescado Holdings Limited (Pescado) for a $4.0 million convertible loan note facility. The key terms of this facility are:

- Non-interest bearing.
- Conversion price of $0.002.
- Maturity date 31 March 2021.
- Mandatory conversion to ordinary shares at maturity date, unless an event of default subsists, or the Company is insolvent at maturity time.
- The Company has the opportunity to repay the loan notes prior to maturity.
- Pescado has the opportunity to covert the loan notes prior to maturity.

Given SeaDragon's current position, and the short-term nature of the convertible loan note facility, it is unlikely that the Company could, or would, wish to repay the loan notes.

These new convertible loan notes have been treated as equity due to the nil interest rate and the mandatory conversion feature resulting in fixed consideration for a fixed number of shares.

In negotiating these new convertible loan notes, it was agreed with the existing convertible loan note holders that interest on the existing convertible loans would be waived in respect of the period on and from 1 April 2019.

Management has assessed that the existing convertible loan agreement was extinguished. This assessment was based on the significance of the change in the terms and resulting cash flows. The Company has derecognised the existing debt and equity component of these loans and recognised these loans as equity under the new terms. The gain / loss on extinguishment was material and was recognised in a manner consistent to the original transactions, i.e. split between profit or loss and equity.

The existing convertible loan notes have been treated as equity due to the nil interest rate, and the mandatory conversion feature resulting in fixed consideration for a fixed number of shares.

The transactions associated with the convertible loan notes are as follows:

	30 September 2019 $'000	30 September 2018 $'000	31 March 2019 $'000
Extinguished convertible loan notes			
Opening Balance of convertible loan note liability	**647**	-	-
Convertible loan notes previously granted	-	-	3,000
Transaction costs	-	-	(183)
Convertible loan notes issued	-	-	4,750
Equity portion of convertible loan note	-	-	(6,645)
Effective interest adjustment	-	-	(275)
Fair value adjustment on extinguishment	(647)	-	-
Closing Balance of convertible loan note liability	-	-	**647**

In total $11.5 million (Sept 2018: $6.75 million) of the convertible loan notes have been drawn down and 11,500,000 (Sept 2018: 6,750,000) notes issued.

6) Leases

The Group has applied NZ IFRS 16 Leases effective from 1 April 2019 for the lease contracts where the right to control the use of premises for a period of time is conveyed in exchange for the lease payments. Prior to 1 April 2019, leases of property were classified as operating leases under NZ IAS 17 with payments made under operating leases included in the profit or loss on a straight-line basis over the period of the lease. Under NZ IFRS16 Leases the present value of lease payments over the non-cancellable term of the lease is initially recognised as a right-of-use asset and corresponding lease liability. The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The transactions associated with the adoption of NZ IFRS 16 Leases are as follows:

	30 September 2019 $'000	30 September 2018 $'000
Right of Use Asset		
Opening Balance	-	-
Initial recognition of asset	2,669	-
less depreciation	(256)	-
Closing Balance	**2,413**	-
Lease Liability		
Opening Balance	-	-
Initial recognition of liability	2,669	-
plus finance charges	76	
less lease payments	(297)	-
Closing Balance	**2,448**	-

The group has applied the simplified transition approach and did not restate comparative amounts for the year prior to first adoption.

7) Related party transactions

On 13 September 2019, Bryan Mogridge entered into an agreement with the Company pursuant to which, and following shareholder approval on this date, he was issued 295,997,241 share options. The exercise of these share options is conditional and future dated at a share price of 0.5 cents per share.

Other than the share options and convertible loan notes disclosed in notes 4 and 5 there have been no other changes to related party transactions.

8) Post Balance Date Events

Capital Raise

On 12 November 2019 the Company drew down $0.5 million from the facility advanced by Pescado. $1.0 million remains to be drawn down from the $4.0 million convertible loan facility. The Directors are currently reviewing options for providing additional cash to the business.

SeaDragon Limited - Company Directory

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Solicitors
Flacks & Wong
70 Shortland Street
PO Box 591, Auckland 1140

Auditor
PricewaterhouseCoopers
10 Waterloo Quay, Wellington 6011

Bankers
Bank of New Zealand
PO Box 1075, Wellington 6140

Board of Directors as at 28 November 2019

Bryan Mogridge	Independent Chairman, Non-executive
Colin Groves	Independent, Non-executive
Craig Patch	Independent, Non-executive
Mark Stewart	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)