SEADRAGON
RESPONSIBLY PURE

Annual Report
2018

SEADRAGON
RESPONSIBLY PURE

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SEADRAGON LIMITED ANNUAL REPORT 2018

SeaDragon is New Zealand's largest refiner and blender of high-quality, internationally-certified fish oils, sourced from fish caught in the clean and pure waters of New Zealand, the South Pacific and other trusted sources around the world.

We have more than 30 years' experience processing fish oils and we are recognised for the quality and purity of our products. We supply nutraceutical and functional food manufacturers to meet the growing demand for pure, high quality, marine-sourced bioactive compounds.

Our PROGRESS

Financial Year

2018

Net losses after tax narrow to $6.1 million from $6.7 million in the prior year

Normalised EBITDA[1] losses of $4.5 million compared to losses of $4.7 million in the prior year

Omega-3 sales rise to $1.0 million during the 2018 financial year (2017: $0.5 million)

Secures sales relationships with several major international customers and in negotiation with several others

1,000

Forecast demand stands at up to 1,000 tonnes of semi-refined Omega-3 oil

2017

New Chief Executive Dr Nevin Amos appointed.

Announces plans to redevelop legacy Omega-2 facilities into a boutique refinery.

$10.9 million capital raising provides working capital for growth.

MASTHEAD LIMITED

Masthead joins the share register as a cornerstone investor.

2016 *to* 2004

Completes construction of a 5,000 tonne per annum Omega-3 fish oil refinery in Nelson.

COMVITA

Global natural health products company Comvita joins the SeaDragon share register.

EXIT OMEGA-2

Announces plans to exit the use of unsustainable raw materials used in Omega-2 processing.

TRANSITION TO OMEGA-3

Announces a plan to transition to Omega-3 rich fish oil markets.

Lists on the New Zealand stock exchange via the reverse takeover of Claridge Capital and introduces specialist life sciences investor BioScience Managers to its share register and the SeaDragon board.

OMEGA-2 DSSLO

SeaDragon builds a position in the production and marketing of specialist fish oils including Omega-2 and Deep Sea Shark Liver Oil (DSSLO) for the nutraceutical and functional food industries.

[1]Normalised EBITDA is earnings before interest, tax, depreciation and stock options

Chairman and Chief Executive's REPORT

Building momentum in Omega-3 markets

At our annual meeting last year, we said we were out of the starting blocks and were growing our presence in Omega-3 markets. Nearly one year on, we are delighted to tell you that we are making steady progress and are well positioned to achieve our strategic goals.

A year ago, we were still establishing raw material supply relationships and had few customers. Twelve months on we have established SeaDragon as a reliable supplier of significant quantities of semi-refined Omega-3 fish oil to three major refiners and we are in negotiations with several others. We have a strong pipeline of firm demand of Omega-3 and Omega-2 products. Omega-2 sales now represent a rapidly shrinking proportion of SeaDragon's total sales.

We have established, and we are maintaining, strong relationships with responsible suppliers of unrefined Omega-3 tuna oil and New Zealand oil (primarily hoki). Importantly, we are now in a position of being able to source unrefined oil to meet orders rather than buying to develop our processing capabilities or to build inventory in readiness for the initial orders.

We have also made progress towards moving SeaDragon into higher value Omega-3 categories including fully-refined Omega-3 oil, Omega-3 New Zealand oils and Omega-3 concentrates. We believe these categories offer opportunities to extract value from New Zealand's precious marine resources.

While our confidence in our strategy continues to grow, the immediate challenge before us remains: to grow Omega-3 sales volumes to achieve a break even financial result. We are still short of that first milestone and continue to reflect a company still establishing its presence in new markets.

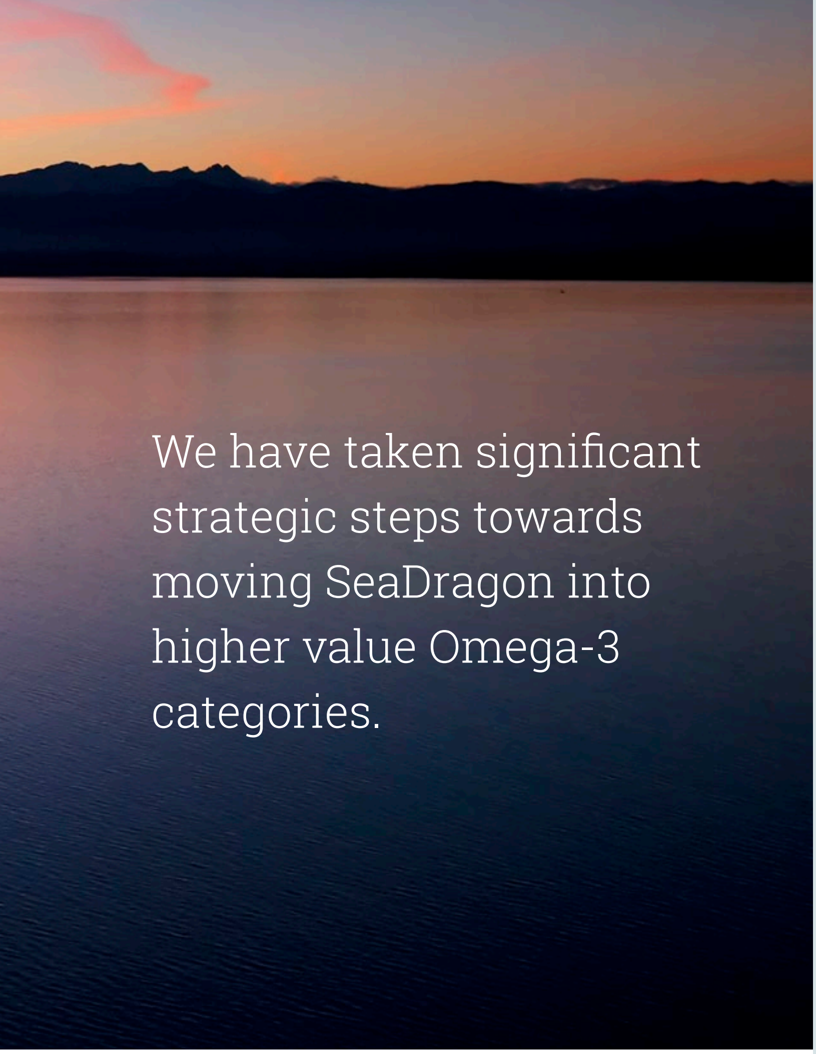
FINANCIAL RESULTS

Sales for the year to 31 March 2018 fell 30% to $3.0 million from $4.3 million the same time a year ago. Sales of Omega-3 products representing 32% of total sales were insufficient to offset the reduction in sales associated with the winding down of our Omega-2 business. Still the result represents a significant improvement over the prior year when Omega-3 oil sales represented 13% of total sales.

Our normalised loss before interest, tax, depreciation and amortisation (EBITDA), was $4.5 million, slightly lower than the prior year's loss of $4.7 million. The improvement reflects the reduction in operating costs as the business moves out of the initial transition phase to Omega-3 production.

Net losses, which take into account depreciation, interest and other balance sheet adjustments as well as employee incentives narrowed to $6.1 million from $6.7 million in the same 12-month period a year ago.

In the year to 31 March 2018 we sold 153 tonnes of semi-refined tuna oil. Our customers have indicated strong demand



We have taken significant strategic steps towards moving SeaDragon into higher value Omega-3 categories.

for up to 1,000 tonnes of semi-refined tuna oil over the coming year.

In the 2018 financial year we sent oil samples to 34 prospective customers. Three customers have now placed orders with SeaDragon and several more have indicated a strong interest in placing orders for both semi-refined and fully-refined Omega-3 fish oil. We are therefore confident the pipeline of firm orders will increase as the year progresses.

That said, the current level of orders is not yet sufficient for the company to cover its costs. In our 2017 half year report, we said that we would achieve that milestone when we reached sales of 600 to 700 tonnes of fully-refined tuna oil, at the then current market prices, exchange rates and costs, in a single 12-month period. Obviously, this threshold is much higher with semi-refined oil.

Nevertheless, our sales in the last financial year have established SeaDragon as a credible supplier of significant quantities of Omega-3 fish oil, and this provides SeaDragon with a strong foundation from which we can continue to grow.

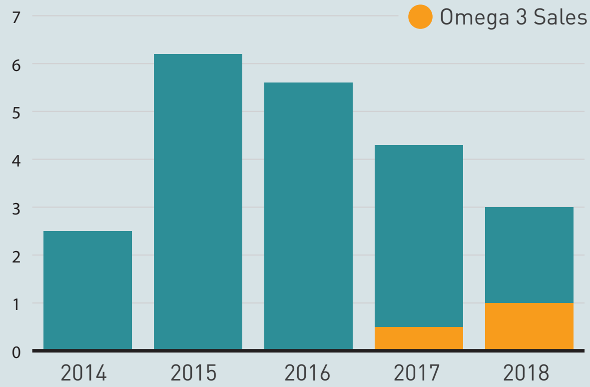
FUNDING

At the end of the 2018 financial year we had $1.0 million cash on hand. We have fully drawn down the $3 million convertible loan note made available by our cornerstone shareholder Comvita and we carry no bank debt.

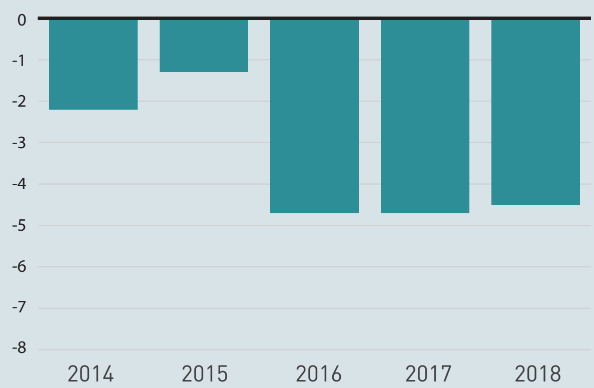
As we noted at the end of February, SeaDragon required more cash to fund its working capital requirements and ongoing losses to achieve the sales growth. As announced on 14 June 2018 the Group has agreed a $6 million facility

Key performance indicators

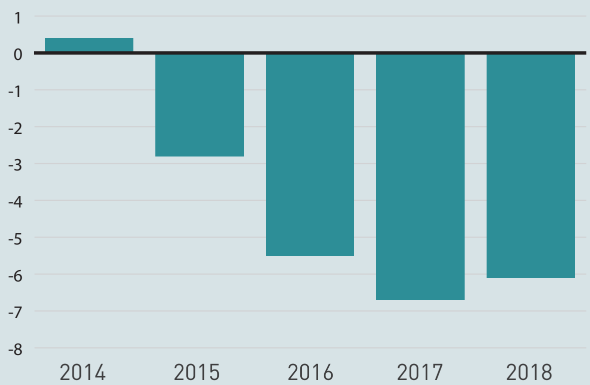
REVENUE ($m)



NORMALISED EBITDA LOSS ($m)



NET PROFIT (LOSS) ($m)



from two of our cornerstone shareholders, being BioScience Managers (One Funds Management Limited) and Pescado Holdings Limited (a member of the Masthead group of companies). This facility replaces the initial short-term bridge facility of $1 million provided by these shareholders in May 2018 with an interest bearing convertible loan note (CLN) facility.

The Directors have agreed with Comvita Limited to extend the expiry date of its existing CLN and reprice the conversion price (of their CLN) and exercise price (of their Option) in each case to align with the new facility secured with BioScience and Pescado. Directors will be seeking shareholders' approval for the proposed CLN funding structure and alterations to the CLN and options with Comvita at the annual shareholders meeting scheduled for early August 2018.

OMEGA-3 MARKET DEVELOPMENT

Omega-3 supplement markets remain strong and continue to deliver on expectations for growth of more than 6.0% a year between now and 2025[1]. However, as previously stated, these markets are evolving from commodity fish oils to highly-differentiated products.

The change reflects increasing customer demand for higher potency Omega-3 supplements and those derived from sustainably-sourced and traceable fish stocks. It also reflects manufacturers' determination to move into higher value niches in Omega-3 markets.

SeaDragon is already moving to stay ahead of these developments. The next step in our strategy is to secure more orders from functional food manufacturers and ingredient suppliers for fully-refined (and higher value) fish oils.

We are also continuing to explore higher value niches in line with our vision to be a world-class provider of marine ingredients which are sustainably sourced from the Southern Oceans and manufactured in New Zealand and we have made good progress. We have negotiated with third parties to contract manufacture Omega-3 concentrates, emulsions and powders on our behalf.

However, just as it has taken time for SeaDragon to establish itself in the market for Omega-3 tuna oil, these categories will take time to develop before they make a meaningful contribution to SeaDragon's earnings. They are by their nature long-term projects.

Recently, one of our New Zealand raw material suppliers obtained accreditation to produce fit-for-human-consumption unrefined Omega-3 predominantly hoki oil direct from one of their fishing vessels. The supplier is targeting to deliver the oil from this vessel towards the end of the first quarter this financial year.

This will be a significant milestone for the New Zealand Seafood industry and will offer significant opportunities for SeaDragon with a unique Omega-3 oil that leverages New Zealand's international reputation for clean and carefully-managed ocean resources. Indeed, we already have strong customer demand for this oil.

Finally, in the course of this year SeaDragon was certified as a producer of halal and kosher Omega-3 fish oils and the global marine conservation organisation Friends of the Sea certified SeaDragon as a supplier of Omega-3 fish oils. These certifications complement those granted by the global sustainable fisheries organisation the Marine Stewardship Council (MSC) and offer new avenues for the Company to differentiate its products in the global market place.

SUSTAINABILITY

Sustainability is at the heart of the SeaDragon proposition. This year we commissioned a formal review of the fisheries from where we source our unrefined Omega-3 oil.

The review (which draws on international research and is detailed on pages 8 to 10 of this report) shows the South Pacific and Indian Ocean tuna fisheries from which we derive our unrefined tuna oil are able to support the current level of fishing.

[1]Grand View Research 2017

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, and intends to do so in the future allowing investors to compare periods.

The directors and management believe this measure provides useful information to readers to assist in understanding the Company's financial performance and position. This measure is also used internally to evaluate performance of the business to establish operational goals and to allocate resources.

Non-GAAP profit measures are not prepared in accordance with NZ GAAP (and therefore do not comply with International Financial Reporting Standards) and are not uniformly defined. Therefore, the non-GAAP profit measures reported in this document may not be comparable with those that other companies report and should not be viewed in isolation.

GAAP TO NON-GAAP RECONCILIATION

12 months to 31 March	2018 $000	2017 $000
Reported net profit (loss) after tax	**(6,057)**	**(6,659)**
Add back:		
Interest costs (net)	647	438
Depreciation	888	877
Stock Options	0	497
Loss on disposal of assets	0	144
Normalised EBITDA	**(4,522)**	**(4,703)**

New Zealand's hoki fishery, from where we source the majority of our domestic oil, enjoys a reputation as one of the best-managed commercial fisheries in the world. It was the first large-scale white flesh fishery to achieve certification by the Marine Stewardship Council (MSC).

However, sustainability is not only about the careful management of fish resources. It is also about taking account of, and managing, the risks to our long-term aspirations.

Looking after our people and carefully managing the health and safety risks while our people are at work is uppermost in the minds of directors and senior managers.

We detail our approach to health and safety on page 11 of this report. We are confident the steps we are taking are appropriate for an organisation of SeaDragon's scale and scope.

Our success also depends on the company fostering a culture that celebrates our core values of leadership, unity and honesty. It is just over a year since SeaDragon established these principles to guide the company on its mission. The board sees this as a key strategic objective.

SeaDragon is fortunate to have such a strong and dedicated team and we thank them for their efforts over the past year.

GOVERNANCE

A key source of SeaDragon's strength and our confidence that we can achieve our goals is founded in the backing of our cornerstone shareholders. We value their contribution to the company.

Patrick Geals retired from the board in March, whilst Richard Alderton has recently given notice of his intention to resign from the Board later this year to return to England.

In the 2018 financial year Mark Stewart, who leads SeaDragon's cornerstone shareholder Pescado Holdings, joined the Board. Meanwhile Comvita elected to rotate its directorship with Brett Hewlett stepping down and Mark Sadd, previously an alternate director, stepping up to take a more active role in the governance of SeaDragon.

Mark Stewart brings to the company 34 years of experience building successful export businesses. Mark Sadd, Comvita's chief commercial officer, brings to SeaDragon considerable experience in business turnarounds, profit optimisation, business development and acquisitions.

Both directors will stand for re-election to the board at the company's annual meeting later this year. We have also begun the search to replace Richard. We meanwhile thank Brett, Patrick, Richard and indeed all our directors, for their efforts on behalf of the company.

OUTLOOK

Step-by-step we are gradually overcoming the hurdles we have faced. The company is now better positioned for growth, and we are confident that in the current financial year, supported by our staff, customers and our shareholders, we will continue to build momentum in our sales and create shareholder value.

21 June 2018

Colin Groves
Chairman

Dr Nevin Amos
Chief Executive

Our STRATEGY & PROGRESS

OUR VISION

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

OUR MISSION

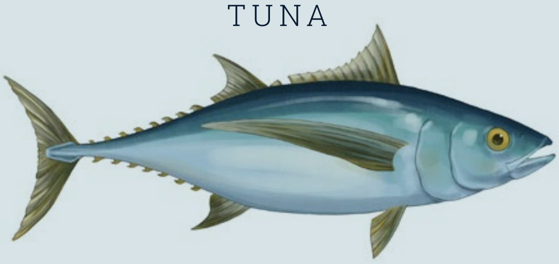
We refine and distribute bulk fish oil, converting marine by-products to support human health.

OUR STRATEGY

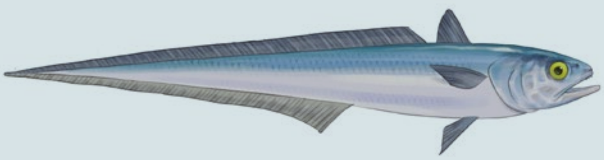
SeaDragon is determined to drive capacity utilisation in our new fish oil refinery and build demand for higher-value customised products. We also seek to build and maintain a diversity of customers and markets to ensure we are protected against external supply fluctuations and changes in customer demands and other market trends.

OUR SUPPLY

TUNA



HOKI



We have maintained a good supply of unrefined tuna oil. We are now manufacturing to order and have matched our supply with forecasted demand for customers in Europe, South East Asia, Japan, Australia and New Zealand.

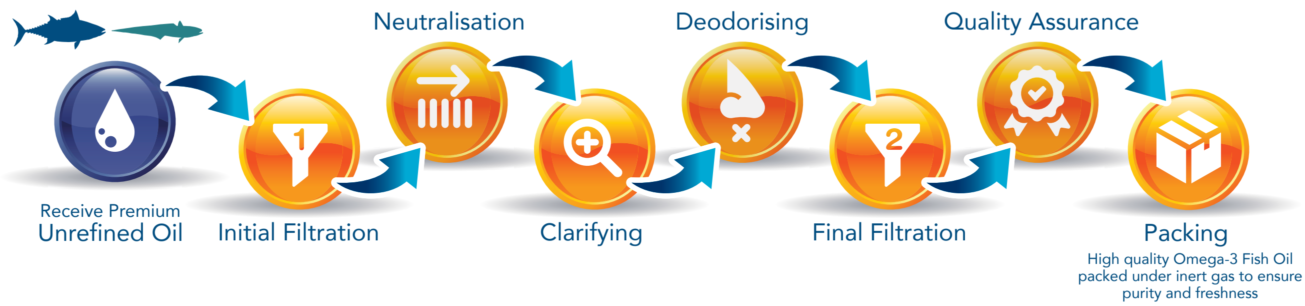
Progress has been made during the financial year in sourcing fit-for-human-consumption New Zealand fish oil, predominantly hoki, and we are expecting meaningful quantities of that oil for refining towards the end of the first quarter in the current financial year.

This will be a significant milestone for the New Zealand Seafood industry. We already have strong customer demand for this oil.

THE SEADRAGON SYSTEM

Our Omega-3 refinery has the capacity to produce up to 5,000 tonnes of refined fish oils each year to meet the demand for first generation Omega-3 bioactives used in applications such as functional foods and health supplements.

OMEGA-3 OIL



OUR FACILITIES

OMEGA-3 REFINERY

Our Omega-3 refinery was commissioned in 2016 and offers highly flexible continuous process refining with quick turnaround batch processing runs. The refinery is being used to serve customers looking for large volumes of (primarily tuna) Omega-3 oils for use in applications such as functional foods and health supplements. Our refining processes continue to evolve as we better understand our customer and market requirements.

BOUTIQUE REFINERY

SeaDragon continues to develop options to repurpose its legacy Nayland Road Omega-2 facility into a boutique facility.

OUR CUSTOMERS

We have secured ongoing orders for semi-refined oil from three major customers and are about to supply yet another major customer. The next step in our strategy is to secure fully-refined orders from functional food manufacturers and ingredient suppliers with a focus on customers in Asia, Europe, North America and Australasia.

We continue to explore higher value niche products in line with our vision to be a world-class provider of marine ingredients which are sustainably sourced from the Southern Oceans and manufactured in New Zealand. We have negotiated with third parties to contract manufacture Omega-3 concentrates, emulsions and powders on our behalf.

Just as it has taken time for SeaDragon to establish itself in the market for Omega-3 tuna oil, higher value niche categories will take time to develop before they make a meaningful contribution to SeaDragon's earnings. They are by their nature long-term projects.

OUR PRODUCTS

We are determined to evolve with the market to ensure we are always extracting the highest-value from New Zealand's precious marine resources.

We are in discussion with prospective customers over future product requirements and are looking at how we can further develop our facilities to meet these needs.

Our facilities have Friends of the Sea, Marine Stewardship Council, halal and kosher certifications providing a broad range of sales opportunities.

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SUSTAINABILITY

SeaDragon formally reviewed its unrefined oil sourcing arrangements to assess the oversight and management of the fisheries.

SEADRAGON'S FISH OIL SUPPLY CHAIN

SeaDragon's vision is to be recognised as a world-class provider of marine ingredients which are sustainably sourced from the Southern Oceans and manufactured in New Zealand. We have integrated sustainability into our vision because careful management of marine resources is integral to the viability of our industry for the long term.

SeaDragon currently produces refined Omega-3 products from unrefined tuna oil sourced primarily from skipjack, albacore and yellowfin tuna caught in the South Pacific and skipjack and albacore tuna caught in the Indian Ocean.

We also source oil from New Zealand waters primarily from the hoki fisheries and we expect this resource to represent a growing share of the oil we source and refine.

In the last year, SeaDragon formally reviewed its unrefined oil sourcing arrangements to assess the oversight and management of these fisheries, the state of the fish stocks and their ability to sustain the current level of fishing.

The review, which considered the management of the fisheries and independent assessments on their health, has confirmed the strength of our responsible sourcing processes and further reinforced our confidence that SeaDragon's practices are aligned with building a sustainable business for the long-term.

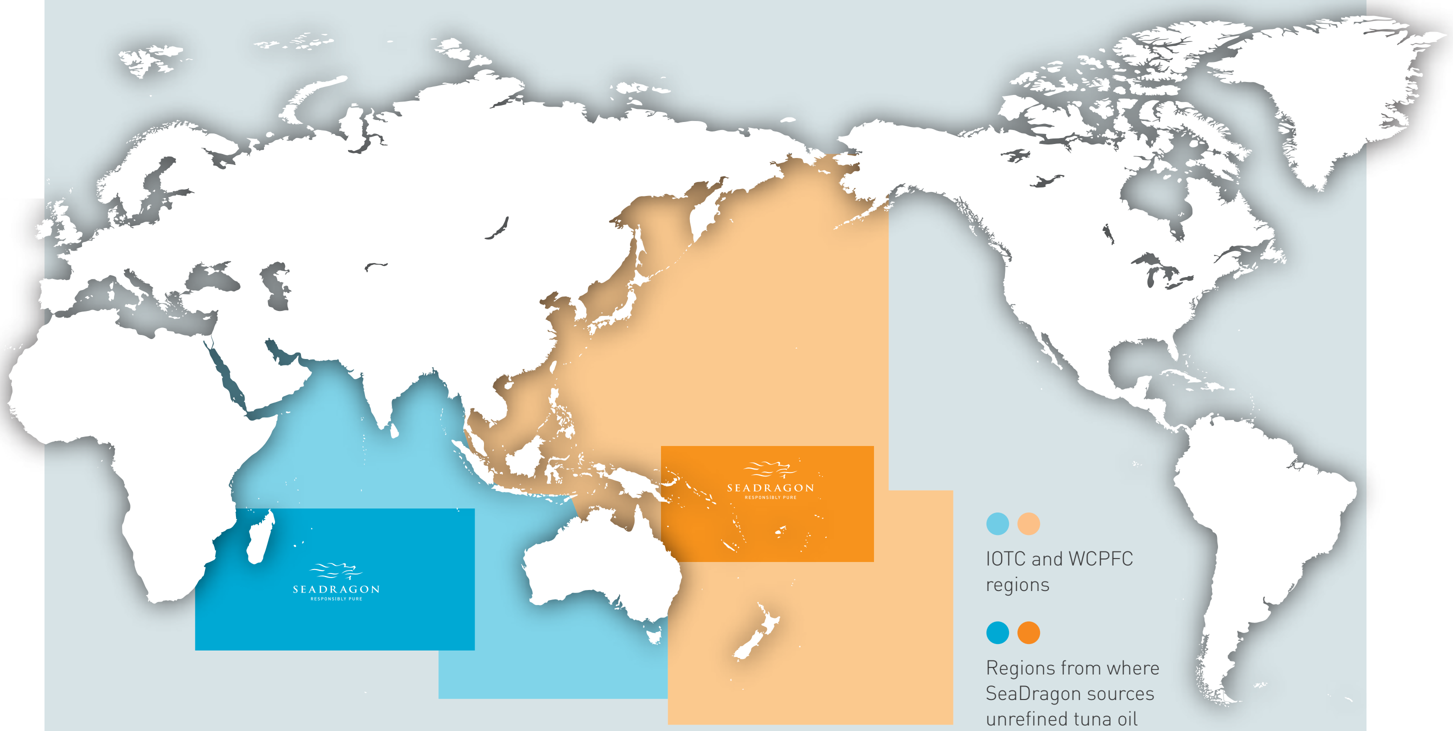
TUNA FISHERIES MANAGEMENT

Research commissioned by the Western and Central Pacific Fisheries Commission (WCPFC) and the Indian Ocean Tuna Commission (IOTC) have found the fisheries from which SeaDragon sources unrefined fish oil are healthy and more than capable of supporting the current level of fishing. Data comparison between the two regions is difficult due to different scientific approaches.

The International Seafood Sustainability Foundation (ISSF), a global organisation formed in 2009 as a non-profit partnership among the tuna industry, scientists and the World Wide Fund for Nature, is one of the many non-governmental organisations that review the WCPFC and IOTC data and research.

In the ISSF's most recent report assessing tuna stocks across different regions it used a consistent methodology allowing an easy comparison between regions. The ISSF validated the findings of the WCPFC and IOTC science and it made the following assessments of the stocks from which SeaDragon sources its oil.

TUNA FISHERIES MANAGEMENT REGIONS



INDIAN OCEAN TUNA COMMISSION (IOTC)

In the Indian Ocean SeaDragon sources unrefined tuna oil from members of the IOTC. It is charged with the management of tuna stocks in the region to ensure the optimum use and the sustainable development of the region's tuna fisheries. The IOTC's 32 members states, and the fishing vessels operating out of those states, must comply with the IOTC's conservation and management measures. The IOTC operates a monitoring and surveillance programme to ensure compliance.

WESTERN AND CENTRAL PACIFIC FISHERIES COMMISSION (WCPFC)

SeaDragon sources unrefined oil from countries in the Pacific that are members of the WCPFC one of a global network of fishery management organisations. Fishing entities operating out of the 27 WCPFC member countries are bound to the rules of the WCPFC. The commission has established monitoring, control and surveillance programmes to ensure compliance with the rules.

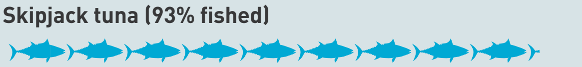
TUNA STOCK ASSESSMENTS

Fishing in the Indian Ocean and Western Pacific ocean as a percentage of the maximum total fish stocks as assessed by the International Seafood Sustainability Foundation (ISSF).

INDIAN OCEAN

Albacore tuna (85% fished)

Skipjack tuna (93% fished)



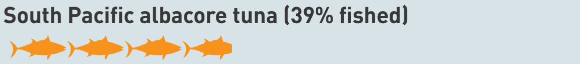
TOTAL FISH STOCKS

WESTERN PACIFIC

Skipjack tuna (45% fished)

Yellowfin tuna (74% fished)

South Pacific albacore tuna (39% fished)



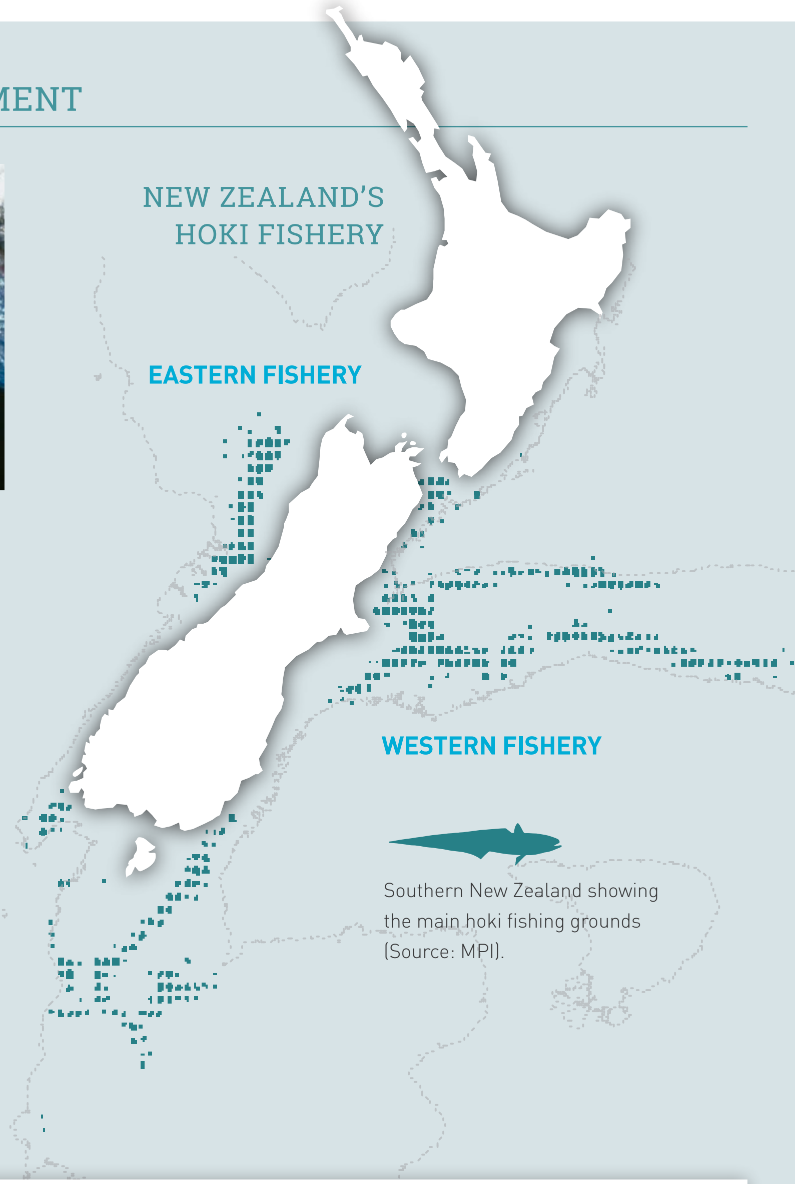
TOTAL FISH STOCKS

HOKI FISHERIES MANAGEMENT

SeaDragon sources hoki and a mix of other species caught within the New Zealand exclusive economic zone and managed under the New Zealand Quota Management System, which has its focus on the sustainable management of fish stocks.

The system is managed by the New Zealand government (MPI), which sets a yearly catch limit (the total allowable catch) for every fish stock. The quota is tradeable among fishing entities and is set to ensure enough fish remain for future breeding.

The New Zealand hoki fishery is certified by the Marine Stewardship Council, an international non-profit organisation that provides certifications on the sustainability of fisheries around the world. It was the first white flesh fishery in the world to receive this certification.



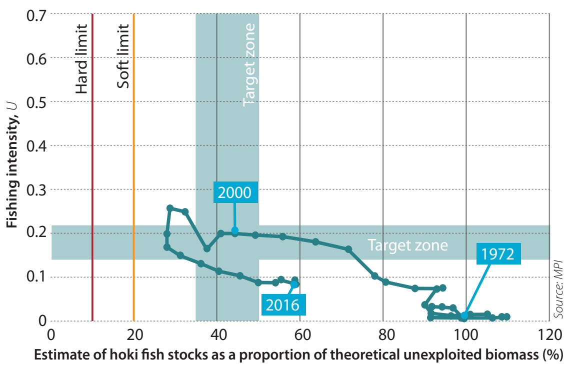
Southern New Zealand showing the main hoki fishing grounds (Source: MPI).

HOKI STOCK ASSESSMENTS

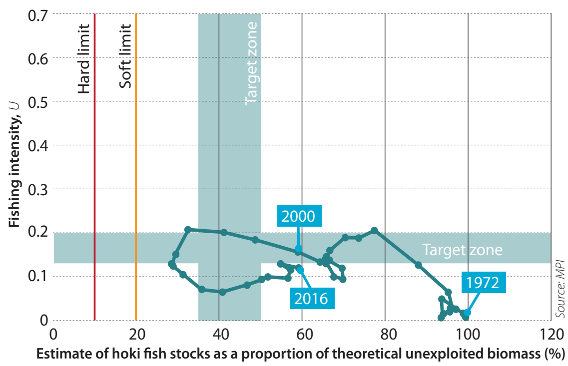
The hoki fishery is managed as two stocks: the eastern fisheries and the western fisheries. In 2017 MPI found both the eastern and western fish stocks have been increasing since 2006 and that the biomass of the western stock represents 40-79% of the theoretical unexploited biomass, while the eastern stock represents 44% - 75% of the theoretical unexploited biomass.

The graphics below show the trajectory of the stocks since 1972.

EASTERN HOKI FISHERY STOCK STATUS 1972 -2016

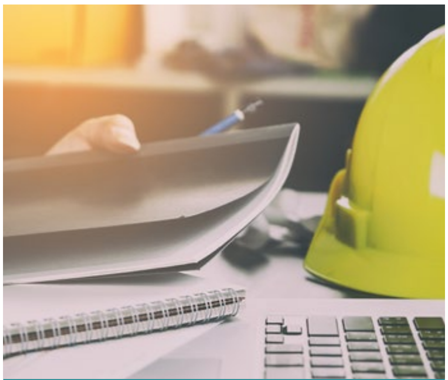


WESTERN HOKI FISHERY STOCK STATUS 1972 -2016



CERTIFICATIONS

SeaDragon has attained the following certifications that were prerequisite requirements to secure our major customers and are preferred by many of our other potential customers, opening up several markets where certification is a market access requirement. These credentials demonstrate SeaDragon's vision to provide fish oils of the highest quality and integrity.



HEALTH AND SAFETY

Looking after our people and carefully managing our health and safety risks is at the heart of building a sustainable business. SeaDragon Directors and senior managers take their health and safety obligations seriously.

In line with this commitment, in 2017 we commissioned an external review of our health and safety systems to assess our compliance with the Health and Safety at Work Act 2015. The assessment included a review of health and safety documentation, one-to-one meetings with key management and site visits.

The review found that Sea Dragon was managing its critical risks well and had effective systems that are being audited regularly and followed. It also found a positive culture towards health and safety with an engaged workforce.

SeaDragon collects a range of data on health and safety performance. However, as the company is small, the data has the potential to be volatile and therefore the data needs to be considered alongside a number of other factors. For these reasons SeaDragon does not report the raw data publicly.

EXISTING CERTIFICATIONS

Ministry for Primary Industries
Manatū Ahu Matua

Ministry of Primary Industries Risk Management Programme (RMP): SeaDragon's facilities are registered to refine products suitable for export to its key target markets.

MPI Transitional Facility: Transitional facilities are approved to hold and manage goods imported into New Zealand that pose a potential biosecurity risk.

CERTIFIED SUSTAINABLE SEAFOOD MSC www.msc.org

Marine Stewardship Council (MSC) Chain of Custody: The Marine Stewardship Council is an international non-profit organisation that provides certifications on the sustainability of fisheries around the world. The certification means customers can be confident that oil sourced from MSC-certified fisheries retain that certification as they are processed by SeaDragon.

CERTIFICATIONS ACHEIVED THIS YEAR

Friend of the Sea Chain of Custody: Friend of the Sea (FoS) is a leading international certification project for products originated from both sustainable fisheries and aquaculture. Its mission is the conservation of the marine habitat. The certification means customers can be confident that unrefined oil that comes from FoS-certified fisheries retain that certification as they are processed by SeaDragon.

Federation Of Islamic Associations of New Zealand Inc. Halal Certification: The halal certification confirms that SeaDragon's halal products have been prepared according to Islamic law and customs.

Kosher Kiwi Licensing Authority Certification: The kosher certification confirms that SeaDragon's kosher products have been prepared according to Jewish customs.

Cornerstone SHAREHOLDERS

SeaDragon is fortunate to have the support of several high-calibre investors.

MASTHEAD LIMITED is the investment vehicle of the Christchurch-based Stewart family. The company is a long term investor in a number of companies and has been active in sectors as diverse as plastics, healthcare, and pet nutrition. Masthead Limited, via its subsidiary Pescado Holdings, became a shareholder in 2016 and holds a 19.0% stake[1] in SeaDragon.

BIOSCIENCE MANAGERS is a leading specialist healthcare fund manager, headquartered in Melbourne, Australia. It was established in 2003 as a direct descendant of the Rothschild Bioscience Unit (1987-2000) which was the largest non US specialty biotechnology fund manager globally. The BioScience Managers team brings to SeaDragon experience in more than 170 investments in the healthcare and life science sectors. It has been a SeaDragon investor since 2012 and holds a 16.3% stake[1] in the Company.

SDMO TRUSTEE is the private investment vehicle of SeaDragon Director Stuart Macintosh. Stuart is one of SeaDragon's largest and longest-standing shareholders. He began backing the Company before it was listed on the NZX in 2012. SDMO Trustee holds a 9.7% stake[1].

COMVITA has been a shareholder in SeaDragon since 2015. Over a period spanning four decades, Comvita has led the way in showing how New Zealand companies can add value to New Zealand primary products. Through smart marketing, investment in supply chain management, manufacturing and distribution, it has established and grown the market for Manuka honey and other New Zealand-sourced natural health products. Comvita holds a 9.1% stake[1] in SeaDragon, but it could lift its holding as high as 22.1%.

[1] These proportional holdings in SeaDragon are subject to change. The company has issued to Comvita an option to subscribe for 375m new shares at $0.008 per share and has agreed to issue up to $3m convertible loan notes that can, at Comvita's election, convert into another 375m shares, being 750m shares in total. Currently the company has issued all of the maximum $3m convertible loan notes. If Comvita exercised its rights to convert all 3m loan notes and exercised its option to subscribe for the additional 375m shares, its stake could rise as high as 22.1% (assuming no other securities are issued by the company and no other shareholder exercises any options). Comvita has an additional 410m options that confer rights to subscribe for new shares at $0.015 per share which were issued as part of the 3-for-5 rights offer in October 2015. Further details of these securities are set out on pages 45 and 55 of this report.

BOARD & MANAGEMENT

INDEPENDENT CHAIRMAN:

COLIN GROVES

Colin is a professional director and investor. He has spent most of the last 25 years as Director of Mergers and Acquisitions at Tetra Laval. He has also held roles at Informix Software, and the US healthcare multinational Johnson & Johnson.

A chartered accountant and former English Colts rugby international, Colin chairs and sits on various boards in both New Zealand and the United Kingdom.

CHIEF EXECUTIVE:

DR NEVIN AMOS

Nevin was formerly the Chief Executive for a Taupo based startup and has held senior roles at Comvita, kiwifruit exporter Zespri and has sat on various boards, including the board of Natural Products New Zealand.

Nevin spent three years based in Asia leading the teams in Japan, Korea, Taiwan and Hong Kong for Comvita. This gives Nevin an awareness of some of SeaDragon's target markets and an in-depth understanding of supply chain systems and processes.

Nevin has a PhD (Bioprocess Engineering) from Massey University and has attended the Advanced Management Program at INSEAD in Singapore. He is also a recipient of a New Zealand Prime Minister's business scholarship.

EXECUTIVE TEAM:

DIRECTOR OF SALES:
CAMPBELL BERRY-KILGOUR

COMMERCIAL MANAGER:
TRACEY CASTLETON

DIRECTORS:

RICHARD ALDERTON (INDEPENDENT)

Richard is a former Chief Executive Officer of DeLaval Oceania, the New Zealand and Australian division of the world's largest developer of dairy farming solutions. Richard operates his own high performance change practice and holds a Bachelor of Business Administration and Biochemistry from Aston University. He joined the board in July 2015.

STUART MACINTOSH

Stuart has extensive manufacturing and general management experience in the meat, wood products and consumer goods sectors, including 11 years at multinational food group Cerebos Gregg's. Stuart is the General Manager of the iconic Pic's Peanut Butter and joined the SeaDragon board in June 2015

MATTHEW McNAMARA

Matthew is the Chief Investment Officer of SeaDragon's cornerstone shareholder BioScience Managers. He has more than 30 years' experience in the healthcare and medical sciences sector. Matthew is a Director of several public and private healthcare companies in Australia and New Zealand and joined the board in October 2012.

MARK SADD

Mark is the Chief Commercial Officer of SeaDragon's cornerstone shareholder Comvita Limited (NZX:CVT). In addition to serving as Chief Financial Officer for three years prior to his current role, Mark also holds a number of governance roles within the Comvita group and acts in the capacity of Deputy CEO. He brings considerable experience in business turnarounds, profit optimisation, business development opportunities and acquisitions to the Board of Seadragon. Mark joined the board as an alternate Director in November 2015.

MARK STEWART

Mark is head of the Stewart family investment vehicle, Masthead Limited, an active corporate investor in New Zealand public and private equity markets and a cornerstone SeaDragon shareholder through Pescado Holdings Limited. He has been a Director of four publicly-listed companies, and is currently a Director of the successful export pet nutrition business Ziwi Limited. He has more than 34 years of commercial experience, primarily building successful export companies. Mark joined the board in November 2017.

ALTERNATE DIRECTORS:

JEREMY CURNOCK COOK
WARWICK WEBB

CORPORATE GOVERNANCE

FOR THE YEAR ENDED 31 MARCH 2018

Shareholder Information

As at 16 May 2018

STOCK EXCHANGE LISTING

The Company's shares are listed on the New Zealand Stock Exchange (NZX).

DISTRIBUTIONS OF SECURITY HOLDERS AND SECURITY HOLDINGS

	Number of security holders		Number of securities	
	Number of Holders	%	Shares held	%
Ordinary shares				
1-1,000	8	0.23	2,456	-
1,001-5,000	825	23.71	2,208,128	0.05
5,001-10,000	213	6.12	1,744,907	0.04
10,001-50,000	601	17.27	16,840,564	0.37
50,001-100,000	370	10.63	29,815,424	0.66
Greater than 100,000	1,463	42.04	4,463,007,239	98.88
Total	**3,480**	**100.00%**	**4,513,618,718**	**100.00%**

Options issued as part of the rights issue on 2 October 2015 and remaining unexercised as at 31 March 2018

	Number of Holders	%	Options held	%
Options				
1-1,000	1	0.13	120	-
1,001-5,000	63	8.43	159,700	0.01
5,001-10,000	38	5.09	279,268	0.02
10,001-50,000	154	20.62	4,384,086	0.35
50,001-100,000	97	12.99	7,137,139	0.58
Greater than 100,000	394	52.74	1,228,914,538	99.04
Total	**747**	**100.00%**	**1,240,874,851**	**100.00%**

An additional option was also issued to Comvita on 18 December 2015 to acquire 375 million shares. Refer to note 10 and 16 of the financial statements.

Shareholder Information (continued)

As at 16 May 2018

20 LARGEST REGISTERED HOLDERS OF QUOTED EQUITY SECURITIES

As at 16 May 2018

	Number of ordinary shares	Percentage of ordinary shares
Pescado Holdings Limited	855,433,823	18.95
New Zealand Central Securities Depository Limited	748,128,395	16.57
SDMO Trustee Limited	435,388,743	9.65
Comvita Limited	410,987,830	9.11
Skylog Limited	75,902,750	1.68
Leveraged Equities Finance Limited	57,045,750	1.26
Forsyth Barr Custodians Limited	40,602,129	0.90
FNZ Custodians Limited	40,026,393	0.89
Darrell James Crozier	32,326,757	0.72
Longview Te Pirita Limited	31,110,855	0.69
Lloyd James Christie	30,176,000	0.67
Graeme Douglas Saunders	30,000,000	0.66
Rodney Henry Wallace	24,344,544	0.54
Graham Ian Dobbs	23,537,760	0.52
Tamahere Limited	22,500,000	0.50
William Aubrey Cocks	21,000,000	0.47
Hui Ai Adriana Tong & Morlan Tong	20,000,000	0.44
Custodial Services Limited	19,827,095	0.44
Nicklas William P Willemse	19,500,000	0.43
Hongmei Lu	19,120,831	0.42
Total	**2,956,959,655**	**65.51%**

SUBSTANTIAL PRODUCT HOLDERS

The following information is provided in compliance with Section 293 of the Financial Markets Conduct Act 2013 and is stated as at 31 March 2018. The total number of quoted ordinary shares of the Company at that date was 4,513,618,718.

Substantial Product Holder	Quoted voting products in the Company in which a relevant interest is held	Date of notice
Comvita Limited	410,987,830 ordinary shares (and up to 1,446,975,660 ordinary shares if all Options are exercised by Comvita Limited and if all Convertible Notes are converted)	28 October 2016
SDMO Trustee Limited	435,388,743 ordinary shares	21 October 2016
Dame Adrienne Stewart, Mark Stewart and Todd Stewart[1]	855,433,823 ordinary shares	17 October 2016
One Funds Management Ltd as trustee for Asia Pacific Healthcare Fund II	735,264,802 ordinary shares	8 October 2015

[1]The Company also received a substantial product holder notice in respect of the same relevant interest from Pescado Holdings Limited on 17 October 2016.

Directors

During the 12 months ended 31 March 2018

Current	Appointed	Position	Status
Groves, Colin	01 June 2015	Chair	Independent, Non-executive
Alderton, Richard[1]	27 July 2015		Independent, Non-executive
Macintosh, Stuart	29 June 2015		Non-executive
McNamara, Matthew	15 October 2012		Non-executive
Sadd, Mark[2]	22 November 2017		Non-executive
Stewart, Mark	22 November 2017		Non-executive
Curnock-Cook, Jeremy	15 October 2012		Alternate for Matthew McNamara
Webb, Warwick	22 November 2017		Alternate for Mark Stewart
Past	**Appointed**	**Resigned**	**Status**
Hewlett, Brett	02 November 2015	22 November 2017	Non-executive
Geals, Patrick	28 July 2014	28 March 2018	Independent, Non-executive

As at 31 March 2018, Richard Alderton, Colin Groves, and Stuart Macintosh were also directors of SeaDragon Marine Oils Limited and Omega 3 New Zealand Limited, and Nevin Amos was a director of SeaDragon Marine Oils Limited.

[1]Richard Alderton served as Interim Chief Executive up to 18 July 2016.

[2]Mark Sadd was appointed as an alternate director for Brett Hewlett from the 2nd November 2015 and was appointed as a director during this financial year.

Directors Security Holdings

As at 31 March 2018

	Ordinary shares beneficially owned		Ordinary shares held by associated persons		Share options held by associated persons		Employee share options beneficially owned	
Current	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Groves, Colin	-	-	22,500,000	22,500,000	18,750,000	18,750,000	25,000,000	25,000,000
Alderton, Richard	-	-	14,062,500	14,062,500	9,375,000	9,375,000	15,000,000	15,000,000
Macintosh, Stuart	-	-	435,388,743	435,388,743	5,282,125	5,282,125	-	-
McNamara, Matthew	-	-	735,264,802	735,264,802	-	-	-	-
Sadd, Mark[1]	-	-	410,987,830	410,987,830	785,987,830	785,987,830	-	-
Stewart, Mark	-	-	855,433,823	855,433,823	-	-	-	-
Curnock-Cook, Jeremy (alternate)	-	-	735,264,802	735,264,802	-	-	-	-
Webb, Warwick (alternate)	-	-	855,433,823	855,433,823	-	-	-	-
Past								
Hewlett, Brett[1]	-	-	410,987,830	410,987,830	785,987,830	785,987,830	-	-
Geals, Patrick	1,875,000	1,875,000	-	-	-	-	-	-

[1]In addition to the ordinary shares and options listed above Comvita has $3 million in convertible loan notes that can, at Comvita's election, convert into another 375m shares.

Directors Interest And Remuneration

Details of the nature and the amount of each major element of the remuneration of each Director for the year ended 31 March 2018 is:

	Remuneration of Directors		Other Services	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Current				
Groves, Colin	97	50	5	175
Alderton, Richard	24	35	3	243
Macintosh, Stuart	24	35	-	-
McNamara, Matthew	24	35	-	-
Sadd, Mark	8	-	-	-
Stewart, Mark	8	-	-	-
Past				
Hewlett, Brett	16	35	-	-
Geals, Patrick	24	35	-	-
Total	**225**	**225**	**8**	**418**

Other services to directors during the prior year includes the fair value of share options issued during the year of $161k.
Nevin Amos, a current director in SeaDragon Marine Oils Limited received nil remuneration in 2018 (2017: nil).

Entries Recorded in the Interests Register

The following entries were recorded in the interests' register of the Company during the 12 months ended 31 March 2018:

a) Directors' indemnity and insurance

The Company has insured all its Directors and the Directors of its subsidiaries against liabilities to other parties (except the Company or a related party of the Company) that may arise from their positions as Directors. The insurance does not cover liabilities arising from criminal actions.

b) Share dealings of Directors

No shares were purchased or sold by Directors of the Company during the year ended 31 March 2018. During the prior year with regards to the rights offer (on 10 October 2016), 40,000,000 share options at $0.010 were issued to select directors during the year under the Company's employee share option scheme. Refer to note 10.

c) Loans to Directors

There were no loans to Directors during the year ended 31 March 2018 (2017: Nil).

Remuneration of Employees

During the year the following number of employees received remuneration in excess of $100,000

	Number of employees	
	2018	2017
$100,000 - $109,999	1	2
$130,000 - $139,999	1	-
$150,000 - $159,999	-	1
$160,000 - $169,999	-	1
$170,000 - $189,999	1	-
$290,000 - $339,999	1	-

Auditor

The auditor for the Group is PricewaterhouseCoopers (PwC). Auditor's remuneration is disclosed in note 1 to the financial statements.

Donations

There were no donations made during the 12 months to 31 March 2018 (2017: Nil)

NZX Waivers

The following waivers from the NZX Main Board Listing Rules were granted to the Company or relied upon by the Company in the 12 months ending 31 March 2018:

1. **In relation to a supply agreement entered into with shareholder Comvita Limited (Comvita), a waiver from listing rule 9.2.1 was granted on 2 December 2015. This was a waiver to the extent that listing rule 9.2.1 would require the Company to seek shareholder approval to enter into the supply agreement.**

This waiver was provided on the conditions that:

a. the Directors, other than those associated with Comvita, certify to NZX that:

   i. the terms of the supply agreement will be negotiated on an arm's length and commercial basis and will be considered independently of Comvita's interests;

   ii. the Company will not be influenced in its decision to enter into the supply agreement by the interests of Comvita, any director or executive officer of Comvita, or any associated person of any of them; and

   iii. the terms of the supply agreement will be in the best interests of the Company and fair to the Company's shareholders that are not associated with Comvita; and

b. the waiver, its conditions and implications, are disclosed in the Company's annual report for the period it seeks to rely on the waiver.

For full details of the waiver, see https://www.nzx.com/companies/SEA/announcements/274521.

Statements of Corporate Governance

As at 31 March 2018

Corporate Governance Statement

The Board of SeaDragon Limited (SeaDragon, the Company) is committed to the guiding values of integrity, respect and continuous improvement. The Board considers these values will ensure the highest standards of business behaviour and accountability are a cornerstone of the Company's operations.

The Board has adopted codes and policies relating to the conduct of all Directors, executives and staff. The Board believes its governance structures are consistent with the Financial Markets Authority's (FMA) Principles for Corporate Governance (the FMA Code) and the NZX Corporate Governance Code. This Statement has been structured to report SeaDragon's governance practices against the FMA's eight principles set out in the FMA Code. SeaDragon's constitution (Constitution) and the charters, codes and policies referred to in this section (except the Delegations Policy) are available on the Company's website www.seadragon.co.nz (Website) in the Investor Centre section.

A review of the charters, codes and policies is included in the Board's annual work plan.

PRINCIPLE 1: ETHICAL STANDARDS

The Board Charter, Code of Ethics and Code of Conduct establish the standards of ethical behaviour expected of Directors and staff. The Board expects Directors, management and staff to personally subscribe to these values and use them as a guide to making decisions. The Audit and Risk Committee (AARC) has responsibility for monitoring compliance with internal processes, including compliance with the Code of Ethics.

Directors are expected to ensure the potential for conflicts of interests is minimised by restricting involvement in other businesses or in private capacities that could lead to a conflict. In considering matters affecting the Company, Directors are required to disclose any actual or potential conflicts. Where a conflict or potential conflict is disclosed, the Director takes no further part in receipt of information or participation in discussions on that matter. The Board maintains an interests' register and it is reviewed at each board meeting.

Directors, officers, employees and contractors are restricted in their trading of SeaDragon securities and must comply with the Financial Products Trading Policy and Guidelines which is available on the Website.

Should any member of staff have concerns regarding practices that may be in conflict with the Code of Conduct they are able to raise the matter with the Chief Executive (CEO) or Chair, as appropriate, on a confidential basis. Directors would raise any concerns regarding compliance with the Code of Ethics with the Chair. The Chair of the Board and the Chair of the AARC note there have been no financial matters raised in this respect in the 2018 financial year.

PRINCIPLE 2: BOARD COMPOSITION AND PERFORMANCE

The Board is responsible for the proper direction and control of the Company's activities and is the ultimate decision-making body of the Company. Its responsibilities are set out in the Board Charter and include setting strategic direction, approval of significant expenditures, policy determination, stewardship of the Company's assets, identification of significant business risks, legal compliance and monitoring management performance.

The number of Directors, rotation and retirement is determined in accordance with the Constitution and the NZX Main Board Listing Rules (Listing Rules). A minimum of three Directors are required. One third of the Directors are required to retire from office at the annual meeting of the Company but may seek re-election at that meeting.

Profiles of each Director are included on page 13 of the Annual Report.

As at 31 March 2018, the Board comprised six Directors, all of whom are non-executive. Two Directors are considered by the Board to be independent under the Listing Rules.The Board supports the separation of the role of Chair and Chief Executive (CEO).

The Board has two sub-committees, the Audit and Risk Committee and the Remuneration and Nominations Committee, to which it has delegated responsibilities. Charters are available on the Website and set out the purpose, objectives and procedures for each committee. Each committee's responsibilities are set out in Principle 3 below.

The Board is structured so that, as a collective group, it has the

Statements of Corporate Governance

As at 31 March 2018

Board and Board committee meeting attendance for the year ended 31 March 2018

	Board		Audit and Risk Committee		Remuneration and Nomination Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Groves, Colin	11	11	5	5	2	2
Alderton, Richard	11	10	1	1	1	1
Macintosh, Stuart	11	11	n/a	n/a	2	2
McNamara, Matthew	11	11	4	4	1	1
Sadd, Mark	3	3	1	1	n/a	n/a
Stewart, Mark	3	3	n/a	n/a	1	1
Hewlett, Brett	8	8	4	4	n/a	n/a
Geals, Patrick	11	9	4	3	n/a	n/a

The gender balance of the Group's Directors, officers and all employees was as follows:

	as at 31 March 2018			as at 31 March 2017		
	Directors	**Officers**	**Employees**	**Directors**	**Officers**	**Employees**
Female	0	0	6	0	0	7
Male	6	1	10	6	1	10
Total	6	1	16	6	1	17

skills, experience, knowledge, independence and diversity of thought and capability to fulfil its purpose and responsibilities.

Skills that Directors bring to the Board include finance, marketing, manufacturing, investment and mergers and acquisition. Several of the Directors are members of professional bodies including the Institute of Directors, Chartered Accountants Australia New Zealand, and the Institute of Financial Professionals. Ongoing Director education and training is encouraged. A contribution to each Director's costs of education and training for programs approved by the Chair may be made.

The Company has a written agreement with each Director setting out the terms and conditions of their appointment.

Board papers for monthly meetings include reports supporting standing agenda items together with formal proposals in relation to any other matters for decision or noting. New Directors take part in an induction program to familiarise them with SeaDragon's business, production facilities and features of the industry within which it operates. Tours of the production facilities are held regularly.

The Board's annual work program is set out in the Board Charter. All matters listed were addressed in the 2018 financial year.

The Board evaluates its performance, its processes and procedures annually. A review of each Director's performance and the performance of the Board as a whole was undertaken in the 2018 financial year using the process set out in the Board Charter. Minor changes were made to Board operating procedures.

The Board has delegated responsibility for the day-to-day leadership and management of the Company to the CEO who is required to do so in accordance with Board direction. The Board has approved a schedule of delegated authorities affecting all aspects of the Company's operation. The Delegations Policy is reviewed at least annually and was reviewed in the 2018 financial year.

Statements of Corporate Governance

As at 31 March 2018

Diversity

SeaDragon recognises the wide-ranging benefits that diversity brings to an organisation and its workplaces. SeaDragon endeavours to ensure diversity at all levels of the organisation to ensure a balance of skills and perspectives are available in the service of our shareholders and customers. To this end, the Board is committed to fostering a culture that embraces diversity by aiming to establish measurable objectives for achieving gender diversity and annually reviewing and assessing such objectives and SeaDragon's progress in achieving them.

SeaDragon adopted a Diversity Policy in 2018 and this policy is available on the Website.

As set out in the Diversity Policy, SeaDragon is to consider and where relevant implement policies and programmes to address impediments to gender diversity in the workplace including parental leave and flexible working arrangements that assist employees to fulfil their domestic responsibilities. These policies are to be reviewed to ensure that they are available to and utilised by, both men and women at all levels.

The Board also has the responsibility of monitoring and promoting the diversity of staff and associated corporate culture, including requiring that recruitment and selection processes at all levels are appropriately structured so that a diverse range of candidates are considered and to avoid conscious and unconscious biases that might discriminate against certain candidates.

PRINCIPLE 3: BOARD COMMITTEES

The Board has appointed two standing committees – the Audit and Risk Committee (AARC) and the Remuneration and Nomination Committee (RANC). Each committee has a charter that sets out its scope of responsibilities, activities and authority. The charters are available on the Website.

The AARC is constituted to monitor the accuracy of the financial data produced by the Company and to ensure controls are in place to minimise the opportunities for fraud or for material error in the accounts. The AARC's responsibilities include the audit functions, processes and policy, general compliance and the risk management framework.

The AARC has a clear line of communication with the independent external auditors and the finance team. The AARC will meet at least four times a year and will meet at least annually with the auditor without management present. In the financial year ended 31 March 2018, the AARC held five meetings, one of which included a Director only meeting with the external auditor.

The AARC must have a minimum of three members, the majority of whom must be independent Directors. The Chair of the AARC may not be the Chair of the Board.

At least one member of the AARC must have an accounting or financial background as that term is described in the Listing Rules and, as a group, the AARC must be structured to have the skills, experience and knowledge to fulfil its purpose and responsibilities. The members of the AARC are Richard Alderton (Chair), Colin Groves and Mark Sadd. Mr Groves and Mr Alderton are Independent Directors. The members' qualifications and background are set out on page 13 of this Annual Report. The CEO and Commercial Manager attend meetings as requested by the Board.

The Commercial Manager acts as Secretary to the AARC and undertakes the duties normally associated with that role.

The RANC is constituted to review the composition of the Board, Director remuneration and Board appointments. It assists with determining appointments and terms of remuneration for the CEO, and those reporting directly to the CEO and other employees of SeaDragon. It also has oversight of any company-wide incentive and share option schemes and HR-related statutory and regulatory matters.

The members of the RANC are Stuart Macintosh (Chair), Colin Groves, Matt McNamara and Mark Stewart. Mr Groves is an Independent Director. The RANC will meet as scheduled from time to time and in the 2018 financial year the RANC held two meetings.

Statements of Corporate Governance

As at 31 March 2018

PRINCIPLE 4: REPORTING AND DISCLOSURE

Reporting

The AARC assists the Board in fulfilling its responsibilities relating to the Group's management systems, accounting and reporting, external and internal audit and risk management activities. The AARC's Charter is available on the Website.

The AARC monitors the Company's accounting and reporting practices, reviews the financial information reported to shareholders, oversees the work undertaken by the external and internal auditors, and monitors SeaDragon's risk management program.

The Chief Executive and Commercial Manager are required to provide a letter of representation to the Board confirming that:

- the Group's financial statements have been prepared in accordance with accepted accounting standards in New Zealand, are free of material misstatements, including omissions, give a true and fair view of the financial performance and position of the Group and the financial records have been properly prepared;
- the representations are based on a sound system of risk management, internal compliance and controls that provide for the implementation of the policies adopted by the Board; and
- the Group's risk management and internal control systems are operating effectively in all material respects.

A letter of representation confirming those matters was received in relation to the 2018 financial statements.

Disclosure

The Board is committed to keeping the market and its shareholders informed of all material information relating to the Company through meeting the obligations imposed under the Listing Rules and relevant legislation such as the Financial Markets Conduct Act 2013.

SeaDragon seeks to make disclosures in a timely and balanced way to ensure transparency in the market and equality of information for investors. The Company also recognises the benefits of providing other releases that broaden the market's knowledge of the Company's business and financial performance and seeks, where appropriate, to use communications that achieve this objective. The Website is a key channel for the distribution of SeaDragon's information and is updated after documents are disclosed on the NZX.

The Chair of the Board and the CEO are responsible for the day to day management of ensuring these obligations are met.

The Board will review compliance with the continuous disclosure obligations at every board meeting.

PRINCIPLE 5: REMUNERATION

The Director's remuneration pool has been set at $225,000 per annum. Information on payments to each Director is set out on page 19. Further information on the remuneration packages for non-executive directors are set out in the Remuneration and Nominations Committee Charter.

Non-executive Directors may be paid additional fees for chairing a Board committee or for special service. The Chair's fee is 404% of the fee paid to non-executive Directors. Directors may be reimbursed for expenses incurred in performing their duties and the RANC reviews annually such expenses that have been reimbursed to ensure they are reasonable. A performance-based equity compensation plan is not offered and no retirement payments (other than superannuation) are paid to non-executive Directors.

The remuneration and performance of the CEO and other members of the senior management team are reviewed each year by the RANC.

Management remuneration information is set out on page 20.

PRINCIPLE 6: RISK MANAGEMENT

The AARC has been delegated oversight for risk management by the Board. The AARC's responsibilities are set out in the Audit and Risk Committee Charter.

Senior management are responsible for the day to day monitoring of risk management systems. Senior management must report at each board meeting on risk management to identify material risks, the effectiveness of SeaDragon's ongoing risk management program and policies, and whether any remedial action is necessary in relation to risk management issues. There were no material issues reported in the 2018 financial year.

Directors are insured against liabilities to other parties that may arise from their positions as Directors, excluding liabilities that may arise from criminal actions.

Health and Safety

The health and safety of staff, Directors and others associated with SeaDragon is just as important to the Board as managing financial and reputational risk. The Board is responsible for determining high-level health and safety strategy and policies which management is required to implement. The Board has responsibility for reviewing SeaDragon's health and safety policies to ensure the Company provides a safe working environment and that a commitment to health and safety is part of everyday business with an integrated, embedded and effective system in which all staff take individual ownership.

The Health and Safety Policy is available on the Website. A review of the policy was undertaken in the 2018 financial year.

Statements of Corporate Governance

As at 31 March 2018

PRINCIPLE 7: AUDITORS

Oversight of the Company's external audit arrangements is the responsibility of the AARC. The AARC's functions in relation to the auditors are set out in the Audit and Risk Committee Charter and include recommending the appointment and removal of external and internal auditors, reviewing the annual audit plans, evaluating the effectiveness of the auditors and reviewing the auditors' comments, recommendations and plans.

All services provided by the external auditor are considered on a case by case basis by the AARC to ensure there is no actual or perceived threat to the independence of the auditor in accordance with the Audit and Risk Committee Charter. Additional non-audit services were provided by the external auditor in the 2018 financial year.

External audit services are provided by PricewaterhouseCoopers (PwC). The AARC has authority to approve all audit fees and is responsible for ensuring that the external auditor is changed at least every five years. PwC has been the Company's external audit partner since 2015.

PRINCIPLE 8: SHAREHOLDER RELATIONS AND STAKEHOLDER INTERESTS

SeaDragon aims to promote effective communication with shareholders and stakeholders. The Shareholders Communications Policy sets out how SeaDragon seeks to encourage effective participation at shareholder meetings of the Company and distribute shareholder communications in accordance with the Listing Rules and any relevant legislation.

SeaDragon uses a variety of channels and technologies to keep its shareholders informed and to allow access to information, including announcements and media releases through NZX, the SeaDragon share registry at www.linkmarketservices.co.nz, the Website, annual reports and annual meetings of shareholders.

Shareholders are encouraged to attend annual meetings as they are an opportunity to put questions to the Board, Senior Management and external auditor and to this end, the Chair will provide reasonable time for questions and comments on relevant matters.

The Shareholders Communications Policy is available on the Website.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

Independent Auditor's Report

To the shareholders of SeaDragon Limited

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 March 2018;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Disclaimer of opinion

We were engaged to audit the consolidated financial statements of SeaDragon Limited (the Company), including its subsidiaries (the Group).

We do not express an opinion on the accompanying consolidated financial statements of the Group. Because of the significance of the matters described in the *Basis for disclaimer of opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Basis for disclaimer of opinion

The Group has property, plant and equipment (PP&E) with a carrying value of $11,625,000 recognised in the consolidated statement of financial position as at 31 March 2018. We refer to note 3e)iv) within the statements of accounting policies section of the consolidated financial statements. This note discloses the Director's assessment of the recoverable value of the PP&E. In assessing the recoverable value, the Directors have performed a value in use calculation of the total value of PP&E, comprised materially of the two refining facilities. This calculation includes key assumptions over expected future revenues and expenses. The assumptions require management to exercise significant judgement. We were unable to obtain sufficient appropriate audit evidence to support the assumptions made by management.

To assess the Directors' valuation of the PP&E, we engaged a valuation specialist (the Valuer) to perform a valuation of the Group. This was to consider whether the enterprise value of the Group was sufficient to support the carrying value of the Group's net assets, including PP&E. The Valuer provided a valuation range for the business. Due to the level of uncertainty associated with forecasting the Group's future cash flows, the range between the estimated minimum and maximum valuations was significant. Because of the magnitude of this valuation range we were unable to reliably determine the valuation of the Group, and hence, assess the carrying value of PP&E.

In addition, as described in Note 3 t) ii) to the consolidated financial statements, inventory is required to be carried at the lower of cost and net realisable value. Management has exercised significant judgement in estimating the net realisable value of inventory and therefore the carrying value as at 31 March 2018. For $537,000 of inventory relating to a specific inventory type, we were unable to validate management's estimates. We were also unable to obtain independent audit evidence of the net realisable value of this inventory.

As a result, we were unable to obtain sufficient appropriate audit evidence to support the carrying value of the PP&E and inventory recorded in the consolidated statement of financial position. Consequently, we were unable to determine whether any adjustment to the carrying values were necessary as at 31 March 2018, and the consequential impact on the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows.

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Material uncertainty related to going concern

We draw attention to Note 2e) of the Statements of Accounting Policies within the consolidated financial statements. Note 2e) discloses that the Group incurred a net loss of $6,057,000 (2017: $6,659,000) and had operating cash outflows of $4,650,000 (2017: $3,882,000) during the year ended 31 March 2018. The cash balance at 31 March 2018 was $1,009,000 (2017: $4,929,000).

The Group's ability to continue as a going concern is dependent on its ability to raise additional funds. Post balance date, the Group has entered into a term sheet with two of its major shareholders. The term sheet sets out the terms for a convertible loan note arrangement. The convertible loan notes are for $6,000,000 in aggregate. The convertible loan notes are conditional upon all parties completing their legal review of documentation and the Group obtaining the approval of its shareholders. A material uncertainty exists with respect to the finalisation of the contractual agreements and the Group obtaining shareholder approval.

As stated in note 2e), these conditions, along with other matters as set forth in note 2e), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern, including its ability to;

- Meet obligations as they fall due
- Realise its assets, specifically its PP&E, in the ordinary course of business.

Information other than the consolidated financial statements and auditor's report

The Directors are responsible for the other information. The other information comprises the Directors' report and General Information. Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS), and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs) and to issue and auditor's report. However, because of the matters described in the *Basis for disclaimer of opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of tax compliance services including filing of income tax returns, and taxation advisory services relating to shareholder continuity. The provision of these other services has not impaired our independence as auditor of the Group.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Kevin Brown.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
21 June 2018

Wellington

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2018

	Note	2018 $'000	2017 $'000
Revenue	1	3,028	4,331
Cost of sales		(5,664)	(6,549)
Impairment of inventory		(351)	(297)
Gross loss		**(2,987)**	**(2,515)**
Other (losses) gains from foreign exchange		(26)	15
Other income	1	40	-
Other expenses	1	(2,437)	(3,721)
Operating loss		**(5,410)**	**(6,221)**
Finance income - interest income		40	51
Finance expense - interest on borrowings		(687)	(489)
Loss before income tax		**(6,057)**	**(6,659)**
Income tax expense	2	-	-
Total comprehensive loss for the year attributable to the owners of the Company		**(6,057)**	**(6,659)**
Loss per share	4		
Basic loss per share (cents per share)		(0.13)	(0.18)
Diluted loss per share (cents per share)		(0.13)	(0.18)

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

Consolidated Statement of Changes in Equity

For the year ended 31 March 2018

	Share 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 year				
Total comprehensive loss for the year attributable to the owners of the Company	-	(6,659)	-	(6,659)
Total comprehensive loss for the year	**-**	**(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**
Total comprehensive loss for the year				
Total comprehensive loss for the year attributable to the owners of the Company	-	(6,057)	-	(6,057)
Total comprehensive loss for the year	**-**	**(6,057)**	**-**	**(6,057)**
Transactions with owners				
Equity portion of convertible loan note	47	-	-	47
Balance at 31 March 2018	**44,699**	**(36,118)**	**2,151**	**10,732**

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

Consolidated Statement of Financial Position

As at 31 March 2018

	Note	2018 $'000	2017 $'000
Assets			
Property, plant and equipment	5	11,625	12,243
Other receivable		75	75
Total non-current assets		**11,700**	**12,318**
Cash and cash equivalents		1,009	4,929
Trade and other receivables	6	495	325
Inventories	7	1,601	1,943
Total current assets		**3,105**	**7,197**
Total assets		**14,805**	**19,515**
Equity and liabilities			
Share capital	3	44,699	44,652
Reserves		(33,967)	(27,910)
Total equity attributable to holders		**10,732**	**16,742**
Liabilities			
Trade and other payables	11	1,060	1,096
Convertible loan	8	2,758	1,429
Total current liabilities		**3,818**	**2,525**
Asset retirement obligations	5	255	248
Total non-current liabilities		**255**	**248**
Total liabilities		**4,073**	**2,773**
Total equity and liabilities		**14,805**	**19,515**

Colin Groves
Chairman

Dr Nevin Amos
Chief Executive

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

Consolidated Statement of Cash Flows

For the year ended 31 March 2018

	2018 $'000	2017 $'000
Operating activities		
Receipts from customers	2,839	4,536
Payments to suppliers and employees	(7,247)	(8,104)
Interest received	29	34
Interest paid	(271)	(348)
Net cash flows used in operating activities	**(4,650)**	**(3,882)**
Investing activities		
Purchase of property, plant and equipment	(270)	(138)
Net cash flows used in investing activities	**(270)**	**(138)**
Financing activities		
Proceeds from issue of share capital	-	10,784
Proceeds from issue of convertible notes	1,000	2,000
Transaction costs of issue of shares	-	(156)
Net cash flows from financing activities	**1,000**	**12,628**
Net (decrease) increase in cash and cash equivalents	**(3,920)**	**8,608**
Cash and cash equivalents at beginning of period	**4,929**	**(3,679)**
Cash and cash equivalents at end of period	**1,009**	**4,929**
Made up as follows:		
Cash and cash equivalents	1,009	4,929
Total cash and cash equivalents at end of period	**1,009**	**4,929**

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

Consolidated Statement of Cash Flows

For the year ended 31 March 2018

Reconciliation of net deficit with cash flows used in operating activities	**2018 $'000**	**2017 $'000**
Total loss for the year	**(6,057)**	**(6,659)**
Adjustments for:		
Depreciation of property, plant and equipment	888	877
Fixed assets written off	-	144
Impairment of inventory	351	297
Non-cash interest income	(11)	(17)
Non-cash interest expense	416	141
Bad debt provision	5	-
Bad debt written off	-	125
Stock Options	-	497
Unwind of discount rate	7	8
Impact of changes in working capital items:		
(Increase) decrease in trade and other receivables	(164)	250
(Increase) decrease in inventories	(8)	730
(Increase) decrease in derivative financial assets & liabilities	-	35
Increase (decrease) in trade and other payables	(77)	(310)
Net cash flows from (used in) operating activities	**(4,650)**	**(3,882)**

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

Statements of Accounting Policies

For the year ended 31 March 2018

1. Reporting entity

SeaDragon Limited is a company registered and domiciled in New Zealand. The address of the Company's registered office is 12 Nayland Road, Stoke, Nelson 7011. The financial statements of the Company as at and for the year ended 31 March 2018 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

The Company is registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange ("NZX"). SeaDragon Limited is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013.

The financial statements for the Group have been prepared in accordance with the Companies Act 1993 and the Financial Markets Conduct Act 2013.

The Group is primarily involved in the manufacture of refined fish oils.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The Group is a Tier 1 for-profit entity. The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

The financial statements were approved by the Board of Directors on 21 June 2018.

b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies below. The methods used to measure fair values are discussed further in subsection 3 of the Statement of Accounting Policies.

c) Functional and presentation currency

These consolidated financial statements are presented in New Zealand Dollars (NZD), which is the Company's functional currency.

All financial information presented has been rounded to the nearest thousand dollars and is in NZD being the presentation currency.

d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, 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. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected.

e) Going concern

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

As at 31 March 2018, the Group has cash of $1,009k (2017; $4,929k) and operating cash out flows of $4,650k (2017; $3,882k). The Group incurred a loss for the year of $6,057k (2017: $6,659k loss). This ongoing loss was the result of;

- a delay in sales due to lengthy product testing and approval processes by customers
- SeaDragon's inability to access several key customers because of regulatory changes, and
- several minor process deficiencies, of which the Directors believe most of these have now been addressed.

The Group is well positioned to execute its strategy. However, a number of material uncertainties exist with respect to the achievement of the Group's strategy. These material uncertainties may cast significant doubt on the validity of the Director's use of the going concern assumption.

Access to funding

The Group has agreed an additional $6 million in funding from two major shareholders, being BioScience and Pescado. This funding will be in the form of interest bearing convertible loan notes (CLN) with a maturity date of 31 March 2020. The Group has signed a term sheet with all parties to the agreement. The term sheet sets out the terms for the conditional CLN. The CLN is conditional upon all parties completing their legal review of contractual documentation. Additionally, shareholder approval for the execution of the CLN is required and it is the Director's intention to seek this approval at the 2018 Annual General Meeting. The Directors have also agreed with Comvita Limited to extend the current terms of its CLN from 28th September 2018 to 31 March 2020. Refer to note 16 for further details.

Should the Company be unable to achieve sales forecasts, additional funding may be required.

Achievement of forecast sales and margins

In assessing the ability of the Group to fund its operations, Management has made estimates of future sales volumes, sales prices and margins. These estimates are based on Management's assessment of the probability of reaching agreement with known and potential customers. As at 31 March 2018, the Company does not have long term sales

Statements of Accounting Policies (continued)

For the year ended 31 March 2018

contracts with a significant number of customers.

In addition, Management has made an assessment of the level of sales and margin to be made from new concentrated products. The Company does not currently produce this product but has negotiated toll arrangements with other parties to produce the product on its behalf.

Due to the future nature of forecasts the achievement of these estimates cannot be assured.

In preparing these financial statements, the Directors have considered the above material uncertainties. They believe that the plans they have implemented to address the uncertainties are feasible. In reaching this assessment, the Directors have considered;

- the likelihood of achieving the forecasted sales and margins with customers, and the presence of alternative customers if required
- the operational costs of the business and the impact of a delay in the timing of reaching agreement with potential customers
- the working capital requirements and forecasted cash cycle to fund the initial orders from new customers.

On this basis, the Directors believe that the Company has the ability to generate sufficient operational cash flow combined with the $6 million facility to continue operations for at least 12 months from the date of authorising the financial statements. Hence, they consider the use of the going concern basis as appropriate.

These financial statements do not include any adjustments that may be made to reflect that situation should the Company be unable to continue as a going concern. In such a situation the Company may not be able to realise its assets or settle its liabilities in the normal course of business. Such adjustments may include realising assets, such as inventory and refining assets, at amounts other than those recorded in the financial statements.

3. Significant accounting policies

The principal accounting policies set out below have been applied consistently to all periods presented in these financial statements. These policies have been applied consistently by Group entities.

a) Basis of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency of the Group entities at the exchange rate at that date. Foreign currency differences arising on retranslation are recognised in profit or loss.

c) Share capital

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are recognised as a deduction from equity.

d) Financial Assets

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. Loans and receivables are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and subsequently carried at amortised cost using the effective interest method. They are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as noncurrent assets.

The Group's loans and receivables comprise 'trade and other receivables', 'cash and cash equivalents' and 'other receivable' in the Statement of Financial Position.

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the Statement of Financial Position.

Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial

Statements of Accounting Policies (continued)

For the year ended 31 March 2018

assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

e) Property, plant and equipment

i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributed to the acquisition of the asset. This includes capitalisation of decommissioning and restoration costs associated with provisions for asset retirement.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss as incurred.

ii. Subsequent costs

Subsequent costs are included in the carrying amount of the item or recognised as a separate asset if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably.

The cost of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

iii. Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each major component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- Computer equipment 3-5 Years
- Office furniture and equipment 2-6 Years
- Plant and equipment 1-28 Years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

iv. Property, plant and equipment impairment

Property, plant and equipment (PP&E) has been tested for impairment as at 31 March 2018 using discounted pre-tax cash flows on a value in use basis. These pre-tax cash flows have been assessed for probable risk based on Managements' forecast for a five year period. The forecast period assumes significant growth over this period reflecting the ramp up of Omega-3 production following the commissioning of the factory and the anticipated securing of future sales orders. Beyond this period a terminal cash flow has been applied reflecting Management and Directors view of sustainable earnings at this point. No terminal growth rate has been applied.

Management has needed to exercise significant judgement 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 and with the expectation that the Company will operate at over 70% of capacity by the end of this period.
- 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.
- Operating costs are anticipated to initially increase by 11% to support the forecasted growth in the next year, and then increase by 3% to 5% each year.
- our capital expense is high in the next financial year to enable production performance and efficiencies to be achieved and to mitigate potential issues as we move into our target markets, at which point we anticipate the capital expenditure to reduce

Statements of Accounting Policies (continued)

For the year ended 31 March 2018

and our asset maintenance expense to increase. We anticipate that the capital expenditure and maintenance expense modelled are sufficient to generate the forecast earnings.

- with the business securing and delivering on both supply and sales contracts during this financial year, whilst acknowledging that we are still in the transitional phase, a pre-tax discount rate of 15% continues to be reasonable considering the risk profile of the Company.

Management and the Directors have assessed the value in use for sensitivities in key assumptions and acknowledge that failure to achieve the forecasted sales and or margin could result in a future impairment of PP&E.

On the basis of this value in use calculation and underlying assumptions made, Management and the Directors believe the carrying value of the Company's PP&E is supported and no impairment exists.

Adverse changes to the cash flow assumptions used within the value in use assessment would give rise to the following impairment charges:

10% decrease in annual sales growth in both the budget and forecast periods	($3,800,000)
5% decrease in Margin	($979,000)
5% increase in the pre-tax discount rate	($2,644,000)

f) Inventories

Inventories are initially recognised at cost, and subsequently stated at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

Raw materials: Purchase cost on a first in, first out basis and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

Finished goods and work in progress: Cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

g) Leases

The Group is the Lessee

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the consolidated statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease"), the total rental payable under the lease are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

The Group has determined that the risks and rewards of ownership of the leased assets have not passed and has therefore classified the leases as operating leases.

h) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated being the higher of an asset's fair value less costs to sell and the asset's value in use. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups of assets. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent

Statements of Accounting Policies (continued)

For the year ended 31 March 2018

that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i) Trade and other payables

These amounts represent unsecured liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. As trade and other payables are usually paid within 30 days, face value approximates fair value.

j) Loans and borrowings

Loans and borrowings are recognised initially at fair value, net of transactions costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction cost) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

k) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit- sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

l) Share based payments

The Group issues equity-settled options to employees, directors and other parties as consideration for services rendered. Options entitle the holders to subscribe for ordinary shares in the ratio of 1:1 at a fixed exercise price. The options vest immediately on the date of issue and are measured at fair value at the grant date using the Black Scholes model. The classification of the fair value of the options is based upon the nature of the services rendered.

m) Goods and Services Tax (GST)

The Statement of Profit or Loss and Other Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity have been prepared so that all components are stated exclusive of GST. All items in the Statement of Financial Position are stated net of GST, with the exception of trade receivables and payables, which include GST invoiced. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

n) Revenue

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, volume rebates and GST. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. Usually transfer occurs when the product is delivered to the customer's warehouse; however, for some international shipments transfer occurs on loading the goods onto the relevant carrier at the port.

Revenue is also generated from toll processing and is recognised in the month processed.

o) Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed as finance costs in the period in which they are incurred.

p) Tax

Tax expense comprises current and deferred tax. Current tax expense is recognised in profit or loss, except to the extent that it relates to items recognised directly in other comprehensive income or equity, in which case it is recognised in other comprehensive income or equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets is reviewed at

Statements of Accounting Policies (continued)

For the year ended 31 March 2018

each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxation authority and the same taxable entity, or different taxable entities which intend to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

q) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise of share options granted.

r) 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.

Four external customers account for more than 10% of total revenues being $545k, $501k, $379k and $324k individually (2017; two customers being $2,287k and $485k individually).

s) New Standards, amendments and interpretations

The new standards, amendments to published standards, and interpretations which are relevant to the Group, but have not been adopted early, are as follows:

» NZ IFRS 2 (amendments): Classification and Measurement of Share-Based Payment Transactions (Effective date: periods beginning on or after 1 January 2019). The amendment requires the Group to account for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- Share-based payment transactions with a net settlement feature for withholding tax obligations; and
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Group intends to adopt NZ IFRS 2 effective from 1 April 2019 and has yet to assess its full impact.

» NZ IFRS 9, Financial Instruments (Effective date: periods beginning on or after 1 January 2018), addresses the classification, measurement and recognition of financial assets and financial liabilities and replaces the guidance in NZ IAS 39 Financial Instruments - Recognition and Measurement. The Group intends to adopt NZ IFRS 9 effective from 1 April 2018 and has yet to assess its full impact. Given the low level of financial assets held, it does not expect the impact of applying the standard to result in measurement changes. Rather, the impact is expected to be on the classification of financial assets.

» NZ IFRS 15: Revenue from contracts with customers (Effective date: periods beginning on or after 1 January 2018) deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The Group intends to adopt NZ IFRS 15 effective from 1 April 2018. It has yet to assess its full impact.

» NZ IFRS 16: Leases (Effective date: periods beginning on or after 1 January 2019) replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low value assets. The Group intends to adopt NZ IFRS 16 effective from 1 April 2019. The Group is yet to assess the impact of the standard.

All standards will be adopted at their effective date (except for those standards that are not applicable to the Group).

There are a number of other standards that have been issued that management have assessed as either not

Statements of Accounting Policies (continued)

For the year ended 31 March 2018

being applicable or unlikely to have an impact on the Group accounts.

t) Significant accounting estimates and judgments

The Group makes estimates and assumptions concerning the future that affects the amounts reported in the financial statements. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year are:

i. Going concern

Management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis. However, material uncertainty does exist (refer to Statement of Accounting Policies 2e).

ii. Inventory

Inventories are stated at the lower of cost or net realisable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Management's assessment includes the estimate of selling price, among other factors. With the limited historic sales data of Omega-3 products available and in the absence of confirmed sales contracts for some inventory, these estimates include significant management judgement and inherent uncertainties.

The table below summarises the impact that a movement in the estimate of sales price would have.

Percentage Change	Increase/(decrease) in inventory impairment charge recognised in profit or loss
10% increase in sales price	($117,476)
10% decrease in sales price	$91,513

The table below summarises the impact that a movement in USD exchange rate would have.

Percentage Change	Increase/(decrease) in inventory impairment charge recognised in profit or loss
5% increase in USD NZD FX rate	$19,229
5% decrease in USD NZD FX rate	($17,951)

In particular, Management has exercised significant judgement in the determination of NRV for Omega-3 inventory produced. Potential customers have been identified. However, sales orders are yet to materialise, and further processing may be required to achieve these sales.

In determining the cost of inventories Management allocate overheads and other indirect costs based on the current normal operating capacity of the factory. To do this Management use an estimate of production hours based on the estimated production weeks and operating hours.

iii. Classification and valuation of share based payments

On 31st May 2016 the Company issued 1,500,000 convertible loan notes to Comvita Limited as consideration for an advance of $1,500,000. A further 500,000 were issued on the 24th August 2016 in consideration for an advance of $500,000. The remaining 1,000,000 convertible loan notes were issued on the 1st December 2017. Management has exercised judgment in respect of the accounting treatment of the convertible loan notes issued to Comvita and has deemed it a compound instrument as it includes characteristics of both debt and equity. As such, the cash received (assessed as being the fair value of the note) in excess of the fair value of the debt component has been recognised in equity. Comvita can convert the notes to equity at any point, or can demand repayment in the event of the Company's default.

Management has also exercised judgment in respect to the accounting treatment of the fair value of the cost of extending the options issued to Comvita. The term of options issued to Comvita on 17th December 2015 were extended as a condition of securing the convertible loan note funding. Management has assessed that this transaction meets the definition of a transaction cost. Transaction costs are accounted for as a deduction to the fair value of the component to which they relate to the extent that they are incremental and directly attributable to the transaction. The transaction costs recognised against the debt component form part of the effective interest rate calculation and are recognised in profit or loss over the term of the note.

Notes to the Financial Statements

For the year ended 31 March 2018

1. REVENUE AND EXPENDITURE

	Note	2018 $'000	2017 $'000
Revenue includes:			
Sale of goods		2,905	4,273
Rendering of services		123	58
Total Revenue		**3,028**	**4,331**
Other income includes:			
Insurance proceeds		40	-
Other Expenses and cost of sales includes:			
Auditors' remuneration (see below)		153	161
Impairment of trade receivables		5	125
Depreciation expense[1]	5	888	877
Directors' fees	14	225	225
Rental & operating lease expense		609	614
Personnel expense[2]		1,722	1,648
Contributions to defined contribution plans		42	38

AUDITORS' REMUNERATION

The auditor for SeaDragon Limited is PricewaterhouseCoopers (2017: PricewaterhouseCoopers)

		2018 $'000	2017 $'000
Fees to PricewaterhouseCoopers for:			
Audit of financial statements		125	145
Tax compliance services		28	16
Total Auditors Remuneration		**153**	**161**

[1]Of the depreciation expense, $860k (2017: $845k) has been recognised as part of cost of sales in profit or loss.

[2]Personnel expense of $980k has been classified as part of costs of sale (2017: $1,012k).

Notes to the Financial Statements

For the year ended 31 March 2018

2. INCOME TAX

	2018 $'000	2017 $'000
Reconciliation of effective tax rate:		
Total loss for the year	(6,057)	(6,659)
Current domestic tax rate (cents in the dollar)	0.28	0.28
Income tax using the domestic tax rate	1,696	1,864
Other permanent differences	23	6
Current losses where no deferred tax asset was recognised	(1,719)	(1,870)
Total income tax benefit / (expenses)	**-**	**-**

The Company has imputation credits at 31 March 2018 of $28k (2017: $17k).

Deferred tax assets

The Group has unrecognised tax losses of $22,040,987 (2017: $16,065,000) to be carried forward and available for offset against future assessable income. The carry forward of tax losses is contingent upon satisfying the requirements of the Income Tax Act 2007 in future periods. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

Notes to the Financial Statements

For the year ended 31 March 2018

3. SHARE CAPITAL

	Number of ordinary shares	Issue price (cents)	$'000
Balance at 31 March 2016	**3,146,314,377**		**33,641**
1,367,304,341 rights shares issued	1,367,304,341	0.8000	10,938
Transaction costs			(203)
Equity portion of convertible loan note			276
Balance at 31 March 2017	**4,513,618,718**		**44,652**
Equity portion of convertible loan note			47
Balance at 31 March 2018	**4,513,618,718**		**44,699**

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 shares are ranked equally on the winding up of the Company.

1. Comvita share option

On 17 December 2015 the Company granted Comvita an option to acquire 375,000,000 ordinary shares at a price of $0.008 per share resulting in an aggregate subscription price of $3 million. The options may only be exercised in full. During the prior year the option expiry date was extended from 1 October 2017 to 28 September 2018. This was approved by shareholders on 31 August 2016. An independent appraisal was sought in order for the shareholders to approve the issue of the option and shares to Comvita. As at 31 March 2018 these options had not been exercised. Refer to Statement of Accounting Policies 3 for additional information.

2. Comvita convertible notes

Comvita has agreed to advance up to $3 million via the issue of convertible loan notes at $1 per note to assist the Company's transition to the Omega-3 market. As at 31 March 2018, the Company has drawn down the $3 million from the convertible loan and issued 3,000,000 convertible loan notes (convertible to ordinary shares at $0.008 per share) to Comvita. The convertible loan notes can be converted any time before 28 September 2018. The Company has the option to redeem any convertible loan note at any time before maturity, unless a conversion notice has been issued by Comvita. The Company has considered the terms of the agreement and has assessed that the transaction is a compound financial instrument and possesses both debt and equity characteristics. Refer to note 8 for further details.

Notes to the Financial Statements

For the year ended 31 March 2018

4. LOSS PER SHARE

	2018 $'000	2017 $'000
Basic loss per share		
Numerator – loss attributable to shareholders	(6,057)	(6,659)
Denominator – weighted average ordinary shares	4,513,618,718	3,764,410,860
Basic loss per share (cents per share)	**(0.13)**	**(0.18)**

As the Company is loss making, the impact of options not yet exercised is anti-dilutive. Consequently the diluted and basic EPS are the same.

5. PROPERTY, PLANT AND EQUIPMENT

	Computer, Office, Plant and equipment $'000	Work in progress $'000	Total $'000
Cost			
Balance at 1 April 2016	**15,157**	**-**	**15,157**
Additions	233	12	245
Disposals	(493)	-	(493)
Balance at 31 March 2017	**14,897**	**12**	**14,909**
Additions	218	52	270
Disposals	(6)	-	(6)
Balance at 31 March 2018	**15,109**	**64**	**15,173**

Notes to the Financial Statements

For the year ended 31 March 2018

5. PROPERTY, PLANT AND EQUIPMENT (continued)

	Computer, Office, Plant and equipment $'000	Work in progress $'000	Total $'000
Depreciation			
Balance at 1 April 2016	**2,030**	**-**	**2,030**
Depreciation for the year	877	-	877
Disposals	(241)	-	(241)
Balance at 31 March 2017	**2,666**	**-**	**2,666**
Depreciation for the year	888	-	888
Disposals	(6)	-	(6)
Balance at 31 March 2018	**3,548**	**-**	**3,548**
Carrying amounts			
Balance at 1 April 2016	13,127	-	13,127
Balance at 31 March 2017	12,231	12	12,243
Balance at 31 March 2018	**11,561**	**64**	**11,625**

The property, plant and equipment balance includes an asset of $255k (2017: $248k) representing the present value of the estimated costs for the restoration of the leased refinery property at the termination of the lease in 2037.

There has been no addition, utilisation or release of the asset retirement provision (2017: nil).

6. TRADE AND OTHER RECEIVABLES

	2018 $'000	2017 $'000
Trade receivables	270	118
Sundry debtor	28	17
GST receivable	86	103
Prepayments	111	87
Total	**495**	**325**

Notes to the Financial Statements

For the year ended 31 March 2018

7. INVENTORIES

	2018 $'000	2017 $'000
Raw materials and consumables	535	541
Work in progress	708	854
Finished goods	358	548
Total	**1,601**	**1,943**

An impairment loss of $351k (2017: $297k) was recognised in profit or loss for the year.
At 31 March 2018, $1,087k of inventory was carried at net realisable value (2017: $596k).

8. CONVERTIBLE LOAN

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, refer note 13: Financial Instruments.

	2018 $'000	2017 $'000
Opening balance	1,429	-
Convertible loan notes issued	1,000	2,000
Transaction costs	-	(396)
Effective interest adjustment	376	102
Equity portion of convertible loan note	(47)	(277)
Balance at 31 March	**2,758**	**1,429**

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

			2018		2017	
	Interest rate %	Maturity date	Face Value $'000	Carrying amount $'000	Face Value $'000	Carrying amount $'000
Convertible Loan Note	11.04%	28 Sep 2018	3,000	2,758	2,000	1,429
Total loans and borrowings			**3,000**	**2,758**	**2,000**	**1,429**

As part of securing this funding SeaDragon agreed to pay any tax deductions required so that the net interest received by Comvita is 7.95% and the gross interest including tax payable is 11.04%. SeaDragon identified that under the terms of the convertible loan note agreement it was obligated to settle Comvita's resident withholding tax (WHT) obligation associated with interest payments. As a result SeaDragon recognised an interest expense of $54k in respect of WHT on prior year interest payments in the current year.

Notes to the Financial Statements

For the year ended 31 March 2018

8. CONVERTIBLE LOAN (continued)

Convertible Loan Note

In May 2016 the Company granted Comvita a $3,000k convertible loan note. As at 31 March 2018 $3,000k (2017: $2,000k) has been drawn down and 3,000,000 (2017: 2,000,000) notes issued. The loan matures on 28 September 2018 at its face value unless the loan has been converted to equity or redeemed early. The loan can be converted into ordinary shares in full at any time by Comvita, at $0.008 per share, unless a redemption notice has been issued by SeaDragon. The amortised cost of this liability as at 31 March 2018 is $2,758k (2017: $1,429k) after adjusting for associated transaction costs and implied market interest rates. Of the additional $1,000k drawn down in the year $47k (2017: $276k) was recognised in equity.

In the prior year the Company extended the maturity date of options issued to Comvita by 12 months. The fair value of the modification of the option term was valued using the Black Scholes model with the following inputs:

Exercise price	31 Aug 2016	$0.008
Share price	31 Aug 2016	$0.008
Expected volatility	50%	
Option life from date of extension	2 years	
Risk free interest rate	31 Aug 2016	2.5%

Due to the relatively thin trading volumes of the Company's shares, there is not sufficient data available to accurately calculate a volatility rate for the model. A set rate of 50% has been used. This rate reflects the volatility of comparable companies.

The increase in fair value associated with this extension of options was recognised as part of the convertible loan note. Refer to Statement of Accounting Policies 3t)iii.

9. INVESTMENT IN SUBSIDIARIES

The principal subsidiaries of SeaDragon Limited, all of which have been included in these consolidated financial statements, are as follows:

			Interests held by Company	
	Country of Incorporation	Principal Activities	31 March 2018	31 March 2017
Omega 3 New Zealand Limited	New Zealand	Non Trading	**100.0%**	100.0%
SeaDragon Marine Oils Limited	New Zealand	Fish Oil Refiners	**100.0%**	100.0%

Notes to the Financial Statements

For the year ended 31 March 2018

10. SHARE OPTIONS

The Group has an established share option plan that entitles selected directors and employees to purchase shares in the Company. 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. In accordance with the terms of issue of the options, holders are entitled to acquire shares at the price determined at the time the options were issued. The Group has no legal or constructive obligation to repurchase or settle the options for cash.

Terms and conditions of options to acquire shares granted by the Company are as follows:

Options Date of issue	Person Entitled	Number of Shares on Exercise of options	Vesting Conditions	Exercise Period	Exercise Price
26/07/16	Employees & Directors	88,000,000	Vesting on date of issue	26/07/16 to 31/07/19	$0.010
30/08/16	Employees	40,000,000	Vesting on date of issue	30/08/16 to 31/07/19	$0.011
30/12/16	Employees	8,000,000	Vesting on date of issue	30/12/16 to 31/12/19	$0.008
		136,000,000			

The fair value of services received in the prior year of $497k in return for the share options granted to select employees and directors is measured using a Black Scholes model. The calculation assumes a risk free rate of 2.50% and volatility of 50%.

Movements in the number of share options outstanding and their related average exercise prices are as follows:

	Number of Options		Average exercise price	
	2018	**2017**	**2018**	**2017**
Options outstanding at 1 April	1,751,874,851	1,615,874,851	1.3 cents	1.3 cents
Granted during the period	-	136,000,000	-	1.0 cents
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	-
Expired during the period	-	-	-	-
Outstanding at end of period	**1,751,874,851**	**1,751,874,851**	**1.3 cents**	**1.3 cents**

Options outstanding at 31 March 2018 have a weighted average exercise price of 1.3 cents (2017: 1.3 cents) and a weighted average contractual life of 0.6 years (2017: 1.6 years). The share options are exercisable at any time up to the end of the exercise period by the holder.

Notes to the Financial Statements

For the year ended 31 March 2018

11. TRADE AND OTHER PAYABLES

	2018 $'000	2017 $'000
Trade creditors	393	504
Accrued expenses	387	324
Employee entitlements	217	268
Other payables	63	-
Total	**1,060**	**1,096**

The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates fair value. Refer to note 13 on foreign currency risk.

12. COMMITMENTS

The Group has entered into commercial leases on premises. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 March are as follows:

	2018 $'000	2017 $'000
Within one year	595	549
After one year but not more than five years	2,027	1,689
More than 5 years	1,113	1,500
Total	**3,735**	**3,738**

The Group has entered into raw material purchase commitments. Future purchases payable under non-cancellable purchase commitments as at 31 March are as follows:

	2018 $'000	2017 $'000
Raw material purchase commitments		
Within one year	113	-
More than one year	-	-
Total	**113**	**-**

Notes to the Financial Statements

For the year ended 31 March 2018

13. FINANCIAL INSTRUMENTS

The carrying values of the Group's financial instruments approximate their fair value.

	2018 $'000	2017 $'000
Loans and receivables		
Cash and bank balances	1,009	4,929
Trade receivables	270	118
Sundry debtor	28	17
Total loans and receivables	**1,307**	**5,064**
Total financial assets	**1,307**	**5,064**

	2018 $'000	2017 $'000
Financial liabilities at amortised cost		
Trade creditors	(393)	(504)
Accrued expenses	(490)	(493)
Other payables	(63)	-
Convertible loan	(2,758)	(1,429)
Total financial liabilities at amortised cost	**(3,704)**	**(2,426)**
Total financial liabilities	**(3,704)**	**(2,426)**

Notes to the Financial Statements

For the year ended 31 March 2018

13. FINANCIAL INSTRUMENTS (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control the market risk exposures within acceptable parameters. The market risks the Group is exposed to are interest rate and foreign currency risk.

Foreign currency risk

The Group's functional and presentation currency is the New Zealand dollar.

The Group considers that foreign currency risk is minimal as there are sales and purchases in USD creating a natural hedge for currency risk. These risks are economically hedged via the use of foreign exchange contracts as required. The Group does not apply hedge accounting.

Denominated in foreign currency

The Group's exposure to foreign currency at 31 March 2018 is detailed below.

	Receivable $'000	Payable $'000
USD	105	128

Interest rate risk

The Group manages its interest rate risk by maintaining minimal variable rate cash balances. Excess cash resources are placed into fixed rate term deposits where appropriate.

The Group considers that there is an immaterial interest rate risk in existence at 31 March 2018. Interest rate exposures of the Group are shown in note 8.

The convertible loan note has a fixed coupon rate and as such is not exposed to interest rate risk.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises from cash and cash equivalents, deposits with banks and the Group's receivables from customers. The Group's maximum credit risk is represented by the carrying value of these financial assets. The credit risk associated with cash transactions and deposits is managed through the Group's policies that limit the use of counterparties to high credit quality financial institutions.

Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations as they fall due. The Group evaluates its liquidity requirements on an ongoing basis to make the most effective use of its banking facilities. As at 31 March 2018 the Group is dependent on the securing of additional funding to meet its obligations. Refer to Statement of Accounting Policies 2e).

Notes to the Financial Statements

For the year ended 31 March 2018

13. FINANCIAL INSTRUMENTS (continued)

The following table sets out the undiscounted contractual cash flows for all financial liabilities settled on a gross cash flow basis.

2018	Statement of Financial Position $'000	Contractual Cash flows $'000	3 months or less $'000	4 months to 12 months $'000	Greater than 12 months $'000
Trade creditors and other payables	393	393	393	-	-
Accrued expenses	490	490	490	-	-
Convertible loan	2,758	3,246	82	3,164	-
Total non-derivative liabilities	**3,641**	**4,129**	**965**	**3,164**	**-**

2017	Statement of Financial Position $'000	Contractual Cash flows $'000	3 months or less $'000	4 months to 12 months $'000	Greater than 12 months $'000
Trade creditors and other payables	504	504	504	-	-
Accrued expenses	493	493	493	-	-
Convertible loan	1,429	2,386	54	166	2,166
Total non-derivative liabilities	**2,426**	**3,383**	**1,051**	**166**	**2,166**

Capital Management

The Group's strategy in respect of capital management is reviewed regularly by the Board of Directors.

The Group's capital includes share capital, reserves and accumulated losses. As part of the Board's regular review of capital requirements they assess the current and forecasted cash flow position of the Group and then consider the need for additional funding. Refer to note 2e) in the Statement of Accounting Policies for further information.

Notes to the Financial Statements

For the year ended 31 March 2018

14. RELATED PARTY INFORMATION

General

All members of the Group are considered to be related parties of SeaDragon Limited.

Key management personnel and members of the Board of Directors

Each Company within the Group maintains an interest register in which members of its Board record all parties and transactions in which they may have a potential or actual self-interest. During the year the Group undertook the following transactions with Directors and associates of Directors.

	2018 $'000	2017 $'000
Key management compensation		
Short term benefits to directors (Directors fees)	225	225
Consulting fees to directors	8	257
Short term benefits to senior management	869	665
Fair value of share options granted to directors and senior management	-	426
Total	**1,102**	**1,573**

Consulting fees to Directors in the prior year include $168k paid to Richard Alderton in his capacity as interim CEO.

The Company secured a $3 million convertible note with Comvita Limited in May 2016 of which $3 million has been drawn down as at 31 March 2018. Refer to the Statement of Accounting Policies 3, Note 3 and Note 8 for additional information.

15. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 March 2018 (2017: $Nil).

16. POST BALANCE DATE EVENTS

As announced on the 14 June 2018 the Group has agreed a $6 million facility from two major shareholders, being BioScience Managers (One Funds Management Limited) and Pescado Holdings Limited (a member of the Masthead group of companies).

This facility once finalised will replace the initial short-term bridge facility of $1 million provided in May 2018 (maturing 6 July 2018) with an interest bearing convertible loan note (CLN) facility. The Directors have agreed with Comvita Limited to extend the expiry date of its CLN from 28th September 2018 to 31 March 2020 and reprice the underlying options from 0.8 cents to 0.33 cents consistent with the exercise price included in the new facility secured with BioScience and Pescado.

The Directors have also agreed with Comvita Limited to extend the expiry date from 28th September 2018 to 31 March 2020 and reprice from 0.8 cents to 0.33 cents the additional $3,000,000 options allotted in December 2015. Conversion of the CLN to equity will be mandatory at the maturity date of the CLNs. Earlier conversion at the CLN holder's discretion is permitted.

A term sheet which sets out the terms for the conditional CLN has been signed by all parties. The CLN agreement is conditional upon all parties completing their legal review of contractual documentation. Additionally, Directors will be seeking shareholders' approval for the proposed CLN funding structure and alterations to the CLN and options with Comvita at the annual shareholders meeting scheduled for early August 2018.

Company Directory

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

Postal Address
12 Nayland Road
Stoke, Nelson 7011

Company Number
310577

Incorporated
31 July 1986

Securities Issued as at 31 March 2018
4,513,618,718 Ordinary Shares
375,000,000 Options – expire 28 Sept 2018
1,240,874,851 Options – expire 28 Sept 2018
3,000,000 Convertible loan notes

Share Registrar
Link Market Services
PO Box 91976, Auckland 1142
Phone: (09) 375 5998

Solicitors
Minter Ellison Rudd Watts
88 Shortland St
Auckland 1140

Auditor
PricewaterhouseCoopers
113-119 The Terrace
Wellington 6140

Bankers
Bank of New Zealand
PO Box 1075
Wellington 6140

Board of Directors – Current

Colin Groves	Independent Chairman, non-executive (appointed 1 June 2015)
Richard Alderton	Independent, non-executive (appointed 27 July 2015)
Stuart Macintosh	Non-executive (appointed 29 June 2015)
Matthew McNamara	Non-executive (appointed 15 October 2012)
Mark Sadd	Non-executive (appointed 22 November 2017)
Mark Stewart	Non-executive (appointed 22 November 2017)
Jeremy Curnock Cook	Non-executive (alternate director for Matthew McNamara)
Webb, Warwick	Non-executive (alternate director for Mark Stewart)

Financial Calendar

Annual meeting:	August 2018
Half year results announced:	November 2018

YOUR NOTES:

SEADRAGON

RESPONSIBLY PURE

SEADRAGON LIMITED

12 Nayland Road, Stoke, Nelson 7011, New Zealand

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