SEADRAGON

RESPONSIBLY PURE

AUDITED FINANCIAL STATEMENTS

2020

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

Independent auditor's report

To the shareholders of SeaDragon Limited

Disclaimer of opinion

We were engaged to audit the consolidated financial statements of SeaDragon Limited (the Company), including its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 March 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, which include the statement of accounting policies.

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

As described in note 2e) to the financial statements, the Group has incurred a net loss of $7.0 million, had net operating cash outflows of $4.4 million for the year ended 31 March 2020, and at balance date had available cash of $0.2 million. The Group forecasts that it has sufficient cash to continue to fund operations for a 12 month period from the date the financial statements are authorised. Note 2e) describes the assumptions made by the Group, including assumptions of increased sales, impacts of cost restructuring and future capital raising initiatives Discussions and negotiations with current and potential investors have not yet commenced.

In addition, the Group has reported property, plant and equipment (PP&E) with a carrying value of $6.4 million and right of use assets (RoU) with a carrying value of $1.5 million as at 31 March 2020. We refer to note 3e)iv. within the statement of accounting policies which describes the Directors' assessment of the recoverable value of the PP&E and RoU. In assessing the recoverable value of PP&E and RoU the Directors prepared a discounted cash flow model on a value in use basis. The cash flow forecasts used in the model involve subjective estimates about future business performance, including key assumptions relating to expected future revenues and margins. The model is underpinned by a significant level of uncommitted sales for which the Directors were unable to provide sufficient appropriate evidence. In performing their impairment assessment, the Directors recognised an impairment expense of $2.1 million relating to the carrying value of PP&E and RoU for the year ended 31 March 2020.

Due to the level of uncertainty associated with forecasting the Group's future cash flows, the Group's challenges in securing sales in recent years, and the absence of formal and advanced capital raising activities, we were unable to obtain sufficient appropriate audit evidence to enable us to form an opinion as to whether the going concern assumption is appropriate. In addition, we were unable to obtain sufficient appropriate audit evidence to support the assumptions made by the Directors on the impairment recognised and the carrying values of PP&E and RoU. As a result of these matters, we were unable to determine whether any adjustments are necessary to the amounts recorded in the consolidated statement of financial position and the consequential impact on the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of changes in equity.

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Our opinion for the comparative period was disclaimed in respect of our inability to obtain sufficient appropriate audit evidence to support the carrying value of PP&E as at 31 March 2019. As a result, we are unable to determine whether the impairment expenses recognised in the current year relate to the 31 March 2020, 31 March 2019 or 31 March 2018 financial years.

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 NZ IFRS and 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 an 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 area of tax compliance services, including filing of income tax returns, and taxation advisory services. 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
29 June 2020

Wellington

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2020

	Note	2020 $'000	2019 $'000
Revenue	1	6,625	4,887
Cost of sales		(9,448)	(7,818)
Impairment of inventory		-	(424)
Impairment of property, plant and equipment and right of use assets	6,12	(2,115)	(2,965)
Gross loss		**(4,938)**	**(6,320)**
Other (losses) gains from foreign exchange		(151)	(9)
Administration Expenses	1	(2,121)	(2,380)
Selling and Distribution Expenses	1	(192)	(335)
Impairment of property, plant and equipment and right of use assets	6,12	(7)	(8)
Operating loss		**(7,409)**	**(9,052)**
Finance income - interest income		9	36
Finance expense - interest on borrowings		(7)	(476)
Finance expense - interest on lease liability	12	(278)	-
Gain (loss) on extinguishment of loan	4	647	(84)
Total financing costs		**371**	**(524)**
Loss before income tax		**(7,038)**	**(9,576)**
Income tax expense	2	-	-
Total comprehensive loss for the year attributable to the owners of the Company		**(7,038)**	**(9,576)**
Loss per share	3		
Basic loss per share (cents per share)		(14.53)	(20.49)
Diluted loss per share (cents per share)		(14.53)	(20.49)

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 2020

	Share capital $'000	Convertible Loans $'000	Accumulated loss $'000	Share options reserve $'000	Total Equity $'000
Balance at 1 April 2018	**44,699**	**-**	**(36,118)**	**2,151**	**10,732**
Total comprehensive loss for the year					
Total comprehensive loss for the year attributable to the owners of the Company	-	-	(9,576)	-	(9,576)
Total comprehensive loss for the year	**-**	**-**	**(9,576)**	**-**	**(9,576)**
Transactions with owners					
Issue of share capital	1,088	-	-	-	1,088
Transaction costs	(1,322)	-	-	-	(1,322)
Equity portion of convertible loan note	6,645	-	-	-	6,645
Recognition of share-based payments	-	-	-	1,245	1,245
Balance at 31 March 2019	**51,110**	**-**	**(45,694)**	**3,396**	**8,812**
Balance at 1 April 2019	**51,110**	**-**	**(45,694)**	**3,396**	**8,812**
Total comprehensive loss for the year					
Total comprehensive loss for the year attributable to the owners of the Company	-	-	(7,038)	-	(7,038)
Total comprehensive loss for the year	**-**	**-**	**(7,038)**	**-**	**(7,038)**
Transactions with owners					
Issue of share capital	9,000	-	-	-	9,000
Equity portion of convertible loan note	(7,750)	-	-	-	(7,750)
Mandatory convertible loan notes	-	4,000	-	-	4,000
Transaction costs	(145)	-	-	-	(145)
Lapse of share options	-	-	3,396	(3,396)	-
Recognition of share-based payments	-	-	-	44	44
Balance at 31 March 2020	**52,215**	**4,000**	**(49,336)**	**44**	**6,923**

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 2020

	Note	2020 $'000	2019 $'000
Assets			
Property, plant and equipment	6	6,377	8,124
Right of use assets	12	1,536	-
Other receivable		75	75
Total non-current assets		**7,988**	**8,199**
Cash and cash equivalents		204	1,214
Trade and other receivables	7	204	456
Inventories	8	2,272	1,671
Total current assets		**2,680**	**3,341**
Total assets		**10,668**	**11,540**
Equity and liabilities			
Share capital	5	52,215	51,110
Mandatory convertible loans	4	4,000	-
Reserves		(49,292)	(42,298)
Total equity attributable to holders		**6,923**	**8,812**
Liabilities			
Trade and other payables	11	1,478	1,194
Convertible loans	4	-	647
Convertible loan paid in advance		-	625
Lease liabilities	12	363	-
Total current liabilities		**1,841**	**2,466**
Asset retirement obligations		336	262
Lease liabilities	12	1,568	-
Total non-current liabilities		**1,904**	**262**
Total liabilities		**3,745**	**2,728**
Total equity and liabilities		**10,668**	**11,540**

Bryan Mogridge
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 2020

	2020 $'000	2019 $'000
Operating activities		
Receipts from customers	6,728	4,925
Payments to suppliers and employees	(10,833)	(10,060)
Interest received	6	26
Interest paid	(7)	(519)
Interest paid on leases	(278)	-
Net cash flows used in operating activities	**(4,384)**	**(5,628)**
Investing activities		
Purchase of property, plant and equipment	(787)	(374)
Net cash flows used in investing activities	**(787)**	**(374)**
Financing activities		
Proceeds from issue of share capital	-	1,088
Proceeds from issue of convertible notes	4,625	4,750
Proceeds from early payment of convertible loan	-	625
Transaction costs of issue of shares	(145)	(256)
Payments of lease liabilities	(319)	-
Net cash flows from financing activities	**4,161**	**6,207**
Net (decrease) increase in cash and cash equivalents	**(1,010)**	**205**
Cash and cash equivalents at beginning of period	**1,214**	**1,009**
Cash and cash equivalents at end of period	**204**	**1,214**
Made up as follows:		
Cash and cash equivalents	204	1,214
Total cash and cash equivalents at end of period	**204**	**1,214**

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 2020

Reconciliation of net deficit with cash flows used in operating activities	2020 $'000	2019 $'000
Total loss for the year	**(7,038)**	**(9,576)**
Adjustments for:		
Depreciation (including on right-of-use assets)	1,112	902
Non-cash movement on asset retirement obligation	74	-
Impairment of inventory	-	424
Impairment of property, plant and equipment and right of use assets	2,122	2,973
Loss on disposal of property, plant and equipment	14	-
Non-cash interest income	(2)	(10)
Non-cash interest expense	-	(43)
(Gain) loss on extinguishment of loan	(647)	84
Bad debt provision	(1)	2
Share-based payment expense	44	-
Unwind of discount rate	-	8
Impact of changes in working capital items:		
(Increase) decrease in trade and other receivables	255	39
(Increase) decrease in inventories	(601)	(494)
Increase (decrease) in trade and other payables	284	63
Net cash flows from (used in) operating activities	**(4,384)**	**(5,628)**

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

Statement of Accounting Policies

For the year ended 31 March 2020

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 consolidated financial statements of the Company as at and for the year ended 31 March 2020 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, as at 31 March 2020, was 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 consolidated 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 consolidated financial statements were approved by the Board of Directors on 29 June 2020.

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 Group's functional currency, rounded and presented to the nearest thousand dollars.

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 consolidated 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 2020, the Group has cash of $204k (2019; $1,214k) and operating cash out flows of $4,384k (2019; $5,628k). The Group incurred a loss for the year of $7,038k (2019: $9,576k loss).

In May 2020, shareholders approved that the Company delist from the NZX as a prerequisite to secure a $2.0m funding facility from a major shareholder, Pescado Holdings Limited (Pescado). This loan will finance the Company's short term general corporate and working capital needs. Any amounts drawn on the facility are repayable on 31 December 2021 and interest is payable at 12% per annum. The loan facility is secured by a general security deed over all of the assets of the Group.

The Group has undertaken a restructure during April 2020 to minimise cost and is focused on executing its strategy of sale of high margin products. 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.

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 2020, the Group has some committed sales contracts with existing customers. In addition, Management has assessed the level of sales and margin to be made from new customers. If the Group is unsuccessful in achieving the forecasted sales levels and margins, it will need to raise capital. At the date of authorisation of the financial statements formal capital raising activities have not commenced.

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

Statement of Accounting Policies (continued)

For the year ended 31 March 2020

- the working capital requirements and forecasted cash cycle to fund the initial orders from new customers.

On this basis, the Directors believe that the Group has the ability to generate sufficient operational cash flow combined with the $2.0 million facility and future capital raising initiatives, 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 consolidated financial statements do not include any adjustments that may be made to reflect that situation should the Group be unable to continue as a going concern. In such a situation the Group 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 consolidated financial statements.

3. Significant accounting policies

The accounting policies applied in these financial statements are the same as those applied in the Group's financial statements as at and for the year ended 31 March 2019, except for those changed with adopting NZ IFRS 16 Leases as explained in Note 3t) of the Statement of Accounting Policies.

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 at amortised cost

i. Trade receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. They are generally due for settlement within two months of invoicing and therefore are all classified as current. Trade receivables are initially recognised at the amount of considerations that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method less allowance for doubtful debts. Details of the Group's impairment policies and the calculation of the loss allowance are provided below.

ii. Cash and cash equivalents

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 Consolidated Statement of Financial Position.

iii. Impairment of financial assets

The Group applies the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. While cash and cash equivalents are also subject to the impairment requirements of NZ IFRS 9 the identified impairment loss was immaterial. Subsequent recoveries of amounts previously written off are credited against the same line item.

Impairment losses are reversed through profit or loss, where there is a change in the estimates used to determine the recoverable amount.

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. 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

Statement of Accounting Policies (continued)

For the year ended 31 March 2020

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 the 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 and Right of Use Assets impairment

Property, plant and equipment (PP&E) and Right of Use Assets (ROU) have been tested for impairment as at 31 March 2020 using discounted pre-tax cash flows on a value in use basis. These pre-tax cash flows represent Management's probability weighted forecast for a five year period with a single cash generating unit representing the total business operations. The forecast period assumes 40% growth over an initial twelve month period reflecting the ramp up of Omega-3 production following the securing of key customers and future sales orders. Beyond this period a terminal cash flow has been applied reflecting Management and Director's view of sustainable earnings at this point. No terminal growth rate has been applied.

Management has needed to exercise significant judgement in particular;

- The Company has staffed the refinery to operate on a single shift to fulfil current customer demand, whilst developing new Omega-3 value add products into the product range and higher value sales can be secured,
- with limited historic sales data of Omega-3 value add products, sales have been forecast based on predicted customer demand and negotiations with other potential customers and suppliers,
- gross margins have been forecast to remain constant as the Group secures key contracts over the forecast period with a greater mix of Omega-3 value add products, with any increase in material costs offset by production efficiencies,
- operating costs are anticipated to increase by 3% each year,
- the forecasted capital expenditure program will enable production performance and efficiencies to be achieved and to mitigate potential issues. It is anticipated that the capital expenditure and maintenance expense modelled are sufficient to generate the forecast earnings,
- a pre-tax discount rate of 15% has been applied to reflect the risk profile of the Group.

On the basis of this value in use calculation and underlying assumptions made, Management and the Directors believed the carrying value of the Group's PP&E and ROU totalling $10.035m were in excess of the ongoing economic benefit to the Group, determined to be $7.913m, and should be impaired.

An impairment expense of $2.122m was recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income within impairment of property, plant and equipment.

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

5% adverse movement in the FX rate	($3,960,000)
10% reduction in the growth of sales	($2,224,000)
5% reduction in net margin	($1,907,000)

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 a proportion of manufacturing and labour 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 leases relate to buildings which were all classified as operating leases until 31 March 2019. Payments made

Statement of Accounting Policies (continued)

For the year ended 31 March 2020

under operating leases (net of any incentives received from the lessor) were previously charged to profit and loss on a straight line basis over the period of the lease. Rental contracts are typically made for fixed periods of 6 to 10 years but may have extension options. Lease terms are negotiated on an individual basis and contain different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

From 1 April 2019, leases are recognised as a right of use asset and a corresponding liability. Each lease payment is allocated between the lease liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments and known fixed lease increases, less any lease incentives receivable.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability or right of use asset until they take effect.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right of use assets are measured at cost comprising the amount of the initial measurement of lease liability and any restoration costs. These assets are subsequently depreciated using the straight line method from the commencement date to the end of the lease term.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short term leases are leases with a lease term of 12 months or less.

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 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 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.

Mandatory convertible loan notes are non-interest bearing and the mandatory conversion feature resulting in fixed consideration for a fixed number of shares have seen these convertible loan notes treated as equity.

k) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating

Statement of Accounting Policies (continued)

For the year ended 31 March 2020

sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

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 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 Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Cash Flows and Consolidated Statement of Changes in Equity have been prepared so that all components are stated exclusive of GST. All items in the Consolidated 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 (fish oils) is measured at the price specified in the contract, net of estimated returns and allowances, trade discounts, volume rebates and GST. The Group does not enter into any agreements that include variable consideration.

The Group has assessed that it has one performance obligation in respect to sales where it arranges shipment on behalf of the customer. This conclusion was reached as control passes after shipment has occurred. For these sales revenue is recognised once the product reaches the customer's port of destination.

When a customer organises their own logistic arrangements control transfers at the point the product is loaded onto the carrier.

Revenue is recognised when a customer obtains control of the good and thus has the ability to direct the use and obtain the benefits from the good. Revenue is also generated from toll processing and is recognised once the batch has been processed. The customer retains ownership and control of the product throughout processing. Toll processing is not currently a material revenue stream of the Group.

Payment of the transaction price is typically received within two months of invoicing.

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 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.

Statement of Accounting Policies (continued)

For the year ended 31 March 2020

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 and mandatory convertible loans.

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, the Board has determined that the Group itself forms a single operating segment. Two external customers account for more than 10% of total revenues being $3,558k and $1,276k individually (2019; two customers being $1,429k and $1,268k individually).

s) New standards, amendments and interpretations

Relevant standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.

There are various standards, amendments and interpretations which were assessed as having an immaterial impact on the Group. Other than NZ IFRS 16 Leases, there are no NZ IFRS, NZ IFRIC interpretations or other applicable IFRS that are effective for the first time for the financial year beginning on 1 April 2019 that had a material impact on the financial statements.

t) Changes in accounting policies

NZ IFRS 16 Leases

NZ IFRS 16 Leases (NZ IFRS 16) replaces NZ IAS 17. This resulted in changes to accounting policies. The new accounting policies are set out in Note 3 g). The Group applied NZ IFRS 16 on 1 April 2019 using the modified retrospective (full simplified) transition method. At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate ("IBR") as at 1 April 2019. Right-of-use assets are measured equal to lease liabilities. Comparative periods presented were not restated.

See Note 12 and 16.

u) 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 assessed 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 has used the sales price of secured orders to assess NRV. Where secured orders do not exist Management's judgement has been used to assess NRV. As at 31 March 2020 the majority of the Group's inventory has been assessed against secured purchase orders.

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. Impairment of property, plant and equipment (PP&E) and right of use asset (ROU)

Management has assessed the carrying value of the Group's PP&E and ROU using discounted pre-tax cash flows on a value in use basis. This has required Management to exercise significant judgement in considering the forecasted performance of the Group over the 5 year period considered. Material uncertainty does exist (refer to Statement of Accounting Policies 3e iv).

iv. COVID-19 Pandemic

On 11 March 2020, the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19. Following this, on Wednesday 25 March 2020 the New Zealand Government raised its Alert Level to 4 (full lockdown of non-essential services) for an initial 4 week period. Following the level 4 alert, the Company was approved as an essential services company and continued to operate, while restricted as not all suppliers were available during this alert level. While the alert levels have reduced, the ongoing impact of COVID-19 is still being assessed as part of the operational risks for the business.

Statement of Accounting Policies (continued)

For the year ended 31 March 2020

As a result, the Group has:

- Taken a number of actions within the supply chain to ensure continued supply of key supplies needed for the continuation of the refining of oil. The longer-term effects of COVID-19 on the business remain uncertain and the potential impacts of the pandemic continue to evolve rapidly.
- Customer orders have been assessed and confirmed in order to ensure ongoing production of product is for orders not yet fulfilled.

An assessment of the impact of COVID-19 on the Group's balance sheet is set out below, based on information available at the time of preparing these financial statements:

Balance Sheet Item	**COVID-19 Assessment**	**Note**
Cash	No impact to the carrying value of cash on hand.	
Trade and other receivables	The Group has assessed and updated the provisions for doubtful debts. Accounts receivable are immaterial at 31 March 2020. No credit loss has been recognised.	7
Inventories	No impact to the carrying value of inventories.	8
Property, plant and equipment	Property, plant & equipment is measured at cost less accumulated depreciation and accumulated impairment losses. The Group has no evidence that there has been any decline in the value of these assets due to COVID-19.	6
Right of use assets	The Group is not currently considering any changes to extension of leases resulting from COVID-19.	12
Trade and other payables	The Group has not accrued for any costs specifically related to the expected impact of COVID-19 as there are no known costs attributable to COVID-19.	11
Leases	Lease recorded as per lease contract (refer to right of use assets above).	12

Notes to the Financial Statements

For the year ended 31 March 2020

1. REVENUE AND EXPENDITURE

	Note	2020 $'000	2019 $'000
Revenue includes:			
Sale of goods – point in time		6,535	4,765
Rendering of services – point in time		90	122
Total Revenue		**6,625**	**4,887**
Administration, selling and distribution expenses and cost of sales includes:			
Auditors' remuneration (see below)		113	137
Impairment of trade receivables		(1)	2
Depreciation expense (including right-of-use asset) [1]	6, 12	1,112	902
Directors' fees	14	211	211
Rental & low value lease expense	12	50	658
Personnel expense [2]		2,318	1,991
Contributions to defined contribution plans		38	26
Share option expense		99	-

AUDITORS' REMUNERATION

The auditor for SeaDragon Limited is PricewaterhouseCoopers (2019: PricewaterhouseCoopers)

Fees to PricewaterhouseCoopers for:		
Audit of financial statements	106	122
Tax compliance and advisory services	7	15
Total Auditors Remuneration	**113**	**137**

[1]Of the depreciation expense (including right-of-use asset), $1,107k (2019: $890k) has been recognised as part of cost of sales in profit or loss.

[2]Personnel expense of $1,604k has been classified as part of costs of sale (2019: $1,174k).

Notes to the Financial Statements

For the year ended 31 March 2020

2. INCOME TAX

	2020 $'000	2019 $'000
Reconciliation of effective tax rate:		
Total loss for the year	(7,038)	(9,576)
Current domestic tax rate (cents in the dollar)	0.28	0.28
Income tax using the domestic tax rate	1,971	2,681
Other permanent differences	601	11
Prior Period Adjustment	834	-
Current losses where no deferred tax asset was recognised	(3,405)	(2,692)
Total income tax benefit / (expenses)	**-**	**-**

The Company has imputation credits at 31 March 2020 of $2k (2019: $21k).

Deferred tax assets

The Group has unrecognised tax losses of $33,799,281 (2019: $28,692,724) 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 2020

3. LOSS PER SHARE

	2020	2019 Restated
Basic loss per share		
Number of issued ordinary shares	75,705,826	4,843,304,727
Number of issued ordinary shares (adjusted for consolidation)	75,705,826	48,433,047
Numerator – loss attributable to shareholders ($'000)	(7,038)	(9,576)
Denominator – weighted average ordinary shares	48,433,047	46,734,939
Basic loss per share (cents per share)	**(14.53)**	**(20.49)**

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

The Company completed a 1 for 100 share consolidation on 13 March 2020, which resulted in 48,433,099 shares post consolidation. At 31 March 2020, the total number of shares on issue was 75,705,826 . The weighted average number of ordinary shares used in the calculation of loss per share for 31 March 2019 has been restated to reflect the share consolidation.

4. MANDATORY CONVERTIBLE LOANS, CONVERTIBLE LOAN NOTES AND RELATED COMVITA SHARE OPTIONS

The Company has issued convertible loan notes (CLN) and mandatory convertible loan notes (MCLN) to cornerstone shareholders. In addition, the Company had previously issued share options to one of its shareholders, Comvita. This note explains the terms and conditions attached to these CLNs, MCLNs and share options since 31 March 2019.

Comvita share options

At 31 March 2019, the Company had granted Comvita share options, with an expiry date of 31 March 2020, resulting in an aggregate subscription price of $3.0 million. The share options were not exercised on 31 March 2020 and have lapsed. See Note 10.

Mandatory convertible loan notes (MCLN)

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

- Non-interest bearing.
- Conversion price of $0.002 (20 cents post share consolidation).
- Maturity date of 31 March 2021.
- Mandatory conversion to ordinary shares at maturity date, unless an event of default subsists, or the Company is insolvent at maturity.
- The Company has the opportunity to repay the loan notes prior to maturity.
- Pescado has the opportunity to convert the loan notes prior to maturity.

Given SeaDragon's current financial position, and the short-term nature of the convertible loan note facility, it is unlikely that the Company could, or would, wish to repay the loan notes. These new convertible loan notes have been treated as equity due to the nil interest rate and the mandatory conversion feature resulting in fixed consideration for a fixed number of shares.

At 31 March 2020, the total $4.0 million of the MCLNs on issue were treated as equity.

Notes to the Financial Statements

For the year ended 31 March 2020

4. MANDATORY CONVERTIBLE LOANS, CONVERTIBLE LOAN NOTES AND RELATED COMVITA SHARE OPTIONS (continued)

Convertible loan notes (CLN)

At 31 March 2019, the Company had issued $9.00 million and drawn down $7.75 million on convertible loan note facilities (CLNs) held by One Funds Management Limited as trustee of Asia Pacific healthcare Fund II together with BioScience Managers Ventures Pty Limited as general partner of BioScience Management Partnership LP, Pescado Holdings Limited and Comvita Limited respectively. The terms of the CLNs were:

- Interest bearing
- Conversion price $0.0033 (33 cents post share consolidation)
- Maturity date of 31 March 2020
- Mandatory conversion to ordinary shares at maturity date, unless an event of default subsists or the Company is insolvent at maturity
- The Company has the opportunity to repay the loan notes prior to maturity. However, given SeaDragon's current financial position, and the short-term nature of the convertible loan note, it is unlikely that the Company could, or would wish to repay the loan notes.

At 31 March 2019, the CLN had been treated as a compound financial instruments. The debt and equity components of the CLN were separately measured and recognised within the consolidated financial statements. The majority of the CLN were classified as equity due to mandatory conversion feature resulting in fixed consideration for a fixed number of shares.

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

Management has assessed that the existing convertible loan agreement was extinguished. This assessment was based on the significance of the change in the terms and resulting cash flows. The Company has derecognised the existing debt and equity component of these loans and recognised these loans as equity under the new terms. The gain / loss on extinguishment of $647,000 was recognised in a manner consistent to the original transactions, i.e. split between profit or loss and equity.

On maturity date, 31 March 2020, the total $9.0 million of the CLNs on issue were converted to ordinary shares. See Note 5.

The transactions associated with the MCLNs and CLNs are as follows:	**MCLN $'000**	**CLN $'000**
Balance at 1 April 2019		
Recognised as debt	-	647
Recognised as equity	-	6,645
Issued during the year		
Recognised as debt	-	-
Recognised as equity	4,000	1,250
Extinguished during the year		
Recognised in profit or loss	-	(647)
Recognised in equity	-	(145)
Balance at 31 March 2020		
Recognised as debt	-	-
Recognised as equity	**4,000**	**9,000**

Notes to the Financial Statements

For the year ended 31 March 2020

4. MANDATORY CONVERTIBLE LOANS, CONVERTIBLE LOAN NOTES AND RELATED COMVITA SHARE OPTIONS (continued)

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

			2020		2019	
	Net interest rate %	Year of maturity	Face Value $'000	Carrying amount $'000	Face Value $'000	Carrying amount $'000
Convertible loan notes	7.95%	31 Mar 2020	-	-	7,750	647
Total loans and borrowings			**-**	**-**	**7,750**	**647**

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

For more information about the Group's exposure to interest rate and foreign currency risk, refer Note 13.

5. SHARE CAPITAL

	Number of ordinary shares	Issue price (cents)	$'000
Balance at 31 March 2018	**4,513,618,718**		**44,699**
329,686,009 rights shares issued	329,686,009	0.3300	1,088
Transaction costs of new convertible loan note			(1,322)
Equity portion of new convertible loan note			6,645
Balance at 31 March 2019	**4,843,304,727**		**51,110**
Balance prior to share consolidation 12 March 2020	4,843,304,727		51,110
Share consolidation 12 March 2020 - 1 per 100 shares	(4,794,871,628)		-
27,272,727 shares issued	27,272,727	33.0000	9,000
Equity portion of convertible loan note exercised			(7,750)
Transaction costs of convertible loan note			(145)
Balance at 31 March 2020	**75,705,826**		**52,215**

The Company completed a 1 for 100 share consolidation on 12 March 2020, which resulted in 48,433,099 shares on issue at that date.

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 rank equally on the winding up of the Company.

Notes to the Financial Statements

For the year ended 31 March 2020

6. PROPERTY, PLANT AND EQUIPMENT

	Computer, Office, Plant and equipment $'000	Work in progress $'000	Total $'000
Cost			
Balance at 1 April 2018	**15,109**	**64**	**15,173**
Additions	219	155	374
Transfers to (from) work in progress	32	(32)	-
Balance at 31 March 2019	**15,360**	**187**	**15,547**
Additions	103	681	784
Disposals	(71)	-	(71)
Transfers to (from) work in progress	329	(329)	-
Transfers to right of use assets	(179)	-	(179)
Balance at 31 March 2020	**15,542**	**539**	**16,081**
Depreciation and impairment			
Balance at 1 April 2018	**3,548**	**-**	**3,548**
Depreciation for the year	902	-	902
Impairment of property, plant and equipment	2,973	-	2,973
Balance at 31 March 2019	**7,423**	**-**	**7,423**
Depreciation for the year	663	-	663
Impairment of property, plant and equipment	1,710	-	1,710
Transfers to right of use assets	(32)	-	(32)
Disposals	(60)	-	(60)
Balance at 31 March 2020	**9,704**	**-**	**9,704**
Carrying amounts			
Balance at 1 April 2018	11,561	64	11,625
Balance at 31 March 2019	7,937	187	8,124
Balance at 31 March 2020	**5,838**	**539**	**6,377**

Notes to the Financial Statements

For the year ended 31 March 2020

6. PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment (PP&E) and right of use assets (ROU) have been tested for impairment as at 31 March 2020 using discounted pre-tax cash flows on a value in use basis. The Group concluded that the carrying value required impairment. The Group assessed that the value of PP&E and ROU totalling $10.035m were in excess of the ongoing economic benefit to the Group and should be impaired. An impairment expense of $2.122m was recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income within impairment of property, plant and equipment and right of use assets. See Note 12.

7. TRADE AND OTHER RECEIVABLES

	2020 $'000	2019 $'000
Trade receivables	28	231
Sundry debtor	2	21
GST receivable	143	108
Prepayments	31	96
Total	**204**	**456**

8. INVENTORIES

	2020 $'000	2019 $'000
Raw materials and consumables	775	732
Work in progress	623	618
Finished goods	874	321
Total	**2,272**	**1,671**

During the year $8,769k of inventory was expensed (2019: $7,195k).

During the year $16k of inventory was impaired (2019: impairment of $424k).

At 31 March 2020, $40k of inventory was carried at net realisable value (2019: $186k).

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 2020	31 March 2019
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 2020

10. SHARE OPTIONS

The Group has an established share option plan that entitles selected directors and employees to purchase shares in the Company. 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.

At 31 March 2020, 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	Share Price
13/09/2019	Director	2,959,972	Vesting on date of issue	01/04/21 to 30/09/23	$0.500	$0.1500
		2,959,972				

The share option granted to the Director was approved at a shareholders meeting on 13 September 2019. The share options were measured using a Black Scholes model. The calculation assumes a risk free rate of 0.85% and volatility of 50%.

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

	Number of Options		Weighted Average exercise price	
	2020	**2019**	**2020**	**2019**
Options outstanding at 1 April	998,090,909	1,751,874,851	4 cents	131 cents
Issued during the period - stated at amount post share consolidation	2,959,972	-	50 cents	-
Change in existing terms associated with convertible loan notes	-	(375,000,000)	-	80 cents
Change in existing terms associated with convertible loan notes	-	909,090,909	-	3 cents
Lapsed during the period	(998,090,909)	(47,000,000)	4 cents	102 cents
Expired during the period	-	(1,240,874,851)	-	150 cents
Outstanding at end of period	**2,959,972**	**998,090,909**	**50 cents**	**4 cents**

As part of the restatement of Comvita's convertible loan note, the expiry date of the existing share options was amended to 31 March 2020. In the prior period the exercise price was amended from $0.0080 to $0.0033 per share. Comvita did not exercise the share options and they have lapsed.

Options outstanding at 31 March 2020 have a weighted average exercise price of 50 cents (2019: 0.04 cents restated to 4 cents post share consolidation) and a weighted average contractual life of 3.5 years (2019: 0.9 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 2020

11. TRADE AND OTHER PAYABLES

	2020 $'000	2019 $'000
Trade creditors	1,067	486
Accrued expenses	154	405
Employee entitlements	202	259
Other payables	55	44
Total	**1,478**	**1,194**

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. LEASES AND COMMITMENTS

Right of use assets

The Group has entered into commercial leases on premises. The asset retirement obligation represents the present value of the estimated costs for the restoration of the leased refinery property at the termination of the lease in 2025.

There are no restrictions placed upon the Group by entering into these leases.

	Land and buildings $'000	Asset retirement obligation $'000	Total $'000
Cost			
Balance at 1 April 2019	2,250	179	2,429
Balance at 31 March 2020	**2,250**	**179**	**2,429**
Accumulated depreciation and impairment			
Balance at 1 April 2019	-	32	32
Depreciation for the year	438	11	449
Impairment of right of use assets	412	-	412
Balance at 31 March 2020	**850**	**43**	**893**
Carrying amounts			
Balance at 1 April 2019	2,250	147	2,397
Balance at 31 March 2020	**1,400**	**136**	**1,536**

The right of use assets include an asset of $136k (2019: $147k) representing the present value of the estimated costs for the restoration of the leased refinery property at the termination of the lease in 2025.

There has been no addition, utilisation or release of the asset retirement provision (2019: nil).

Notes to the Financial Statements

For the year ended 31 March 2020

12. LEASES AND COMMITMENTS (continued)

Amounts recognised in profit and loss	
Depreciation expense on right of use assets	449
Interest expense on lease liabilities	278
Impairment of right of use assets	412
Lease liabilities	
Current	363
Non-current	1,568

Future minimum rentals payable under non-cancellable operating leases as at 31 March (2020: leases of low value items) are as follows:

	2020 $'000	**2019 $'000**
Within one year	4	595
After one year but not more than five years	2	1,863
More than 5 years	-	682
Total	**6**	**3,140**

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

	2020 $'000	**2019 $'000**
Raw material purchase commitments		
Within one year	2,078	1,845
More than one year	-	179
Total	**2,078**	**2,024**

13. FINANCIAL INSTRUMENTS

The carrying values of the Group's financial instruments approximate their fair value.	**2020 $'000**	**2019 $'000**
Financial assets at amortised cost		
Cash and cash equivalents	204	1,214
Trade receivables	28	231
Sundry debtors	2	21
Total financial assets at amortised cost	**234**	**1,466**
Total financial assets	**234**	**1,466**
Financial liabilities at amortised cost		
Trade creditors	(1,067)	(486)
Accrued expenses	(154)	(530)
Other payables	(55)	(44)
Convertible loan	-	(647)
Total financial liabilities at amortised cost	**(1,276)**	**(1,707)**
Total financial liabilities	**(1,276)**	**(1,707)**

Notes to the Financial Statements

For the year ended 31 March 2020

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 2020 is detailed below

	Receivable $'000	Payable $'000
USD	14	272

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 2020. Interest rate exposures of the Group are shown in Note 4.

Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, at fair value through profit or loss and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. 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.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics based on the type and location of the Customer.

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 funding facilities.

As at 31 March 2020 the Group is dependent on the securing of additional funding to meet its obligations. Refer to Note 2 (e) for further information.

Notes to the Financial Statements

For the year ended 31 March 2020

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.

2020	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	1,067	1,067	1,067	-	-
Accrued expenses	154	154	154	-	-
Convertible loan	-	-	-	-	-
Lease liabilities	1,931	2,643	148	445	2,050
Total non-derivative liabilities	**3,152**	**3,864**	**1,369**	**445**	**2,050**

2019	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	486	486	486	-	-
Accrued expenses	530	530	530	-	-
Convertible loan	647	913	223	690	-
Total non-derivative liabilities	**1,663**	**1,929**	**1,239**	**690**	**-**

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 2020

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. The Group undertook the following transactions with Directors and associates of Directors.

	2020 $'000	2019 $'000
Key management compensation		
Short term benefits to directors (Directors fees)	211	211
Consulting fees to directors	28	32
Short term benefits to senior management	839	634
Fair value of share options granted to directors	44	-
Total	**1,122**	**877**

The Company has issued $4.0 million mandatory convertible loan notes to Pescado as at March 2020. The Company has issued 2,959,972 share options to director Bryan Mogridge on the 13th of September at an exercise price per option of $0.50 per share after adjusting for the share consolidation. Refer to Note 10 for additional information.

15. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 March 2020 (2019: $Nil).

16. ADOPTION OF NZ IFRS 16 - LEASES

This section summarises the effect of the change in accounting policy from the application of NZ IFRS 16 Leases.

Transition

NZ IFRS 16 Leases introduced a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. NZ IFRS 16 superseded the previous lease guidance including NZ IAS 17 Leases and the related interpretations when it became effective on 1 January 2019.

NZ IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. The distinction between operating leases (off balance sheet) and finance leases (on balance sheet) is removed for lessee accounting, and is replaced by a model where a right of use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

Furthermore, the classification of cash flows is also affected as operating lease payments under NZ IAS 17 were presented as operating cash flows; whereas under the NZ IFRS 16 model, the lease payments are split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

The Group applied NZ IFRS 16 on 1 April 2019 using the modified retrospective (full simplified) transition method. At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate ("IBR") as at 1 April 2019, right of use assets are measured equal to lease liabilities. Comparative periods presented were not restated.

The Group applied the practical expedients available under NZ IFRS 16 C3 (a) and (b).

Notes to the Financial Statements

For the year ended 31 March 2020

16. ADOPTION OF NZ IFRS 16 - LEASES (continued)

Most of the Group's non-cancellable operating lease commitments are land and buildings and hence the Group recognised a right of use asset and a corresponding liability in respect of all these leases unless they qualified for low value or short-term lease exemptions upon the application of NZ IFRS 16. The expense that would previously be recorded in relation to operating leases moved from being included in other expenses, to depreciation and finance expense for the periods beginning on or after 1 April 2019.

The impact on net earnings before income tax of an individual lease over its term remains the same, however, the new standard results in a higher interest expense in early years, and lower in later years of a lease, compared with the previous straight-line expense profile of an operating lease.

IBR is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment. The IBR was determined based on the interest rate on the external borrowing facilities available to the Group (since those rates incorporate a risk-free rate for the primary economic environment the Group operates in and the credit spread specific to the Group).

The IBR's applied to lease liabilities on 1 April 2019 was 17% and 12%.

The aggregate lease liability and right of use asset recognised in the statement of financial position at 1 April 2019 and the Group's operating lease commitment at 31 March 2019 can be reconciled as follows:

Lease liability recognised on transition	**$'000**
Future minimum lease payments under non-cancellable operating leases as at 31 March 2019	3,140
Future lease payments on renewal options that are reasonably certain	-
Future lease payments on short-term and low value leases	(10)
Effect of discounting	(880)
Lease liability as at 1 April 2019	**2,250**

The Group is not certain it will exercise options to extend the lease on all material leases, thus no extensions have been taken into account.

Right of use asset recognised on transition	**Lease term**	**$'000**
Land and buildings	1 - 10 years	2,250
Right of use asset as at 1 April 2019		**2,250**

New accounting policy from 1 April 2019

The Group as a lessee

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognised a right of use asset and a corresponding liability with respect to all lease arrangements in which it is the lessee except for leases of low value assets. For these leases, the Group applies the practical expedient and recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the lease assets are consumed.

The lease liability is initially measured as the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its IBR.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Notes to the Financial Statements

For the year ended 31 March 2020

16. ADOPTION OF NZ IFRS 16 - LEASES (continued)

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right of use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under aguaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate;
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right of use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right of use assets are depreciated over the shorter period of either the lease term or the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right of use asset reflects that the Group expects to exercise a purchase option, the related right of use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right of use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies NZ IAS 36 to determine whether a right of use asset is impaired and accounts for any identified impairment loss under this standard.

17. POST BALANCE DATE EVENTS

Secured loan agreement:

On 4 May 2020, the Company signed a secured loan agreement with cornerstone shareholder, Pescado, under which Pescado has agreed to advance up to $2 million to the Company (the "2020 Pescado Facility"). The loans drawn under this facility have a repayment date of 31 December 2021 and interest payable on 30 November 2020, 31 May 2021, 30 November 2021 and 31 December 2021 at an interest rate of 12% per annum. This superseded the existing $1 million bridging loan, extended by Pescado, agreed in February 2020, which remained undrawn as at 31 March 2020.

The 2020 Pescado Facility was conditional on shareholders approving:

- the delisting of the Company from the NZX Main Board;
- the listing of the Company on the Unlisted Securities Exchange; and
- certain alterations to the Company's constitution

The 2020 Pescado Facility was conditional on NZX Regulation granting the Company a waiver from NZX Listing Rule 5.1.2 (for material, related party transactions) in connection with the 2020 Pescado Facility, this waiver was received from NZX Regulation on 5 May 2020.

All resolutions were approved by shareholders at a meeting held on 22 May 2020, and the 2020 Pescado Facility went unconditional.

$1.5 million of the loan has been drawn down after year end.

Cost reduction strategy:

In April 2020, the Company commenced a cost reduction strategy to reduce operational, compliance and other costs. As part of this strategy, the Company has committed to and announced a restructure plan. In addition the Company will be delisted from the NZX as at the close of business on 29 June 2020.

SEADRAGON

RESPONSIBLY PURE

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