Arctic Fish ehf.

Financial Statements
2017

Artic Fish ehf.

Suðurgata 12
400 Ísafirði

Reg. no. 480711-0840

Contents

Endorsement by the Board of Directors and the CEO

Arctic Fish ehf. ("the Company") is a parent company for a fish farming operation based on various locations in Iceland. The financial statements incorporate the consolidated financial statements of Arctic Fish ehf. and its subsidiaries and the financial statements of the parent company. The company owned directly three subsidiaries at year-end 2017.

According to the income statement for the year the net loss amounted to ISK 188 million. According to the balance sheet for the year, book value of equity is ISK 4,563 million, including share capital in the amount of ISK 5,832 million.

At year-end, shareholders in Arctic Fish ehf. were three as in the beginning of the year. The Company's shares at year-end are divided between Norway Royal Salmon with 50.0% of shares, Bremesco Holding Ltd. with 47.5% with and Novo ehf. with 2.5%.

The Company's Board of Directors proposes that no dividend be paid to shareholders in the year 2018. Reference is made to notes in the financial statement regarding information on changes in equity.

It is the opinion of the Board of Directors and the CEO that the financial statements include all information necessary to give a fair view of the balance sheet at year-end, operating results for the year and changes in cash and cash equivalents for the year 2017.

The Board of Directors and the CEO of Arctic Fish ehf. hereby confirm the company's financial statements for the year 2017 by means of their signatures.

Reykjavík, / 2018.

Board of Directors:

CEO:

Stein Ove Tveiten

Independent Auditor's Report

To the Board of Directors and shareholder of Arctic Fish ehf.

Report on the audit of the Financial Statements

Opinion

We have audited the financial statements of Arctic Fish ehf. (the Company), which comprise the balance sheet as at 31 December 2017, the income statement and statement of cash flows for the year then ended, and notes to the financial statements, including summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the Icelandic Financial Statement Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of ethics for Icelandic auditors, which are based on the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have also fulfilled other ethical requirements of that rules. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors and CEO for the Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the financial statements in accordance with the Icelandic Financial Statement Act, and for such internal control as they determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and CEO are responsible for assessing the Company'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 they either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statement Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors accompanying the financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the financial statements.

Reykjavík, 16 / 7 2018.

KPMG ehf.

Jón Arnar Óskarsson

Income Statement for the year 2017

	Notes	Consolidation 2017 1.1.-31.12.	Consolidation 2016 1.1.-31.12.	Parent Company 2017 1.1.-31.12.	Parent Company 2016 1.1.-31.12.
Operating revenue		874.923	401.651	101.827	3.025
Cost of goods sold		850.816	449.174	0	0
Impairment on biological assets		0	517.278	0	0
Administration and management		152.044	134.855	152.044	132
		1.002.860	1.101.307	152.044	6.990
Operating loss		(127.937)	(699.656)	(50.217)	(3.965)
Interest revenue		57.751	21.339	57.110	20.008
Interest expense		(53.895)	(60.995)	(17.935)	(710)
Exchange rate difference		(63.788)	174.699	(10.602)	34.820
		(59.932)	135.043	28.573	54.118
Share of loss of subsidiaries		0	0	(128.239)	(621.623)
Loss before income tax		(187.869)	(564.613)	(149.883)	(564.613)
Income tax	21	0	0	(37.986)	0
Loss for the year		(187.869)	(564.613)	(187.869)	(564.613)

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Balance sheet as at 31 December 2017

	Note	Consolidation 31.12.2017	Consolidation 31.12.2016	Parent Company 31.12.2017	Parent Company 31.12.2016
Assets:					
Property, plant and equipment	14	4.393.109	2.667.293	364	0
Intangible assets	15	151.422	119.602	0	0
Investments in subsidiaries	17	0	0	2.696.312	981.501
Investments in other companies		7.117	7.117	5.000	5.000
Total non-current assets		4.551.648	2.794.012	2.701.676	986.501
Biological assets	17	618.138	540.945	0	0
Inventories	18	50.661	17.219	0	0
Trade receivables		17.032	9.251	0	0
Loans to related parties	22	18.430	96.295	1.771.273	1.650.046
Other receivables		150.589	63.964	1.358	5.074
Cash and cash equivalents		393.256	2.582.675	354.748	2.350.360
Total current assets		1.248.106	3.310.349	2.127.379	4.005.480
Total assets		5.799.754	6.104.361	4.829.055	4.991.981
Equity:					
Share capital		5.831.764	5.831.764	5.831.764	5.831.764
Accumulated deficit		(1.268.414)	(1.080.545)	(1.268.414)	(1.080.545)
Total equity	19	4.563.350	4.751.219	4.563.350	4.751.219
Liabilities:					
Provisions due to subsidiaries	16	0	0	0	26.055
Loans and borrowings	20	488.838	494.608	0	0
Liabilities from related parties	22	188.100	182.777	188.100	182.777
Deferred tax liability	21	31.930	31.930	31.930	31.930
Total non-current liabilities		708.868	526.538	220.030	57.985
Trade payables		283.726	93.523	17.090	0
Bank overdraft	20	0	408.529	0	0
Current maturities of non-current loans	20	52.461	50.773	0	0
Liabilities from related parties	22	108.631	80.499	0	0
Other payables		82.718	10.503	28.585	0
Total current liabilities		527.536	826.604	45.675	182.777
Total liabilities		1.236.404	1.353.142	265.705	240.762
Total equity and liabilities		5.799.754	6.104.361	4.829.055	4.991.981

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Statement of Cash Flows for the period 1 January to 31 December 2017

	Notes	Consolidation 2017 1.1.-31.12.	Consolidation 2016 1.1.-31.12.	Parent Company 2017 1.1.-31.12.	Parent Company 2016 1.1.-31.12.
Cash flows from operations					
Loss for the period		(187.869)	(564.613)	(187.869)	(564.613)
Adjustments for:					
Gain on sale of property, plant and equipm.		(13.271)	(7.845)	0	651
Fair value adjustment on biological assets		0	172.334	0	0
Depreciation	15	116.593	90.580	8	132
Net finance expense		59.932	(135.043)	(28.573)	(54.118)
Share of loss of subsidiaries and associates	16	0	0	128.239	621.623
Income tax		0	0	37.986	0
		(24.615)	(444.587)	(50.209)	3.675
Change in operating assets and liabilities:					
Biological assets, (increase)		(77.193)	(272.425)	0	0
Inventories, (increase) decrease		(33.443)	109.167	0	0
Receivables, (increase) decrease		(28.329)	(9.822)	3.716	(4.400)
Current liabilities, increase (decrease)		245.690	(124.530)	28.585	33.080
Change in operating assets and liabilities		106.725	(297.610)	32.301	28.680
Interest income received		57.751	21.339	57.110	20.007
Interest expenses paid		(53.947)	(60.995)	(17.935)	(710)
Net cash from (used) in operating activities		85.914	(781.853)	21.267	51.652
Cash flows (to) from investment activities					
Investm. in subsidiaries, net of cash acquired		0	0	(1.899.670)	0
Purchases of property, plant and equipment	14	(1.859.599)	(943.179)	(372)	0
Proceeds from sale of property and equipment	14	40.000	229.591	0	1.890
Capitalised R&D cost	15	(41.359)	(5.757)	0	0
		(1.860.958)	(719.345)	(1.900.042)	1.890
Cash flows from (to) financing activities					
Issued new share capital	19	0	3.624.349	0	3.624.349
Long-term loans and borrowings, changes		(26.495)	358.566	0	0
Related parties, changes		20.649	(66.279)	(116.837)	(1.328.808)
Bank overdrafts, change		(408.529)	145.438	0	0
		(414.375)	4.062.074	(116.837)	2.295.541
Changes in cash and cash equivalents		(2.189.419)	2.560.876	(1.995.612)	2.349.083
Cash and cash equivalents at the beg. of the yea		2.582.675	21.799	2.350.360	1.277
Cash and cash equivalents at the end of the year		393.256	2.582.675	354.748	2.350.360

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Notes to the Financial Statement

Summary of accounting policies

1. Basis of preparation

Arctic Fish ehf. "the Company", is a parent company for a fish farming operation various locations based in Iceland. The Financial Statements have been prepared in accordance with the Financial Statements Act and the Regulation on the Presentation and Contents of the Financial Statements and Consolidated Financial Statements. The financial statements for the year 2017 comprise the consolidated financial statement of Arctic Fish ehf. (the parent company) and its subsidiaries (together referred to as "the group"), and the financial statements of the parent company.

The Financial Statements are prepared in Icelandic kronas (ISK) and have been prepared using the historical cost method.

The company has changed its accounting policies regarding biological assets. See further information in notes 9 and 23.

The financial statements are presented in thousand ISK, which is the Company's functional currency.

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

2. Revenue recognition

Revenue from sales of goods is recognised in the Income Statement on delivery and when passing of the risks and rewards of ownership have been transferred to the buyer.

3. Property, plant and equipment

Property, plant and equipment are capitalized at cost price less depreciation. Depreciation is calculated on a straight-line basis over the estimated useful life of fixed assets.

4. Capitalised R&D cost

R&D cost is capitalised at cost price less depreciation. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets.

5. Deferred tax assets

The Company's deferred income tax asset is not recorded in the balance sheet due to uncertainty of utilisation. The liability represents the timing difference in the accounting methods used for tax purposes compared to the methods used in the Financial Statements. A deferred income tax asset is only recognised to the extent that it is probable that future taxable profits will be available against the asset. Deferred income tax asset is reviewed at

6. Investments in subsidiaries

Shares in subsidiaries are recorded at value that corresponds to the company's share in the book value of the shareholders' equity of the subsidiaries, taking into account the difference of between the purchase price of the shares and the company's share in the shareholders' equity of the subsidiaries when acquired. Net result of subsidiaries is accounted in parent company income statement.

7. Investment in associate

An associate is an entity over which the company has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investee).

8. Deferred tax liabilities

Deferred tax liabilities is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The reason for this difference is that the tax assessment is based on premises other than those used in the financial statements.

9. Biological assets

Biological assets are valued at cost less impairment. Cost price consist of the cost of smolts, feed, salaries, depreciation and related expenses. The company changed its accounting policies from fair value method to cost less impairment method. The changes had no effects on the prior year balance sheet but the effect on the income statement is stated in note 23.

10. Inventories

Inventories consist of finished goods and feed.

Feed is valued at cost. The FIFO principle is used concerning the periodic assignment of inventory costs.

Finished goods in inventory, fresh or frozen, are measured at the lesser of cost or the expected sales price less cost of sale. In a case where cost price exceeds sales price less sales cost, impairment is entered and charged to the income statement.

11. Accounts receivables

Account receivables are measured at cost net of provision for doubtful accounts, based on individual and over all assessment.

12. Cash and cash equivalents

Cash and cash equivalents consist of demand deposits at banks.

13. Salaries and related expenses

Salaries and related expenses for the parent company and the group are specified as follows:

	Consolidation		Parent company	
	2017	**2016**	**2017**	**2016**
Salaries	250.629	216.765	64.689	0
Pension fund	25.762	21.903	6.618	0
Salary related expenses	21.649	21.123	5.677	0
Total salaries and salary-related expenses	298.040	259.791	76.985	0

Salaries and related expenses is allocated in the financial statement as follows:

Cost of goods sold	154.150	88.558	0	0
Administration and management	76.985	171.233	76.985	0
Capitalised salaries and salary related expenses	66.905	0	0	0
Total salaries and salary-related expenses	298.040	259.791	76.985	0
Average number of employee	29	23	6	0
Number of employee end of year	29	23	6	0

Amounts are in ISK thousand

14. Property, plant and equipment

Property, plant and equipment and depreciation are specified as follows:

Parent company

	Buildings and land	Ship, shipping equipment, fish pens equipment	Transport vehicles and equipment	Total
Addition during the year	0	0	372	372
Total value 31.12.2017	0	0	372	372
Depreciation	0	0	8	8
Total depreciation 31.12.2017	0	0	8	8
Carrying amount 31.12.2017	0	0	364	364

Group

	Buildings and land	Ship, shipping equipment, fish pens equipment	Transport vehicles and equipment	Total
Total value 1.1.2017	1.971.568	515.002	383.743	2.870.313
Addition during the year	1.310.682	416.329	132.588	1.859.599
Sold and disposed during the year	(28.434)	0	0	(28.434)
Total value 31.12.2017	3.253.816	931.331	516.331	4.701.478
Depreciation 1.1.2017	15.571	110.195	77.254	203.020
Depreciation during the year	7.258	68.323	31.473	107.054
Sold and disposed during the year	(1.705)	0	0	(1.705)
Depreciation 31.12.2017	21.124	178.518	108.727	308.369
Book value 31.12.2017	3.232.692	752.813	407.604	4.393.109
Depreciation ratio	0 - 5%	5 -12%	8 - 15%	

Depreciation is are included in cost of good sold in the income statement. Investment in progress is depreciated at 0%.

Official assessment value for the buildings is ISK 269 million (2016: ISK 252million) and insurance value is ISK 1.492 million (2016: ISK 745 million).

15. Intangible assets

Intangible assets for the group are specified as follows:

	Goodwill	Capitalised R&D cost	Total
Carrying amount 1.1.2017	45.065	74.537	119.602
Addition during the year	0	41.359	41.359
Depreciation during the year	(6.858)	(2.681)	(9.539)
Carrying amount 31.12.2017	38.207	113.215	151.422

Depreciation are specified as follows:

	Consolidation		Parent company	
	2017	2016	2017	2016
Property, plant and equipment - note 14	107.054	81.506	8	132
Intangible assets - note 15	9.539	9.074	0	0

Amounts are in ISK thousand

Total depreciation	116.593	90.580	8	132

15. Intangible assets, cont:

Depreciation are allocated as follows:

	Consolidation 2017	Consolidation 2016	Parent company 2017	Parent company 2016
Biological assets	46.018	35.313	0	0
Cost of good sold	70.567	55.135	0	0
Administration and management	8	132	8	132
Total depreciation	116.593	90.580	8	132

16. Investments in subsidiaries

Investments in subsidiaries are specified as follows:

	Ownership	Nominal value	Carrying amount
Arctic Sea Farm hf., Iceland	99,96%	2.930.056	1.420.102
Arctic Smolt hf., Iceland	99,96%	1.662.047	1.276.210
Arctic Oddi ehf., Iceland	100,00%	500	(161.284)
Total investments in subsidiaries			2.535.028
Loans to related parties set off against negative equity in subsidiaries			161.284
Total investments in subsidiaries acc. to balance sheet			2.696.312

Share of loss of subsidiaries are specified as follows:

	2017	2016
Share of loss of Arctic Sea Farm hf.	(67.187)	(476.513)
Share of loss of Arctic Smolt hf.	(117.667)	(200.262)
Share of profit Arctic Oddi ehf.	56.615	57.075
Share of loss of Arctic Land ehf.	0	(1.923)
Total share of loss of subsidiaries	(128.239)	(621.623)

17. Biological assets

Biological assets are specified as follows:

	2017	2016
Smolt, biomass < 400 gr.	170.500	81.823
Biomass >400 gr.	447.638	459.122
Total biological assets	618.138	540.945
Biological assets 1.1	540.945	440.854
Increase due to production	928.009	1.066.543
Reduction due to sale and harvesting	(850.816)	(449.174)
Impairment on biological assets	0	(517.278)
Biological assets 31.12	618.138	540.945
Total number of fish	643.000	572.000
Estimated average weight per fish	650 gr.	3,200 gr.
Carrying amount, biomass > 400 gr.	447.638	459.122

Amounts are in ISK thousand

18. Inventories

Inventories are specified as follows:

	2017	2016
Finished products	36.197	10.749
Feed	14.464	6.471
Total inventories	50.661	17.219

Finished products include all products ready for sale, such as fresh and frozen whole trout, as well as processed trout products. Biological assets and inventories are pledge for loans and borrowings.

19. Equity

The Company's share capital according to its Articles of Association is ISK 5.832 million. Each share has the nominal value of one ISK. Changes in equity are as follows:

	Share capital	Accumulated deficit	Total
Equity 1.1.2017	5.831.764	(1.080.545)	4.751.219
Net loss for the year		(187.869)	(187.869)
Equity 31.12.2017	5.831.764	(1.268.414)	4.563.350

20. Loans and borrowings

Loans and borrowings are specified as follows:

	Interest	2017	2016
Debts in EUR	4,9%	513.371	891.582
Debts in ISK	8,7%	27.927	62.329
Total long term liabilities, incl. current maturities		541.299	953.910
Current maturities		(52.461)	(50.773)
Bank overdrafts		0	(408.529)
Total long term liabilities		488.838	494.608

Annual maturities of the Company's long term liabilities at year end are specified as follows over the next years:

	2017	2016
Less than 12 months	52.461	50.773
13 to 24 months	52.104	50.768
25 to 36 months	48.854	49.064
37 to 48 months	44.282	48.153
49 to 60 months	43.940	46.456
Later	299.658	300.167
Total long term liabilities, incl. current maturities	541.299	953.910

Amounts are in ISK thousand

21. Deferred tax liabilities

Deferred tax liabilities is specified as follows:

	Consolidation 2017	Consolidation 2016	Parent company 2017	Parent company 2016
Deferred tax liabilities at 1.1	(31.930)	(31.930)	(31.930)	(31.930)
Effects of joint taxation	0	0	37.986	0
Income tax for the year	0	0	(37.986)	0
Deferred tax liabilities at 31.12	(31.930)	(31.930)	(31.930)	(31.930)

Deferred tax liabilities is attributable to the following items:

	Consolidation 2017	Consolidation 2016	Parent company 2017	Parent company 2016
Property, plant and equipment	(28.026)	15.134	(13)	0
Deferred taxable exchange rate	(3.885)	(41.591)	(908)	(18.877)
Tax loss carry-forwards	427.792	438.708	12.628	12.628
Decrease in value of tax assets	(427.811)	(444.181)	(43.637)	(25.681)
Deferred tax liabilities at 31.12	(31.930)	(31.930)	(31.930)	(31.930)

A deferred tax asset amounting to ISK 428 million (2016: ISK 444 million) is not recognised due to uncertainty of future taxable profit. Carry forward loss expires if it is not used to offset taxable income within ten years. Carry forward tax losses can be used as follows:

Loss to be used before end of 2018	0	2.904	0	0
Loss to be used before end of 2019	13.632	13.632	0	0
Loss to be used before end of 2020	16.150	16.150	0	0
Loss to be used before end of 2021	139.765	139.765	0	0
Loss to be used before end of 2022	155.933	154.609	0	0
Loss to be used before end of 2023	231.306	191.408	63.143	0
Loss to be used before end of 2024	486.673	525.732	0	0
Loss to be used before end of 2025	254.704	278.512	0	0
Loss to be used before end of 2026	768.149	870.829	0	0
Loss to be used before end of 2027	72.644	0	0	0
Total tax loss carry-forwards	2.138.956	2.193.541	63.143	0

Amounts are in ISK thousand

22. Related parties

The Company's related parties are parties that have significant influence on the Company, directly or indirectly, including the parent company, owners and their immediate families, significant investors, key employees and their immediate families in addition to parties controlled by or that are significantly depending on the Company, such as associated companies and joint operations. Transactions with related parties have been carried out on an arm's length basis.

Related parties transactions

	Consolidation		Parent company	
	2017	**2016**	**2017**	**2016**
Sales of goods/services	675.479	187.113	101.827	0
Interest expenses	(16.354)	(17.935)	(16.354)	(17.935)
Investment in buildings	1.336.246	629.309	0	0

Related parties balance

	Consolidation 2017	Consolidation 2016	Parent company 2017	Parent company 2016
Receivables	18.430	96.295	1.771.273	1.650.046
Liabilities	(296.731)	(263.276)	(188.100)	(182.777)

23. Changes in accounting policies

The company changed its accounting policies from fair value method to cost less impairment method. The changes has no effect on the prior year balance sheet but has effect on comparative figures 2016 which have been restated as follows:

	Impact of change in accounting policies		
	As previously reported	**Changes**	**As Restated**
Operating revenue	401.651	0	401.651
Cost of goods sold	(449.174)	0	(449.174)
Impairment on biological assets	0	(517.146)	(517.278)
Mortality	(254.496)	254.496	0
Administration and management	(134.723)	(132)	(134.855)
Depreciation	(90.580)	90.580	0
Fair value adjustment on biological assets	(172.334)	172.334	0
Interest revenue	21.339	0	21.339
Interest expenses	(60.995)	0	(60.995)
Exchange rate difference	174.699	0	174.699
Loss for the year	(564.613)	0	(564.613)

Amounts are in ISK thousand