Arctic Fish ehf.

Financial Statements
2018

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 2018.

According to the income statement for the year the net loss amounted to ISK 491 million. According to the balance sheet for the year, book value of equity is ISK 4.072 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 2019. 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 2018.

The Board of Directors and the CEO of Arctic Fish ehf. hereby confirm the company's financial statements for the year 2018 by means of their signatures.

Ísafjörður, 28th of May 2019

Board of Directors:

CEO:

Independent Auditor's Report

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

Report on the Audit of the Financial Statements of the Group and the Parent Company

Opinion

We have audited the financial statements of Arctic Fish ehf. ("the Group and Parent Company") for the year 2018. The financial statements of the Group and the Parent Company comprise the balance sheet as at December 31, 2018, the income statement, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Parent Company as at December 31, 2018, and of the financial performance and cash flows for the Group and the Parent Company for 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 of the Group and the Parent company section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of financial statements in Iceland and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 of the Group and the Parent Company

The Board of Directors and CEO are responsible for the preparation and fair presentation of the financial statements of the Group and the Parent Company in accordance with the Icelandic Financial Statement Act, and for such internal control as they determine 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 ability of the Group and the Parent Company 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 intend to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Parent Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements of the Group and the Parent Company

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 of the Group and the Parent Company, 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 Group'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 ability of the Group and the Parent Company 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 Group or the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and the Parent Company, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 and CEO accompanying the financial statements of the Group and the Parent Company includes the information required by the Financial Statement Act if not disclosed elsewhere in the financial statements.

Reykjavík, / 2019.

KPMG ehf.

Income Statement for the year 2018

	Notes	Consolidation 2018	Consolidation 2017	Parent Company 2018	Parent Company 2017
Operating revenue		78.011	874.923	156.800	101.827
Cost of goods sold		70.526	850.816	0	0
Impairment on biological assets		95.454	0	0	0
Administration and management		71.732	152.044	206.169	152.044
		237.712	1.002.860	206.169	152.044
Operating loss		(159.701)	(127.937)	(49.369)	(50.217)
Interest revenue		614	57.751	291	57.110
Interest expense		(141.610)	(53.895)	(104.671)	(17.935)
Exchange rate difference		(190.411)	(63.788)	(144.421)	(10.602)
		(331.407)	(59.932)	(248.801)	28.573
Share of loss of subsidiaries		0	0	(192.938)	(128.239)
Loss before income tax		(491.108)	(187.869)	(491.108)	(149.883)
Income tax	21	0	0		(37.986)
Loss for the year		(491.108)	(187.869)	(491.108)	(187.869)

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Balance sheet as at 31 December 2018

	Notes	Consolidation 31.12.2018	Consolidation 31.12.2017	Parent Company 31.12.2018	Parent Company 31.12.2017
Assets:					
Property, plant and equipment	14	5.194.847	4.393.109	43.571	364
Intangible assets	15	202.306	151.422	0	0
Investments in subsidiaries	16	0	0	2.540.737	2.696.312
Investments in other companies		7.117	7.117	5.000	5.000
Total non-current assets		5.404.270	4.551.648	2.589.308	2.701.676
Biological assets	17	2.048.575	618.138	0	0
Inventories	18	52.806	50.661	0	0
Trade receivables		3.460	17.032	32	0
Loans to related parties	22	148.532	18.430	4.415.523	1.771.273
Other receivables		249.097	150.589	64	1.358
Cash and cash equivalents		114.191	393.256	106.937	354.748
Total current assets		2.616.661	1.248.106	4.522.556	2.127.379
Total assets		8.020.931	5.799.754	7.111.864	4.829.055
Equity:					
Share capital		5.831.764	5.831.764	5.831.764	5.831.764
Accumulated deficit		(1.759.522)	(1.268.414)	(1.759.522)	(1.268.414)
Total equity	19	4.072.242	4.563.350	4.072.242	4.563.350
Liabilities:					
Loans and borrowings	20	1.564.993	488.838	1.166.474	0
Liabilities from related parties	22	0	188.100	1.610.043	188.100
Deferred tax liability	21	31.930	31.930	31.930	31.930
Total non-current liabilities		1.596.923	708.868	2.808.447	220.030
Trade payables		487.361	283.726	23.052	17.090
Current maturities of non-current loans	20	221.076	52.461	194.412	0
Liabilities from related parties	22	1.610.043	108.631		0
Other payables		33.286	82.718	13.711	28.585
Total current liabilities		2.351.766	527.536	231.175	45.675
Total liabilities		3.948.689	1.236.404	3.039.622	265.705
Total equity and liabilities		8.020.931	5.799.754	7.111.864	4.829.055

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Statement of Cash Flows for the period 1 January to 31 December 2018

	Note	Consolidation 2018 1.1.-31.12.	Consolidation 2017 1.1.-31.12.	Parent Company 2018 1.1.-31.12.	Parent Company 2017 1.1.-31.12.
Cash flows from operations					
Loss for the year		(491.108)	(187.869)	(491.108)	(187.869)
Adjustments for:					
Gain on sale of property, plant and equipm.		0	(13.271)	0	0
Depreciation	15	171.369	116.593	9.022	8
Net finance expense		331.407	59.932	248.801	(28.573)
Share of loss of subsidiaries	16	0	0	192.938	128.239
Income tax		0	0	0	37.986
		11.668	(24.615)	(40.347)	(50.209)
Change in operating assets and liabilities:					
Biological assets, (increase)		(1.430.437)	(77.193)	0	0
Inventories, (increase) decrease		(2.145)	(33.443)	0	0
Receivables, (increase) decrease		(92.293)	(28.329)	1.262	3.716
Current liabilities, increase (decrease)		324.941	245.690	185.500	28.585
Change in operating assets and liabilities		(1.199.934)	106.725	186.762	32.301
Interest income received		1.190	57.751	291	57.110
Interest expenses paid		(89.117)	(53.947)	(52.181)	(17.935)
Net cash from (used) in operating activities		(1.276.193)	85.914	94.525	21.267
Cash flows (to) from investment activities					
Investm. in subsidiaries, net of cash acquired		0	0	0	(1.899.670)
Purchases of property, plant and equipment	14	(961.754)	(1.859.599)	(52.229)	(372)
Proceeds from sale of property and equipment	14	0	40.000	0	0
Capitalised R&D cost	15	(62.304)	(41.359)	0	0
Loans to related parties, changes	15	(127.956)	0	0	0
		(1.152.014)	(1.860.958)	(52.229)	(1.900.042)
Cash flows from (to) financing activities					
Long-term loans and borrowings, changes		955.366	(26.495)	1.094.264	0
Related parties, changes		1.193.775	20.649	(1.384.371)	(116.837)
Bank overdrafts, change		0	(408.529)	0	0
		2.149.141	(414.375)	(290.108)	(116.837)
Changes in cash and cash equivalents		(279.066)	(2.189.419)	(247.812)	(1.995.612)
Cash and cash equivalents at the beg. of the year		393.256	2.582.675	354.748	2.350.360
Cash and cash equivalents at the end of the year		114.190	393.256	106.937	354.748

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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 2018 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 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 each reporting date.

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 other companies

Investment in other companies are stated at cost.

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

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	
	2018	**2017**	**2018**	**2017**
Salaries	284.253	250.629	76.588	64.689
Pension fund	33.501	25.762	8.556	6.618
Salary related expenses	27.519	21.649	8.033	5.677
Total salaries and salary-related expenses	345.273	298.040	93.177	76.985

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

Cost of goods sold	122.812	154.150	0	0
Administration and management	222.461	76.985	93.177	76.985
Capitalised salaries and salary related expenses	0	66.905	0	0
Total salaries and salary-related expenses	345.273	298.040	93.177	76.985
Average number of employee	29	29	6	6
Number of employee end of year	29	29	6	6

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
Total value 1.1.2018	0	0	372	372
Addition during the year	36.500	0	8.872	45.372
Total value 31.12.2018	36.500	0	9.244	45.744
Total depreciation 1.1.2017	0	0	8	8
Depreciation	730	0	1.435	2.165
Total depreciation 31.12.2018	730	0	1.443	2.173
Carrying amount 31.12.2018	35.770	0	7.801	43.571

Group

	Buildings and land	Ship, shipping equipment, fish pens equipment	Transport vehicles and equipment	Total
Total value 1.1.2018	3.123.252	924.304	664.052	4.711.608
Addition during the year	403.695	410.791	147.268	961.754
Total value 31.12.2018	3.526.947	1.335.095	811.320	5.673.362
Depreciation 1.1.2018	27.355	187.131	104.079	203.020
Depreciation during the year	12.719	102.719	44.512	159.950
Depreciation 31.12.2018	40.074	289.850	148.591	478.515
Book value 31.12.2018	3.486.873	1.045.245	662.729	5.194.847
Depreciation ratio	0 - 5%	5 -12%	8 - 15%	

Depreciation is 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 694 million (2017: ISK 269million) and insurance value is ISK 3.914 million (2017: ISK 1.492 million).

15. Intangible assets

Intangible assets for the group are specified as follows:

	Goodwill	Capitalised R&D cost	Total
Carrying amount 1.1.2018	38.207	113.215	151.422
Addition during the year	0	62.304	62.304
Depreciation during the year	(6.858)	(4.562)	(11.420)
Carrying amount 31.12.2018	31.349	170.957	202.306

Depreciation are specified as follows:

	Consolidation 2018	Consolidation 2017	Parent company 2018	Parent company 2017
Property, plant and equipment - note 14	159.949	107.054	2.165	8
Intangible assets - note 15	11.420	9.539	6.858	0
Total depreciation	171.369	116.593	9.023	8

Amounts are in ISK thousand

15. Intangible assets, cont:

Depreciation are allocated as follows:

	Consolidation		Parent company	
	2018	2017	2018	2017
Biological assets	141.426	46.018	0	0
Cost of good sold	20.920	70.567	0	0
Administration and management	9.023	8	9.023	8
Total depreciation	171.369	116.593	9.023	8

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	1.371.874
Arctic Smolt hf., Iceland	99,96%	1.662.047	1.168.863
Arctic Oddi ehf., Iceland	100,00%	500	(205.004)
Total investments in subsidiaries			2.335.733
Loans to related parties set off against negative equity in subsidiaries			205.004
Total investments in subsidiaries acc. to balance sheet			2.540.737

Share of loss of subsidiaries are specified as follows:

	2018	2017
Share of loss of Arctic Sea Farm hf.	(41.369)	(67.187)
Share of loss of Arctic Smolt hf.	(107.350)	(117.667)
Share of profit Arctic Oddi ehf.	(44.219)	56.615
Total share of loss of subsidiaries	(192.938)	(128.239)

17. Biological assets

Biological assets are specified as follows:

	2018	2017
Smolt, biomass < 400 gr.	308.144	170.500
Biomass >400 gr.	1.740.431	447.638
Total biological assets	2.048.575	618.138
Biological assets 1.1	618.138	540.945
Increase due to production	1.448.052	928.009
Reduction due to sale and harvesting	(17.615)	(850.816)
Impairment on biological assets	0	0
Biological assets 31.12	2.048.575	618.138
Total number of fish	2.353.999	643.000
Estimated average weight per fish	1326 gr.	650 gr.
Carrying amount, biomass > 400 gr.	1.740.431	447.638

Amounts are in ISK thousand

18. Inventories

Inventories are specified as follows:

	2018	2017
Finished products	9.000	36.197
Feed	43.806	14.464
Total inventories	52.806	50.661

Finished products include all products ready for sale, such as fresh and frozen whole salmon, as well as processed salmon 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 1.1.2018	5.831.764	(1.268.414)	4.563.350
Net loss for the year		(491.108)	(491.108)
Equity 31.12.2018	5.831.764	(1.759.522)	4.072.242

20. Loans and borrowings

Loans and borrowings are specified as follows:

	Interest	2018	2017
Debts in EUR	4,9%	1.774.833	513.371
Debts in ISK	8,7%	11.236	27.927
Total long term liabilities, incl. current maturities		1.786.069	541.299
Current maturities		(221.076)	(52.461)
Total long term liabilities		1.564.993	488.838

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

	2018	2017
Less than 12 months	221.076	52.461
13 to 24 months	415.496	52.104
25 to 36 months	415.460	48.854
37 to 48 months	414.660	44.282
49 to 60 months	25.529	43.940
Later	293.848	299.658
Total long term liabilities, incl. current maturities	1.786.069	541.299

Amounts are in ISK thousand

21. Deferred tax liabilities

Deferred tax liabilities is specified as follows:

	Consolidation 2018	Consolidation 2017	Parent company 2018	Parent company 2017
Deferred tax liabilities at 1.1	(31.930)	(31.930)	(31.930)	(31.930)
Effects of joint taxation	0	0	0	37.986
Income tax for the year	0	0	0	(37.986)
Deferred tax liabilities at 31.12	(31.930)	(31.930)	(31.930)	(31.930)

Deferred tax liabilities is attributable to the following items:

	Consolidation 2018	Consolidation 2017	Parent company 2018	Parent company 2017
Property, plant and equipment	(24.992)	(28.026)	141	(13)
Deferred taxable exchange rate	13.912	(3.885)	19.963	(908)
Tax loss carry-forwards	446.500	427.792	12.628	12.628
Decrease in value of tax assets	(467.350)	(427.811)	(64.662)	(43.637)
Deferred tax liabilities at 31.12	(31.930)	(31.930)	(31.930)	(31.930)

A deferred tax asset amounting to ISK 497 million (2017: ISK 428 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:

	Consolidation 2018	Consolidation 2017	Parent company 2018	Parent company 2017
Loss to be used before end of 2019	3.559	0	0	0
Loss to be used before end of 2020	4.217	13.632	0	0
Loss to be used before end of 2021	45.988	16.150	0	0
Loss to be used before end of 2022	131.166	139.765	0	0
Loss to be used before end of 2023	194.173	155.933	0	0
Loss to be used before end of 2024	323.361	231.306	63.143	63.143
Loss to be used before end of 2025	315.332	486.673	0	0
Loss to be used before end of 2026	399.025	254.704	0	0
Loss to be used before end of 2027	605.547	768.149	0	0
Loss to be used before end of 2028	463.707	72.644	0	0
Total tax loss carry-forwards	2.486.075	2.138.956	63.143	63.143

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	
	2018	**2017**	**2018**	**2017**
Sales of goods/services	436.521	675.479	101.827	101.827
Interest expenses	(16.354)	(16.354)	(16.354)	(16.354)
Investment in buildings	1.336.246	1.336.246	0	0

Related parties balance

Receivables*	148.532	18.430	4.415.523	1.771.273
Liabilities	(1.610.043)	(296.731)	(1.610.043)	(188.100)

*In the accounts there is a trade receivable from MK Construction in the accounts. This receivable concerns payments to MK construction for construction costs that are in a settlement discussion, where Arctic Smolt claims repayment due to quality claims on the construction. If the settlement discussions are not conclusive in favour of Arctic Smolt this cost will increase the construction costs of the primary asset of Arctic Smolt. The settlement is to be resolved in 2019 when the formal final assessment of the construction occurs.

Amounts are in ISK thousand