



HOFSETH
BioCare®



QUARTERLY REPORT

Q4 2018



THIS IS HOFSETH BIOCARE ASA

HBC is a Norwegian biotech company that offers high-value ingredients and finished products for humans and pets.

The company is founded on the core values of sustainability, traceability and optimal utilization of natural resources. Through an innovative hydrolysis technology, HBC can preserve the quality of salmon oil, proteins and calcium, prepared of fresh salmon off-cuts.






HBC's objective is to contribute to the efficient use of marine resources and deliver quality products for ingredients and finished consumer products in the nutrition market.

Hofseth BioCare's headquarters are in Ålesund, Norway with branches in Oslo, Chicago, Mumbai, Palo Alto and Tokyo. HBC is listed on Oslo Stock Exchange Axxess list with ticker "HBC". More information about Hofseth BioCare at hofsethbiocare.com and facebook.com/hofsethbiocare

OUR VISION

Sustainable production of premium bioactive marine ingredients with documented health effects

OUR PRODUCTS AND INGREDIENTS

Ingredient	About	Finished products
 OmeGo	Fresh unrefined salmon oil. Produced with 4 years shelf life, full specter of omegas and natural antioxidants.	Cardio Salmon Oil™ for human consumption and Brilliant Salmon Oil for pets
 ProGo	Salmon protein hydrolysate. Peptides for fast uptake, and documented BMI reduction, hemoglobin increase and energy increase	Endurance Protein™ series as sports nutrition for athletes, active and people looking for a high quality, hypoallergenic protein source
 CalGo	Marine bone powder, as hydroxyapatite form of calcium for best bone growth and density increase	Strength Calcium™ as tablets for human consumption
 PetGo	Partially hydrolyzed salmon protein produced as salmon meal for feed and pet food industry	
 CollaGo	Salmon peptides with more than 25 % collagen type I & III for skin, hair and nails.	Collagen Peptides for human consumption as drink

HIGHLIGHTS IN THE FOURTH QUARTER 2018

- A new study published in December 2018, shows that HBCs calcium product CalGo[®], is superior to traditional calcium sources on osteoblast and calcium deposition. CalGo[®] is a hydroxyapatite form of calcium and is highly bioavailable with more than 24 % fish bone collagen.
- An invitro study on the regulation of oxidative protective genes after treatment with ProGo[®] peptides has been published in the journal Functional Foods in Health and Disease. The study shows a possible utility for ProGo[®] bioactive peptides in the modulation of gastrointestinal stress in irritable bowel syndrome and enterocolitis.
- Installed a new scrubber at the Berkåk plant to clean the processing air, after record production volumes and capacity utilization.
- Several patents and trademarks filed, and new important IPR jurisdictions expected in the near future.

EVENTS AFTER THE FOURTH QUARTER 2018

- Nøre[™] Marine Calcium launched in the Norwegian market, with marketing campaigns in the B2C social media channels
- Production record set at the Berkåk spray-drying facility last week of January 2019
- Growth in Brilliant[™] Salmon Oil sales after market activities last few months
- OmeGo[®] as a private brand launched in the Indian market in late January 2019

OUTLOOK

- Continued product development on finished products is expected to have positive effects on our results going forward. Focus will be ProGo[®], CollaGo[™] and CalGo[®] product series.
- HBC will continue to increase the average price mix on OmeGo[®], with higher sales of salmon oil to pets and human nutrition.

KEY FIGURES

	Q4 2018	Q4 2017	2018	2017
Sales revenue	14 324	26 404	60 590	66 234
Other operating revenue	0	0	0	52 242
Gross operating revenue	14 324	26 404	60 590	118 476
EBITDA	-13 288	-6 604	-55 658	10 500
Operating profit/loss	-18 747	-11 839	-77 849	-11 196
Profit/loss before taxes	-23 323	-12 898	-84 638	-16 482
Earnings per share (NOK)	-0.08	-0.06	-0.33	-0.07
Net cash flow	-9 406	12 293	6 573	25 903
Interest-bearing liabilities	58 300	81 429	58 300	81 429
Total assets	186 775	184 239	186 775	184 239
Equity ratio	46.1%	20.1%	46.1%	20.1%

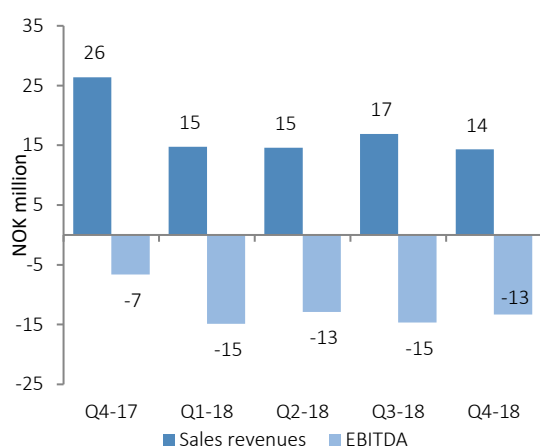
FINANCIAL REVIEW

In the financial review, figures for the corresponding periods in 2017 are given in brackets.

PROFIT AND LOSS FOURT QUARTER

Hofseth BioCare had operating revenues of NOK 14.3m (26.4m) in the fourth quarter of 2018. Sales revenues for 2018 amounted to NOK 60.6m (66.2m).

Cost of Goods Sold (CoGS) amounted to NOK 9.9m (19.8m) in the period. Operational profit (EBITDA) for the fourth quarter 2018 was negative NOK 18.7m (11.8m).



Net financial items in the fourth quarter were negative NOK 4.6m (negative 1.1m).

Loss before tax was NOK 23.3m in the period, compared to a loss of NOK 12.9m during fourth quarter 2017.

CASH FLOW

Cash flow from operations during the fourth quarter was negative by NOK 9.4m compared to positive NOK 12.3m in the same quarter last year.

Net cash flow from investment activities was negative by NOK 0.2m in the fourth quarter of 2018, compared to negative NOK 7.2m for the corresponding period last year.

Cash flow from the financing activities amounted to negative NOK 4.5m in the fourth

quarter 2018, compared to positive NOK 25.6m in the fourth quarter of 2017.

Cash and cash equivalents decreased by NOK 9.4m during the quarter, leaving total holding of cash and cash equivalents at NOK 48.6m by the end of the period.

FINANCIAL POSITIONS

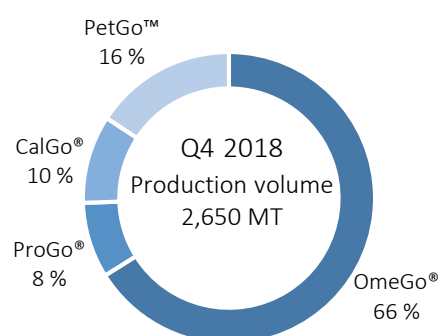
Total assets for the company were NOK 186.8m at the end of fourth quarter of 2018 (NOK 184.2m). Deferred tax assets are not posted in the balance sheet. Estimated value is NOK 132.7m.

Total equity amounted to NOK 86.2m (NOK 37.1m) giving an equity ratio of 46.2% (20.1%) for the group.

PRODUCTION UPDATE

Hofseth BioCare produces Soluble Protein Hydrolysate (ProGo®), Partly Hydrolyzed Protein (PetGo™), fresh Salmon Oil (OmeGo®) and Marine Calcium (CalGo®).

The products are based on fresh off-cuts from the Norwegian salmon and trout processing industry. The proprietary production process with enzymatic hydrolysis splits the four fractions of the salmon raw material.

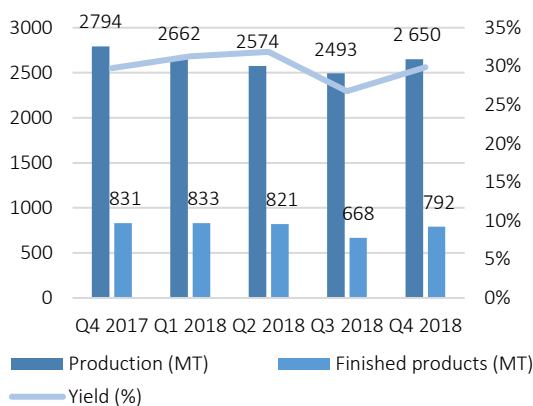
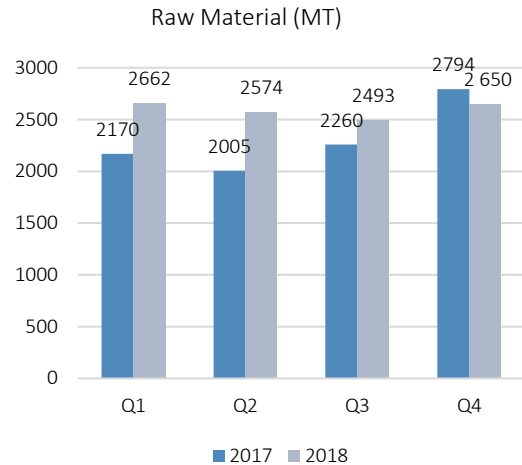


HBC operates two plants; The hydrolysis plant in Midsund and the spray-drying plant in Berkåk. In the fourth quarter 2018, HBC Midsund processed 2,650 tons of salmon and trout raw materials, which is 158 tons more than the previous quarter. Year to date 2018

production was 10,378 tons compared to 9,229 tons in 2017, giving an increase of 12.5 %.

Raw material availability from our core suppliers is good. We expect the processed raw material to continue increasing in 2019.

HBC Berkåk produced 361 tons of finished products in the fourth quarter, including the capacity lease manufactured products, compared to 321 tons in the previous quarter. Total 2018 production at Berkåk was at record high 1,390 tons.



In 2018, a total of 4,275 tons of finished goods were manufactured at all HBC plants, including the capacity lease volumes, compared to 2,988 tons in 2017.

In the second half of 2018 we got, as expected, a yield improvement of the Calcium powder, due to installation of a new dryer production line at the Midsund plant in July. The output yield went up from 1.9 % to 3.1 % based on raw material input at the Midsund plant. The overall yield of finished products from our plants went up from 28.2 % in 2017 to 30.0 % in 2018.

Increase of raw material intake are expected from first quarter 2019 after a capacity increase at one of our suppliers, as well as minor upgrades to improve efficiency and capacity at the Midsund plant in December 2018.

We target to reach a weekly average of 350 tons of raw material in the first quarter of 2019. We also expect an increase of our overall yield due to the upgrades, particularly for the Soluble Protein Hydrolysate (ProGo®) product.

RESEARCH & DEVELOPMENT

In the fourth quarter of 2018, our Process Development research has continued the effort at reducing the fish taste and smell in our SPH. Our multi-prong effort to reduce fish odor in our SPH has resulted in multiple commercial trial batches with much decreased odor. We also implemented new mechanisms to be able to retroactively improve odor in our powder batches and we will be implementing these in the plant stage-wise during 2019 production. We continue to test and certify the effect of all changes on the physical and bio efficacy characteristics off all our product fractions.

We completed our delayed anti-inflammatory biomarker rat trial with OmeGo® and the results showed that our oil has the potential to impact asthma and rheumatoid arthritis inflammatory diseases. Our 2019 plan is to use these results to guide the clinical development of this next human market segmentation for our fresh, 100 % triglyceride salmon oil.

Our KGK Health Canada approved clinical trial with 20 patients on a daily 5g CollaGo flavored sachet started with all patients on June 5th. The 128-day trial has run smoothly through this quarter with excellent patient adherence to the protocol. Most significantly not a single subject has dropped out of the 16-week trial due to taste or any adverse effect of the daily treatment. The results presented this quarter showed that CollaGo™ was able to positively impact energy and significantly improve hair/nail/skin health in normal adults. We will use the published clinical report (clinicaltrials.gov) to apply for unique health label claims in Canada and beyond.

After our successful gene regulation results on two human cell-lines (HEGP and HIEC-6) for modulating oxidative stress related genes with ProGo® last quarter, we have signed an agreement with the Stanford School of Medicine in December, to begin a preclinical study using a special mouse model to study GI protection with ProGo®. Neonatal NEC (necrotizing enterocolitis) and adult GI inflammatory diseases like colitis and IBD are the target diseases for our research collaboration.

Our ProGo® Sarcopenia animal model study with SAFORD is on-going with preliminary results expected in the first quarter 2019. We hope to see specific improvement in muscle incorporation behavior using this animal model in preparation for human studies planned with multi dose selection.

Our ongoing large aquafarm studies for formulated use of SPH in shrimp aquaculture (ShrimpGo™) with our partners in Malaysia are ongoing. The first trial had difficulty with pellet structure and was abandoned. Our latest trial completed in this quarter showed excellent improvement in FCR and yield under commercial conditions. We will be retesting using slightly modified feed production and scheduling in early 2019 to confirm the results.

Our CalGo® Salmon Bone Powder human cell based invitro assay to investigate the

differential effects of Salmon Bone Powder on bone absorption and deposition with human osteoblast cells together with researchers at St. Xavier's College was published in this quarter. *An In Vitro Study on the Effect of Five Commercial Calcium Supplements on Human Osteoblast Cell Proliferation and Ca²⁺ Mineralization.* Framroze and Havaladar, *J Nutr Food Sci* 2018, 8:6 DOI: 10.4172/2155-9600.1000738

Our R&D department continues to support Patents / Trademarks and Marketing / Sales with specific documentation.

SALES & MARKETING

In accordance with the Company's strategy, OmeGo® continues to be sold straight from the factory, with no inventory time and cost. The volumes are mainly being sold into the feed and pet food industry to secure higher revenues and continued cashflow. The Company still focuses on building volumes in existing and new markets with its pet food supplement Brilliant™ Salmon Oil, where the year ended on an all-time high.

The Company aims to strengthen its position in the Norwegian market together with its distributor Morene Produkter AS and is putting more time and resources into marketing the product in Norway. HBC has started a bigger market push for Brilliant™ Salmon Oil, and this is starting to pay off. Brilliant™ Salmon Oil should continue to see good growth in the first quarter 2019.

Brilliant™ Salmon Oil is continuing to see increased interest also in global market with increased sales from existing customers, and new customers on the way. The product is being sold both under its own label, and as a white-labeled (OEM) product.

The Company's fourth ingredient, PetGo™, is being produced as expected and is, as OmeGo®, being sold straight from the factory, with no inventory time and cost. PetGo™ is today being

sold only to the pet food industry as a high-quality fish meal at premium pricing.

The company's fifth ingredient, CollaGo™, a Salmon Collagen Tripeptide, with more than 25 % collagen Type I & III, will continue to be sold as a separate ingredient upon request from customers as the process focuses on producing ProGo® as the main protein fraction.

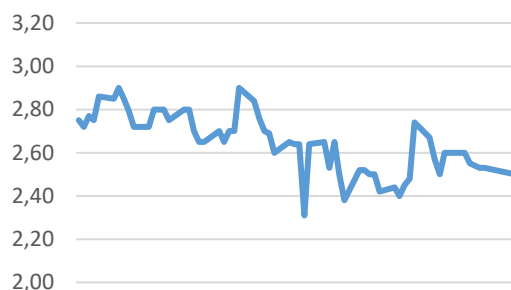
Sales in the quarter showed a more even spread among the products, still OmeGo® and PetGo™ as the strongest revenue fractions.

With the new discovery of being able to categorize CalGo® as a hydroxyapatite form of calcium, the Company has experienced increased interest for the product – especially in USA and Asia.

The Company released a new calcium brand in January for a bigger marketing push of the ingredient. The market strategy will in the first phase, be to launch the product into the Norwegian market, and later the global market with the Company eyeing China as a potentially interesting market and is currently applying for a Blue Hat registration on a new calcium product for the Chinese market. The sales platform has been set up so that it can be replicated into different markets at will.

SHARE INFORMATION

The Hofseth BioCare share (HBC) was traded between NOK 2.31 and 2.90 per share in the fourth quarter and the last closing price on 28 December 2018 was NOK 2.40.



Based on 294,836,829 outstanding shares, this values the company's equity at approximately NOK 707 million.

As of 31 December 2018, the company had 730 shareholders. The 20 largest shareholders controlled 89.12 per cent of the shares.

RELATED PARTY TRANSACTIONS

There are no significant new types of transactions with related parties during 2018.

Hofseth BioCare ASA Board of Directors
Ålesund, 8 February 2019

Ola Holen
Chairman of the Board

Henriette G. Heggdal
Board member

Christoph Baldegger
Board member

Torill Standal Eliassen
Board member

Roger Hofseth
CEO

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>(figures in NOK 1 000, except earnings per share)</i>	Q4 2018	Q4 2017	2018	2017	Notes
Sales revenue	14 324	26 404	60 590	66 234	7
Other operating revenue	0	0	0	52 242	7
Gross operating revenue	14 324	26 404	60 590	118 476	
Cost of sales	9 923	19 798	48 361	54 928	8
Salaries and other payroll costs	8 784	5 947	31 402	26 127	
Other operating expenses	8 904	7 263	36 485	26 922	
EBITDA	-13 288	-6 604	-55 658	10 500	
Depreciation and Write-down	5 459	5 235	22 190	21 695	6
Operating profit/loss (EBIT)	-18 747	-11 839	-77 849	-11 196	6
Financial income	605	561	3 036	1 065	10
Financial expenses	5 181	1 620	9 825	6 351	10
Net financial items	-4 576	-1 059	-6 789	-5 286	10
Profit/loss before taxes	-23 323	-12 898	-84 638	-16 482	
Tax expense	75	0	75	0	
Profit for the period	-23 398	-12 898	-84 713	-16 482	
Other comprehensive income/expenses	0	0	0	0	
Total comprehensive income	-23 398	-12 898	-84 713	-16 482	
Total comprehensive income for the period attributable to:					
Non-controlling interests	-8	0	-8	-7	
Shareholders in HBC (majority)	-23 390	-12 898	-84 705	-16 475	
Total	-23 398	-12 898	-84 713	-16 482	
Earnings per share					
Basic earnings per share (NOK)	-0.08	-0.06	-0.33	-0.07	
Diluted earnings per share (NOK)	-0.08	-0.06	-0.33	-0.07	

The interim financial information has not been subject to audit.

CONSOLIDATED CONDENSED STATEMENT OF FINANCIAL POSITION

<i>(figures in NOK 1 000)</i>	2018	2017	Notes
Research, patents etc.	17 530	17 605	5
Property, plant and equipment	67 361	68 088	6
Financial fixed assets	2 949	3 654	
Total non-current assets	87 839	89 348	
Inventories	29 402	16 858	9
Trade receivables	14 697	26 703	
Other current assets	6 196	9 262	
Cash and cash equivalents	48 641	42 068	
Total current assets	98 936	94 891	
Total assets	186 775	184 239	
Share capital	294 837	233 500	11
Other Paid in equity (+) Uncovered losses (-)	-207 969	-195 752	
Non-controlling interests	-673	-665	
Total equity	86 195	37 083	
Non-current liabilities interest bearing	30 387	44 342	
Total non-current liabilities	30 387	44 342	
Other Interest-bearing loans, leasing and borrowings	27 912	37 086	
Trade payables	30 792	51 929	
Other current liabilities	11 490	13 800	
Total current liabilities	70 193	102 813	
Total equity and liabilities	186 775	184 239	

The interim financial information has not been subject to audit.

CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN EQUITY

<i>(figures in NOK 1 000)</i>	Q4 2018	Q4 2017	2018	2017
Equity at start of period	109 670	49 979	37 083	53 563
Other changes in equity	-77	0	-85	0
Issue new shares 1 st August 2018	0	0	120 283	0
Issue new shares 26 st September	0	0	13 627	0
<i>Profit/loss for the period</i>	-23 398	-12 898	-84 713	-16 482
<i>Other comprehensive income/expenses</i>	0	0	0	0
Total comprehensive income	-23 398	-12 898	-84 713	-16 482
Equity at the end of period	86 195	37 083	86 195	37 083

EARNINGS PER SHARE

<i>(figures in NOK 1 000, except earnings per share)</i>	Q4 2018	Q4 2017	2018	2017
Number of shares end of period	294 837	233 500	294 837	233 500
Weighted average number of shares	294 837	233 500	258 098	233 500
Effect of empl. stock options and warrants	0	0	0	0
Weighted average number of shares diluted	294 837	233 500	258 098	233 500
Basic earnings per share (NOK)	-0.08	-0.06	-0.33	-0.07
Diluted earnings per share (NOK)	-0.08	-0.06	-0.33	-0.07

CONSOLIDATED CONDENSED CASH FLOW STATEMENT

<i>NOK 1000</i>	Q4 2018	Q4 2017	2018	2017
Cash flow from operational activities				
Profit before taxes	-23 323	-12 898	-84 638	-16 482
Profit from sales of PP&E	0	0	0	-52 242
Depreciation and write-off	5 459	5 235	22 190	21 695
Changes in Inventory	-4 997	2 914	-12 544	-1 269
Changes in trade debtors	-9 389	-20 123	12 066	-22 333
Changes in trade creditors	7 693	-3 382	-21 138	26 782
Changes in other current bal. sheet items	13 313	4 143	504	-3 857
Classified as financial activities	6 611	1 059	4 398	5 286
Net cash flow from operational activities	-4 633	-23 051	-79 218	-42 420
Cash flow from investing activities				
Proceeds from sale of PP&E	0	0	0	80 000
Investments in non-current tangible assets	-1 611	-1 938	-18 885	-10 250
Investments in non-current intangible assets	-918	-1 620	-2 305	-2 750
Other investments	2 297	-3 978	679	-3 854
Net cash flow from investing activities	-232	-7 536	-20 514	63 146
Cash flow from financing activities				
Issuance of share capital	0	0	138 008	0
Transaction cost on issue of shares	-77	0	-4 177	0
Payment of interest	-6 611	-1 059	-4 398	-5 286
Proceeds from borrowings	12 072	48 424	25 790	52 339
Repayment of borrowings	-9 925	-1 512	-48 919	-43 479
Other financial activities incl. gov. grants	0	-2 791	0	1 603
Net cash flow from financing activities	-4 541	42 880	106 305	5 177
Net change in cash and cash equivalents	-9 406	12 292	6 573	25 903
Cash and cash equivalents at the beginning of the period	58 048	29 778	42 068	16 165
Cash and cash equivalents at the end of the period	48 641	42 068	48 641	42 068
New shares subscribed from debt	0	0	65 790	0

SELECTED NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. GENERAL INFORMATION AND BASIS FOR PREPARATION

This report has been prepared in accordance with International Financial Reporting Standards (IFRS) and the standard for interim reporting (IAS 34). The same accounting principles and calculation methods used in the last Financial statements (IFRS) 2014 has been used here.

2. USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in accordance with IFRS requires management to make estimates based on professional judgement and assumptions considered realistic. There may be situations or changes in market conditions that can lead to changes in

estimates, but management do not consider it to be significant estimation uncertainty associated with estimates and reported figures for the company's assets, liabilities, equity and profits.

3. TAXES

Deferred tax assets are not posted in the balance sheet. Estimated value is NOK 132.7m.

4. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are governed by market terms and conditions in accordance with the "arm's length principle".

5. INTANGIBLE ASSETS

<i>NOK 1 000</i>	R&D	Trademarks	Patents	Other	Total
Book value at 01.10.2018	14 797	17	1 441	531	16 857
Additions	918	0	0	0	918
Depreciations for the period	153	2	65	25	245
Book value at 31.12.2018	15 562	15	1 376	506	17 530
Economic life	10 years	5 years	5-10 years	10 years	

6. PROPERTY, PLANT AND EQUIPMENT

<i>NOK 1 000</i>	Machines and Equipment	Fixtures and fittings	Total
Book value at 01.10.2018	68 048	1 246	70 652
Additions	2 765	0	2 765
Depreciations for the period	5 927	129	6 056
Book value at 31.12.2018	64 885	1 135	67 360
Economic life	5-10 years	3-10 years	
Method of depreciation	straight line	straight line	

7. SEGMENTS

<i>NOK 1000</i>	Q4 2018	Q4 2017	2018	2017
Per product				
Salmon oil	4 754	6 421	21 049	21 107
Protein	643	11 586	7 196	28 779
Calcium	744	10	947	737
PHP	5 005	3 939	12 045	5 249
By-product/other	3 178	4 448	19 353	10 362
Profit from sold PPE	0	0	0	52 242
Total revenues	14 325	26 404	60 590	118 476

8. COST OF SALES

<i>NOK 1000</i>	Q4 2018	Q4 2017	2018	2017
Cost of goods sold	10 859	19 798	41 998	53 811
Write-downs inventory	0	0	0	1 117
Allocation of cost prod. calc.	-936	0	6 363	0
Net cost of sales	9 923	19 798	48 361	54 928

9. INVENTORY

<i>NOK 1000</i>	Q4 2018	Q4 2017	2017
Per product			
Raw material	1 827	0	1 021
Goods in process	0	0	0
Finished goods	27 576	16 858	15 837
Total inventory	29 402	16 858	16 858

10. FINANCE

<i>NOK 1000</i>	Q4 2018	Q4 2017	2018	2017
Interest expense	1 266	1 149	4 607	4 100
Interest income	180	99	209	100
Net currency exchange	-3 490	-9	-2 391	-1 286
Net financial items	-4 576	-1 059	-6 789	-5 286

11. SHAREHOLDERS

Largest shareholders

<i>Shareholder</i>	# of shares	% share
SIX SIS AG (DEEP BLUE VENTURES FUND/BONAFIDE GLOBAL FISH FUND)	73 703 446	25.00 %
ROGER HOFSETH AS	47 639 998	16.16 %
ALLIANCE SEAFOODS INC.	40 951 333	13.89 %
HOFSETH AS	32 245 725	10.94 %
HOFSETH INTERNATIONAL AS	19 585 905	6.64 %
SEAFOOD FARMERS OF NORWAY AS	10 574 921	3.59 %
HOFSETH AALESUND AS	4 860 718	1.65 %
NORDEA BANK ABP	4 601 000	1.56 %
SWELANDIA INTERNATIONAL AB	4 430 000	1.50 %
STOREBRAND VEKST VERDIPAPIRFOND	4 084 831	1.39 %
VARMA MUTUAL PENSION INSURANCE CO.	3 492 249	1.18 %
HOFSETH LOGISTICS AS	2 456 825	0.83 %
UBS SWITZERLAND AG	2 195 702	0.74 %
CREDIT SUISSE (SWITZERLAND) LTD.	2 117 201	0.72 %
ØDEGÅRD PROSJEKT AS	2 104 039	0.71 %
BNP PARIBAS SECURITIES SERVICES	1 850 855	0.63 %
SINKABERG-HANSEN AS	1 764 107	0.60 %
PETTERSSON	1 553 137	0.53 %
ENTRANS INVEST AS	1 275 088	0.43 %
LFC AS	1 270 000	0.43 %
Total 20 largest	262 757 080	89.12 %
Total other	32 079 749	10.88 %
Total no. of outstanding shares	294 836 829	100.00 %
Total no. of shareholders: 730		