HOFSETH BioCare®

24

ANNUAL REPORT 2018

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Adopted by Hofseth BioCare ASA's Board of Directors 15th March 2018

Hofseth BioCare ASA is committed to maintaining high standards of corporate governance that will strengthen confidence in the company among shareholders, capital market and among other stakeholders, thereby contributing to the greatest possible value creation over time. The aim of corporate governance is to regulate the roles of shareholders, board and management beyond what is required by legislation.

The company reports in accordance with the recommendation of 30 October 2014 ("the Recommendations") issued by the Norwegian Corporate Governance (NUES) . The rules on the continuing obligations of listed companies at www.oslobors.no and guidelines are available on www.nues.no

Compliance is based on a "comply or explain" principle, which means that the company must comply with all recommendations or explain why they have chosen an alternative approach to specific recommendations. The following explains the company's compliance with the 15 sections and addresses the additional requirements set out in the Accounting Act § 3-3 b.

Any deviation from the Code of Conduct will be explained under the appropriate section.

This report is part of the company's annual report. The report is also available on Hofseth BioCare`s website www.hofsethBioCare.no, along with more information about the company's business.

CORPORATE GOVERNANCE

The Board of Directors of Hofseth BioCare ASA has the ultimate responsibility to ensure that the company is practicing good corporate governance. The company's Board of Directors and management conducts a thorough review and assessment of its principles of corporate governance annually.

Hofseth BioCare is a Norwegian public limited company and is listed on Oslo Axess. The Norwegian Accounting Act and the rules of the Continuing Obligations for stock listed companies impose a duty on the Company to issue in the annual report its principles and practice for corporate governance.

VALUES AND GUIDELINES FOR BUSINESS ETHICS AND CORPORATE SOCIAL RESPONSIBILITY

Values and guidelines for business ethics and corporate social responsibility are essential to the Company's competitiveness.

Hofseth BioCare is committed to transparency about its guidelines for management of the Company. This strengthens the value creation, builds internal and external confidence and promotes a code of ethics and sustainable approach to business.

Hofseth BioCare is founded on the core value of sustainability and optimal use of natural resources. The Company aspires to create a healthy company culture based on these core values. The Board of Directors has approved the Code of Conduct for business ethics and corporate social responsibility. The Company's customization of the Code of Conduct and the internal guidelines ensures a proper division of roles and responsibilities and well-functioning cooperation among the Company's shareholders, the Board of Directors and its management, and that the business is subject to satisfactory control. An appropriate distribution of roles, effective collaboration and satisfactory control contributes to the best possible value creation over time, for the benefit of its owners and other stakeholders.

The company's code of Ethics deals with the handling of impartiality, conflicts of interest, relationships with customers and suppliers, relations with the media, insider trading and relevant financial interests of a personal nature.

The core of the concept of CSR is the company's responsibility for people, communities and environment affected by operations and typically addresses

- *HUMAN RIGHTS*
  which means that the company carries out its operations in accordance with the international agreements and conventions that are fundamental rights of every human being, regardless of race, gender, religion or other status.

- *ANTI-CORRUPTION*
  which means that the organization instructed that it should not be demanded, receive or accept an offer of an improper advantage in connection with a position, office or assignment.

- *EMPLOYEE RELATIONS*
  where AMLs provisions concerning employment contracts, working hours, insurance, pension, vacation, sick monitoring etc. embodied in internal guidelines and be followed through the organization. The employees are organized, and there is established good communication channels between employee representatives and management.

- *HSE*
  where Health, Environment and Security in the company's overall focus. Through guidelines and incorporate routines that safety inspections, preventive maintenance routines, etc. involves all the employees. A safety delegate system is implemented in the organization.

- *DISCRIMINATION*
  where the Company endeavors to ensure that there shall be no discrimination or unequal treatment which has its basis in individuals, genders, ethnicities, nationalities, religious communities and the like. The employees are represented by both sexes with both Norwegian and foreign workers.

- *ENVIRONMENTAL*
  which is a key factor in the company's social responsibility. Emissions to water and air are continuously monitored. Regular meetings are held with local authorities and municipal bodies.

BUSINESS

The aim of Hofseth BioCare is defined in the Company's Articles of Association, which among other states:

- Hofseth BioCare's business is development, manufacturing, marketing and sale of marine ingredients such as oil, calcium and protein products, as well as cooperation with, and the participation and ownership in businesses engaged in related businesses.
- The Company’s board of directors shall have from 3 to 10 members according to the resolution of the General Meeting.
- The company shall have an audit committee.

Please refer to Articles of Association for Hofseth BioCare Hofseth that was last modified September 11 2018, and is available on the company's website www.hofsethbiocare.no

EQUITY AND DIVIDENDS

EQUITY

Hofseth BioCare will have a level equity which is appropriate to its objectives, strategy and risk profile, and the Board of Directors will continually to assess the capital situation.

The Company's Board of Directors and management have used the following instruments to have a customized equity at any given time

- Private placement/capital increase
- Shareholder loans (subordinated loan) that can be seen as part of the company's equity
- Sales-enhancing and cost-cutting measures

Per 31 December 2018, the Group had an equity of NOK 86.2 million, corresponding to an equity ratio of 45.8 %. The Board is considering an equity share of around 25 % to be at a satisfactory level in terms of proper equity. The company's long-term debt financing has financial covenants of 25 % equity including subordinated loans. The main shareholder(s) have, if necessary, issued subordinated loans to ensure that the company is not in violation of the covenant requirements of the banks. The Board of Directors will at any time consider various instruments to ensure that the company has sufficient equity, including an authorization granted by the General Meeting on 24 April 2018 for the issuance of up to approximately 40.5 million new shares, valid at the time of publishing the annual report.

DIVIDEND

Hofseth BioCare aims to give its shareholders a competitive rate of return based on the company's earnings. The dividend will be considered in the context of Hofseth BioCare's financial position, loan terms and capital requirements for existing and new projects.

MANDATES OF THE BOARD OF DIRECTORS

Mandates granted of the Board of Directors, either to increase the company's share capital or to buy its own shares, will generally be limited to defined purposes and usually limited in time to the date of the next annual general meeting.

As of 31 December 2018, the Board of Directors in Hofseth BioCare holds the following authorization to increase the company's share capital by issuing new shares with a total face value of up to NOK 40,449,975 equivalent to 40,449,975 shares, each with a nominal value of NOK 1.00.

The authorization can be used in connection with the issuance of shares to investors who is considered to have strategic importance for the company as well as to repair any issues as a result of such, or any other private equity issues.

In accordance with this power of attorney to the Board of Directors will also be able to offer shares to the people or companies who are not shareholders of the company. Existing shareholders' preferential right may be waived.

The Board of Directors is given the authority to change the Articles of Association stating the share capital size in accordance with the shares the Board decides under this authorization. The authorizations were granted at the Ordinary General Assembly 24 March 2017 and 24 April 2018 and is valid until Ordinary General Assembly 2019, however not longer than 30 June 2019.

EQUAL TREATMENT AND TRANSACTIONS WITH CLOSE ASSOCIATES

Hofseth BioCare has one class of shares. Each share in the Company carries one vote.

All shareholders shall be treated on an equal basis. The shareholders shall not be exposed to differential treatment that lacks a factual basis in Hofseth BioCare’s and the shareholders’ common interest.

TRANSACTIONS WITH CLOSE ASSOCIATES

Included in the rules of procedures for the Board, there are guidelines for how the members of the Board and the CEO should act in discussions or decisions of issues in which have a special personal importance to them, or to any closely related party of the member in question.

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

The Company's Board and management and their related parties, as well as all companies in the Hofseth group, including Roger Hofseth AS and Hofseth International AS, will be related parties to Hofseth BioCare.

Transactions with related parties are further described in notes to the annual accounts.

FREELY NEGOTIABLE SHARES

All shares in Hofseth BioCare are freely transferable without any limitations in its Articles of Association.

THE GENERAL MEETINGS

Through the general meeting the shareholders exercise the highest authority in Hofseth BioCare. All shareholders are entitled to submit items to the agenda, meet, speak and vote at general meetings in accordance with the provisions of the Norwegian Public Limited Companies Act. The Board of Hofseth BioCare strives to ensure that the general meetings are an effective forum for communication between shareholders and the Board, and the Board shall take steps to ensure that as many shareholders as possible may exercise their rights by participating in the general meetings.

The annual general meeting is held each year before the end of May. Extraordinary general meetings may be called by the Board at any time. Hofseth BioCare's auditor or shareholders representing at least five percent of the total share capital may demand an extraordinary General Meeting to be called.

The notice calling the annual general meeting is made available on the Company's website and sent to shareholders with known addresses by post no later than 21 days prior to the date of the meeting. Article 9 in the Company's Article of Associations states that documents related to matters on the agenda of a general meeting can be made available on the Company's website rather than being sent to shareholders by post. The supporting documentation will be available at the same date as the notice calling the meeting and provides all the necessary information for shareholders to form a view on the matters to be considered. The deadline for registration for the annual General Meeting is at the latest 3 days before the general meeting takes place. Shareholders who cannot attend the general meetings in person shall be given the opportunity to vote, and the Company shall provide information and nominate an available person who may vote on behalf of the shareholders in this respect.

The general meeting elects the members and deputy members of the Board, determines the remuneration of the members of the Board, approves the annual accounts, discusses the Board of Director's guidelines on management remuneration and decides such other matters which by law or Hofseth BioCare's Articles of Association are to be transacted at the General Meeting.

The Board of Directors, the Nomination Committee and the auditor's attendance at the General Meeting is waived from the recommendation if a review of the agenda, the availability and physical location would suggest this. Under the General Meeting for the adoption of the accounts for 2017 were not all members who participated. The auditor did not participate.

NOMINATION COMMITTEE

The General Meeting has chosen a Nomination Committee to secure the objectivity regarding the shareholders' interests.

The company shall have a nomination committee consisting of 3 members to be elected by the General Meeting. The majority of the members of the nomination committee shall be independent of the board of directors and the management. The members of the nomination committee shall be elected for terms of two years.

The nomination committee shall propose candidates for the board of directors and the nomination committee, including remuneration to the board of directors and the members of the nomination committee. Members of the Nomination Committee are Geir Even Håberg, Lennart Clausen and Roger Hofseth.

Roger Hofseth became CEO 14 August 2017 and is today not independent of the board and management.

The remuneration to the Nominating Committee shall be determined by the General Meeting.

The nomination committee shall evaluate the need for changes of the board and the nomination committee. To have the best possible basis for their deliberations, the committee should be in contact with the directors and the CEO.

Furthermore, the Nomination Committee should consult relevant shareholders for nominations and for consensus in its decision. The board's evaluation report (ref. Paragraph 9 of its work), should be treated separately by the Nomination Committee.

The recommendations of the nomination committee shall be justified to the best of the shareholders and the Company.

THE BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

The Board of Hofseth BioCare includes four members, of which two women, which corresponds to the Company's Articles of the Associations Section 5, stating that the Board should have from three to ten members.

Members of the Board are selected in the light of an evaluation of the Company's needs for expertise, capacity and balanced decision-making, and with the aim of ensuring that the Board of Directors can operate independently of any special interests and function effectively as a collegiate body.

The majority of the Board of Directors shall be independent of Hofseth BioCare's management and its main business connections. At least two of the members of the Board shall be independent of the Company's main shareholder(s). The Board of Directors does not include executive personnel.

Chairman of the Board Ola Holen is employed in one of the Company's largest shareholders. Mr. Holen is also related to several of the Company's business connections and is thus not considered independent.

The board members Christoph Baldegger and Torill Standal Eliassen are considered independent of management, business connections and the Company's main shareholders.

Henriette Godø Heggdal is an employee of the company as Lab manager, however, is the shareholder elected representative to the Board of Directors.

The term of office for members of the Board of Directors is two years. An updated overview of the members of the Board of Directors of Hofseth BioCare, including their employment, education and professional background is provided on the Company's website www.hofsethbiocare.no.

Members of the Board of Directors is encouraged to own shares in the company

The General Meeting elects the Chairman of The Board of Directors.

THE WORK OF THE BOARD OF DIRECTORS

THE BOARD OF DIRECTORS

The Board of Directors has the overall responsibility for the management of Hofseth BioCare. This includes a responsibility to supervise and exercise control of the Company's activities.

Furthermore, this includes developing the Company's strategy and monitoring its implementation. In addition, the Board of Directors exercises supervision responsibilities to ensure that the company manages its business and assets and carries out risk management in a prudent and satisfactory manner. The Board of Directors is also responsible for the appointment of the Chief Executive Officer (CEO).

The board has its own mandate.

HE BOARD PREPARES AN ANNUAL PLAN FOR ITS WORK

In accordance with the provisions of Norwegian company law, the proceedings and responsibilities of the Board of Directors are governed by a set of rules of procedures. The Chairman of the Board is responsible for ensuring that the work of the Board of Directors is carried out in an effective and proper manner in accordance with legislation.

The Board of Directors has issued a mandate for the work of the CEO. There is a clear division of responsibilities between the Board of Directors and the CEO. The CEO is responsible for the operational management of the group.

THE BOARD CARRIES OUT AN ANNUAL EVALUATION OF ITS OWN PERFORMANCE, WORKING ARRANGEMENTS AND COMPETENCE.

The Board of Directors has adopted an audit committee (the "Audit Committee") in accordance with Company's Articles of Association Section 6 and the Code. There is a special instruction for the Audit Committee.

According to the Company's Articles of Association Section 6, the Board decides the members of the committee. The members of the Audit Committee are:

- Torill Standal Eliassen (Chairman)

The Board of Directors has adopted a compensation committee (the "Compensation Committee") in accordance with Company's Articles of Association Section 11. The members of the Compensation Committee are:

- Christoph Baldegger
- Torill Standal Eliassen

RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Hofseth BioCare shall ensure that the Company has sound internal control and systems for risk management that are appropriate in relation to the extent and nature of the Company's activities. The internal control and the systems should also encompass the Company's corporate values, ethical guidelines and guidelines for corporate social responsibility.

Risk management and internal control is performed through various processes within the Company, both though the Board of Directors work and the operational management of the Company.

The Board of Directors receives on a regular basis reports from management outlining the financial and operational performance of the Company. The administration's reporting should be based on input acc. key reporting from the chain of command, as updated accounting and valuation of accounting items, including relevant operating data of importance for the assessment of accounting records. Monthly operating reports shall be evaluated and decided by the overall management of the group.

There must be sufficient qualified resources to carry out appropriate reports which will contribute to decision support and continuous control of the Group's performance.

In connection with the budget work and approval of the budget, the Board of Directors evaluates the internal control systems and the most important risk factors that the Company may be confronted with. In view of the Company's growth strategy the Board of Directors pays attention to ensuring that the internal control systems apply to all aspects of the Company's activities. The Board of Directors also considers the need for any further measures in relation to the identified risk factors.

In line with NUES, the Board of Directors has adopted guidelines that encompass the Company's corporate and ethical values and corporate social responsibility, cf. Section 1 (Code of Ethics).

The preparation of interim reports and annual reports shall be in accordance with Norwegian and international principles for accounting and as further set out in the rules of procedure for Board of Directors.

The Group's control environment is assessed as satisfactory. The Group operates with a small accounting / controlling department, which could limit financial internal control as a result of limited opportunity for sharing of accounting tasks. As a result, the share of the payroll functions outsourced to external accounting firm.

Operative internal control is safeguarded through established procedures and guidelines to be followed up through line management and management reporting. Likewise, continuous risk analysis and control activities are executed. The Board believes that the scope and level of the said areas is satisfactory to the Group's size and complexity.

The Board of Directors, through its Audit Committee and together with its independent auditor, carries out an annual review of the Company's most important areas of exposure to risk and its internal control arrangements.

The Board of Directors provides an account in the annual report of the main features of the Company's internal control and risk management systems as they relate to the Company's financial reporting.

REMUNERATION OF THE BOARD OF DIRECTORS

The compensation to the Board shall reflect the Board's responsibility, expertise, time commitment and the complexity of the Company's activities.

The remuneration paid to the members of the Board will be decided by the general meeting. The remuneration paid to the members of the committees will be decided by the general meeting having considered proposals by the Board in line with the Code. Information about the fee paid to the Board and committees is stated in the annual report.

There is an existing agreement the board may use in connection with the issuance of shares to directors and employees of the Company. In addition to moderate board remuneration it was considered that options are the most appropriate way to honor board members.

REMUNERATION OF EXECUTIVE PERSONNEL

The Board of Directors prepares guidelines for the remuneration of the executive personnel. The guidelines are communicated to the annual general meeting. The Company's performance-related remuneration of the executive personnel are linked to value creation for shareholders or the Company's earnings performance over time and the Company strives to ensure that its arrangements are in line with the guidelines.

INFORMATION AND COMMUNICATIONS

Hofseth BioCare's information policy shall be based on openness and equal treatment of all shareholders and the Company has resolved to comply with the Oslo Børs' Code of Practice for Reporting IR Information.

Hofseth BioCare strives to continuously publish all relevant information to the market in a timely, effective and non-discriminatory manner. All stock exchange announcements are made available both on the Company's website and on the Oslo Stock Exchange news website www.newsweb.no and are also distributed to news agencies.

The Company publishes its preliminary annual accounts by the end of February, together with its fourth quarter results.

The complete annual report and accounts are made available to shareholders no later than three weeks prior to the annual general meeting, or, at the latest, by 30 April each year, which is the last date permitted by the Securities Trading Act. For 2017 the complete annual report and accounts were approved and published 16 March 2018.

Quarterly results are normally published at the latest within two months after the close of the quarter. The Company's financial calendar for the coming year is published no later than December 31 in accordance with the rules of the Oslo Stock Exchange. The financial calendar is available on the company's website and on the Oslo Stock Exchange website.

Quarterly reports and presentation material are available on the Company's website, www.hofsethbiocare.com.

TAKE-OVERS

It is a fundamental principle for Hofseth BioCare that all shareholders are treated equally. Openness in respect of take-over situation is considered to be important in ensuring equal treatment of all shareholders.

The Company will not seek to hinder or obstruct take-over bids for the Company's activities or shares unless there are particular reasons for this.

In the event of a take-over bid for the Company's shares, the Board of Directors should not exercise mandates or pass any resolutions with the intention of obstructing the take-over bid unless this is approved by the general meeting following announcement of the bid.

If an offer is made for the Company's shares, the Company's Board of Directors should issue a statement making a recommendation as to whether shareholders should or should not accept the offer. The Board of Director's statement on the offer should make it clear whether the views expressed are unanimous, and if this is not the case it should explain the basis on which specific members of the Board of Directors have excluded themselves from the Board of Directors' statement. The Board of Directors should arrange a valuation from an independent expert. The valuation should include an explanation and should be made public no later than at the time of the public disclosure of the statement.

Any transaction that is in effect a disposal of the Company's activities should be decided by a general meeting, except in cases where such decisions are required by law to be decided by the corporate assembly.

AUDITOR

EY is the auditor for Hofseth BioCare and is appointed by the AGM.

The auditor shall submit to the audit committee the main features of the plan for the auditing work. Furthermore, the auditor shall at least once a year prepare a report containing its opinions on the Company's accounting policies, financial affairs and internal controls. The auditor participates in board meetings dealing with the consolidated accounts and the company.

In meetings with the audit committee and the board auditor shall explain any material changes in the company's and Group's accounting policies, the assessment of the significant estimates and all significant matters that there has been disagreement about between the company and the auditor. The Board has annual meetings with the auditors without the group management teams are present.

There are no written guidelines for executive management's use of auditors for services other than auditing. This differs from "Norwegian recommendation for corporate governance." The auditor explains, however, the audit committee for which services other than auditing provided the Group and company. The Audit Committee during the year responsible for approving the services auditors provide and the fees for these. The Audit Committee in conjunction with the annual report in 2018 received a written confirmation from the auditor that he satisfies established and legitimate independence requirements.

It will be informed of the auditor's remuneration for auditing and other services in the Annual General Meeting. The auditor's remuneration disclosed in note 4 to the financial statements.

THE BOARD OF DIRECTOR'S REPORT 2018

IMPORTANT EVENTS IN 2018

FIRST QUARTER

Attended FI Europe trade show with new customer leads in new industries. Sales to new customers, both in the human and pet food markets.

The company has released its fifth ingredient, CollaGo™, a Salmon Collagen Tripeptide, with more that 25 % collagen Type I & III. The product will mainly be sold in the US market.

SECOND QUARTER

Approved plans at Midsund municipality for future expansion of the Midsund plant.

Further improvement on PetGo™ yields after process adjustments implemented in April.

Started the second phase testing on HBC's Salmon peptides to treat enterocolitis in neonate babies and sarcopenia in geriatric patients, at the Stanford School of Medicine in California.

Started our ProGo® Sarcopenia animal model study with SAFORD with preliminary results expected in the fourth quarter 2018.

HBC executed a private placement of NOK 123.2 million and announced a repair issue of maximum NOK 20 million to be carried out from August 27th.

THIRD QUARTER

Further improved yields and quality on CalGo® after installing a new processing line at the Midsund plant.

Started product launch discussions for ProGo® and CalGo® finished products in the US. Product development started during summer and is ongoing together with the customer.

Increased customer activities after summer, resulting in high marketing and sales activities in USA and Asia

HBC finalized the private placement and the subsequent offering and raised a total of approx. NOK 138m.

FOURTH QUARTER

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*.

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.

SIGNIFICANT EVENTS POST BALANCE SHEET DATE

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 in January 2019.

Growth in Brilliant™ Salmon Oil sales after increased market activities in December.

OmeGo® as a finished white-labelled product has been launched in the Indian market in February.

FINANCIAL RESULTS

REVENUES AND RESULTS

The Group generated gross operating revenues of NOK 60.7 million in 2018, down from NOK 118.5 million in 2017. Similarly, the parent company had gross revenues of NOK 49.9 million in 2018, down from NOK 94.5 million in 2017. Estimated gain from the sale of business buildings in 2017 is recognized as income of NOK 52.2 million in operating revenues for the Group and NOK 30.7 million in operating income in the parent company's accounts in 2017. Ordinary operating revenues are somewhat lower than expected mainly due to lower activity and optimization of the production lines throughout the year.

Operating costs, excluding depreciation and amortization amounted to NOK 116.3 million in 2018, compared to NOK 108.0 million in 2017. For the parent company operating expenses amounted to NOK 98.9 million in 2018 compared to NOK 106.5 million in 2017. The expenses are mainly cost of sales, salaries and other operating expenses.

The Group posted an operating loss of NOK 77.7 million in 2018, compared with a loss of NOK 11.2 million in 2017, including gain from the sale of business buildings recognized as income of NOK 52.2. Similarly, the parent company an operating loss of NOK 70.6 million compared to NOK 33.0 million in 2017.

Net financial result was at NOK -6.8 million in 2018, compared with NOK -5.3 million in 2017. Net financial for the parent company was respectively NOK -13.1 million and -3.2 million in 2018 and 2017.

The Group generated a loss before tax of NOK 84.5 million in 2018, compared to a loss of NOK 16.5 million the year before. For the parent company deficit before tax of NOK 84.0 million in 2018, compared to NOK 36.2 million in 2017.

The group had a tax expense of 0.2 million in 2018 compared to 0.0 million in taxes in 2017. The Group has not recognized deferred tax assets. Net loss for the year was NOK 84.8 million, compared with a net loss of 16.5 million in 2017.The parent company had a net loss of NOK 84.0 million in 2018, compared to NOK 36.2 million in 2017.

FINANCIAL POSITION

As of 31 December 2018, Hofseth BioCare had a total consolidated balance sheet of NOK 187.9 million, up from NOK 184.2 million at the end of 2017. The parent company had a balance sheet total of NOK 199.2 million compared to NOK 202.9 million in 2017.

Deferred tax assets have not been recognized in 2018. At the end of 2018, deferred taxes amounted to NOK 124.8 million for the group (111.1 million at the end of 2017). Equity amounted to NOK 86.0 million at the end of 2018, which corresponds to an equity ratio of 45.8 %. By the end of 2017 the Group had a total equity of NOK 37.1 million and an equity ratio of 20.1 %. The parent company had an equity of NOK 87.5 million at the end of 2018 compared to NOK 37.7 million the year before. Equity ratio was equivalent to 43.9 % in 2018 and 18.6 % at the end of 2017 for the parent company.

At 31 December 2018 the Group had cash and cash equivalents of NOK 48.6 million compared with NOK 42.1 million at the end of last year. The parent company had NOK 45.3 million in cash and cash equivalents at the end of 2018 compared to NOK 41.0 million the year before.

At the end of 2018 the group had NOK 30.4 million in long-term interest-bearing debt and NOK 27.9 million in short-term interest-bearing debt, compared with respectively NOK 44.3 million and NOK 37.1 million for the same period last year. The parent company had NOK 27.4 million and NOK 27.4 million respectively in long-term and short-term debt in 2018. By the end of 2017 NOK 40.8 million were non-current and NOK 36.6 million short-term.

FINANCING

CASH FLOWS

Consolidated cash flow from operating activities amounted to NOK -28.6 million in 2018, compared with NOK -25.5 million the year before. The change in net cash flow is mainly due to higher losses in 2018 compared to 2017 where gain from the sale of business buildings was recognized as income of NOK 52.2. The parent company had a negative cash flow of NOK 21.5 million, compared to negative NOK 28.1 million the year before.

Net cash flow from investing activities amounted to NOK -9.8 million, compared to NOK 63.5 million in 2017 for the group. Total consideration of NOK 80.0 million from the sale of business buildings in 2017. The parent company had cash flow from investing activities of NOK -11.3 million in 2018 compared to NOK 35.3 million in 2017.

Net cash from financing activities amounted to NOK 45.0 million in 2018, compared to NOK -12.1 million the year before. Corresponding figures for the parent company was NOK 37.1 million in 2018 and NOK 19.6 million in 2017. The Company executed a private placement and a subsequent offering in 2018.

GOING CONCERN

In accordance with the accounting act § 3-3a we confirm that the conditions for continued operations is present and that the annual report have been prepared based on the going concern assumption. It should be noted that there is uncertainty considering the Group's ability to sell products at sufficiently high prices, whereas the Company has secured several large contracts on high volumes, but at a lower price than long-term ambitions.

The private placement in 2018 improved the cash balance in the second half of 2018 and combined with the financing agreement on factoring and inventory financing ensure sufficient liquidity in the first part of 2019. Furthermore, the Board of Directors at the time of submission of the annual report have two authorizations granted by the General Meetings on 24 March 2017 and 27 April 2018 for the issue of up to approximately 40.5 million new shares. The authorization is intended to be used if the company has a need for additional equity and liquidity.

The Company is compliant with all requirements of our loan contracts and thus is not in violation of covenants as of 31.12.2018. The company still has negative results in the two months of 2019 but the Company is not in breach of the covenants on any loan contracts. Please refer to Note 15 for more information on conditions linked to the Group and the company's interest-bearing debt and Note 18 for information about liquidity risk and down-payment structures on the Group’s liabilities.

It will be crucial for the group and the company to achieve a higher production and average price of their products in order to contribute to adequate profitability in the future. The company expects improvement in future results when prices and volumes for the individual products are established.

The Board considers it essential that the group and the company manages to increase sales and improve earnings timely in relation to the need for liquidity in the Group and the Company. The board will keep the income and liquidity situation closely and continuously assess the need for additional liquidity. If the Group and the company do not succeed sufficiently with planned measures in the market, a share issue will be carried out during 2019.

The group and the company's assets and values are present under the assumption of going concern. In a potential forced sale related to liquidation, the value of some of the group's and the company's assets may be lower than the book value of the assets. The uncertainty primary relates to the value of intangible assets and rights, fixed assets, financial assets and investments, as well as the value of inventories.

ALLOCATION OF EARNINGS

In 2018 net loss for the parent company Hofseth BioCare ASA amount to NOK -84.0 million. The Board proposes the following allocation of the loss:

Uncovered loss	84.0 million NOK
Total	84.0 million NOK

RISK AND RISK MANAGEMENT

RISK MANAGEMENT

The industry in general is subject to several risk factors. Although these are particularly associated with the production process, also conditions to external suppliers, customers, regulatory provisions, as well as general market trends are essential.

All these risk factors may have a negative impact on the Group's business, financial condition, results and ability to execute projects. Some of the main risk factors facing the Group are briefly described below. We also refer to Note 18 "Financial Risk Management" in the accounts.

OPERATIONAL RISK

The Biotechnology industry is characterized by integration and interdependence between the various steps in the manufacturing process. In Hofseth BioCare, there is a high degree of integration between the various production stages. Any interruption in one function can therefore result in much of, or all the production to halt. Hofseth BioCare has installed extensive monitoring, and staff are working continuously on fine tuning and optimization of processes, to maximize operational uptime. Throughout the last three years, significant improvements and expansions in production have been made that also includes better opportunities for continued production if one of the components stops. Ensuring continuity of operations at any interruption of critical functions has high priority.

A competent workforce is an important factor in the effort to ensure continuity of production. Hofseth BioCare staff have extensive experience and expertise in manufacturing technology, and new employees undergo continuous training and education to build up the necessary expertise.

The Group's manufacturing operations are currently concentrated in two plants and downtime of these facilities can have a significant impact on the company's potential revenue.

MARKET RISK

Hofseth BioCare reduce its market risk through geography- and market diversification. In addition to focusing on sales to Europe, North America and Asia, the company sells its products to various segments of the human nutrition market (sports nutrition, supplements and health foods), as well as to the market within nutrition to pet and feed industry. This strategy allows Hofseth BioCare to reduce its dependence on one market segment and geographical area.

FOREIGN EXCHANGE RISK

Hofseth BioCare trades in multiple currencies, mainly USD and EUR. Fluctuations in exchange rates can have an impact on the company's operations, results and financial position. Hofseth BioCare shall not engage in currency speculation, therefore hedge strategies have been implemented in 2018 based on the company's contractual, and thus predictable, revenue flows.

INTEREST RATE RISK

Changes in general interest rates could affect the company's financing and may have an impact on costs. Changes in interest rates may also affect the value of the company's assets.

CREDIT RISK

To minimize the risk of bad debts, the customers' creditworthiness is rated continuously. Claims on all customers are credit insured through the *Norwegian Guarantee Institute for Export Credits AS* (GIEK).

Hofseth BioCare's marketing and distribution strategy is to seek collaboration with medium to large business associates who have extensive knowledge of their markets. This will often mean well-established, solid companies with high credit ratings.

FINANCIAL AND LIQUIDITY RISK

The Group manages its liquidity risk by strive to have sufficient cash, and bank schemes and lines of credit. Moreover, preparing and monitoring forecasts to keep track of actual cash flows.

The group had restricted liquid assets through 2018 and executed a private placement of approx. NOK 138 million in the third quarter of 2018. Hofseth BioCare had cash and cash equivalents totalling NOK 48.6 million at the end of 2018 compared with 42.1 million at the same time last year. Cash and cash equivalents consist largely of cash and bank deposits.

RISK INSURANCE

Although Hofseth BioCare seeks to reduce the impact of adverse events using its risk management system, a certain risk remains exist which cannot be completely eliminated through preventive measures. The company covers such risks to a certain extent through the purchase of insurance. The Hofseth BioCare insurance portfolio is covering areas such as business interruption, damage to equipment and property, third party liability and other risks, as well as various types of personnel insurance.

ORGANISATION

Hofseth BioCare AS was founded in 2009, with the conversion to ASA in 2011. At the end of 2018 Hofseth BioCare Group had a total of 44 employees.

WORKING ENVIRONMENT

The group's working environment is considered good. The Board emphasizes great importance and priority to reduce absenteeism and preventing injuries. No serious work-related accidents occurred during the year. Long-term absence 2018 was 2.8 %, up from 1.1 % in 2017, short-term absence was 2.7 %, and 1.7 % in 2017.

Absence was a total 5.5 % in 2018. Risk analysis is the basis for measures to be taken to prevent damage or other adverse events to occur. This is a key element in Hofseth BioCare's work with HSE. Understanding risk is essential to prevent dangerous situations. This will be handled continuously and HSE training is getting better. Risk analysis work is being followed up continuously. If HSE non-conformities occur, measures will be put in place to prevent such non-conformities from happening again.

Hofseth BioCare has a partnership with Medi3 who takes care of occupational health in the Group. All employees will also in 2019 undergo a medical examination. A working environment survey will be conducted, that will help and contribute to increased job satisfaction and working environment in the Group.

HBC Berkåk AS has established an agreement with AktiMed, which has an office in Trondheim. This is a requirement for all companies that belong to our industry group ref. Section 13 of the Regulations for organization, leadership and participation.

Injury and illness absence	*Berkåk 2018*	*Midsund 2018*	*Adm. 2018*	*Group 2018*
Total absence (%)	3.1	8.1	0.8	5.5
Total working hours (all)	16,848	45,779	9,666	72,293
-specification:				
Short term absence (%)	1.3	3.9	0.8	2.7
Long term absence (%)	1.8	4.2	0.0	2.8
Number of injuries	0	0	0	0
Number of damages	0	0	0	0

EQUALITY

Hofseth BioCare aims to practice equality and avoid discrimination in all aspects of our HR and recruitment policies. Hofseth BioCare actively works consciously to promote recruitment of female managers and employees. At the end of 2018, 7 of 44 employees in Hofseth BioCare were women, and in the Board of Directors 2 of 4 members were women (proportion of women 50%). The Group uses foreign laborers at its factory in Midsund and practice equality of Norwegian and foreign employees.

ENVIRONMENT

Hofseth BioCare is working to reduce the environmental impact in several areas. The major environmental issues are related to the plant in Midsund. The emissions are mainly related to a process which also affect emissions to air and sea. HBC aims to continuously satisfy all requirements for emissions to air and sea. Hofseth BioCare is also working on minimizing total energy consumption.

All organic matter that has not been heat treated goes through a treatment plant and is acid-treated with the right pH and holding time before it is discharged into the sea. Hofseth BioCare has routines for sampling and measurement of wastewater to be within the imposed requirements.

All waste from the production at Midsund are sorted and delivered to recycling, or disposal as hazardous waste.

Organic waste from the process is delivered to approved manufacturers of biogas. Residual waste is collected in a separate compactor and delivered to the incinerator. Cardboard and paper are sorted and delivered to recycling. Waste from our laboratory are collected and delivered in special containers as special waste. Steel and electric waste is delivered to an approved landfill.

Hofseth BioCare transports mainly by road and sea. This applies to the inbound transport of raw materials and outbound products to our customers around the world. Through the optimization of transport and raw material sourcing within Møre og Romsdal, the group aims to reduce the need for long-haul operations. Transport of finished products are mainly to Europe, Asia and the United States. For Europe, road transport and by sea is used and to the United States and Asia we use sea transport. The group intends to transport more goods by rail and boat if solutions for such transport can compete with road transport in regard to speed and infrastructure.

CORPORATE SOCIAL RESPONSIBILITY

See separate report prepared about the strategy to take an active responsibility around our business. It can be found on the company's website: www.hofsethbiocare.com/investors/csr/

SHAREHOLDERS

At the end of the year the company had 736 shareholders. For further details about the shareholders, see note 24 to Hofseth BioCare ASA's accounts. The company has no provisions restricting the right to sell the Company's shares.

RELATED PARTIES

Related party transactions are made on commercial terms in accordance with the "arm's length" principle. A complete and detailed overview of transactions with related parties is included in Note 6 to Hofseth BioCare ASA's accounts.

CORPORATE GOVERNANCE

Hofseth BioCare ASA aims to maintain a high standard of corporate governance. A healthy corporate culture is the key to retain confidence in the company, ensuring access to capital and ensuring a high degree of value creation over time.

All shareholders are treated equally and there should be a clear divide of roles and responsibilities between the Board and management. Hofseth BioCare follows the *Norwegian Code of Practice for Corporate Governance of 30 October 2014*. A more complete description of how Hofseth BioCare follows the recommendation and the 15 provisions, can be found on http://www.hofsethbiocare.no/investors/cg/

OUTLOOK

2018 was a year in which Hofseth BioCare expanded and fine-tuned production to show higher quality and yields. During the last year, the company went through several organizational processes that were crucial to the company's further development and to achieve its long-term strategy. Due to the changes in 2018, Hofseth BioCare is now better prepared for the future and increased production volumes.

Alliance Seafoods Inc. in Japan and Hofseth North America Llc. in the US has become important partners for sales outside the European market and the collaboration is starting to bring exciting customer prospects.

For our human salmon protein ProGo®, significant resources have been invested to perfect organoleptic properties and we will continue to invest in further studies. The work that began in spring 2017 at Stanford University in California will continue throughout 2019 and is already showing promising results. It is expected that this work will provide good, long-term opportunities for this product and significant revenue streams for HBC in the future.

Commercial production of CalGo® has also been an important focus area in 2018. The new production line has been finalized and the yield has improved. Further focus to establish good contracts for this product will continue in 2019, and the company has already launched a finished product based on CalGo®.

PetGo™, introduced in 2017 will continue to be delivered to high-end pet food producers. During 2018, an increase in yield resulted in better revenues and cash-flow on this product.

Our corporate sales strategy, distributing products in three segments; feed, pet and human, will ensure higher revenues and cash flow. Simultaneously, further research and development will increase future sales in core business areas; ingredients and finished products for human consumption.

Increased production volumes and a more extensive customer base will always be seen in conjunction with the Group's environmental profile. Hofseth BioCare's vision is, and will be, sustainable production of premium bioactive ingredients with documented health effects.

Hofseth BioCare ASA Board of Directors,

Ålesund, 15 March 2019

Ola Holen
Chariman of the board

Henriette G. Heggdal
Board member

Christoph Baldegger
Board member

Torill Standal Eliassen
Board member

Roger Hofseth
CEO

FINANCIAL STATEMENTS

CONSOLIDATED AND PARENT COMPANY

Statement of comprehensive income

1 January – 31 December

Hofseth BioCare ASA

		Consolidated (IFRS)		Parent company (IFRS)	
(Figures in NOK 1000)	Note	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Operating revenues and expenses					
Sales revenues	3,6	60 740	66 234	49 885	63 818
Other operating revenue	2,3,6	0	52 242	0	30 721
Gross operating revenue		60 740	118 476	49 885	94 539
Cost of sales	2,4,6	48 361	54 928	45 531	62 649
Salaries and other payroll expenses	5	31 402	26 127	25 022	21 021
Other operating expenses	4,6,12	36 485	26 922	28 349	22 801
Depreciation and Write-down	10-12	22 190	21 695	21 577	21 042
Operating profit/loss (EBIT)		-77 699	-11 196	-70 593	-32 975
Financial income	7	3 036	1 065	3 033	3 344
Financial expenses	6,7,12	9 865	6 351	16 159	6 538
Net financial expenses	13,18	-6 829	-5 286	-13 126	-3 194
Loss before taxes		-84 527	-16 482	-83 719	-36 168
Tax expense	8	249	0	249	0
Net loss for the period	2	-84 776	-16 482	-83 968	-36 168
Other income and costs		0	0	0	0
Total comprehensive income		-84 776	-16 482	-83 968	-36 168
Comprehensive income attributable to:					
Shareholders in HBC ASA		-84 768	-16 475		
Non-controlling interest		-8	-7		
Total		-84 776	-16 482		
Earnings per share (NOK)		2018	2017	2018	2017
Basic earnings per share	9	-0.33	-0.07	-0.33	-0.15
Diluted earnings per share	9	-0.33	-0.07	-0.33	-0.15

Statement of financial position

1 January – 31 December

Hofseth BioCare ASA

		Consolidated (IFRS)			
(Figures in NOK 1000)	Note	31.12.2018	31.12.2017	31.12.2018	31.12.2017
ASSETS					
Non-current assets					
R&D, patents etc.	2,12	17 357	17 605	17 255	17 605
Total intangible assets		17 357	17 605	17 255	17 605
Machines and equipment	10,11	43 539	53 606	38 732	48 684
Leased machines and equipment	6,11,12	23 074	12 886	23 074	12 886
Fixtures and fittings	10,11	748	1 597	748	1 597
Total fixed assets	2,25	67 361	68 088	62 554	63 167
Investment in associates	7,22	0	0	22 398	25 951
Non-current financial assets	13,14,22	2 909	3 654	2 909	3 654
Total non-current financial assets		2 909	3 654	25 307	29 605
Total non-current assets		87 626	89 348	105 116	110 377
Current assets					
Inventory	2,6,19	29 402	16 858	29 096	16 631
Trade receivables	2,6,20	14 697	26 703	13 071	25 778
Other current assets	5,20	7 578	9 262	6 611	9 157
Cash and cash equivalents	21	48 641	42 068	45 293	40 981
Total current assets	13,14,18	100 319	94 891	94 072	92 546
TOTAL ASSETS	2,13,25	187 945	184 239	199 187	202 924

		Consolidated (IFRS)		Parent company (IFRS)	
(Figures in NOK 1000)	Note	31.12.2018	31.12.2017	31.12.2018	31.12.2017
EQUITY AND LIABILITIES					
Equity					
Paid in equity					
Share capital	5,24	294 837	233 500	294 837	233 500
Other paid in equity		0	0	0	0
Total paid in equity		294 837	233 500	294 837	233 500
Retained earnings					
Uncovered losses		-208 120	-195 752	-207 383	-195 822
Total retained earnings (+) Uncovered loss (-) (attributable to equity holders of the parent)		-208 120	-195 752	-207 383	-195 822
Non-controlling interests	22	-673	-665	0	0
Total equity		86 044	37 083	87 454	37 678
Non-current liabilities					
Subordinary debt	6,15,16,17	0	15 000	0	15 000
Interest-bearing loans and borrowings	6,15,16,17	17 467	22 830	14 507	19 316
Financial lease obligations	6,12,13,15	12 921	6 512	12 921	6 512
Total non-current liabilities	15-18	30 387	44 342	27 428	40 829
Interest-bearing loans and borrowings	11,17,20	27 912	37 084	27 358	36 546
Trade payables	6,23	32 112	51 929	28 851	49 487
Other liabilities	23	11 490	13 800	28 097	38 385
Total current liabilities	13,16,18	71 514	102 813	84 306	124 417
Total liabilities	13,16,18	101 901	147 156	111 734	165 246
TOTAL EQUITY AND LIABILITIES	2,13,25	187 945	184 239	199 187	202 924

Hofseth BioCare ASA Board of Directors,

Ålesund, 15 March 2019

Ola Holen
Chairman of the Board

Henriette G. Heggdal
Board member

Christoph Baldegger
Board member

Torill Standal Eliassen
Board member

Roger Hofseth
CEO

Statement of cash flows

1 January – 31 December

		Consolidated (IFRS)		Parent company (IFRS)	
(Figures in NOK 1000)	Note	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Cash flow from operating activities					
Loss before tax		-84 527	-16 482	-83 719	-36 168
Paid tax	8	-249	0	-249	0
Profit from sales of building	2,3,6,11	0	-52 242	0	-30 721
Depreciation and Write-down	2,10,11,12	22 190	21 695	21 577	21 042
Write-down/reversal shares	7,22	0	0	5 553	-2 288
Change in inventory	19	-12 544	-1 270	-12 466	-1 042
Change in trade receivables	20	12 006	-24 211	12 707	-23 353
Change in trade payables	23	-19 817	26 782	-20 636	26 033
Change in other accruals		50 695	16 141	51 383	14 581
Items classified as financing activities		3 621	4 101	4 366	3 829
Net cash flows from operating activities		**-28 625**	**-25 485**	**-21 485**	**-28 088**
Cash flow from investing activities					
Proceeds from sale of building	2,6,11	0	80 000	0	51 500
Aquisition of tangible fixed assets	11	-7 529	-9 920	-7 029	-9 601
Investment i non-current financial assets		0	-2 694	0	-2 694
Investment in other companies	22	0	0	-2 000	0
Investment in intangible assets	10	-2 308	-3 881	- 2 308	-3 881
Net cash flow from investing activities		**-9 837**	**63 505**	**-11 337**	**35 324**
Cash flow from financing activities					
Proceeds from issue of shares		72 219	0	72 219	0
Transaction costs on issue of shares		-4 265	0	-4 265	0
Payment of warranty expenses	7	-777	-777	-777	-777
Payment of interest	7	-2 844	-3 324	-3 589	-3 052
Proceeds from new borrowings	6,15	14 612	37 542	14 621	37 542
Repayment of borrowings	6,15	-33 919	-45 558	-33 365	-40 569
Proceeds from borrowing from subsidiary	17,23	0	0	0	26 478
Repayment of borrowing from subsidiary	17,23	0	0	-7 712	0
Net cash flow from financing activities		**45 035**	**-12 117**	**37 132**	**19 622**
Cash and cash equivalents at 1 January		42 068	16 165	40 981	14 123
Net change in cash and cash equivalents		6 573	25 903	4 311	26 858
Cash and cash equivalents at 31 December	21	**48 641**	**42 068**	**45 293**	**40 981**
Significant transactions in the accounts without cash flow:					
Issue of shares by debt conversion		65 790	0	65 790	0
Proceeds from financial lease	6,15	11 169	0	11 169	0

Statement of changes in equity

1 January - 31 December

Consolidated (IFRS)

(Figures in NOK 1000)	Note	Share capital	Share premium	Uncovered loss	Non-controlling interests	Total equity
As at 1 January 2017		**233 500**	**0**	**-179 279**	**-658**	**53 563**
Loss for the period		0	0	-16 475	-7	-16 482
Other comprehensive income		0	0	0	0	0
Total comprehensive income		0	0	-16 475	-7	-16 482
As at 31 December 2017		**233 500**	**0**	**-195 753**	**-665**	**37 083**
As at 1 January 2018		**233 500**	**0**	**-195 753**	**-665**	**37 083**
Issue of share capital 01.08.2018	6	25 497	28 996	0	0	54 493
Issue of shares by debt convertion 01.08.2018	6	29 240	36 550	0	0	65 790
Issue of share capital 01.08.2018	6	6 600	6 861	0	0	13 461
Loss for the period		0	-72 407	-12 361	-8	-84 776
Other income and costs		0	0	0	0	0
Total comprehensive income		0	-72 407	-12 361	-8	-84 776
As at 31. december 2018	**2,5,24**	**294 837**	**0**	**-208 120**	**-673**	**86 044**

Parent company (IFRS)

(Figures in NOK 1000)	Note	Share capital	Share premium	Other paid in equity	Uncovered loss	Total equity
As at 1 January 2017		233 500	0	0	-159 654	73 847
Loss for the period		0	0	0	-36 168	-36 168
Other changes in equity		0	0	0	0	0
Loss for the period		0	0	0	-36 168	-36 168
As at 31 December 2017		233 500	0	0	-195 822	37 678
As at 1 January 2018		233 500	0	0	-195 822	37 678
Issue of share capital 01.08.2018	6	25 497	28 996	0	0	54 493
Issue of shares by debt convertion 01.08.2018	6	29 240	36 550	0	0	65 790
Issue of share capital 01.08.2018	6	6 600	6 861	0	0	13 461
Loss for the period		0	-72 407	0	-11 561	-83 968
Other income and costs		0	0	0	0	0
Total comprehensive income		0	-72 407	0	-11 561	-83 968
As at 31. december 2018	2,5,24	294 837	0	0	-207 383	87 454

Number of shares 1 January 2017	233 499 759
Number of shares 31 December 2017	233 499 759

Number of shares 1 January 2018	233 499 759
Issue of share capital 01.08.2018	25 496 882
Issue of shares by debt convertion 01.08.2018	29 239 890
Issue of share capital 01.08.2018	6 600 298
Number of shares 31 December 2018 (see note 24)	294 836 829

NOTE 1 –ACCOUNTING POLICIES

GENERAL INFORMATION

Hofseth BioCare ASA is a public limited liability company domiciled in Norway. The company's headquarter is in Havnegata 11 in Ålesund, with one manufacturing facility in the municipality of Midsund and one manufacturing facility in the municipality of Rennebu.

The annual financial statements were approved for issuance by the board 15 March 2019.

The Group's operation is the processing of fish offcuts into high quality protein and other food supplements.

The company's consolidated financial statements for 2018 consist of the parent company and the subsidiaries Hofseth BioCare Rørvik AS, HBC Berkåk AS and Nøre Nutrition AS (the Group).

BASIS OF PREPARATION

The consolidated financial statements and the parent company financial statements of Hofseth BioCare ASA have been prepared in accordance with IFRSs and related interpretations as issued by the International Accounting Standards Board (IASB) and as adopted by the EU as of 31 December 2018, as well as the additional disclosure requirements following from the Norwegian accounting act as of 31 December 2018.

The consolidated financial statements and the parent company financial statements are prepared on the historical cost basis, with the exception of financial instruments that are measured at fair value with changes in value over profit or loss.

The consolidated financial statements and the parent company financial statements have been prepared applying consistent accounting policies for similar transactions and events.

BASIS FOR CONSOLIDATION

(i) Subsidiaries

The consolidated financial statements include Hofseth BioCare ASA and companies controlled by Hofseth BioCare ASA. Companies are determined to be controlled when the Group is exsposed to, or has rights to, variable returns as a result of the involvement from the Group, and the Group is able to influence the returns through its power over the company. All of the following criteria must be fulfilled:

- power over the company
- exposed to, or have rights to, variable returns from its involvement in the company invested in, and
- possibility to exercise its power over the company to influence the amount of the returns

The Group has no associated companies or joint ventures.

(ii) Elimination of transactions in the consolidation

Group internal balances and any unrealised gains or losses or revenues and costs related to intra Group transactions, are eliminated in full in the consolidated financial statements.

(iii) The non-controlling interest in the consolidated financial statements is the non-controlled share of the Group's equity. In business combinations the non-controlling interest is measured including the non-controlling interest's share of the acquired entity's identifyable net assets. The subsidiary's annual result, together with the individual components recognized in other comprehensive income, is attributable to the parent company and the non-controlling interests. Total comprehensive income is attributed to the share holders of the parent company and to the non-controlling interests even if this results in negative non-controlling interests.

FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY

The Group's presentation currency is NOK, which is also the functional currency of all companies in the Group. All amounts are presented in NOK 1000 unless specifically noted.

USE OF ESTIMATES WHEN PREPARING THE ANNUAL FINANCIAL STATEMENTS

Management has to some extent used estimates and assumptions which have affected assets, liabilities, revenues, expenses, and information of potential commitments. Future events may cause changes in the estimates. Estimates and the underlying assumptions are assessed continuously. Changes in accounting estimates are recognized in the period the changes occur. To the extent the changes also affect future periods, the effect is allocated over the current and future periods. See note 2.

FOREIGN CURRENCY

Transactions in foreign currency are translated at the exchange rates prevailing at the date of the transaction. Monetary items in foreign currency are translated to Norwegian kroner at the exchange rate at the balance sheet date. Currency exchange gains and losses are recognized in the income statement and presented as financial income/financial expense.

REVENUE RECOGNITION POLICIES

Revenues are primarily generated from manufactured own goods within the following product types:

- Salmon oil (OmeGo®)
- Water-soluble protein (ProGo®)
- Calcium (CalGo®)
- Non-soluble protein (PetGo™)

In addition, the group has revenues from drying services at the Berkåk plant, where protein processed form is converted into dried protein powder. The income is calculated as a fixed price per volume of dried powder per day and is recognized as income when the protein is converted into dried powder.

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers with an amount that reflects the consideration that the Group expects to be entitled to in exchange for delivered goods and services. The Group has generally concluded that this is the main principle for revenue recognition for all product types and services the Group delivers to its customers. Control is normally transferred to the customer when goods are sent from the warehouse to the group. To the extent that customers enter into a contract for the purchase of goods, which customers wish to continue to store at Hofseth BioCares' warehouse, the consideration is recognized as income when control has passed to the purchasing party. The customers have a desire to continue storing on the group's stock as a result of requirements for moisture, temperature, etc. when storing the goods, especially Calcium and Protein. In such sales, there is an agreement on control transfer to the customers.

The Group assesses whether there are obligations in the sales contracts that are separate delivery obligations, and which must be allocated part of the transaction price (eg guarantees, customer loyalty points, etc.), or agreed variable payment terms in the contracts (return rights, discount schemes, etc.). Furthermore, the Group also assesses whether there are significant financing components in the sales contracts (advance payment, extra long credit, etc.). Reference is made to the section on new accounting standards for further information on the Group's assessment of sales contracts.

Contract assets

The Group's right to remuneration in exchange for goods or services that the Group has transferred to a customer when this right is conditional on something other than the time course (for example, the company's future delivery).

Trade receivables

A receivable represents the Group's right to one payment and amount that is unconditional (ie the agreed credit time before payment of the consideration falls due). See accounting principles for financial assets initial recognition and subsequent measurement. Payment terms in the group's customer contracts vary from 0 days to 60 days.

Contract Commitment

A contractual liability may be an obligation to deliver goods or services to the customer, which the group has received remuneration (or an amount of the consideration is overdue) from the customer. If a customer pays remuneration before the Group delivers goods or services to the customer, a contractual obligation is recognized when the payment is made or that payment of the consideration is overdue (the option that is earliest). Contract obligations are not recognized until the Group delivers goods and services in accordance with contract. The Group has not identified contractual obligations in the delivery contracts entered into on 31 December 2018.

SEGMENTS

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses. The Group's operating results are regularly reviewed by the managing director to monitor the Group's results and make decisions about resources to be allocated.

As the Group has one common and not separable manufacturing process for its products, management focuses its financial review on revenues and quality generated from the manufacturing process. Management monitors the financial results at Group level and, hence, the Group only has one segment.

Information about products is presented in note 3.

GOVERNMENT GRANTS

Government grants are recognised at the time it is reasonably certain that the company complies with the requirements stated to be eligible for the grants and will receive payment. Grants relating to operating expenditures are recognised systematically over the grant period. Grants are recognised against the costs the grant is meant to cover. Grants for investments are recognised systematically over the asset's useful lives. Grants for investments are recognised as a reduction to the related assets' carrying amount.

EMPLOYEE BENEFITS

DEFINED CONTRIBUTION PENSION PLAN

A defined contribution pension plan is an arrangement in which the employer pays fixed constributions to a fund or a pension fund, and in which the company has no further legal or constructive obligations to pay additional contributions. The contributions are recognized in the income statement as salary related costs the periods in which the employee renders the service.

HOFSETH BioCare®

FINANCIAL INCOME AND FINANCIAL EXPENSES

Financial income consists of interest income, dividends, foreign exchange gains and gains from sale of financial instruments. Interest income is recognised when earned, calculated using the effective interest rate method, while dividends are recognised on the date of the general meeting approving the dividends.

Financial expenses consist of interest expenses, guarantee commissions, foreign exchange losses and losses from sale of financial instruments. Interest expenses and guarantee commissions are recognized when incurred, calculated using the effective interest rate method.

INCOME TAXES

Income tax expenses consist of current taxes payable and changes in deferred taxes. Current taxes payable are taxes payable or tax receivables related to taxable income or loss for the year, based on tax rates substantively enacted at the balance sheet date. Changes in calculated current taxes payable related to prior years are included in the amount.

Deferred tax/deferred tax assets are calculated on all temporary differences between carrying amounts and tax bases for all assets and liabilities on the balance sheet date.

Deferred taxes are calculated using the tax rate expected to be applicable at the time of reversal of the temporary differences.

Deferred tax assets are recognised to the extent the company is expected to have sufficient taxable income in future periods to utilize the tax benefit. The companies recognize previously unrecognized deferred tax assets to the extent it has become likely that the company may utilize the deferred tax benefit. Likewise, the company will reduce deferred tax assets to the extent the company no longer expects that it will be able to utilise the deferred tax benefit.

Deferred tax and deferred tax assets are measured at nominal values. Deferred tax liabilities are presented as provisions/long term liabilities in the balance sheet, while deferred tax assets are presented as intangible assets.

INTANGIBLE ASSETS

Intangible assets acquired separately are recognised at their cost price. The cost price for intangible assets acquired are recognised at fair value in the Group. Recognised intangible assets are accounted for at cost less any depreciation and impairment write-down.

Internally generated intangibe assets, except for recognised development costs, are not recognised, but expensed as incurred.

Intangible assets with finite useful life are depreciated over their useful lives and tested for impairment when impairment indicators are present. Depreciation methods and useful lives are assessed annually as a minimum. Changes to depreciation method and/or useful life are accounted for as estimate changes.

GOODWILL

Goodwill occurs in business acquisitions. Goodwill is calculated as the difference between the cost of the acquiree and the fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities. To the extent fair value of net identifiable assets exceed the cost price (negative goodwill/badwill), the exceeding amount is recognized in the income statement.

Goodwill is allocated to cash generating units or Groups of cash generating units which are expected to benefit from synergies from the business combination.

Goodwill is recognised on the balance sheet at cost, less any accumulated impairment write-downs. Goodwill is not depreciated but tested at least annually for impairment. Impairments are recognised when the recoverable amount is lower than the carrying amount. The recoverable amount is the highest of value in use and fair value less costs of disposal.

PATENTS AND LICENCES

Acquisition costs for patents and licences are recognised and depreciated over their estimated useful lives.

DEVELOPMENT ACTIVITIES

Expenditures on research are recognised in the income statement as incurred. Expenditures on development activities, including product development (new or improved products) are recognized when all the following criteria are fullfilled:

- It is technically possible to complete the asset / product in such a way that the Group may use or sell the asset /product in the future
- It is management's intention to complete the asset / product, as well as to use or sell the asset / product
- It is possible to use the asset / sell the product
- How the asset / product will generate future revenues can be proven
- The Group has sufficient technological and financial ressources available to complete the asset / development of the product
- The costs can be reliably measured

Recognised costs include cost of material, consultant fees and direct salary costs. Other development costs are recognized in the income statement as incurred. Previously expensed development costs are not subsequently capitalized. Recognised development costs are depreciated on a straight-line basis over the assets / products estimated useful lives.

FIXED ASSETS

Fixed assets are measured at cost, less accumulated depreciations and impairment write- downs. Fixed assets are derecognized when sold or disposed of and any gains or losses are recognized in the income statement.

Acquisition cost for fixed assets is the cost price and costs directly associated wih getting the asset ready for its intended use.

Expenditures incurred after recognition of the fixed asset, such as day-to-day maintenance, are recognized in the income statement as incurred, while expenditures expected to generate future economic benefits are recognized in the carrying amount. Depreciation period, depreciation method and residual values are assessed annually.

Fixed assets are carried at cost until manufacturing or development has been completed. Fixed assets under construction are not depreciated until the assets are ready for their intended use.

When significant components of a property, plant and equipment are determined to have different useful lives, they are accounted for as separate components.

Each component of property, plant and equipment is depreciated on a straight-line basis over its estimated useful life, as this is considered to best represent the consumption of the future economic benefits of the assets. Land is not depreciated.

Estimated useful life for the current period and depreciation periods are disclosed in note 10. Depreciation method, useful life and residual values are reassessed at the balance sheet date and adjusted if found necessary. When the carrying amount of a fixed asset or a cash-generating unit is higher than the recoverable amount, the asset is written-down to its recoverable amount. Recoverable amount is the higher of value in use and fair value less costs of disposal.

INVESTMENT IN SUBSIDIARIES

Investments in subsidiaries are assessed according to the cost method in the company accounts.
Investments are valued at acquisition cost, unless impairment has been necessary. Write-downs have been made at fair value when impairment is due to reasons that cannot be expected to be temporary. Impairment losses are reversed when the basis for impairment is no longer present.

Dividends and other distributions are recognized as income when adopted at the general meeting of the subsidiaries. If dividends exceed the retained earnings after the acquisition, the excess part represents repayment of invested capital, and the dividends are deducted from the value of the investment in the balance sheet.

LEASING

FINANCE LEASE AGREEMENTS

Lease agreements in which substantially all the risks and rewards incidental to ownership of an asset are transferred to the company are finance leases. When substantially all the risks and rewards incidental to ownership are undertaken by the company, the finance lease is accounted for under the same accounting policy as equivalent owned assets. When calculating the net present value of the lease payments the implicit interest rate in the lease agreement is used to the extent it can be determined. If the implicit rate in the lease agreement cannot be determined, the company’s marginal borrowing rate is used. Direct expenditures related to establishing the lease agreement are included in the asset’s cost price.

The depreciation period is the same as for the company’s other depreciable fixed assets. If it is not reasonably certain that the company will take ownership of the asset at the end of the lease term, the asset is depreciated over the shortest of the lease term and its useful life.

OPERATING LEASES

Lease agreements in which substantially all risks and rewards incidental to onwership of an asset are not transferred are classified as operating leases. Lease payments are classified as operating expenses and recognised in the income statement on a straight-line basis over the contract period.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Goodwill is not depreciated, but annually assessed for impairment. Depreciable fixed assets and intangible assets are assessed for impairment when impairment indicators are identified. Impairment write-downs for the difference between the carrying amount and the recoverable amount are recognised in the income statement.

The recoverable amount for an asset or a cash generating unit is the higher of value in use and fair value less costs of disposal. When assessing value in use, estimated future cash flows are discounted to net present value using a pre-tax market based discount rate. The discount rate includes the time value of money and asset specific risk. When testing for impairment, assets which are not tested individually are tested at a Group level representing the lowest level of identifiable cash flows which are independent of cash flows from other assets or Groups of assets (cash generating units or CGUs).

Impairment write-downs are recognised to the extent the carrying amount of an asset or cash generating unit exceed the estimated recoverable amount. When recognizing impairment write-downs related to cash generating units, any goodwill impairment is recognized first. Any remaining impairment amount is split pro-rata on other assets in the cash generating unit (Group of cash generating units). Impairments are presented in the line item depreciations and impairments.

Impairments related to goodwill are not reversed. For other assets an assessment as to whether there are indications that the impairment is no longer present or reduced is made on the balance sheet date (reporting date). Impairments are reversed if the estimates in the calculation have favourably changed the recoverable amount. Impairment reversals are limited to the carrying amounts being equal to what it would have been if no impairment had been recognised.

FINANCIAL ASSETS

Financial assets are classified at initial recognition and are subsequently measured at amortized cost, fair value through comprehensive income (OCI) or fair value through profit or loss.

The classification of financial assets on initial recognition depends on both the characteristics of the financial assets' contractual cash flows and the Group's business model for managing these. The Group's business model for managing financial assets refers to how the Group manages its financial assets to generate cash flows. The business model determines whether cash flows will arise by receiving contractual cash flows, or by selling the financial assets or both.

Accounts receivable that do not contain a significant financing component are measured at the transaction price determined in accordance with IFRS 15. See the accounting policies in section on income from contracts with customers, and then measured at amortized cost.

Other long-term and short-term receivables, as well as cash and cash equivalents, are recognized at fair value on initial recognition and subsequently at amortized cost.

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated at fair value through profit or loss, or financial assets that are required to measure at fair value. Financial assets are classified as held for trading if they are purchased for the purpose of being sold or repurchased within a short period of time. Derivatives are also classified as held for trading unless the derivatives are designated as effective hedging instruments.

Financial assets at fair value through profit or loss are recognized in the balance sheet at fair value with net changes in fair value recognized in the income statement. The category includes derivative instruments (forward contracts in foreign currency) and long-term equity investments. Dividends on equity investments are recognized as financial income in the income statement when there is a right to payment of dividends.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or the Group has transferred its rights to receive cash flows from the assets.

When the Group, by factoring agreement with credit institutions, has transferred its rights to receive all or part of cash flows from established accounts receivable and other receivables, the Group assesses whether and to what extent the Group has still retained the risk and benefits of established accounts receivable and other receivables. When the factoring agreement with the credit institution does not entail transferred control to the credit institution, accounts receivable and other receivables are still capitalized as a financial asset in the group's accounts, but where the advance payment from the credit institution entails a financial liability classified under interest-bearing short-term debt.

IMPAIRMENT OF FINANCIAL ASSETS

For accounts receivable and contract assets, the Group uses a simplified approach to calculating expected losses on credit (ELC). The Group therefore does not track changes in credit risk, but instead recognizes a loss provision based on expected credit losses in the life of the trade receivable and the contract asset on each reporting date. The Group has established a provision matrix that is based on historical losses, adjusted for future-oriented factors that are specific to the debtors and the economic environment.

The Group considers a financial asset to be in default when it is over 60 days since the due date. In some cases, however, the Group may also consider that a financial asset is in default when internal or external information indicates that the Group is unable to receive the outstanding contract amounts in its entirety before taking into account any credit insurance that the Group has. A financial asset is recognized as a loss when there is no reasonable expectation of regaining contractual cash flows.

Further information on any impairment of financial assets is provided in notes 20, 21 and 22.

INVENTORY

Inventories are measured at the lower of cost and net realisable value. Net realisable value has been estimated as selling price in the ordinary course of business less the estimated costs of completion and the estimated costs for marketing and distribution. Cost is allocated using the FIFO-method and includes expenditures incurred in purchasing the goods, raw material, costs to bring the goods and the raw material to their current condition and location. Owned goods are valued at manufacturing cost and include raw material costs, as well as other variable and fixed production costs that can be allocated based on normal capacity utilization. See note 2 and 19 for more information.

CASH AND CASH EQUIVALENTS

Cash includes cash in hand and bank deposits. Cash equivalents are short term highly liquid investments which can immediately be converted to a known amount of cash, and with a maximum duration of 3 months from the date of acquisition.

FINANCIAL OBLIGATIONS

Financial liabilities are initially recognized as financial liabilities at fair value through profit or loss, subordinated loans, interest-bearing liabilities, lease liabilities, derivatives, trade payables, or other current liabilities.

Interest-bearing debt and other liabilities are recognized at fair value less transaction costs at the time of establishment. In subsequent periods, loans are recognized at amortized cost using the effective interest rate. For more information see notes 15 and 16.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading purposes and financial liabilities designated at initial recognition at fair value through profit or loss. Financial liabilities are classified as held for trading purposes if they are contractual for the purpose of being sold or repurchased within a short period of time. This category also includes derivative instruments (currency forward contracts) entered into by the Group which are not considered hedging instruments in hedging relationships as defined in IFRS 9. Gains or losses on liabilities held for trading are recognized in the income statement, see note 7.

DERIVATIVES

The Group uses financial forward exchange contracts (derivatives) to hedge the Group's currency risk. The forward exchange contracts are recognized in the balance sheet at fair value at the time the contract is entered into with the credit institutions, and subsequently the portfolio of forward exchange contracts is adjusted continuously at fair value through profit or loss. The forward exchange contracts are capitalized as financial assets when fair value is positive and as financial liabilities when fair value is negative. See notes 7, 14 and 16.

The Group does not have forward exchange contracts or other derivatives that are considered hedging instruments in hedging terms as defined in IFRS 9.

PROVISIONS

A provision is recognised when the company has an obligation (legal or constructive) as a result of a past event, it is likely (more likely than not) that payment will be made as a result of the liability and the amount can be measured reliably. If the effect is significant, the provision is measured at the discounted value of future cash outflows using a pre-tax discount rate reflecting the market’s pricing of the time value of money and, if relevant, the risks specifically related to the liability.

A provision for a guarantee is recognised when the underlying products or services are sold. The provision is based on historical information about guarantees and a weighting of potential outcomes against their likelihood of occuring.

Provisions for onerous contracts are recognised when the company’s expected revenues from a contract is lower than the unavoidable costs of meeting the obligations under the contract.

CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities for which it is not likely that the liability will incur are not recognized in the financial statements. Significant contingent liabilities are disclosed, except for contingent liabilities related to which it is remote that payment will have to be made.

Contingent assets are not recognised in the financial statements unless they are virtually certain. Other contingent assets are disclosed if it is likely that an economic benefit will be received by the Group.

SUBSEQUENT EVENTS

New information subsequent to the balance sheet date about the Group’s and the parent company’s financial position at the balance sheet date are taken into account in the financial statements. Events subsequent to the balance sheet date which do not influence the Group’s or the parent company’s financial position at the balance sheet date, but which will influence the Group’s or the parent company’s position in the future, have been disclosed in the notes if significant.

NEW ACCOUNTING STANDARDS

The Group has not early implemented any standards that have been published, but not effective as of today.

IFRS 15 - Revenue from contracts with customers

The standard has replaced all existing standards and interpretations for revenue recognition. The core principle of IFRS 15 is that revenue is recognized to reflect the delivery of contracted goods or services to customers, and then to an amount reflecting the consideration the company expects to be entitled to in exchange for the goods or services delivered. The standard applies with a few exceptions to all contracts with customers, and also contains a model for the recognition and measurement of sales of certain non-financial assets (eg sale of property, plant and equipment).

IFRS 15 establishes a five-step model for accounting for revenue from contracts with customers and requires the revenue to be accounted for at an amount that reflects the consideration that the Group expects to be entitled to in exchange for the delivery of goods or services to a customer. IFRS 15 requires the use of judgment, including the Group and the company having to take into account all relevant facts and circumstances when applying each step of the model to contracts with customers. The standard also specifies the accounting treatment of any costs incurred in acquiring contracts and costs directly related to fulfilling a contract. In addition, the standard requires extensive information.

IFRS 15 has been implemented using a full retrospective method and has had accounting effect from 1 January 2018. The sales contracts for the Group are based on standard purchase orders, where deliveries of the number of kilos of processed salmon oil, protein and calcium powder at fixed price per kilos, or fixed price per unit (glass, boxes etc.) delivered directly to customers. Customers who buy goods but do not have their own premises that are suitable for storing the goods until consumption are given the opportunity to store the goods in the premises of the group against invoicing of storage rent. In addition, there are agreements for the delivery of service by drying protein powder delivered from the customer, at the agreed fixed price per kilogram of dried protein powder per day. The customer supplies protein in raw material form, which is converted into dried protein powder, and retrieves the finished product within 7 days of completion. The customer is fully responsible for the protein concentrate and the finished dried protein powder both during transportation to and from the plant as well as in the production process.

IFRS 9 - Financial instruments

IFRS 9 has accounting effect as of 1 January 2018 and entails changes related to classification and measurement, hedge accounting and impairment. IFRS 9 has replaced IAS 39 Financial Instruments - Recognition and Measurement. The parts of IAS 39 that were not changed as part of this project have been transferred and included in IFRS 9.

The standard is implemented retrospectively, but comparable figures have not been restated. The Group did not use hedge accounting either in 2017 or 2018. There have been limited effects of the introduction of IFRS 9 for the company and the group. The following changes:

- Long-term equity investment has previously been booked at acquisition cost in accordance with. IAS 39, but is now classified and measured at fair value through profit or loss. The consequence of the change in the measurement is calculated to change the value of TNOK 0 in 2017, as well as the estimated value reduction of TNOK 40 in 2018, which has been recognized in 2018. There is limited activity in this company. See notes 7 and 22 for more information.
- Accounts receivable and other financial assets, previously classified as loans and receivables, are held to collect contractual cash flows and give rise to cash flows that only pay principal and interest. These are now classified and measured as debt instruments at amortized cost without the accounting effects of the change themselves.
- The implementation of IFRS 9 has changed the Group's accounting calculations for impairment losses on financial assets by replacing IAS39's model with accrued loss events with a model that takes into account a calculated future expected credit loss. IFRS 9 requires the Group to calculate and record a provision for future expected credit losses for all debt instruments that are not recognized at fair value. The Group then uses historical credit losses and maturity analyzes combined with future information on geographical elements, customer types, any ratings and credit protection opportunities. However, the group limits its exposure to credit risk through credit rating routines by its customers before credit

is given. The Group has and credit insurance for all significant accounts receivable through GIEK. The implementation of IFRS 9 has not resulted in numerical changes to the Group's calculated provisions related to expected credit losses, as a result of low loss risk on financial assets.

- The Group initiated currency hedges only in 2018, and recognition of forward exchange contracts (derivatives) has followed IFRS 9 from the date of establishment of the contracts. The Group's currency hedges are not defined as hedge accounting.
- The Group does not have interest-bearing financial liabilities or other financial liabilities measured at fair value through profit or loss. There are no changes in the classification and measurement of financial liabilities.

NOTE 2: ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENT AND ASSUMPTIONS

The preparation of financial statements in accordance with IFRS requires management to make judgments when choosing and applying accounting principles. Further, IFRS requires the management to make estimates based on judgments, and that estimates and assumptions are realistic. All estimates are considered to be the most likely outcome based on the management's best knowledge.

The Group's most significant accounting estimates and areas of judgment are the following:

- Going concern
- Allocation of production costs in manufactruring cost of finished product cost
- Sale and leaseback og plant builings in 2017
- Transactions with related parties
- Recognition of intangible assets
- Depreciation, amortisation and impairment of fixed assets and intangible assets
- Deferred tax asset
- Inventory - obsolescence
- Assessment of losses on accounts receivables

GOING CONCERN

In accordance with section 3-3a of the Accounting Act, it is confirmed that the assumptions regarding continued operations are present and that the annual report has been prepared under the assumption of continued operation. It is emphasized that there is uncertainty associated with continuing operations, considering the Group's ability to sell the products at sufficiently high prices, as the company has established several large contracts that secure volumes sold, but at a lower price than the long-term objective implies.

The pivate placement in 2018 resulted in an improvement in liquidity in the second half of the year and together with the financing agreements on factoring and inventory, this ensures sufficient liquidity into the first part of 2019. Furthermore, at the time of the presentation of the annual report, the board has two authorizations granted by the general meeting on 24 March 2017 and 27 April 2018 for the issue of up to approximately 40.5 million new shares. The authorizations are intended to be used if the company needs further inflow of equity and liquidity.

The company fulfills all requirements in its loan agreements and is thus not in breach of the loan terms as at 31.12.2018. The company still has negative results in the first two months of 2019, but the company is not in breach of the terms of any of the loans. Reference is also made to note 15 for more information on the conditions relating to the group's and the company's interest-bearing debt, as well as note 18 for information on liquidity risk and maturity structure on the Group's liabilities.

It will be crucial for the Group and the company to achieve a higher production and average price of their products in order to contribute to adequate profitability in the future. The company expects improvement in future results when prices and volumes for the individual products have been established.

In the opinion of the Board, it is crucial that the Group and the company manage to increase turnover and improve results in a timely manner in relation to the need for liquidity in the Group and the company. The board will closely monitor the income and liquidity situation and will continuously assess the need for any supply of liquidity. If the Group and the company do not succeed sufficiently with planned measures in the market, a share issue will be carried out during 2019.

The Group's and the company's assets and values are present at continued operations. In the event of any delayed sale in the event of termination, the value of any of the Group's and the company's assets could be lower than the accounting value of the assets. Uncertainty is mainly related to the value of intangible assets and rights, tangible fixed assets, financial receivables and investments and the value of the inventories.

ALLOCATION OF PRODUCTION COSTS IN MANUFACTRURING COST OF FINISHED PRODUCT COST

Four types of finished products are produced from a common production process based on the same input factors. The value of the individual finished product is based on the allocation of production costs determined based on the finished product's relative share of production yield multiplied by the expected sales value. The same model has been used for allocating production costs over several years. The determination of expected sales value as a basis for allocating production costs has significant discretionary assessments and has a significant effect on the calculation of the cost of production of the various finished product products. The group and the company are still in a start-up and development phase, but management's judgment has based on historical sales transactions of water-soluble protein (ProGo®) and CalGo® mainly to related parties, as well as historical sales transactions of salmon oil (OmeGo®) and non- water-soluble protein (PetGo ™) mainly to independent parties in the feed market. See notes 4,6 and 19.

SALE AND LEASEBACK OG PLANT BUILINGS

Hofseth BioCare ASA sold in 2017 the factory building at Midsund and the subsidiary HBC Berkåk AS sold the factory building at Berkåk for a total of TNOK 80 000 to Syvde Eiendom AS, which is closely related to the shareholder Alliance Seafoods Inc. The sale resulted in accounting profit of TNOK 30 721 in the company accounts and TNOK 52 242 in the consolidated financial statements. The transaction fee is based on tariffs from independent taxpayer. At the same time, 15-year lease agreements were signed at the factory buildings. The lease payments are determined based on the term of the contract, the return provided for the buildings' alternative uses and the estimated value of the factory buildings at the end of the rental period. The assessment of whether the terms of the leases classify the leases as financial or operating leases entail significant discretion regarding the real transfer of risk and control and which are important for recognizing the accounting profit from the sales transactions in both the company accounts and the consolidated accounts in 2017. See notes 6, 11 and 12.

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties constitute a significant part of the Group's and the company's ordinary operating revenues and costs, and where the determination of arm's length pricing is largely based on judgment. The transactions also affect liquidity and financial carrying capacity for the Group's and the company's operations.

In addition to the transactions mentioned in the above paragraphs, the Group has the following other significant transactions with related parties.

Hofseth BioCare ASA has purchased raw material (fish cut off) from Hofseth Aalesund AS, Hofseth AS and Seafood Farmers of Norway AS, which are shareholders or close relatives of shareholders. The raw material agreements started to run in 2015 and ran until the end of 2017. The agreement gave the company and the group the exclusive right to have all the by-products from their production delivered. Throughout 2018, the Group has continued to purchase raw materials (fish offcuts) from Roger Hofseth AS, which is a shareholder, under the same conditions as the former agreement. Hofseth BioCare ASA has in March 2019 entered into a new agreement on the purchase of raw material (fish offcuts) from Roger Hofseth AS, which is a shareholder. The raw material agreement starts to run in 2019 and runs over 3 years and gives the company and the group the exclusive right to get all the by-products from the production to Roger Hofseth AS's suppliers. It has been used judgment when setting conditions for the purchase of raw materials. See notes 4 and 6.

RECOGNITION OF INTANGIBLE ASSETS

The Group has come far in the development phase of establishing production at the targeted level and with the quality that the business model has been based on. The Group invests in research and development activities on an ongoing basis. Uncertainties exist relating to the timing of when the requirements for recognition of intangible assets have been met. The management's starting point is that research and development activities are capitalized when there is an identifiable asset or product that is controlled by the company that is expected to result in future economic benefits. Uncertainties also exist relating to the assessment and estimation of the cost price for the intangible assets, and mainly relating to the estimation of cost price for developing intangible assets and product development. Development activities that qualify for capitalization are capitalized both in the Group and parent company. See note 11.

DEPRECIATION, AMORTISATION AND IMPAIRMENT OF FIXED ASSETS AND INTANGIBLE ASSETS

Estimated useful lives for the company's machinery and equipment (production equipment), in addition to intangible assets, have been impacted by the technological development. The useful lives for fixed assets and intangible assets are estimated to 5 – 10 years. There are uncertainties relating to the interval between 6 and 10 years, especially for intangible assets. See note 10 and note 11.

DEFERRED TAX ASSETS

There are uncertainties relating to future taxable income and a deferred tax asset has not been recognized in the financial statements. The unrecognized deferred tax assets amount to TNOK 124,845 for the Group and TNOK 124,158 for the company at 31 December 2018.

INVENTORIES

Goods in stock are valued at the lower of cost and selling price. It is used judgment in relation to quality and durability. The Group uses a model in which provision is made for obsolescence gradually if goods in stock approach the expiration of the shelf life. It is set aside for obsolescence, see note 19.

ASSESSMENT OF LOSS RELATING TO ACCOUNTS RECEIVABLES

At the end of 2018, the Group had no significant overdue accounts receivable. All significant accounts receivables are credit secured by Giek, limited to a maximum of MNOK 30 and with a coverage rate of 90%. When analyzing future information about the Group's customers and markets, future challenges are not listed today, which indicate that there will be a significant credit loss in the future. See notes 18 on credit risk and note 20 on accounts receivable and other receivables.

NOTE 3: SEGMENT INFORMATION

The Company's processing plants are located in Norway. The production is fine-tuned as needed, but overall the production is within the definition for human consumption. The Group has only one operating segment which is the production of salmon oil (OmeGo®), soluble protein (ProGo®), Calcium (CalGo®) and non-water-soluble protein (PetGo™). All products are manufactured at the plant in Midsund, but ProGo® is refined from water phase into powder form at the plant in Berkåk.

SALMON OIL

The raw material is produced fresh and the system for feeding the raw material is closed. This way the oil holds a very high quality, with low oxidation values. The storage tanks are filled with nitrogen before draining the oil. This ensures that the fresh, good quality is maintained throughout the process. Our oil production process is unique, in that the oil from the raw material is released with the enzymes. Hence, the product is not exposed to high temperatures and gives a fresh salmon oil with long durability to the consumers.

WATER SOLUBLE PROTEIN

HBC produces a hydrolysed salmon protein. The product is the protein that has the fastest uptake in the body of comparable protein products on the market. It contains little fat and has good solubility in water. Adjustments to the manufacturing process have also been undertaken to increase the capacity and quality of the product in 2018.

CALCIUM

In 2018, HBC installed a completely new and automated process line to produce calcium powder. This has resulted in increased yield and improved quality and reliability of this fraction. The process is built so that the bone fraction of the salmon comes out as whole bones and legs before it is dried and milled to pure calcium powder.

NON-SOLUBLE PROTEIN

The PHP fraction, which is the fourth main product from the Midsund plant, is separated as a separate protein product and dried to a high-quality fishmeal. The yield on this fraction is good, but measures have been identified to further increase the yield.

The segment information is based on an overall performance reporting for all products as one segment. For information purposes, the revenue split for the different products is shown in the table below. The products are mainly produced in the same production process, and from the same raw material supply. Hence, the cost of sales is monitored by the management as total cost of sales, but split by product. The Production Manager manages production by monitoring the raw material into vs. output of finished goods for the 4 different product types in order to calculate the yield by product.

Revenue per product	*Group*		*Parent*	
Figures in NOK 1000	*2018*	*2017*	*2018*	*2017*
By product				
Salmon Oil (OmeGo®)	21 049	22 997	21 049	22 997
Soluble Protein Hydrolysate(ProGo®)	7 196	28 798	7 196	28 798
Calcium (CalGo®)	947	753	947	753
Non-soluble Protein(PetGo™)	12 045	5 273	12 045	5 273
By-products	9 181	6 593	8 648	5 997
Rental production	10 322	1 820	0	0
Sum revenues from contracts with customers	**60 740**	**66 234**	**49 885**	**63 818**
Profit from sales of property, plant and equipment	0	52 242	0	30 721
Sum	**60 740**	**118 476**	**49 885**	**94 539**

By region				
Norway	28 449	23 631	17 594	21 214
Asia	6 366	15 497	6 366	15 497
Europe excl Norway	13 473	18 771	13 473	18 771
North-Amerika	12 452	8 338	12 452	8 335
Sum revenues from contracts with customers	**60 740**	**66 237**	**49 885**	**63 817**
Profit from sales of property, plant and equipment	0	52 242	0	30 721
Sum	**60 470**	**118 479**	**49 885**	**94 538**

In 2018, goods totaling TNOK 47,182 were sold to five customers, each of which accounted for more than 10 % of total turnover. The sales to each of these customers are TNOK 10,672, TNOK 10,459, TNOK 10,322, TNOK 8,024 and TNOK 7,704, respectively. In 2017, goods for a total of TNOK 54,502 were sold to two customers, each of which accounted for more than 10% of total sales. The sales to each of these customers are TNOK 31,430 and TNOK 23,071, respectively.

NOTE 4: OPERATING EXPENSES

Cost of sales	*Group*		*Parent*	
Figures in NOK 1000	*2018*	*2017*	*2018*	*2017*
Raw material	31 835	32 033	31 825	32 033
Freight	8 139	7 265	7 928	7 227
Purchased services	20 126	16 454	17 517	24 213
Obsolescence cost	-3 698	1 117	-3 698	1 117
Change in inventory	-8 041	-1 941	-8 041	-1 941
Total cost of sales	**48 361**	**54 928**	**45 531**	**62 649**

Other operating expenses	Group		Parent	
Figures in NOK 1000	2018	2017	2018	2017
Leasing	1 169	1 322	1 140	1 315
Rent	8 017	5 739	5 304	3 815
Travelling cost	1 983	1 942	1 954	1 910
Consultant fees and tax advisory	4 922	5 015	3 795	4 856
Advertising	2 225	754	1 494	752
Insurance	617	628	440	484
R&D and patents	2 430	1 296	2 430	1 296
Repair and maintenance	10 917	7 399	8 268	6 053
Company cars	468	678	440	645
Other operating expenses	3 738	2 150	3 083	1 674
Total	**36 485**	**26 922**	**28 349**	**22 801**

The Group sold the factory buildings in the first quarter of 2017. At the same time, the Group signed 15-year lease agreements, explaining the cost of rent in 2018.

The Group has reduced other operating expenses of TNOK 923 in 2018 as a result of the recognition of public grants from the Skattefunn. In 2017, the recognition was TNOK 1,345 from Skattefunn, Enova and the Research Council.

Auditor's fees	Group		Parent	
Figures in NOK 1000	2018	2017	2018	2017
Audit fees	658	697	556	625
Tax advice	87	82	78	79
Audit related services	312	205	312	201
Other services and confirmations	151	166	151	156
Total	**1 206**	**1 150**	**1 096**	**1 061**

VAT is not included.

NOTE 5: EMPLOYMENT COSTS AND EXPENSES FOR EMPLOYEES AND BENEFITS FOR SENIOR EMPLOYEES

Salaries	Group		Parent	
Figures in NOK 1000	2018	2017	2018	2017
Salaries	26 555	24 757	20 952	20 295
Social security costs	3 075	2 883	2 683	2 573
Pension costs	1 379	1 313	1 097	1 053
Other employee benefits	991	554	889	479
Capitalized cost in associated with development	0	-2 794	0	-2 794
Public grants from Skattefunn	-599	-585	-599	-585
Totale employee benefit expenses	31 402	26 127	25 022	21 021
Average number of FTE's	43	39	33	32

Remuneration to executive management team and the board *Figures in NOK 1000, Group*	*Salary*	*Benefits*	*Pension cost*	*Other remuner-ation*	*Total remune-ration 2018*	*Total remune-ration 2017*
Executive management						
Roger Hofseth, *CEO from 14.08.17.* *Chairman up until 14.09.17**	0	0	0	0	0	332
Tor Erik Andersen, *CEO up until 13.08.17*	0	0	0	0	0	1 203
Jon Olav Ødegård, CFO*	702	16	35	880	1 633	1 651
Dr. Bomi Framroze, *CSO***	1 251	0	0	3 076	4 327	3 683
The Board of Directors						
Ola Holen, *Chairman from 15.09.17*	138	0	0	0	138	35
Torill Standal Eliassen	116	0	0	0	116	114
Christoph Baldegger	96	0	0	0	96	96
Henriette Godø Heggdal***	845	15	42	0	902	896
Total	**3 142**	**31**	**77**	**3 956**	**7 212**	**8 010**

* Includes remunerated as external consultant.

** Includes fee for operating R&D. R&D share amounted to TNOK 3 076 in 2018 and TNOK 2 532 in 2017.

*** Includes salary paid in capasity of beeing an employee of the Company.

No loans or guarantees are granted to members of the management team, Board of Directors or other elected bodies. Total loans to shareholders and employees amount to TNOK 459 as of 31 December 2018 (TNOK 1,160 as of 31 December 2017). The agreed interest rate is 3-4% per annum and maturity 2019-2024.

Number of shares held by executive management and board members:

Shareholder	*Shares*	*Held by related companies*	*Held by related parties*	*Total*
Roger Hofseth	0	117 639 092	0	117 639 092
Jon Olav Ødegård	0	2 104 039	180 000	2 284 039
Dr. Bomi Framroze	886 630	0	0	886 630
Christoph Baldegger	580 000	0	0	580 000
Ola Holen	529 865	70 659 482	0	71 189 347
Total	**1 996 495**	**190 402 613**	**180 000**	**192 579 108**

GUIDELINES FOR THE SALARIES AND OTHER REMUNERATION OF THE CEO AND EXECUTIVE MANAGEMENT AT HOFSETH BIOCARE ASA 2018

Hofseth BioCare ASA's executive remuneration policy is to offer senior executives employment conditions which are competitive regarding salaries, fringe benefits, bonus and pension scheme. The Company shall offer salary levels that are comparable with similar companies and activities, and considering the company's need for qualified staff at all levels.

The salary and other remuneration to senior executives shall at all times be determined in accordance with the above stated principle.

The bonus to the CEO is determined by the Chairman of the Board. Bonuses for other senior executives are determined by the CEO in consultation with the Chairman of the Board. No bonus payments have been made in 2018.

The Group has complied with the guidelines in 2018. For fiscal year 2019 no changes have been made to current guidelines.

In case Hofseth BioCare chooses to terminate the employment relationship with the CEO, no right to severance payment has been agreed. In the event employment of other senior executives is terminated by the company, there are no agreements entitling them to severance payments beyond salary during the notice period for the number of months as stipulated in the Norwegian employment act.

DEPOSIT-BASED PENSION SCHEME

The parent company and the group have a statutory obligation to comply with the law on mandatory occupational pensions and have a pension scheme that satisfies the requirements of this Act. Grants have been expensed in the Group with TNOK 1,379 in 2018 (2017: TNOK 1,313), in Company TNOK 1,097 (TNOK 1,053 in 2017).

NOTE 6: RELATED PARTY TRANSACTIONS

The Group's related parties include shareholders, board members and the senior management and their related parties. All companies in Hofseth Group, including Roger Hofseth AS, Hofseth International AS, Hofseth Logistics AS, Seafood Farmers of Norway AS, Hofseth AS, Hofseth Aalesund AS and Hofseth Aqua AS are considered to be related parties to Hofseth BioCare ASA. In these companies, CEO and shareholder in Hofseth Biocare ASA, Roger Hofseth, has significant influence through ownership interests, leading positions and board memberships. Futher is the Group`s shareholder Alliance Seafoods Inc. including their subsidiary Syvde Eiendom AS considered a related party.

All related party transactions have been made in the ordinary course of the business at the arms length principle. The main transactions made in 2018:

- Purchase of raw materials from Roger Hofseth AS. See further details in the agreement below.
- The Group rents logistics services from Hofseth Logistics AS to TNOK 960 per year.
- 5 of the company's financial leases of production equipment that run in 2018, have been entered into by Hofseth AS, Hofseth International AS and Roger Hofseth AS and sublet to Hofseth BioCare ASA with a premium of 5-10 % on monthly installments.
- Roger Hofseth AS makes guarantees for loans granted to Hofseth BioCare ASA. Therefore, a guarantee commission of TNOK 777 (3 %) is paid to Roger Hofseth AS.
- Other minor administration costs are invoiced from Hofseth International AS.
- A sales commission of Hofseth AS of between 5-10 % has been agreed for some sales, which Hofseth BioCare ASA does through Hofseth AS and Hofseth International AS's sales channels.

- Alliance Seafood Inc. has a loan to the Group with balance of NOK 9,757 per 31.12.18. The loan has expired on 30.09.22 and has a fixed interest rate of 4 %.
- Roger Hofseth AS has purchased goods worth TNOK 8,024 in 2018.
- Hofseth North America has purchased goods worth TNOK 1,351 in 2018.
- Alliance Seafoods Inc. has purchased goods valued at TNOK 5,829, and paid stock rent of TNOK 100 in 2018.
- The Group rents factory buildings at Midsund and Berkåk as well as office premises in Ålesund by Syvde Eiendom AS at a cost of TNOK 7,665 per year. The lease agreements run for 15 years until 2032.
- At the capital increase in August 2018, the following related companies and persons were subscribed for by conversion of debt and cash deposits, Roger Hofseth AS TNOK 13,000 and TNOK 10,520, Hofseth AS TNOK 24,674 and TNOK 0, Hofseth International AS TNOK 1,300 and TNOK 0, Hofseth International AS TNOK 1,300 and TNOK 0, Hofseth International AS TNOK 1,300 and TNOK 0, Hofseth Aalesund AS TNOK 10,937 and TNOK 0, Hofseth Logistics AS TNOK 2,221 and TNOK 0, Seafood Farmers of Norway AS TNOK 13,658 and TNOK 0, Alliance Seafoods Inc. TNOK 0 and TNOK 17,141, Paso AS TNOK 0 and TNOK 319 and Ola Holen TNOK 0 and TNOK 181.

The statement of profit and loss and the balance sheet include following related party transactions:

Balance sheet items	*Group*		*Parent*	
Figures in NOK 1000	*2018*	*2017*	*2018*	*2017*
Machines and equipment (leasing)	20 895	9 713	20 895	9 713
Trade receivables	1 966	18 921	1 467	18 720
Loan from shareholders	-9 757	-25 206	-9 757	-25 206
Leasing liabilities	-15 302	-6 900	-15 302	-6 900
Trade payables	-20 514	-37 691	-20 514	-37 691
Other current liabilities	-1 874	-1 097	-1 874	-1 097
Total	**-24 585**	**-42 260**	**-25 084**	**-42 641**

Profit and loss items	*Group*		*Parent*	
Figures in NOK 1000	*2018*	*2017*	*2018*	*2017*
Sales revenue	15 733	31 610	15 733	31 410
Other income	0	52 242	0	30 721
Total revenue	**15 733**	**83 852**	**15 733**	**62 131**
Cost of sales	32 828	37 372	32 828	37 372
Other operating expenses	9 312	7 282	6 696	7 282
Financial expenses	1 844	1 123	1 844	1 123
Total costs	**43 984**	**45 778**	**41 368**	**45 778**

RAW MATERIAL AGREEMENTS

The Group has purchased raw material (fish cut off) from Hofseth Aalesund AS, Hofseth AS and Seafood Farmers of Norway AS, which are shareholders or close relatives of shareholders. The raw material agreements started to run in 2015 and ran until the end of 2017. The agreement gave the company and the group the exclusive right to have all the by-products from their production delivered. Throughout 2018, the Group has continued to purchase raw materials (fish off-cuts) from Roger Hofseth AS, which is a shareholder, under the same conditions as the former agreement. Hofseth BioCare ASA has in March 2019 entered into a new agreement on the purchase of raw material (fish off-cuts) from Roger Hofseth AS, which is a shareholder. The raw material agreement starts to run in 2019 and runs over 3 years and gives the company and the group the exclusive right to get all the by-products from the production to Roger Hofseth AS's suppliers.

NOTE 7: FINANCIAL INCOME AND EXPENSES

Financial income	*Group*		*Parent*	
Figures in NOK 1000	*2018*	*2017*	*2018*	*2017*
Interest income	209	100	207	92
Reversal impairment of financial fixed assets	0	0	0	2 288
Gains and change in value of forward exchange contracts	1 665	0	1 665	0
Foreign exchange gains	1 162	965	1 162	965
Total	3 036	1 065	3 033	3 344

Financial expenses	*Group*		*Parent*	
Figures in NOK 1000	*2018*	*2017*	*2018*	*2017*
Interest expenses	3 830	3 323	4 573	3 521
Impairment of financial assets	0	0	5 553	0
Warranty provision	777	777	777	777
Losses and changes in value of forward exchange contracts	2 981	0	2 981	0
Value adjustment of equity investment (note 21)	40	0	40	0
Foreign exchange losses	2 237	2 251	2 236	2 249
Total	9 865	6 351	16 159	6 538

NOTE 8: INCOME TAXES

Income taxes	*Group*		*Parent*	
Figures in NOK 1000	*2018*	*2017*	*2018*	*2017*
Income tax expense				
Change in deferred tax	249	0	249	0
Tax expense	249	0	249	0
Calculation of taxable result				
Loss before tax	-84 527	-16 482	-83 719	-36 168
Permanent differences	40	-3 528	40	-3 528
Change in temporary differences	1 970	-52 856	-1 169	-39 818
Taxable result	-82 517	-72 867	-84 848	-79 515
Temporary differences				
Fixed assets	55 318	61 124	38 648	41 316
Loss carry forward	-618 816	-536 299	-599 026	-514 178
Other temporary differences	-3 978	-7 815	-3 978	-7 815
Total	-567 476	-482 990	-564 356	-480 677
Calculated deferred tax asset 22% (23% in 2017)	-124 845	-111 088	-124 158	-110 556

Deferred tax assets are not recognised in the balance sheet.

Reconcilitation of tax expense	*Group*		*Parent*	
Figures in NOK 1000	*2018*	*2017*	*2018*	*2017*
Loss before tax	-84 527	-16 482	-83 719	-36 168
Tax on loss 22% (23% in 2017)	-19 442	-3 956	-19 255	-8 680
Permanent differences	9	-847	9	-847
Errors in previous years tax base	249	0	249	0
Deferred tax asset, not recognised	13 758	407	13 602	4 720
Effect of change in tax rate	5 675	4 395	5 644	4 807
Total tax expense	249	0	249	0

NOTE 9: EARNINGS PER SHARE

The Group's earnings per share are calculated by dividing the profit for the year attributable to share holders of MNOK -84.8 (2017: MNOK -16.5) by the weighted average number of shares outstanding during the year, 258.1 mill. shares (2017: 233.5 mill. shares).

Diluted earnings per share are calculated by dividing the profit attributable to the share holders by the weighted average number of shares outstanding during the year.

Earnings per share	*Group*		*Parent*	
Figures in NOK 1000	*2018*	*2017*	*2018*	*2017*
Profit attributable to share holders	-84 776	-16 482	-83 968	-36 168
Weighted average number of shares outstanding	258 098	233 500	258 098	233 500
Earnings per share				
-ordinary	-0,33	-0,07	-0,33	-0,15
-diluted	-0,33	-0,07	-0,33	-0,15

NOTE 10: INTANGIBLE ASSETS

	Group and Parent				
2017 *Figures in NOK 1000*	*R&D*	*Trademarks*	*Patents*	*Other*	*Total*
Cost at 01.01.2017	19 364	133	3 671	2 599	25 767
Additions	0	0	0	0	0
Internally developed	3 881	0	0	0	3 881
Cost at 31.12.2017	23 245	133	3 671	2 599	29 648
Depreciation at 01.01.2017	5 644	108	1 873	1 915	9 540
Disposal	0	0	0	0	0
Depreciation charge of the year	1 943	26	367	168	2 503
Impairment	0	0	0	0	0
Depreciation at 31.12.2017	7 587	133	2 240	2 082	12 043
Net book value at 31.12.2017	15 657	0	1 431	517	17 604
Economic life	10 years	5 years	10 years	5 years	5-10 years
Method of depreciaton	Straight line depreciation	Straight line depreciation	Straight line depreciation	Straight line depreciation	Straight line depreciation

2018			Group and Parent			
Figures in NOK 1000	R&D	Trademarks	Patents		Other	Total
Cost at 01.01.2018	23 245		3 671		2 599	29 648
Additions	0		0		0	0
Internally developed	2 308		0		0	2 308
Cost at 31.12.2018	25 553		3 671		2 599	31 956
Depreciation at 01.01.2018	7 587		2 240		2 082	12 042
Disposal	0		0		0	0
Depreciation charge of the year	1 999		367		293	2 659
Impairment	0		0		0	0
Impairment and depreciation at 31.12.2018	9 586		2 607		2 375	14 568
Net book value at 31.12.2018	15 968		1 064		224	17 255
Economic life	10 years	5 years	10 years	10 years	5 years	5-10 years
Method of depreciaton	Straight line depreciation	Straight line depreciation	Straight line depreciation	Straight line depreciation	Straight line depreciation	Straight line depreciation

In addition, the Group has invested NOK 102,000 in a Website in the subsidiary Nøre Nutrition AS but has not started depreciation since the development of the Website was not completed on 31.12.2018. Total book value of intangible assets amounts to TNOK 17,357 for the Group as of 31 December 2018 and has corresponding acquisition cost and depreciation for other intangible assets as stated in the table to the parent company above.

In 2018, HBC R&D continued to work on improving and fine-tuning the production processes. Significant resources have also been devoted to documentation and testing of ProGo® and OmeGo® and CalGo®. In addition, more research has been done on the PetGo ™ product in 2018. The work has been important for HBC to be able to use real data and results in marketing and sales processes. Central to R&D is the work on further developing the products into several areas of application and markets, as well as documenting the quality and effect of the products.

RESEARCH AND DEVELOPMENT

The production of the company's products is an industrial process that requires advanced equipment that may be subject to production shutdowns and other problems. Throughout 2018, the Group has mainly focused on adjusting the production processes at the factory in Midsund. The factory has been further improved, and new technology and new production line for CalGo® have been installed to ensure higher operational stability and better quality. Furthermore, the Group's activities and products are subject to environmental and health requirements, regulations, agreements and conventions. Achieving the goals and requirements has required extensive development activities. The company has had ongoing activities related to the development of new methods for the production, efficiency and processing of salmon cuttings up to high-end ingredients for human use.

The R&D process is divided into five steps:

1. Further develop methods for enzymatic hydrolysis of salmon cutting to achieve unique products with proven health effects.

2. Perfecting procedures to prevent oxidation and microbial degradation of salmon products throughout the value chain.

3. Develop technology to produce higher quality product fractions of protein, calcium and oil.

4. Identify, research and document bioactivity in the products.

5. Documenting biosafety, bioavailability and biological effects through "in-vitro" and "in-vivo" studies

Consequently, the most important research and development activities are related to the further development and improvement of production methods and products, but several research activities are also important for R&D in HBC. The Group has applied the interpretation in IAS 38 with respect to the classification of research and development costs respectively. Total research and development costs for 2018 were TNOK 10,172 (2017: TNOK 11,028). Of this, TNOK 2,308 is capitalized. The table above shows an access of TNOK 2 308.
One of the development projects has also been approved as a Skattefunn project, led by the Norwegian Research Council. For 2018, the Group expects to receive a tax refund of TNOK 1,500 on tax discoveries. See also note 8.

TRADEMARKS
The Group has registered its trademarks under the international Madrid Protocol. The trademarks are ProGo™ for hydrolyzed protein, CalGo™ for Calcium, PetGo™ for non-soluble protein and OmeGo™ for salmon oil.

NOTE 11: FIXED ASSETS

2017	*Group*				*Parent*			
Figures in NOK 1000	*Property, plant and equipment*	*Machin-ery and equip-ment*	*Fixtures and fittings*	*Total*	*Property, plant and equipment*	*Machines and equip-ment*	*Fixtures and fittings*	*Total*
Cost at 01.01.2017	32 263	130 260	8 718	171 241	23 743	123 051	8 648	155 443
Additions	0	9 810	110	9 920	0	9 491	110	9 601
Sold	-32 263	0	0	0	-23 743	0	0	0
Cost at 31.12.2017	0	140 070	8 828	148 898	0	132 543	8 758	141 301
Depreciation at 01.01.2017	4 660	55 691	6 209	66 561	3 209	53 649	6 138	62 997
Depreciation	285	17 909	995	19 189	194	17 346	995	18 535
Sold	-4 945	0	0	27 320	-3 403	0	0	20 341
Depreciation at 31.12.2017	0	73 600	7 205	80 805	0	70 995	7 134	78 129
Book value at 31.12.2017	0	66 492	1 597	68 089	0	61 570	1 597	63 167
Economic life	25-40 years	5-10 years	3-10 years		40 years	5-10 years	3-10 years	
Method of depreciaton	Straight line depreciation	Straight line depreciation	Straight line depreciation		Straight line depreciation	Straight line depreciation	Straight line depreciation	

2018 *Figures in NOK 1000*	*Group* *Property, plant and equip-ment*	*Machinery and equip-ment*	*Fixtures and fittings*	*Total*	*Parent* *Property, plant and equipment*	*Machines and equip-ment*	*Fixtures and fittings*	*Total*
Cost at 01.01.2018	0	140 070	8 828	148 898	0	132 543	8 758	141 301
Additions	0	18 698	0	18 698	0	18 198	0	18 198
Sold	0	0	0	0	0	0	0	0
Cost at 31.12.2018	0	158 768	8 828	167 596	0	150 741	8 758	159 499
Depreciation at 01.01.2018	0	73 600	7 205	80 805	0	70 995	7 134	78 129
Depreciation	0	18 656	875	19 531	0	18 042	876	18 918
Sold	0	0	0	0	0	0	0	0
Depreciation at 31.12.2018	0	92 256	8 080	100 336	0	89 037	8 010	97 047
Book value at 31.12.2018	0	66 613	748	67 361	0	61 806	748	62 554
Economic life	25-40 years	5-10 years	3-10 years		40 years	5-10 years	3-10 years	
Method of depreciaton	Straight line depreciation	Straight line depreciation	Straight line depreciation		Straight line depreciation	Straight line depreciation	Straight line depreciation	

In 2017, the Group sold the factory buildings at Midsund and Berkåk for TNOK 80,000 to Syvde Eiendom AS, which is related partie to the shareholder Alliance Seafoods Inc. The sale resulted in an accounting gain of TNOK 52,242 in the consolidated accounts and TNOK 30,721 in the company accounts. See Note 2, 6 and Note 12 about the Group's and the Company's leases.

The company has placed assets as collateral for loan. See note 15 for further details.

NOTE 12: LEASES

THE COMPANY AS LESSEE - FINANCE LEASES

The company’s assets under finance leases include machinery and equipment. In addition to lease payments, the company is obliged to maintain and secure the equipment. The terms of the leases are in the range of 3-7 years, and a majority of the leases include a right of renewal. At the end of the original period, the machinery and equipment can be subleased at 1/12 of the original lease payment. The company may also require to purchase the equipment.

Assets under finance leases include:

Figures in NOK 1000	*Group* *2018*	*2017*	*Parent* *2018*	*2017*
Machinery and equipment	27 725	18 222	27 725	18 222
Depreciation	-4 651	-5 336	-4 651	-5 336
Net booked value	**23 074**	**12 886**	**23 074**	**12 886**
Maturity of minimum lease payments				

< 1 year	5 947	4 247	5 947	4 247
1 - 5 years	14 325	6 921	14 325	6 921
> 5 years	0	0	0	0
Total	**20 272**	**11 169**	**20 272**	**11 169**
Average interest rate	9,3%	6,9%	9,3%	6,9%
Net present value	**17 567**	**10 118**	**17 567**	**10 118**
Of which				
< 1 years	5 439	3 606	5 439	3 606
1 - 5 years	12 128	6 512	12 128	6 512

The Group and the parent company have acquired financial assets with estimated book cost of TNOK 14,839 in 2018 (TNOK 0 in 2017).

THE COMPANY AS LESSEE - OPERATING LEASES

The company has several operating leases of fixtures and fittings, cars and trucks. Most of the leases include a right of renewal. The terms of the lease agreements vary from year to year, and many of the lease agreements have an option to extend to ordinary market terms.

Ordinary lease payments under operating leases amounted to the following:

	Group		*Parent*	
Figures in NOK 1000	*2018*	*2017*	*2018*	*2017*
Ordinary lease payments	1 404	927	1 378	927
Total	**1 404**	**927**	**1 378**	**927**
Summary of future minimum lease payments				
< 1 year	1 143	866	1 143	866
1 - 5 years	3 254	1 198	3 254	1 198
> 5 years	0	0	0	0
Total	**4 397**	**2 065**	**4 397**	**2 065**

The company has entered into lease agreements for the factory buildings at Midsund and Berkåk. The leases are both in 15 years. Ordinary rent payments on operating leases factory buildings were as follows:

	Group		*Parent*	
Figures in NOK 1000	*2018*	*2017*	*2018*	*2017*
Ordinary lease payments	7 344	5 400	4 728	3 476
Total	**7 344**	**5 400**	**4 728**	**3 476**
Summary of future minimum lease payments				
< 1 year	7 479	7 200	4 822	4 635
1 - 5 years	29 916	28 800	19 289	18 540
> 5 years	61 701	66 600	39 784	42 874
Total	**99 095**	**102 600**	**63 895**	**66 049**

See note 4 for specification of the year's costs related to leases in the company and the group.

NOTE 13: REAL VALUE MEASUREMENT

The following tables provide real value measurement hierarchy of the Group's financial assets and liabilities

Assets measured at fair value, Group *Figures in NOK 1000*	*Date of measure ment*	*Amount*	*Active markets (Level 1)*	*Observed market prices (Level 2)*	*Non-observed input (Level 3)*
Equity investments (not listed)					
HFS Alliance Inc Japan	31.12.18	473	0	0	473
Assets where fair value is stated in note 17:					
Loans at amortized cost					
Accounts receivable	31.12.18	14 697	0	0	14 697
Loans to employees	31.12.18	459	0	0	459
Receipt of value added tax and grants	31.12.18	2 402	0	0	2 402
Other financial loans	31.12.18	3 138	0	0	3 138

Liabilities measured at fair value, Group *Figures in NOK 1000*	*Date of measure ment*	*Amount*	*Active markets (Level 1)*	*Observed market prices (Level 2)*	*Non-observed input (Level 3)*
Derivatives financial liabilities					
Forward exchange contracts in USD	31.12.18	1 336	0	1 336	0
Obligations in which fair value is stated in note 17:					
Interest-bearing loans					
Interest-bearing loans floating interest rate	31.12.18	29 505	0	0	29 505
Leasing obligations	31.12.18	10 511	0	0	10 511
Interest-bearing loans fixed interest rate	31.12.18	17 567	0	0	17 567

Assets measured at fair value, parent company *Figures in NOK 1000*	*Date of measure ment*	*Amount*	*Active markets (Level 1)*	*Observed market prices (Level 2)*	*Non-observed input (Level 3)*
Equity investments (not listed)					
HFS Alliance Inc. Japan	31.12.18	473	0	0	473
Assets where fair value is stated in note 17:					
Loans at amortized cost					
Accounts receivable	31.12.18	13 071	0	0	13 071
Loans to employees	31.12.18	459	0	0	459

Receipt of value added tax and grants	31.12.18	2 172	0	0	2 172
Loans to subsidiaries	31.12.18	60	0	0	60
Loans to related parties	31.12.18	3 138	0	0	3 138

Liabilities measured at fair value, parent company *Figures in NOK 1000*	*Date of measure ment*	*Amount*	*Active markets (Level 1)*	*Observed market prices (Level 2)*	*Non-observed input (Level 3)*
Derivatives financial liabilities					
Forward exchange contracts in USD	31.12.18	1 336	0	1 336	0
Obligations in which fair value is stated in note 17:					
Interest-bearing loans					
Interest-bearing loans floating interest rate	31.12.18	25 911	0	0	25 911
Leasing obligations	31.12.18	10 511	0	0	10 511
Interest-bearing loans fixed interest rate	31.12.18	17 567	0	0	17 567
Interest-bearing loans floating interest rate from subsidiaries	31.12.18	18 221	0	0	18 221

NOTE 14: FINANCIAL ASSETS

Financial assets	*Group*		*Parent*	
Figures in NOK 1000	*2018*	*2017*	*2018*	*2017*
Financial assets at fair value through profit or loss				
Equity investments (not listed)	473	513	473	513
Total financial assets at fair value	473	513	473	513
Amortized cost receivables:				
Accounts receivable	14 697	26 703	13 071	25 778
Lending to employees	459	1 187	459	1 187
Receipt of value added tax and grants	2 402	5 401	2 172	5 401
Financial loans to subsidiaries	0	0	60	40
Other financial loans	3 138	3 116	3 138	3 116
Total financial assets	**20 696**	**36 407**	**18 900**	**35 522**
Total short-term financial assets	**18 260**	**33 266**	**16 464**	**32 381**
Total long-term financial assets	**2 436**	**3 141**	**2 436**	**3 141**

In summary, the implementation of IFRS 9 on the group had the following classification effects as of 1 January 2018:

IAS 39 Measurement category		IFRS 9 Measurement category		
Figures in NOK 1000		*Fair value over the result*	*Amortized cost*	*Real value over OCI*
Financial assets				
Equity investments (not listed)	513	513	0	0
Loans and receivables				
Accounts receivable	26 703	0	26 703	0
Lending to employees	1 187	0	1 187	0
Receipt of value added tax and grants	5 401	0	5 401	0
Other financial loans	3 116	0	3 116	0

Derivatives that are not classified as hedging reflect changes in the fair value of the forward exchange contracts that have not been assigned to a documented hedging relationship, but nevertheless intend to reduce the risk associated with foreign exchange risk on sales revenues.

Financial assets measured at fair value through profit or loss include the company's investment in HFS Alliance Inc. in Japan (see note 22), where fair value corresponds to the calculated net asset value of the ownership interest in the company. In previous years, the investment has been valued at acquisition cost in accordance with. IAS 39. When introducing IFRS 9, this is assessed at fair value through profit and loss as of January 1, 2018. The operation of the underlying company was started in 2017, and the fair value of the investment is calculated equal to the acquisition cost as of 31 December 2017. No changes in value by measurement in accordance with IFRS 9. The first full operating year in 2018 has resulted in an estimated impairment loss of TNOK 40 as at 31 December 2018.

Receivables at amortized cost include accounts receivable, receivable from value added tax and grants, receivables from subsidiaries and related parties, as well as other financial loans. The transition to IFRS 9 has changed the Group's accounting for loss provisions for financial assets, by going from objective evidence that a loss event has occurred in IAS 39 to a model that is based on expected credit loss (ECL). IFRS 9 requires the Group to recognize a provision for expected credit losses for all debt instruments that are not held at fair value through profit or loss, and for contract assets. The company and the group have a high degree of collateral for credit insurance on all accounts receivable and collateral on other receivables and loans. The introduction of IFRS 9 has not led to changes in provisions for losses on receivables and other financial assets.

NOTE 15: INTEREST-BEARING DEBT AND BORROWINGS

NON-CURRENT DEBT

	Effective		*Group*		*Parent*	
Figures in NOK 1000	*Interest rate*	*Maturity*	*2018*	*2017*	*2018*	*2017*
Bank borrowing, IN1	5,0%	2019-2022	4 482	6 275	4 482	6 275
Bank borrowing, IN2	5,0%	2019-2022	2 875	4 025	2 875	4 025
Rennebu kommune	NIBOR+2,0%	2019-2025	2 960	3 514	0	0
Loan from shareholder	4,0%	2019-2022	7 150	9 016	7 150	9 016
Subordinary loan	NIBOR+4,5%	2019-2023	0	15 000	0	15 000
Lease liability	9,3%	2019-2021	12 921	6 512	12 921	6 512

Total	30 387	44 342	27 428	40 829

CURRENT DEBT

Figures in NOK 1000	Effective Interest rate	Maturity	Group 2018	2017	Parent 2018	2017
Bank borrowing, IN1	5,0%	2018	1 793	1 793	1 793	1 793
Bank borrowing, IN2	5,0%	2018	1 150	1 150	1 150	1 150
Rennebu kommune	NIBOR+2,0%	2018	554	540	0	0
Loan from shareholder*	4,0%	2018	2 607	1 190	2 607	1 190
Loan from shareholder	11,7%	2018	1 471	1 470	1 471	1 470
Factoring liability	6,6%	2018	15 691	27 336	15 691	27 336
Lease liability	9,3%	2018	4 646	3 606	4 646	3 606
Total			**27 912**	**37 084**	**27 358**	**36 546**
Total interest bearing debt			**58 300**	**74 445**	**54 786**	**65 401**

* loans are issued in JPY - unrealized losses calculated at TNOK 804 as at 31.12.2018 (TNOK 203 as of 31.12.2017)

COLLATERALS

The loans from Innovasjon Norge are secured by the parent company's assets.

Collaterals Figures in NOK 1000	2018	2017
Fixed assets	39 480	50 282
Trade receivable	13 071	25 778
Inventory	29 096	16 631
Total	81 647	92 690

The loans are measured at amortised cost by using the effective interest rate method. In addition to pledged assets, the loans are also secured by a repurchase agreement from main shareholder of MNOK 16.

Factoring arrangement for accounts receivable and inventories with factoring partner is secured with pledge in trade receivables and inventories. The Group insures significant receivables against credit risk. The insurance is limited to a maximum of MNOK 30 and a coverage rate of 90%.

Lease obligations are secured against the leased assets. The carrying amount of leased machinery and plant amount to TNOK 23,074 (TNOK 12,886 in 2017).

FINANCIAL COVENANTS

Bank borrowings Innovation Norway

As of 30 June 2018, and 31 December 2018, the company shall each year have a liquidity reserve of at least NOK 5 million in the form of cash and unutilized drawing rights in operating credit. The book value of equity plus subordinated loans in Hofseth BioCare ASA shall as at 30 June and 31 December constitute at least 25% of the book value of its assets. The company had an equity ratio added to subordinated loans of 43.9% and NOK 45.3 million in vacant liquidity and was thus not in breach of covenants given in the loan agreement with Innovation Norway as at 31.12.2018. When introducing IFRS 16 in the recognition of leases, the company has an equity ratio of 35.9 % as of 01.01.2019.

NOTE 16: OTHER FINANCIAL OBLIGATIONS

Other Financial Obligations	*Group*		*Parent*	
Figures in NOK 1000	*2018*	*2017*	*2018*	*2017*
Derivatives not classified as hedges:				
Forward foreign exchange contracts	1 336	0	1 336	0
Total financial liabilities at fair value	**1 336**	**0**	**1 336**	**0**
Other liabilities at amortized cost:				
Accounts payable	32 112	51 929	28 851	49 487
Public taxes	2 660	2 612	1 836	1 732
Financial loans from subsidiaries	0	0	18 765	26 478
Other financial loans	2 112	7 039	1 874	6 801
Total other financial liabilities	**36 884**	**61 580**	**51 327**	**84 497**
Total other short-term financial liabilities	**36 884**	**61 580**	**51 327**	**84 497**
Total other long-term financial liabilities	**0**	**0**	**0**	**0**

Derivatives that are not classified as hedging reflect changes in the fair value of the forward exchange contracts that have not been assigned to a documented hedging relationship, but nevertheless intend to reduce the risk associated with foreign exchange risk on sales revenues.

Other debt liabilities measured at amortized cost include trade payables, government fees, and loans to related parties and subsidiaries.

NOTE 17: FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

	Group		*Parent*	
Figures in NOK 1000	*2018*	*2017*	*2018*	*2017*
Financial assets at fair value over the result:				
Equity investments	473	513	473	513
Total financial assets at fair value over the result	**473**	**513**	**473**	**513**
Financial assets at amortized cost:				
Long-term financial lending and deposit	2 436	3 141	2 436	3 141
Accounts receivable	14 697	26 703	13 071	25 778
Other financial loans (see note 14)	3 563	6 563	3 393	6 603
Total financial assets amortized cost	**20 696**	**36 407**	**18 900**	**35 522**
Total financial assets	**21 169**	**36 920**	**19 373**	**36 035**

Fair value is equal to book value.

	Group		*Parent*	
Figures in NOK 1000	*2018*	*2017*	*2018*	*2017*
Financial liabilities at fair value over the result:				

Forward exchange contracts (note 23)	1 336	0	1 336	0
Financial liabilities at amortized cost:				
Interest-bearing short-term debt	27 912	37 084	27 358	36 546
Accounts payable	32 112	51 929	28 851	49 487
Interest-bearing short-term debt subsidiaries	0	0	18 765	26 478
Other short-term debt (note 23)	10 154	13 800	7 996	11 907
Long-term interest-bearing debt	17 467	37 830	14 507	34 317
Long-term leasing obligations	12 921	6 512	12 921	6 512
Total financial liabilities amortized cost	100 565	147 156	110 398	165 246
Total financial obligations	101 901	147 156	111 734	165 246

Fair value equals carrying amount except for current and non-current interest-bearing liabilities.

Level 3	*2018*		*2017*	
Group	*Book value*	*Fair Value*	*Book value*	*Fair Value*
Current interest-bearing liabilities	27 912	27 861	37 084	37 066
Non-current interest-bearing liabilities	30 387	29 722	37 830	37 035

Level 3	*2018*		*2017*	
Parent company	*Book value*	*Fair Value*	*Book value*	*Fair Value*
Interest-bearing short-term debt	27 358	27 307	36 546	36 528
Interest-bearing long-term debt	27 428	26 762	34 317	33 522
Interest-bearing short-term debt of subsidiaries	18 765	18 221	26 478	26 478

Fair value measurement per level:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Valuation based on other observable factors either directly (price) or indirectly (derived from price) than the quoted price (used in level 1) for the asset or liability

Level 3: Valuation based on factors not obtained from observable market data (unobservable conditions)

The fair value of interest-bearing current and long-term fixed rate debt (level 3) is calculated by comparing the Group and parent company's conditions with market terms for debt with similar maturity and credit risk

The company has no other financial instruments measured at fair value

The carrying value of cash and cash equivalents, short-term receivables, and short-term payables approximates fair value as these instruments have short maturities, and "normal " conditions.

NOTE 18: FINANCIAL RISK MANAGEMENT

FINANCIAL RISK

Through its activities, the Group is exposed to various types of financial risks: market risk, credit risk and liquidity risk. Management monitors these risks continuously, and establishes guidelines for their management. The Group normally does not use financial instruments, including derivatives, in their commercial transactions. The Group's overall risk management program focuses on the unpredictability of the financial markets and seeks to minimize potential adverse effects on the Group’s financial results.

The Group may use financial derivatives to hedge against certain risks. The company has loans from credit institutions and financial leasing arrangements with the purpose of obtaining capital for investments in the Groups operations. In addition, the company has financial instruments such as accounts receivable and accounts payable, etc., which are directly related to the daily operational activities. The company has not used financial instruments, including derivatives for hedging or speculative purposes.

INTEREST RATE RISK

Since the company and the group have no significant interest-bearing assets, the exposure to interest rate risk is through their financing activities. The company's and the group's interest rate risk is related to long-term interest-bearing loans, short-term interest-bearing loans and financial leasing. Loans with floating interest rates lead to interest rate risk for the company's and the Group's cash flow. See note 17 for the book value and fair value of the financing activities and note 15 for interest terms relating to interest-bearing financing obligations as at 31 december 2018.

For the company's and the Group's loan portfolios that have floating interest rates, this means that the company is affected by changes in the interest rate level. Loans from shareholders are at fixed prices. The loans are booked at amortized cost.

The following table shows the Group's sensitivity to interest rate fluctuations. The calculation includes all interest-bearing instruments and financial interest rate derivatives to the extent that they are present.

Interest rate sensitivity year	*Effect on interest rate basis-point*	*Effect on propfit before tax Figures in NOK 1000*
	+100	-713
2017	-100	713
	+100	-583
2018	-100	583

Average interest rates on financial instruments were as follows:

Average interest rate in %	*2018*	*2017*
Factoring	8,45	6,60
Loan from shareholders	4,20	4,97
Subordinary loan	5,42	5,50
Secured debt	5,00	4,91
Finance leases	9,33	6,92

The following table shows the company's sensitivity to interest rate fluctuations. The calculation includes all interest-bearing instruments and financial interest rate derivatives to the extent that they are present.

Interest rate sensitivity year	Effect on interest rate basis-point	Effect on propfit before tax Figures in NOK 1000
	+100	-919
2017	-100	919
	+100	-736
2018	-100	736

FOREIGN EXCHANGE RISK

The company and the group have a currency loan in JPY and a large part of their operating income in foreign currency and, to a lesser extent, the purchase of input factors in foreign currency, and are therefore exposed to currency risk. Foreign exchange risk may also arise for future commercial transactions and capitalized assets and liabilities. Management has not found it necessary to carry out hedging transactions in 2017. Management has monitored movements in the foreign exchange market and has assessed hedging strategies in 2018 based on the company's and the group's contractual and predictable income streams. The parent company and the group have therefore entered into forward exchange contracts in 2018 to secure the Group's budgeted future sales in foreign currency (Euro and USD), but have not used hedge accounting.

The parent company and the group have the following positions as of 31 December 2018:

- Sales 1 500 000 USD exchange rate 8.3499 maturity 22.01.2019
- Sales 1,500,000 USD exchange rate 8.4184 maturity 20.03.2019
- Sales 1,500,000 USD exchange rate 8.3229 maturity 21.05.2019

The market values of the positions are calculated at unrealized losses of TNOK 1,336 at 31 December 2018 for both the company and the Group.

The following table demonstrates the sensitivity of possible changes in EUR, USD and JPY when all other variables are constant. The effect on the company's and the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities, including forward exchange contracts.

Change in currency		Effect on profit before tax			Effect on balance	
Figures in NOK 1000	Change in NOK to foreign currency	EUR	USD	JPY	USD	JPY
2017	+10%	1 688	893	1 399	i/a	1 020
	-10 %	-1 688	-893	-1 399	i/a	-1 020
2018	+10%	1 151	-4 922	-976	6 220	976
	-10 %	-1 151	4 922	976	-6 220	-976

CREDIT RISK

The Group is exposed to credit risk primarily related to accounts receivable, long-term financial loans, short-term financial loans, as well as other financial activities including cash and cash equivalents (bank deposits). The Group limits its exposure to credit risk through a credit rating of its customers before credit is given. The Group has credit insurance for all its significant accounts receivable through GIEK (see note 20 for further information on credit exposure and maturity analyzes on accounts receivable).

The maximum risk exposure of trade receivables as of 31 December 2018 is TNOK 14,697 (TNOK 26,703 at 31 December 2017). The risk of loss on accounts receivable is considered low and there has been no need to calculate and account for a provision for losses. See note 20 for further information.

Maximum risk exposure financial loans TNOK 10,014 as of 31 December 2018 (TNOK 12,403 as of 31 December 2017), mainly consisting of good value added tax, subsidy funds, deposit and prepaid costs, where there is no credit risk. Financial loans include loans to employees TNOK 459 (TNOK 1,187 in 2017) and lending subsidiaries TNOK 60 (TNOK 40 in 2017) where credit risk is considered low. (see notes 14, 17 and 20 for further information on financial loans and other current receivables).

Credit risk for cash and cash equivalents, including bank deposits, is managed by the Group's management. The Group's surplus liquidity is invested by bank deposits with a financial counterparty with low credit risk. The Group has no investments in excess liquidity in debt or equity instruments.

The Group has not provided any guarantees for third-party debt.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to liquidity management is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, both under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Cash flows are regularly monitored by the finance department to ensure that the company has sufficient cash to meet operational commitments, and at any time to maintain sufficient flexibility in the form of credit facilities so that it does not violate limits or covenants for any of the loans. The Group aims to have sufficient cash, cash equivalents or credit opportunities in the medium term to cover interest and principal payments in the short term.

At 31 December 2018, the company had MNOK 48.6 in cash and cash equivalents, of which MNOK 1.3 was restricted cash.

Expected cash flows are subject to uncertainty. Group is expected to have a stable level of production with stable quality that meets requirements for human quality.

Risk factors should be considered in conjunction with the risk factors described in note 2.

Activities to increase sales to existing customers, as well as the expectation of increased sales of oil, water-soluble protein, non-soluble protein and calcium could result in significant improvement in the company's cash flow.

The table below shows the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, classified according to maturity structure, that is, taken into account contracts with fixed maturity dates.

When the counterparty can make a choice of when an amount is to be paid, the liability is included in the basis covering the earliest date on which the entity can be required to pay. Financial liabilities that may be required to be paid on demand are included in the "within 1 year" column.

2017					*Group*					
Figures in NOK 1000	*1-3 months*	*4-6 months*	*7-9 months*	*10-12 months*	*2019*	*2020*	*2021*	*2022*	*> 5 years*	*Total*
Interest bearing debt to financial institutions	789	1 217	877	1 195	4 026	3 869	3 711	2 091	1 412	19 188
Factoring debt	20 336	0	0	0	7 000	0	0	0	0	27 336
Finanse lease obligation	1 012	991	970	949	3 583	3 244	1 495	0	0	12 245
Trade payables	51 529	200	200	0	0	0	0	0	0	51 929
Loan from shareholders	676	666	1 248	1 231	6 248	6 017	5 787	5 057	3 011	29 941
Other current liabilities	8 097	5 703	0	0	0	0	0	0	0	13 800
Total	**82 439**	**8 777**	**3 295**	**3 375**	**20 857**	**13 130**	**10 993**	**7 148**	**4 423**	**154 439**

2017					*Parent*					
Figures in NOK 1000	*1-3 months*	*4-6 months*	*7-9 months*	*10-12 months*	*2019*	*2020*	*2021*	*2022*	*> 5 years*	*Total*
Interest bearing debt to financial institutions	789	886	788	868	3 384	3 243	3 102	1 498	0	14 647
Factoring debt	20 336	0	0	0	7 000	0	0	0	0	27 336
Finanse lease obligation	1 012	991	970	949	3 583	3 244	1 495	0	0	12 245
Trade payables	49 087	200	200	0	0	0	0	0	0	49 487
Loan from shareholders	676	666	1 248	1 231	6 248	6 017	5 787	5 057	3 011	29 941
Other current liabilities	6 204	5 703	0	26 478	0	0	0	0	0	38 385
Total	**78 104**	**8 446**	**3 295**	**29 526**	**20 215**	**12 505**	**10 384**	**6 555**	**3 011**	**172 040**

2018					*Group*					
Figures in NOK 1000	*1-3 months*	*4-6 months*	*7-9 months*	*10-12 months*	*2020*	*2021*	*2022*	*2023*	*> 5 years*	*Total*
Interest bearing debt to financial institutions	777	1 174	842	1 152	3 869	3 711	2 091	577	835	15 027
Factoring debt	5 691	0	0	10 686	0	0	0	0	0	16 377
Finanse lease obligation	1 526	1 524	1 523	1 5161	5 508	3 720	2 865	2 706	0	20 889

Trade payables	32 112	0	0	0	0	0	0	0	0	32 112
Loan from shareholders	503	492	1 074	1 058	2 678	2 583	2 488	1 449	0	12 327
Other current liabilities	8 619	2 871	0	0	0	0	0	0	0	11 490
Total	**49 228**	**6 061**	**3 439**	**14 412**	**12 056**	**10 015**	**7 445**	**4 732**	**835**	**108 222**

2018					*Parent*					
Figures in NOK 1000	*1-3 months*	*4-6 months*	*7-9 months*	*10-12 months*	*2020*	*2021*	*2022*	*2023*	*> 5 years*	*Total*
Interest bearing debt to financial institutions	777	850	842	833	3 243	3 102	1 498	0	0	11 145
Factoring debt	5 691	0	0	10 686	0	0	0	0	0	16 377
Finanse lease obligation	1 526	1 524	1 523	1 516	5 508	3 720	2 865	2 706	0	20 889
Trade payables	28 851	0	0	0	0	0	0	0	0	28 851
Loan from shareholders	503	492	1 074	1 058	2 678	2 583	2 488	1 449	0	12 327
Other current liabilities	7 023	2 308	0	19 328	0	0	0	0	0	28 097
Total	**44 370**	**5 176**	**3 439**	**33 421**	**11 430**	**9 405**	**6 851**	**4 155**	**0**	**118 248**

The group is still dependent on increasing capacity and sales, or that new capital is added to be able to service the ongoing obligations through 2019. Management and the board implement measures to be able to pay overdue accounts payable, short-term interest and installments on interest-bearing debt, as well as future operating expenses in 2019. See note 2 on continued operations and note 15 on interest-bearing debt for further information.

In the future, the management and the board will continue to prioritize the work on an appropriate and long-term financing of Hofseth BioCare ASA.

CAPITAL STRUCTURE AND EQUITY

The company's objectives with respect to capital management is to ensure the continuation as a going concern, to provide returns to shareholders and other stakeholders, and to maintain an optimal capital structure to reduce capital costs. By ensuring sound ratios between equity and debt the company will support its operations, thus maximizing the value of its shares.

The company manages its capital structure and makes necessary changes to it on the basis of an ongoing assessment of the financial conditions under which the business is run, and the prospects seen in the short and medium term, including any adjustment of dividend shares, buyback of own shares, reduction of share capital or issuance of new shares. There has been no change in the policy in this area in 2018. The Group's equity ratio was 45.8% as of 31.12.18 (28.3% as of 31.12.17 including subordinated loans). The parent company's equity ratio was 43.9% at 31.12.18 (26.0% as of 31.12.17 including subordinated loans).

NOTE 19: INVENTORY

Inventory	*Group*		*Parent*	
Figures in NOK 1000	*2018*	*2017*	*2018*	*2017*
Salmon oil	924	110	924	110
Soulible protein	8 287	2 042	8 287	2 042
Calcium	17 528	13 045	17 528	13 045
Non-soulible protein and other	194	640	194	640
Webshop products	643	593	643	593
Total finished goods	27 576	16 430	27 576	16 430
Packaging and auxiliary materials	1 826	428	1 520	201
Total inventory	29 402	16 858	29 096	16 631

An adjustment has been made to the sales value taking into account obsolescence and reversal of previous years' provisions corresponding to TNOK -4,601 (TNOK 1,100 in 2017), and provision for obsolescence amounts to TNOK 2,599 per 31.12.2018 (TNOK 7,200 as of 31 December 2017). Reversal of previous years' provisions obsolescence relates to sales in 2018 of goods produced in previous years. See notes 2, 3 and 4 for more information.

The Group has, on behalf of customers, stored water-soluble protein, calcium and oil capsules as of 31 December 2018. The contracted sales value amounts to TNOK 46,045 and is recognized as income in 2017 and 2018, as a result of the customers taking over the risk and control of the goods.

NOTE 20: TRADE RECEIVABLES AND OTHER CURRENT RECEIVABLES

Trade receivables	*Group*		*Parent*	
Figures in NOK 1000	*2018*	*2017*	*2018*	*2017*
Trade receivables	14 697	26 703	13 071	25 778
Provision for expected credit losses	0	0	0	0

Accounts receivable are not interest-bearing receivables and general terms and conditions for payment are from 7 to 60 days. The Group has an agreement on factoring with a credit institution (see information on interest-bearing debt in note 15). All significant accounts receivables are credit secured by Giek, limited to a maximum of MNOK 30 and with a coverage rate of 90 %. Historical credit losses for customers over the past five years are approximately NOK 0 million.

Aging of trade receivables		*Group*				
Figures in NOK 1000	*Total*	*Not due*	*<30d*	*30-60d*	*60-90d*	*>90d*
2018						
Accounts receivable	14 697	10 938	3 392	367	0	0
Credit-secured share	11 628	8 322	3 306	0	0	0
Expected credit loss	0	0	0	0	0	0
2017	24 825	24 808	17	0	0	0
Credit-secured share	19 447	19 447	0	0	0	0
Expected credit loss	0	0	0	0	0	0

Aging of trade receivables		*Parent*				
Figures in NOK 1000	*Total*	*Not due*	*<30d*	*30-60d*	*60-90d*	*>90d*
2018						
Accounts receivable	13 073	10 565	2 475	33	0	0
Credit-secured share	11 628	8 322	3 306	0	0	0
Expected credit loss	0	0	0	0	0	0
2017	23 916	23 916	0	0	0	0
Credit-secured share	19 447	19 447	0	0	0	0
Expected credit loss	0	0	0	0	0	0

The Group has established a model in which the Group calculates provisions for credit losses by multiplying the expected credit losses by the proportion of non-credit-secured accounts receivable. The Group uses a rising factor for expected credit losses according to maturity analyzes above. When analyzing future information about the Group's customers and markets, no future challenges are listed today which indicate that there will be a significant credit loss in the future (see and note 18 on credit risk). The Group and the company have NOK 0 million in provisions for losses on accounts receivable both in 2017 and 2018. The IFRS 9 implementation has not resulted in any changes in the provision for credit losses on accounts receivable.

Other current receivables	Group		Parent	
Figures in NOK 1000	2018	2017	2018	2017
Prepayments	2 592	2 700	1 795	2 554
VAT receivable	380	2 592	150	2 592
Intercompany Group	0	0	60	40
Benefit funds	2 022	2 809	2 022	2 809
Other	2 584	1 161	2 583	1 162
Total	7 578	9 262	6 611	9 157

NOTE 21: CASH AND CASH EQUIVALENTS

Deposits with a credit institution totaled TNOK 48,641 at 31 December 2018 and TNOK 42,068 at 31 December 2017 and the Group earns interest income according to agreed floating interest rate terms.

At 31 December 2018, restricted funds for the Group amounted to TNOK 1,324 which derives from the employees' tax deductions. As of 31 December 2017, this amounted to TNOK 1,397.

NOTE 22: EQUITY INVESTMENTS

Subsidiaries	Country	Head office	Share capital	Owner-ship	Voting share	Earnings 2018	Equity 31.12.2018
Hofseth Biocare Rørvik AS	Norge	Rørvik	100	51%	51%	-17	-1 384
HBC Berkåk AS	Norge	Rennebu	100	100%	100%	-6 299	20 398
Nøre Nutrition AS	Norge	Ålesund	2 000	100%	100%	-615	1 379

Short-term debt to subsidiaries amounts to TNOK 18,765 as of 31 December 2018 (current liabilities TNOK 26,478 in 2017).

Company	Country	Head office	Share capital	Ownership	Voting share
HFS Alliance Inc.	Japan	Tokyo	JPY 50 000 000	15 %	15 %

Equity investment in HFS Alliance Inc. is valued at fair value through profit or loss both in the parent company's accounts and for the group, see notes 13, 14 and 17. The parent company and the group use the net asset value method to calculate the fair value of the equity of the company. The assets of the company are mainly bank deposits, accounts receivable, interest-bearing liabilities and other interest-free debt obligations. All items are valued at face value. Value of the share equal to the ownership interest multiplied by value-adjusted equity in HFS Alliance Inc, calculated at TNOK 473 31 December 2018 (TNOK 513 31.12.2017). Cost was TNOK 513.

NOTE 23 ACCOUNTS PAYABLE AND OTHER SHORT-TERM LIABILITIES

Accounts payable	*Group*		*Parent*	
Figures in NOK 1000	*2018*	*2017*	*2018*	*2017*
Accounts payable	11 598	14 238	8 337	11 796
Accounts payable related companies	20 514	37 691	20 514	37 691
Internal payables	0	0	0	0
Total	32 112	51 929	28 851	49 487

Accounts payable are not interest-bearing and normal maturity is from 0 to 60 days. For settlement and terms for accounts payable with related parties see information in note 6.

Other short-term liabilities	*Group*		*Parent*	
Figures in NOK 1000	*2018*	*2017*	*2018*	*2017*
Advance payments from customers	0	5 703	0	5 703
Deposits holiday payments	2 871	2 445	2 308	1 940
Other accrued costs	5 407	4 554	3 811	3 166
Allocated forward contract	1 336	0	1 336	0
Short-term debt to group companies	0	0	18 765	26 478
Short-term debt related company	1 874	1 097	1 874	1 097
Total	11 490	13 800	28 097	38 385

NOTE 24: SHARE CAPITAL, SHAREHOLDERS AND DIVIDENDS

As of 31 December 2018, Hofseth BioCare ASA had NOK 294,836,829 in share capital, divided into 294,836,829 shares, each with a nominal value of NOK 1.00. All shares are fully paid.

There is only one share class and all shares have equal voting rights and equal rights to dividends. The 20 largest shareholders of Hofseth BioCare ASA as of 31 December 2018 are:

Largest shareholders		
Shareholder	*# 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 AS	4 430 000	1.50%
STOREBRAND VEKST VERDIPAPIRFOND	4 084 831	1.39%
VARMA MUTUAL PENSION INSUARNCE 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%
JAN PETTERSON	1 553 137	0.53%
ENTRANS INVEST AS	1 275 088	0.43%
LFC AS	1 270 000	0.43%
In total, the 20 largest shareholders	262 757 080	89.12 %
Total others	32 079 749	11.88%
Total number of shareholders	294 836 829	100.00 %

Total no. of shareholders: 736

NOTE 25: NEW ACCOUNTING STANDARDS WITH FUTURE EFFECTIVE DATE

The standards and interpretations that have been adopted up to the time of presentation of the consolidated financial statements, but where the date of entry into force is forthcoming, are stated below. The Group's intention is to implement the relevant changes at the date of entry into force, provided that the EU approves the changes before the presentation of the consolidated financial statements.

IFRS 16 Leases

IFRS 16 Leases replaces the existing IFRS standard for leases, IAS 17 Leases. IFRS 16 sets out principles for recognition, measurement, presentation and disclosure of leases for both parties in a lease, ie the customer (tenant) and provider (landlord). The new standard requires the lessee to recognize assets and liabilities for most leases, which is a significant change from current principles.

The standard comes into force from 1 January 2019 and shall be implemented either by using a full retrospective or modified retrospective method.

At the time of the establishment of a lease, the Group and the parent company, as the lessee, will recognize a liability for the lease payments (lease obligation), as well as an asset that represents the right to use the underlying asset during the lease term (right of use). The standard has two exceptions for the recognition of lease obligation and right of use, and for a low-value asset (right of use), for example, a lease agreement with less than TNOK 50 in value in use and short-term lease (less lease term than 12 months).

It is a requirement that the Group and the parent company shall separate the recognition of the calculated interest expenses from the rent obligations and the calculated depreciation on capitalized assets (the rights of use). The Group and the parent company are required to re-measure the lease obligations if certain events occur (eg change in the lease term, change in future lease payments as a result of a change in an index or other rate used to calculate the monthly lease payments). The lessee will normally account for any changed value of the lease obligation against the estimated value of the asset (the right of use).

The Group and the parent company have decided to use the modified retrospective method at the time of implementation on January 1, 2019. In implementing IFRS 16, the Group has chosen to recognize the leasing agreements for the factory buildings (see notes 6 and 12) by setting the value of the right of use to factory buildings under fixed assets lit calculated value of long-term interest-bearing rent obligations. The factory buildings are recognized as permanent assets and are further assessed in accordance with the regulations. The obligations in the leaseback agreements are recognized as a long-term interest-bearing financial liability, where the agreed lease payments are distributed between installments on the calculated principal and interest expenses in subsequent accounting. In addition, most operational leases mentioned in note 12 must be recognized in the same manner.

In summary, IFRS 16 will result in an increase in fixed assets of TNOK 66,077 for factory buildings (utility rights), with TNOK 1,585 for operating assets (utility rights), with TNOK 67,663 in liabilities divided by TNOK 64,080 long-term and TNOK 3,682 in short-term lease commitments. The Group has not recognized the net deferred tax asset, and thus no net tax effects on the implementation. Equity is not changed by the implementation of IFRS 16. Furthermore, estimated depreciation of TNOK 5,304 and interest expenses of TNOK 4,441 in the first fiscal year 2019. If the Group continued with IAS 17, the operational rental costs would have been TNOK 8,070 in 2019 (this for comparison).

When calculating the lease liability, the Group has used a discount rate equal to the marginal interest rate on the Group (8.4 %). An agreed rental period has been used in the leases. Option periods have been taken into account in leases where the utilization of the options is imminent and it is probable that the group will enter into agreements for the extension of the lease period.

Other published standards and interpretations with future entry into force are not relevant to the Group or the parent company and will not affect the consolidated financial statements or company accounts of the parent company.

NOTE 26: SUBSEQUENT EVENTS

Nøre ™ Marine Calcium was launched in the Norwegian market, with marketing campaigns aimed at B2C in social media.

New production record on the Berkå plant in January 2019.

Growth in sales of Brilliant ™ Salmon Oil following targeted market activity from December 2018.

In February, OmeGo® has been launched in the Indian market as a white-label finished product.

DECLARATION OF THE BOARD OF DIRECTORS AND MANAGING DIRECTOR IN HOFSETH BIOCARE ASA

We confirm that the financial statements for the period 1 January to 31 December 2018 to the best of our knowledge, have been prepared in accordance with IFRS as adopted by the EU / applicable accounting standards and that the financial statements give a true and fair view of the Group's assets, liabilities, financial position and results of operations, and that the annual report gives a fair view of the financial performance and position of the Group, together with a description of the main risks and uncertainties faced by Group.

Hofseth BioCare ASA Board of Directors,

Ålesund, 15 March 2019

Ola Holen
Chairman of the Board

Henriette G. Heggdal
Board member

Christoph Baldegger
Board member

Torill Standal Eliassen
Board member

Roger Hofseth
CEO

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Building a better working world

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Medlemmer av Den norske revisorforening

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Hofseth BioCare ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Hofseth BioCare ASA, which comprise the financial statements for the parent company and the Group. The financial statements for the parent company and the Group comprise the statement of financial positions as at 31. December 2018, the statement of comprehensive income, the statements of cash flows and the statement of changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as at 31. December 2018 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including 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 and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

The company states in note 2 and in the the board of directors report that there are sufficient liquidity in the first part of 2019, but that there is uncertainty about going concern, taking into account the company's ability to sell the products at sufficiently high prices. The company are still dependent to increase volume of production and sales with a higher average price, or given additional capital in 2019. In a potential forced sale, the value of the Company's assets may be significantly lower than the carrying amounts of the assets. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2018. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Allocation of production costs as part of manufacturing cost of finished products

The Hofseth BioCare Group had inventories of TNOK 29 402 and the parent company had inventories of TNOK 29 096 per 31 December 2018, of which Calcium (CalGo®) amounts to TNOK 17 528. Four types of finished products are produced from a joint production process based on the same input factors, and it has during the year been performed process improvements which has impacted the production outcome. Allocation of production costs is calculated on the basis of the expected sales values of the individual finished goods. The group and the company are still in a start-up and development phase, and historical sales transactions of water-soluble protein (ProGo®) and Calcium (CalGo®) are mainly to related parties. Salmon oil (OmeGo®) and non-water-soluble protein (PetGo®) sales are mainly to independent parties in the feed market. The determination of the expected sales value as the basis for allocating production costs includes significant discretionary assessments, and therefore was a key audit matter.

Our audit procedures consisted of testing that the group's and the company's model for allocation of production costs are mathematically correct. We tested the production outcome of Calcium used in the model against reported numbers from processed production outcome of Calcium in the factory, production costs in the model against booked costs and production costs against supporting documents. We evaluated management's discretionary assessments used in determining the sales value in the allocation model by comparing the sales value against prices obtained in historical sales of the products. We refer to note 2 Accounting estimates and management judgement and assumptions, note 3 Segment information, note 6 Related party transactions and note 19 Inventory.

Transactions with related parties

Transactions with related parties constitute a significant part of the Group's and the company's ordinary operating income and expenses, and the determination of arm's length pricing is largely based on discretion.

In addition to the transactions with related parties mentioned in the key audit matter of the audit above, the other major transactions are purchases of raw materials (fish trimmings), financial leases related to production equipment, operational leases of factory buildings on Midsund and Berkåk and long-term loan agreement. We refer to Note 6 Related party transactions for further information about the agreements.

The company has used information on agreed prices in historical transactions between independent parties, and on information about agreed prices between independent parties in 2018. In determining financial terms in agreed financial lease agreements in 2018, the management has looked at what historical terms the group and the company have had with independent counterparties upon acceptance of financial terms in the financial lease agreements with related parties. Discretions is used in determining the purchase terms for raw materials and the financial terms in the financial leases, and is therefore a key audit matter.

We evaluated agreed prices for purchases of raw materials from related parties against prices agreed between independent parties in 2018. We evaluated the terms in the financial lease agreements against historical financial terms with independent parties taking into account the Group's financial position and options for alternative financing at the time of establishment of the mentioned financial lease agreements. We assessed the premium used by related parties for the subleasing of production equipment to the company and the group against the agreement of financial leases with the financial institutions. We have read minutes from the board meetings in which significant transactions with related parties were approved. We refer to note 2 Accounting estimates and management judgement and assumptions, note 4 Operating expenses and note 6 Related party transactions in the annual report.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

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

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management 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, management is 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 management 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 law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism 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.
- 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 those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and on the statements on corporate governance and corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on corporate governance and corporate social responsibility concerning the financial statements, the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than* Audits *or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Ålesund, 15 March 2019

ERNST & YOUNG AS

Ivar-André Norvik
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)