Hofseth BIOCARE

Annual Report 2019

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Content

Adopted by Hofseth BioCare ASA's Board of Directors 20th March 2020

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 Board (NUES). The rules on the continuing obligations of listed companies at www.oslobors.no and guidelines are available at 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

CHAPTER 1

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 (Working Environment Act) 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** (Health, Security and Environment) is 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.

› **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 the Articles of Association for Hofseth BioCare, last modified 30 August 2019, which are available at the company's website www.hofsethbiocare.no.

Equity and dividends

Equity

Hofseth BioCare shall have an equity ratio which is appropriate in relation to its objectives, strategy and risk profile, and the Board of Directors will continually 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 deemed part of the company's equity
- Sales-enhancing and cost-cutting measures

As of 31 December 2019, the Group had an equity of NOK 125.9 million, corresponding to an equity ratio of 41.8 %. 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 a 25 % equity share including subordinated loans. The main shareholders have, to the extent 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 30 August 2019 for the issuance of up to approximately 33.9 million new shares, valid at the time of publishing the annual report. The authorization is planned used to the extent the company has a need for additional equity and liquidity.

Dividend

Hofseth BioCare aims to give its shareholders a competitive rate of return based on the company's earnings. Dividends 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 to 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 until the date of the next ordinary general meeting.

As of 31 December 2019, the Board of Directors in Hofseth BioCare holds an authorization to increase the company's share capital by issuing new shares with a total face value of up to NOK 33,932,051 equivalent to 33,932,051 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 are 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 authorization was granted at the Extra Ordinary General Assembly 30 August 2019 and is valid until the Ordinary General Assembly in 2020, however not longer than 30 June 2020.

Equal treatment and transactions with related parties

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

As a main rule, all transactions in the company's own shares shall take place through the stock exchange. If traded outside of the stock exchange, the trades shall take place at the stock market price and all shareholders shall be treated on an equal basis.

Transactions with related parties

Included in the rules of procedures for the Board are guidelines for how the members of the Board and the CEO shall act in discussions or decisions related to issues which are of special personal importance to them, or to any related parties to 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 the notes to the financial statements.

Freely tradable shares

All shares in Hofseth BioCare are freely tradable with no limitations in the Articles of Association.

The general meeting

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 financial statements, 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 financial statements for 2018 not all members 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 is CEO 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 include a justification as to how the best interest of the shareholders and the Company has been secured.

The board of directors, composition and independence

The Board of Hofseth BioCare includes four members, of which two are female. This corresponds with 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.

The 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, she 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 at the Company's website www.hofsethbiocare.no.

Members of the Board of Directors are 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).

A separate instruction exists for the board of directors.

The 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 distribution of work 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 chairperson for the audit committee is Torill Standal Eliassen. The company has established a compensation committee (the «Compensation Committee») in accordance with the Company's Articles of Association Section 11. The members of the Compensation Committee are Christoph Baldegger and 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 according to 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.

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 describes in the annual report the main features of the Company's internal control and risk management systems related 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 authorization 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 (via GlobaNewswire).

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

The complete annual report and financial statements 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 2018 the complete annual report and financial statements were approved and published 15 March 2019.

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 to Hofseth BioCare that all shareholders are treated equally. Openness in respect of take-over situations 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 Assembly General Meeting.

The auditor shall annually 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 financial statements 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 2019 received a written confirmation from the auditor that he satisfies established and legitimate independence requirements.

Information about the auditor's remuneration for auditing and other services will be provided to the Annual General Meeting. The auditor's remuneration is disclosed in note 5 to the financial statements.

The board of director’s report 2019

CHAPTER 2

Important events in 2019

First quarter

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

In January HBC sat a new production record at the spray drying facility in Berkåk and launched the OmeGo® salmon oil under the private label in the Indian market towards the end of January 2019.

In the first quarter HBC published a study which evaluated the effectiveness of CollaGo® on energy level and anti-inflammatory effects on healthy men and women. The study showed that when taking CollaGo® for 128 days, significant improvements in total and average energy level was experienced.

Second quarter

In April HBC received a larger order for Brilliant® Salmon Oil from a customer in Shanghai. The company is experiencing growth in the sales volume of Brilliant®.

I June HBC entered into a letter of intent with the Florida-based and Nestlé-owned company Garden of Life® for the sale of HBC-products in the United States. As soon as the final organoleptic tests have been completed, the parties plan to sign a long-term cooperation agreement for the development of the world market for HBC's products.

Studies of ProGo® performed at the Stanford University School of Medicine show very promising results. The study in which gastrointestinal-injured mice imitating NEC were given ProGo® showed that the powder was capable of protecting abdomen- and intestine cells from oxidative injuries.

Third quarter

In July HBC completed a NOK 118 million share issue at NOK 4 per share. Subsequently, NOK 6 million was issued in a repair share issue also carried out at NOK 4 per share. The participants in the share issue were private and institutional investors based in the United States and Europe.

In September management and key employees agreed to purchase 11 million shares in HBC from Hofseth International AS through Brilliant Invest AS.

In the third quarter HBC employed a new sales representative in Singapore, with increased focus on the Asian market, and established a new sales partner agreement for the Danish and German markets.

Fourth quarter

The company completed its second placebo controlled, randomised, double-blinded eight-week clinical study of anemia treatment with good results.

During the quarter HBC also completed a pre-clinical animal model as well as studies of gene regulation for reduction of gastrointestinal (GI) inflammation at the Stanford School of Medicine.

In September the HBC facility in Berkåk ended a tolling manufacturing agreement for a feedstuff customer and in October the factory was again approved to produce human standard products.

In October HBC employed two new sales resources at the Ålesund office and entered into a consulting agreement with James Berger, as well as a consulting agreement with Dr. Crawford Currie in order to strengthen medical R&D and investor relations.

Significant events post balance sheet date

After the outbreak of the coronavirus (covid-19), authorities in an increasing number of countries, including Norway, have taken strong measures to reduce the spread of the virus. This is likely to reduce the macroeconomic environment for a certain period of time, which again temporarily might affect the demand for Hofseth BioCare's products or may impact our value chain, especially related to outbound logistics.

In February 2020 HBC signed a new credit facility of up to NOK 37 million with SpareBank 1 Nordvest to cover working capital needs related to future sales contracts.

Negotiations for a potential joint venture-contract and technical planning has been initiated with Atlantic Sapphire for the planned facility in Miami, FL.

Financial results

Revenues and results

The Group generated gross operating revenues of NOK 67.8 million in 2019, up from NOK 60.7 million in 2018. Correspondingly, the parent company had gross revenues of NOK 58.5 million in 2019, up from NOK 49.9 million in 2018. Ordinary operating revenues are somewhat lower than expected mainly due to lower activity because of optimization of the production lines throughout the year.

Operating costs, excluding depreciation and amortization amounted to NOK 119.9 million in 2019, compared to NOK 116.3 million in 2018. For the parent company operating expenses amounted to NOK 109.7 million in 2019 compared to NOK 98.9 million in 2018. The expenses are mainly cost of sales, salaries and other operating expenses.

The Group had an operating loss of NOK 79.6 million in 2019, compared with a loss of NOK 77.7 million in 2018. Correspondingly, the parent company had an operating loss of NOK 75.9 million compared to NOK 70.6 million in 2018.

Net financial result was NOK -9.6 million in 2019, compared with NOK -6.8 million in 2018. Net financial result for the parent company was NOK -13.6 million and -13.1 million in 2019 and 2018, respectively.

The Group had a loss before tax of NOK 89.2 million in 2019, compared to a loss of NOK 84.5 million the year before. For the parent company the loss before tax was NOK 89.6 million in 2019, compared to NOK 84.0 million in 2018.

The group had a tax expense of zero in 2019 compared to NOK 0.2 million in tax expense in 2018. The Group has not recognized any deferred tax assets. Net loss for the year was NOK 89.2 million, compared with a net loss of 84.8 million in 2018. The parent company had a net loss of NOK 89.6 million in 2019, compared to NOK 84.0 million in 2018.

Financial position

As of 31 December 2019, Hofseth BioCare had a total consolidated balance sheet of NOK 293.0 million, up from NOK 187.9 million at the end of 2018. The parent company had a balance sheet total of NOK 275.7 million compared to NOK 199.2 million in 2018. In 2019 the group and the parent company implemented the new accounting standard for leases (IFRS 16 Leases) applying the modified retrospective approach effective from 1 January 2019. In summary IFRS 16 resulted in an increase in fixed assets of NOK 68.0 million relating to factories, and machinery and equipment (right of use assets), and a corresponding increase in lease liabilities of NOK 68.0 million for the group. For the parent company the equivalent amounts were an increase of NOK 44.1 million in factories, and machinery and equipment (right of use assets), and an increase of NOK 44.1 million in total lease liabilities as of 1 January 2019. See also information in disclosure note 1 and 13. In addition to the increase in cash and cash equivalents from the 2019 share issue, this is the main explanation for the increased balance sheet total for the group and parent company.

Deferred tax assets have not been recognized in 2019. At the end of 2019, unrecognised deferred tax assets amounted to NOK 144.1 million for the group (124.8 million at the end of 2018). Equity amounted to NOK 117.7 million at the end of 2019, which is equivalent to an equity ratio of 40.2 % for the group. By the end of 2018 the Group had a total equity of NOK 86.0 million and an equity ratio of 45.8 %. The parent company had an equity of NOK 118.8 million at the end of 2019 compared to NOK 87.5 million the year before. The equivalent equity ratio was 43.1 % in 2019 and 43.9 % at the end of 2018 for the parent company.

At 31 December 2019 the Group had cash and cash equivalents of NOK 94.6 million compared with NOK 48.6 million at the end of last year. The parent company had NOK 92.2 million in cash and cash equivalents at the end of 2019 compared to NOK 45.3 million the year before.

At the end of 2019 the group had NOK 31.5 million in non-current interest-bearing debt and NOK 19.0 million in current interest-bearing debt, compared with NOK 17.5 million and NOK 23.3 million, respectively, for the same period last year. The parent company had NOK 29.1 million and NOK 18.4 million in non-current and current debt, respectively, in 2019. By the end of 2018 NOK 14.5 million were non-current and NOK 22.7 million current.

The group had non-current interest-bearing lease liabilities of NOK 72.0 million and current lease liabilities of NOK 10.0 million at the end of 2019, compared to NOK 12.9 million of non-current lease liabilities and NOK 4.7 million of current lease liabilities as of the end of 2018. The parent company had non-current interest-bearing lease liabilities of NOK 48.7 million and current lease liabilities of NOK 8.1 million at the end of 2019, compared to NOK 12.9 million and NOK 4.7 million at the end of 2018. For information related to the increase following from the implementation of IFRS 16 Leases and new lease contracts entered into during 2019, see note 13.

Cash flows

Consolidated cash flows from operating activities amounted to NOK -31.1 million in 2019, compared with NOK -28.6 million the year before. The parent company had a negative cash flow of NOK 31.2 million, compared to negative NOK 21.5 million the year before.

Net cash flows from investing activities amounted to NOK -19.6 million, compared to NOK -9.8 million in 2018 for the group. In the parent company cash flows from investing activities amounted to NOK -18.0 million in 2019 compared to NOK -11.3 million in 2018.

Net cash flows from financing activities amounted to NOK 96.6 million in 2019, compared to NOK 45.0 million the year before. Corresponding amounts for the parent company were NOK 96.2 million in 2019 and NOK 37.1 million in 2018. The Company executed share issues and subsequent repair share issues both in 2019 and 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 and the parent company's ability to sell products at sufficiently high prices, whereas the parent company has secured several large contracts on high volumes, but at a lower price than long-term ambitions.

The share issue and draw down of a new subordinated loan in 2019 improved the cash balance in the second half of 2019 and, combined with the new NOK 37 million credit facility entered into in February 2020, ensure sufficient liquidity in the first half of 2020. Furthermore, at the time of submission of the annual report, the Board of Directors has authorizations granted by the General Meeting on 30 August 2019 for the issue of up to approximately 33.9 million new shares. The authorization is intended to be used if the parent company has a need for additional equity and liquidity.

The parent company is compliant with all requirements of our loan contracts and thus is not in breach of covenants as of 31.12.2019. The parent company still has negative results in the two first months of 2020, but the parent company is not in breach of the covenants of any loan contracts. Please refer to Note 16 for more information on conditions of the Group and the parent company's interest-bearing debt as well as note 19 for information about liquidity risk and down-payment schedules of the Group's liabilities.

It will be crucial to the group and to the parent company that a higher production and average price of the products are achieved in order to contribute to adequate profitability in the future. The parent 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 parent company manage to increase sales and improve earnings timely in relation to the need for liquidity in the group and in the parent company. The board will follow the income and liquidity situation closely and continuously assess the need for additional liquidity. If the group and the parent company do not succeed with planned measures in the market to a sufficient degree, a share issue will be carried out during 2020.

The group's and the parent 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 parent company's assets may be lower than their carrying amounts. The uncertainty primarily relates to the value of intangible assets, fixed assets, financial assets and investments, as well as the value of inventories.

Allocation of earnings

In 2019 net loss for the parent company Hofseth BioCare ASA amounts to NOK -89.6 million. The Board proposes the following allocation of the loss:

Uncovered loss	89.6 million NOK
Total	89.6 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 19 «Financial Risk Management» in the financial statements.

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 which were implemented in 2018, have been continued in 2019. The hedge strategies are 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 are rated continuously. Receivables from all customers are to be 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 has from time to time had limited liquid assets through 2019 and executed a share issue of approx. NOK 124 million in the third quarter of 2019. Hofseth BioCare had cash and cash equivalents totalling NOK 94.6 million at the end of 2019 compared with 48.6 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 2019 Hofseth BioCare Group had a total of 51 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 in 2019 was 1.2 %, compared to 2.8 % in 2018, short-term absence was 2.3 %, compared to 2.7 % in 2018.

Total absence was 3.4 % in 2019. 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 2020 undergo a medical examination. A working environment survey will be conducted, that will help contribute to increased job satisfaction and working environment in the Group.

For HBC Berkåk AS an occupational health agreement has been established with AktiMed, who 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 2019	Midsund 2019	Adm. 2019	Group 2019
Total absence (%)	1.2	5.9	0.5	3.4
Total working hours (all)	15 848	39 844	21 936	78 268
-specification:				
Short term absence (%)	1.2	3.7	0.5	2.3
Long term absence (%)	0,0	2,3	0,0	1,2
Number of injuries	0	1	0	1
Number of work-related accidents	0	6	0	6

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 2019, 10 of 51 employees in Hofseth BioCare were female, and on the Board of Directors 2 of 4 members were female (share of female 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 material 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 ESG report prepared about the strategy to take an active responsibility around our business. It can be found in chapter 5.

Shareholders

At the end of the year the company had 1,020 shareholders. For further details about the shareholders, see note 25 to Hofseth BioCare ASA's financial statements. 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 financial statements.

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

2019 has been an eventful year for Hofseth BioCare. The company started the process of becoming a purer biotechnology company and will in the future spend significant resources on research on existing and new health related effects from the use of our products.

HBC's research work comprises clinical as well as pre-clinical development phases with the aim of developing products for treatment of several different clinical areas and symptoms. The tests we have performed have shown positive results supporting the great potential in HBC's unique products within the nutrition markets for humans and for pets. The company intends to increase the resource spend, within research and development, from the current level and we are optimistic when it comes to the cances of receiving approvals of the health effects from Health Canada, FDA and EFSA in the years to come.

Our corporate sales strategy is distributing products in three segments; feed, pet and human. This diversification will ensure higher revenues and cash flows in the future. At the same time further research and development will increase future sales in the core business area ingredients and finished products for human nutrition.

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 continue to be, sustainable production of premium bioactive ingredients with documented health effects.

Hofseth BioCare ASA Board of Directors,
Ålesund, 20 March 2020

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

CHAPTER 3

Statement of comprehensive income

1 January – 31 December
Hofseth BioCare ASA

		Consolidated (IFRS)		Parent company (IFRS)	
(Amounts in NOK 1000)	**Note**	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
Operating revenues and expenses					
Sales revenues	3, 6	67 778	60 740	58 499	49 885
Total operating revenue		67 778	60 740	58 499	49 885
Cost of sales	2, 4, 6	59 570	48 361	61 461	45 531
Salaries and other payroll expenses	5	29 212	31 402	23 621	25 022
Other operating expenses	4, 6, 12	31 114	36 485	24 574	28 349
Depreciation and Write-downs	10, 11, 12, 13	27 456	22 190	24 770	21 577
Operating profit/loss (EBIT)		**-79 574**	**-77 699**	**-75 926**	**-70 593**
Financial income	7	5 148	3 036	5 165	3 033
Financial expenses	6, 7, 13	14 792	9 865	18 825	16 159
Net financial expenses	15, 19	**-9 644**	**-6 829**	**-13 660**	**-13 126**
Loss before taxes		-89 218	-84 527	-89 586	-83 719
Tax expense	8	0	249	0	249
Net loss for the period	2	**-89 218**	**-84 776**	**-89 586**	**-83 968**
Other income and costs		0	0	0	0
Total comprehensive income		-89 218	-84 776	-89 586	-83 968
Comprehensive income attributable to:					
Shareholders in HBC ASA		-89 209	-84 768		
Non-controlling interest		-9	-8		
Total		-89 218	-84 776		
Earnings per share (NOK)		**2019**	**2018**	**2019**	**2018**
Basic earnings per share	9	-0.29	-0.33	-0.29	-0.33
Diluted earnings per share	9	-0.29	-0.33	-0.29	-0.33

Statement of financial position

1 January – 31 December
Hofseth BioCare ASA

		Consolidated (IFRS)		Parent company (IFRS)	
(Amounts in NOK 1000)	**Note**	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
ASSETS					
Non-current assets					
R&D, patents etc.	2, 10	24 346	17 357	24 176	17 255
Total intangible assets		**24 346**	**17 357**	**24 176**	**17 255**
Machinery and equipment	11, 12	37 910	66 613	30 409	61 806
Right of use assets	13	90 263	0	65 009	0
Fixtures and fittings	11	180	748	180	748
Total fixed assets	2	**128 353**	**67 361**	**95 599**	**62 554**
Investment in subsidiary	7, 23	0	0	18 865	22 398
Non-current financial assets	15, 23	2 460	2 909	2 460	2 909
Total non-current financial assets		**2 460**	**2 909**	**2 460**	**25 307**
Total non-current assets		**155 160**	**87 626**	**141 099**	**105 116**
Current assets					
Inventory	2, 6, 20	33 986	29 402	33 358	29 096
Trade receivables	2, 6, 21	5 542	14 697	5 446	13 071
Other current receivables	5, 21	3 771	7 578	3 588	6 611
Cash and cash equivalents	22	94 553	48 641	92 230	45 293
Total current assets	14, 15, 19	**137 853**	**100 319**	**134 621**	**94 072**
Total assets	2, 26	**293 012**	**187 945**	**275 721**	**199 187**

		Consolidated (IFRS)		Parent company (IFRS)	
(Amounts in NOK 1000)	**Note**	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
EQUITY AND LIABILITIES					
Equity					
Paid in equity					
Share capital	5, 25	325 821	294 837	325 821	294 837
Other paid in equity		827	0	827	0
Total paid in equity		**326 648**	**294 837**	**326 648**	**294 837**
Retained earnings					
Uncovered losses		-208 216	-208 120	-207 855	-207 383
Total retained earnings (+) Uncovered loss (-) (attributable to equity holders of the parent)		-208 216	-208 120	-207 855	-207 383
Non-controlling interests	23	-682	-673	0	0
Total equity	2, 6	**117 749**	**86 044**	**118 792**	**87 454**
Non-current liabilities					
Subordinated debt	6	20 000	0	20 000	0
Interest-bearing loans and borrowings	6	11 492	17 467	9 059	14 507
Financial lease obligations	6, 12, 13	72 018	12 921	48 710	12 921
Total non-current liabilities	16, 17, 18, 19	**103 510**	**30 387**	**77 769**	**27 428**
Current liabilities					
Interest-bearing loans and borrowings	6, 16	19 003	23 266	18 442	22 712
Lease liabilities	6, 12, 13	9 953	4 646	8 068	4 646
Trade payables	6, 24	29 712	32 112	26 553	28 851
Other liabilities	24	13 085	11 490	26 097	28 097
Total current liabilities	16, 17, 18, 19	**71 753**	**71 514**	**79 159**	**84 306**
Total liabilities	14, 16, 19	**175 263**	**101 901**	**156 928**	**111 734**
TOTAL EQUITY AND LIABILITIES	2, 26	**293 012**	**187 945**	**275 721**	**199 187**

Hofseth BioCare ASA Board of Directors,
Ålesund, 20 March 2020

Ola Holen
Chariman 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)	
(Amounts in NOK 1000)	**Note**	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
Cash flow from operating activities					
Loss before tax		-89 218	-84 527	-89 586	-83 719
Paid tax	8	0	-249	0	-249
Depreciation and impairment	2, 10, 11, 12, 13	27 456	22 190	24 770	21 577
Impairment/reversal shares	7, 23	0	0	5 053	5 553
Change in inventory	20	-4 584	-12 544	-4 262	-12 466
Change in trade receivables	21	9 155	12 006	7 626	12 707
Change in trade payables	24	-2 400	-19 817	-2 298	-20 636
Change in other accruals		20 466	50 695	20 414	51 383
Items classified as financing activities		8 065	3 621	7 028	4 366
Net cash flows from operating activities		**-31 060**	**-28 625**	**-31 255**	**-21 485**
Cash flow frwom investing activities					
Aquisition of tangible fixed assets	11	-16 718	-7 529	-11 957	-7 029
Payments received from other non-current financial assets		1 635	0	1 635	0
Investment in other companies	23	0	0	0	-2 000
Investment in intangible assets	10	-12 083	-2 308	-12 050	- 2 308
Net cash flow from investing activities		**-27 166**	**-9 837**	**-22 372**	**-11 337**
Cash flow from financing activities					
Proceeds from issue of shares		108 935	72 219	108 935	72 219
Transaction costs on issue of shares		-3 839	-4 265	-3 839	-4 265
Payment of warranty expenses	6, 7	-777	-777	-777	-777
Payment of interest	6, 7	-2 830	-2 844	-3 342	-3 589
Proceeds from new borrowings	6, 16	21 607	14 612	21 586	14 621
Repayment of borrowings	6, 16	-11 831	-30 199	-11 303	-29 645
Payment of lease liabilities	6, 13, 16	-10 231	-3 720	-8 151	-3 720
Payment of interest on lease liabilities	13	-4 458	0	-2 909	0
Repayment of borrowings from subsidiary	24	0	0	-3 967	-7 712
Net cash flow from financing activities	18, 19	**96 576**	**45 035**	**96 233**	**37 132**
Cash and cash equivalents at 1 January		48 641	42 068	45 293	40 981
Net change in cash and cash equivalents		45 912	6 573	46 935	4 311
Cash and cash equivalents at 31 December	22	**94 553**	**48 641**	**92 230**	**45 293**

Statement of changes in equity

1 January – 31 December

Consolidated (IFRS)							
(Amounts in NOK 1000)	**Note**	**Share capital**	**Share premium**	**Other paid in capital**	**Uncovered loss**	**Non-controlling interests**	**Total equity**
As of 1 January 2018		**233 500**	**0**	**0**	**-195 753**	**-665**	**37 083**
Share issue 01.08.2018	6	25 497	28 996	0	0	0	54 493
Share issue through debt conversion 01.08.2018	6	29 240	36 550	0	0	0	65 790
Issue of share capital 29.09.2018	6	6 600	6 861	0	0	0	13 461
Loss for the period		0	-72 407	0	-12 361	-8	-84 776
Other comprehensive income		0	0	0	0	0	0
Total comprehensive income		0	-72 407	0	-12 361	-8	-84 776
As of 31 December 2018	2, 5, 25	**294 837**	**0**	**0**	**-208 120**	**-673**	**86 044**
As of 1 January 2019		**294 837**	**0**	**0**	**-208 120**	**-673**	**86 044**
Share based payment program	5	0	0	827	0	0	827
Share issue 17.08.2019	6	25 734	77 201	0	0	0	102 935
Share issue through debt conversion 17.08.2019	6	3 750	11 250	0	0	0	15 000
Share issue 01.10.2019		1 500	4 500	0	0	0	6 000
Share issue costs	5	0	-3 839	0	0	0	-3 839
Transferred from uncovered losses		0	-89 112	0	89 112	0	0
Loss for the period		0	0	0	-89 210	-9	-89 218
Other income and costs		0	0	0	0	0	0
Total comprehensive income		0	0	0	- 89 210	-9	-89 218
As of 31 December 2019	2, 5, 25	**325 821**	**0**	**827**	**-208 216**	**-682**	**117 749**

Statement of changes in equity

1 January – 31 December

Parent company (IFRS)						
(Amounts in NOK 1000)	**Note**	**Share capital**	**Share premium**	**Other paid in equity**	**Uncovered loss**	**Total equity**
As of 1 January 2018		**233 500**	**0**	**0**	**-195 822**	**37 678**
Share issue 01.08.2018	6	25 497	28 996	0	0	54 493
Share issue through debt conversion 01.08.2018	6	29 240	36 550	0	0	65 790
Share issue 29.09.2018	6	6 600	6 861	0	0	13 461
Loss for the period		0	-72 407	0	-11 561	-83 968
Other comprehensive income		0	0	0	0	0
Total comprehensive income		0	-72 407	0	-11 561	-83 968
As of 31 December 2018	2, 5, 25	**294 837**	**0**	**0**	**-207 383**	**87 454**
As of 1 January 2019	2, 5, 25	**294 837**	**0**	**0**	**-207 383**	**87 454**
Share based payment program	5	0	0	827	0	827
Share issue 17.08.2019	6	25 734	77 201	0	0	102 935
Share issue through debt conversion 17.08.2019	6	3 750	11 250	0	0	15 000
Share issue 01.10.2019		1 500	4 500	0	0	6 000
Share issue costs	5	0	-3 839	0	0	-3 839
Transferred from uncovered losses		0	-89 112	0	89 112	0
Loss for the period		0	0	0	-89 586	-89 586
Other comprehensive income		0	0	0	0	0
Total comprehensive income		0	0	0	-89 586	-89 586
As of 31 December 2019	2, 5, 25	**325 821**	**0**	**827**	**-207 855**	**118 792**

Number of shares 1 January 2018		**233 499 759**
Number of shares 31 December 2018		**294 836 829**
Number of shares 1 January 2019		**294 836 829**
Share issue (cash and through debt conversion) 01.08.2019		29 484 682
Share issue 01.10.2019		1 500 000
Number of shares 31 December 2019	9, 25	**325 820 511**

FINANCIAL STATEMENTS – CONSOLIDATED AND PARENT COMPANY

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 Molde and one manufacturing facility in the municipality of Rennebu.

The annual financial statements were approved for issuance by the board of directors 20 March 2020.

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 2019 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 2019, as well as the additional disclosure requirements following from the Norwegian accounting act as of 31 December 2019.

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 through 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 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 1 000 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™)

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. Control is normally transferred to the customer when goods are sent from the warehouse to the customer.

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

To the extent the customers enter into a contract for the purchase of goods, which the customers wish to continue to store at Hofseth BioCares' warehouse, the consideration is recognized as revenue 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 of control transfer to the customers for the actual delivery of the goods. The parent company and the group also earn revenues from the service of storing the goods, which are recognized at a fixed price per month in storage.

The Group assesses whether there are obligations in the sales contracts that are separate performance obligations, and for which parts of the transaction price must be allocated or agreed variable payment terms in the contracts. The parent company and the group have offered rights of return when selling from the web-stores (of the parent company and of the subsidiary Nøre Nutrition AS) to customers in the human market and have factored in an estimated level of returns when calculating revenue. Furthermore, the Group also assesses whether there are significant financing components in the sales contracts (advance payment, extra long credit terms, etc.).

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 other factors than merely the passage of time (for example, the company's future delivery).

Trade receivables

A receivable represents the Group's right to payment of an amount which is unconditional (i.e. 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 liabilities

A contract liability may be an obligation to deliver goods or services to the customer, from whom the group has received consideration (or an amount of the consideration is overdue). If a customer pays the consideration before the Group delivers goods or services to the customer, a contractual obligation is recognized at the time of payment or at the time payment of the consideration is due (whichever takes place first). Contract liabilities are not recognized until the Group delivers goods and services in accordance with the contract. The group has not identified contractual obligations in the delivery contracts entered into as of 31 December 2019.

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 resource allocations.

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 parent company and the group has no further legal or constructive obligations to pay additional contributions. The contributions are recognized in the income statement as salary related costs in the period in which the employee renders the service.

Share based payment arrangements for consultant

The parent company has entered into a share-based payment arrangement with a hired consultant. The arrangement is an option plan with settlement in shares of the company.

The method of recognition varies depending on whether the consultant is determined to be an employee or not. The consultant is determined to be an employee when the agreement for servies relates to an individual delivering personal services, and that the individual (consultant) either:

› is determined to be employed for legal or tax purposes
› works for the company under directives from managing bodies and is managed in the same way as if the individual was legally employed
› delivers services of similar nature to the services delivered by legally employed individuals

To the extent the consultant is determined to be employed, in accordance with the the above description, the share option program is measured at fair value at the time of grant. The calculated fair value of the granted options are accrued and recognised as an expense over the period in which the consultant's right to receive the options is vested, which is over the agreed future service period (vesting period). For transactions which are settled in the company's own equity instruments (equity settled arrangements) the value of the granted options is recognized in the period as salary expenses in the profit or loss with the offsetting entry to other paid in equity.

Obligations for bonuses related to the value of the company's shares, for which cash settlement has been agreed, are measured at fair value each balance sheet date until the time of settlement, and changes in fair value are recognized in profit or loss. The company is not obliged to pay social security when the consultant is not determined to be employed by the company for tax purposes.

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.

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 resources 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 11. 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 financial statements. 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 arrangements for the comparable 2018 amounts

Finance lease agreements in 2018

Lease agreements in which substantially all the risks and rewards incidental to ownership of an asset were transferred to the company were classified as finance leases in the comparable 2018 amounts. When substantially all the risks and rewards incidental to ownership were undertaken by the company, the finance lease were 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 was used to the extent it could be determined. If the implicit rate in the lease agreement could not be determined, the company's marginal borrowing rate was used. Direct expenditures related to establishing the lease agreement were included in the asset's cost price.

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

Operating leases in 2018

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

Leasing arrangements for 2019

The group and the parent company implemented IFRS 16 Leases applying the modified retrospective method on 1 January 2019.

The effect of changes in accounting policies and the effect of first time application is described towards the end of the paragraph about new accounting standards implemented in 2019, see also note 13.

When entering into a contract the company and the group determines whether the contract is or contains a lease. A contract is or contains a lease if the contract transfers the right to control the use of an identified asset for a period in exchange for consideration.

For contracts constituting or containing a lease, the company and the group separate lease components if the underlying asset may be used either on its own or together with other resources easily available to the company and the group, and the underlying asset is neither dependent nor interrelated on other underlying assets in the contract. The company and the group then account for each single lease component in the contract as one lease contract separately from the non-lease component in the contract.

At the time of commencement of a lease contract the company and the group recognize a lease liability and a corresponding right of use asset for all leases, except for the following excemptions elected under the standard:

- Short-term leases (lease term of 12 months or less)
- Low value assets

For such leases the company and the group recognize the lease payments as other operating expenses in the profit or loss when incurred.

Lease liabilities

The company and the group measure the lease liabilities at the present value of the lease payments to be made over the lease term at the commencement date. The lease term is the non-cancellable period of the lease, in addition to periods covered by options to extend or terminate the lease if it is reasonably certain that the group will (will not) exercise the option.

The lease payments included in the measurement of the lease liability consist of:

- Fixed lease payments (including in substance fixed payments), less any lease incentives receivable
- Variable lease payments which are dependant on an index or rate, measured for the first time using the index or rate applicable at the commencement date
- Amounts expected to be payable by the company and the group under residual value guarantees
- The exercise price for an option to purchase the asset, if it is reasonably certain that the company and the group will exercise this option
- Termination fee, if the lease term has been determined on the basis that the company and the group will exercise an option to terminate the lease

The lease liability is subsequently remeasured by increasing the carrying amount by an accretion amount on the lease

liability, and reduce the carrying amount for lease payments made, as well as potential reassessments or changes to the lease agreement, or to reflect adjustments to lease payments as a result of a change in an index or a rate.
The company and the group do not include variable lease payments in the lease liability. Variable payments are recognized in the profit or loss as incurred. The company and the group presenter the lease liabilities in separate line items in the statement of financial position.

Right of use assets

The company and the group measures right of use assets at cost, less accumulated depreciations and impairment losses, adjusted for potential new measurements of the lease liability.
Cost for the right of use assets comprise:

- The amount established at initial recognition of the lease liabiilty
- All lease payments made at or before the commencement date, less lease incentives received if any
- All direct expenditures incurred for the company and the group related to entering into the agreement

The group applies the depreciation provisions in IAS 16 Property, plant and equipment when depreciating the right of use asset, except for the fact that the right of use asset is depreciated from the date of commencement until the end of the lease period or the end of the asset's useful life, whichever is expected to take place first, unless there is an option to purchase the asset which has been determined to be exercised with reasonable certainty, in which case the right of use asset is depreciated over the expected economic life of the underlying asset.
The group applies IAS 36 «Impairment of assets» in order to determine whether the right of use asset has been impaired and, if this is the case, write it down for impairment.

Impairment of non-financial assets

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, at fair value through other comprehensive income (OCI) or at 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 receivables 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 revenue 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.
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.
The group and the parent company have entered into a factoring agreement with a credit institution but have kept the risks and rewards related to the established accounts receivables. When the factoring agreement with the credit institution does not entail transfer of control to the credit institution, accounts

receivable and other receivables are still recognized as financial assets in the group's financial statements, and the advance payments received from the credit institution entails a financial liability classified as interest-bearing short-term debt.

Impairment of financial assets
For accounts receivables and contract assets, the Group uses a simplified approach to calculating expected credit losses (ECL). The Group therefore does not track changes in credit risk, but instead recognizes a loss provision based on expected credit losses over 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 more than 60 days overdue. 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 receiving contractual cash flows.

Further information on any impairment of financial assets is provided in notes 21, 22 and 23.

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 20 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 16 and 17.

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). 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, 15 and 17.

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 and the company have not early adopted any standards that have been issued, but not effective as of today.

IFRS 16 Leases

IFRS 16 Leases has replaced IAS 17 Leases. Under the new standard lessees recognize assets and liabilities for most leases, which is a significant change compared to the policies applied in prior years.

The company and the group have implemented IFRS 16 applying the modified retrospective method effective from 1 January 2019. The company and the group have measured lease liabilities at the time of implementation to the net present value of the remaining lease payments for factories as well as equipment. When calculating lease liabilities as of 1 January 2019 an average discount rate of 8,25% has been applied for the group and 8,17% for the parent company. When implementing IFRS 16 the group has elected the option of recognizing the lease agreements for the factory facilities, machinery and equipment (see note 13) setting the amount of the right of use asset equal to the value of the interest-bearing lease liabilities. The value of the right of use asset and lease liabilities which were recognized as financial leases under IAS 17 in 2018 have been reclassified from machinery and equipment and factories to right of use assets 1 January 2019.

See also description of policies for the accounting for leases for 2019 above, as well as note 13.

In summary IFRS 16 caused the following effects in the group and parent company financial statements:

ASSETS	Group	Parent company
Increase in fixed assets (right of use assets)	66 078	42 538
Increase in equipment (right of use assets)	1 948	1 585
Total fixed assets	**68 026**	**44 123**

LIABILITIES	Group	Parent company
Increase in current lease liabilities	3 946	2 560
Increase in non-current lease liabilities	64 080	41 563
Total lease liabilities	**68 026**	**44 123**

The group and the company have not recognized net deferred tax assets, and, hence, have no net tax impacts at the time of implementation. The equity was not chaged as a result of the implementation of IFRS 16.

The lease liabilities 1 January 2019 may be reconciled to the operational lease liabilities at 31 December 2018 as follows:

	Group	Parent company
Operational lease liabilities 31.12.18	103 474	68 292
Average marginal borrowing rate	8.25%	8.17%
Net present value of operational lease liabilities 1 January 2019	69 870	45 966
Liabilities related to current leases	-	
Leases in which both the lessor and the company/group have the right to terminate the agreements with a 3-6 months notice period	-1 844	-1 844
Liabilities previously classified as financial leases	17 567	17 567
Lease liabilities 1 January 2019	85 593	61 690

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
- 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 share issue and draw down of a new subordinated loan in 2019 improved the liquidity situation in the second half of the year and, together with the new NOK 37 million credit facility entered into in February 2020, this ensures sufficient liquidity into the first half of 2020. Furthermore, at the time of the presentation of the annual report, the board has an authorization granted by the general meeting on 30 August 2019 for the issue of up to approximately 33.9 million new shares. The authorizations are intended to be used if the parent company needs further inflow of equity and liquidity.

The parent company fulfills all requirements in its loan agreements and is thus not in breach of the loan covenants as of 31.12.2019. The parent company still has negative results in the first two months of 2020 but is not in breach of the terms of any of the loans. Reference is also made to note 16 for more information on the conditions relating to the group's and the company's interest-bearing debt, as well as note 19 for information on liquidity risk and maturity structure for the Group's liabilities.

It will be crucial for the Group and the parent company to achieve a higher production and average price of their products in order to contribute to adequate profitability in the future. The parent 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 parent company manage to increase turnover and improve results in a timely manner in relation to the need for liquidity in the Group and the parent 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 parent company do not succeed sufficiently with planned measures in the market, a share issue will be carried out during 2020.

The Group's and the parent 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 parent 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 parent 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 20.

Transactions with related parties

Transactions with related parties constitute a significant part of the Group's and the parent 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 parent 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 off-cuts) from Hofseth Aalesund AS, Hofseth AS and Seafood

Farmers of Norway AS, which are shareholders or related parties of shareholders. The raw material agreement started in 2019, is for 3 years and gives the parent company the exclusive right to get all the by-products from the production of Roger Hofseth AS's suppliers. Judgment has been applied when setting conditions for the purchase of raw materials. See notes 4 and 6.

Leases of production equipment, leases of factory facilities at Midsund and Berkåk, as well as agreements for long-term and subordinated loans. When agreeing financial terms in leases, agreements for long-term loans in 2018 and a subordinated loan in 2019, historical terms with third parties, achieved by the group and the parent company, have been referred to. Judgement has been applied when setting the financial terms. See notes 6, 12, 13, 16 and 19.

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 10.

Depreciation, amortisation and impairment of fixed assets and intangible assets

Estimated useful lives for the parent 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 144,135 for the Group and TNOK 143,526 for the company at 31 December 2019.

Share based payment arrangements for consultant

The company has entered into a share option scheme with a hired consultant, and the option program for the consultant is an arrangement with settlement in shares in the parent company. The method of recognition varies depending on whether the consultant is determined to be an employee or not. Judgement har been applied when determinig whether the consultant is an employee or not. Judgement has also been applied when setting the assumptions applied in valuing the consultant's share option program. See note 5.

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 20.

Assessment of loss relating to accounts receivables

At the end of 2019, the Group had no significant overdue accounts receivables. 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 19 on credit risk and 21 on accounts receivables and other receivables.

Note 3: Segment information

The parent 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 and 2019.

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 in 2019. 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	
(Amounts in NOK 1000)	2019	2018	2019	2018
By product				
Salmon Oil (OmeGo®)	24 228	21 049	24 228	21 049
Soluble Protein Hydrolysate(ProGo®)	20 418	7 196	20 418	7 196
Calcium (CalGo®)	2 999	947	2 944	947
Non-soluble Protein(PetGo™)	9 963	12 045	9 963	12 045
By-products	1 372	9 181	946	8 648
Rental production (drying protein powder)	8 798	10 322	0	0
Total revenues	67 778	60 740	58 499	49 885
By region				
Norway	46 147	28 449	36 868	17 594
Asia	1 894	6 366	1 894	6 366
Europe excl Norway	12 856	13 473	12 856	13 473
North-Amerika	6 881	12 452	6 881	12 452
Total revenues	67 778	60 740	58 499	49 885

In 2019, goods totaling TNOK 49,517 were sold to four customers, each of which accounted for more than 10 % of total turnover. The sales to each of these customers are TNOK 23,918, TNOK 9,171, TNOK 8,798, and TNOK 7,629, respectively. In 2018, goods for a total of TNOK 47,182 were sold to five customers, each of which accounted for more than 10% of total sales. The sales to each of these customers were TNOK 10,672, TNOK 10,459, TNOK 10,322, TNOK 8,024, and TNOK 7,704, respectively.

Note 4: Cost of sales and other operating expenses

COST OF SALES	Group		Parent	
(Amounts in NOK 1000)	2019	2018	2019	2018
Raw material	34 514	31 835	34 514	31 825
Freight	8 779	8 139	8 511	7 928
Purchased services	20 406	20 126	22 501	17 517
Obsolescence cost	10 410	-3 698	10 410	-3 698
Change in inventory	-14 538	-8 041	-14 475	-8 041
Total cost of sales	59 570	48 361	61 461	45 531

Obsolescence cost includes TNOK 8,154 of loss provisions related to water damaged goods in stock. The damaged goods were insured and the company expects full coverage for the insurance claim in 2020.

OTHER OPERATING EXPENSES	Group		Parent	
(Amounts in NOK 1000)	2019	2018	2019	2018
Leases of equipment *	458	1 169	458	1 140
Leases of warehouses and factories *	522	8 017	298	5 304
Travelling cost	2 990	1 983	2 940	1 954
Consultant fees and tax advisory	7 383	4 922	5 925	3 795
Advertising	4 295	2 225	2 030	1 494
Insurance	637	617	462	440
R&D and patents	131	2 430	88	2 430
Repair and maintenance	12 779	10 917	11 164	8 268
Other operating expenses	1 919	4 206	1 209	3 523
Total	**31 114**	**36 485**	**24 574**	**28 349**

*Effective from 1 January 2019 the group and the parent company have recognized leases as right of use assets and lease liabilities. The group and the parent company recognize depreciations of the right of use assets and accretion (interest expenses) related to the lease liabilities in 2019. Leases related to equipment, warehouses and factories in other operating expenses are, hence, significantly reduced in 2019. Short-term leases (< 12 months) and leases for which the underlying asset has a low value (< TNOK 50) have been recognized in the profit or loss when incurred. See note 13.

The group and the parent company have reduced other operating expenses by TNOK 900 in 2019 (TNOK 923 i 2018) as a result of the recognition of government grants from the Norwegian R&D tax incentive scheme.

Note 5: Employment costs and expenses for employees and benefits for senior employees

SALARIES	Group		Parent	
(Amounts in NOK 1000)	2019	2018	2019	2018
Salaries	27 872	26 555	22 296	20 952
Social security costs	3 187	3 075	2 806	2 683
Pension costs	1 547	1 379	1 205	1 097
Share based payment and bonus costs consultant	1 721	0	1 721	0
Other employee benefits	256	991	318	889
Capitalized cost in associated with development	-4 778	0	-4 133	0
Public grants from Skattefunn	-593	-599	-593	-599
Totale employee benefit expenses	**29 212**	**31 402**	**23 621**	**25 022**
Average number of FTE's	43	43	33	33

2018 - REMUNERATION TO EXECUTIVE MANAGEMENT TEAM AND THE BOARD

(Amounts in NOK 1000) - Group	Salary	Benefits	Pension cost	Other remuneration	Total remuneration
Executive management					
Roger Hofseth, CEO	0	0	0	0	0
Jon Olav Ødegård, CFO*	702	16	35	880	1 633
Dr. Bomi Framroze, CSO**	1 251	0	0	3 076	4 327
Karl Inge Slotsvik, COO	1 115	14	57	0	1 186
The Board of Directors					
Ola Holen, Chairman	138	0	0	0	138
Torill Standal Eliassen	116	0	0	0	116
Christoph Baldegger	96	0	0	0	96
Henriette Godø Heggdal***	845	15	42	0	902
Total	**4 263**	**45**	**134**	**3 956**	**8 398**

* Including remuneration as hired consultant.

**Including fees for managing R&D. R&D share constituted TNOK 3 076

*** Including salary as employee of the company

Number of shares held by executive management and board members:

2018 - SHAREHOLDERS	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**

2019 - REMUNERATION TO EXECUTIVE MANAGEMENT TEAM AND THE BOARD

(Amounts in NOK 1000) - Group	Salary	Benefits	Pension cost	Other remuneration	Total remuneration
Executive management					
Roger Hofseth, CEO	0	0	0	0	0
Jon Olav Ødegyård, CFO*	660	16	33	1 154	1 862
Dr. Bomi Framroze, CSO**	1 440	0	0	4 768	6 208
Karl Inge Slotsvik, COO	1 130	16	57	0	1 203
The Board of Directors					
Ola Holen, Chairman	138	0	0	0	138
Torill Standal Eliassen	116	0	0	0	116
Christoph Baldegger	96	0	0	0	96
Henriette Godø Heggdal***	842	17	37	0	895
Total	**4 422**	**49**	**126**	**5 922**	**10 518**

* Including remuneration as hired consultant.
**Including fees for managing R&D. R&D share constituted TNOK 4 768
*** Including salary as 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 employees amount to TNOK 0 as of 31 December 2019 (TNOK 459 as of 31 December 2018).

Number of shares held by executive management and board members:

2019 - SHAREHOLDERS	Shares	Held by related companies	Held by related parties	Total
Roger Hofseth	0	112 021 776	0	112 021 776
Jon Olav Ødegård	0	2 964 039	180 000	3 144 039
Dr. Bomi Framroze	886 630	860 000	0	1 746 630
Christoph Baldegger	15 000	860 000	0	875 000
Ola Holen	580 000	0	0	580 000
Torill Standal Eliassen	529 865	61 567 166	0	62 097 031
Henriette Godø Heggdal	0	200 000	0	200 000
Total	0	570 000	0	570 000
Sum aksjer	**1 996 495**	**190 402 613**	**180 000**	**181 234 476**

Guidelines for the salaries and other remuneration of the CEO and executive management at hofseth biocare asa 2019
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 2019.
The Group has complied with the guidelines in 2019. For fiscal year 2020 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.

Defined contribution 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. Contributions have been expensed in the Group by TNOK 1,547 in 2019 (2018: TNOK 1,379), in the parent company TNOK 1,205 has been expensed (TNOK 1,097 in 2018).

Fees to consultant with responsibility for the IR function of the group

On 17 October 2019 the company entered into a consultant agreement with James Berger (through his company Nevera AG). James Berger has a wide network among the largest investment banks and institutional investors in Europe and globally. In accordance with the consultant agreement he will assist the company with certain facilitation services such as establishing a broader base of international investors. James Berger and the company think that a broader investor base will facilitate a planned United States listing and a continued positive value creation. The company has, however, not made any decision as to actively pursuing a listing at a United States based stock exchange, nor the timing for such a potential listing. The consultant agreement has a duration of 36 months and defines the consultants role in the IR function of the company. The agreement has other terms determining him to be an employee for IFRS 2 purposes. The agreed compensation is:

› Offering of 6 486 400 share options in the company, for which the exercise price has been set equal to the nominal amount of the shares, but with a strike price of NOK 0.01. See below for more detailed information.
› Right to receive a cash remuneration of TUSD 500 at the time of a potential successful US listing. The company has calculated the net present value of this obligation to TNOK 894, under the assumption that the likelihood of a successful US listing is 10 % for taking place in 2020, 15 % in 2021 and 20 % in 2022.

The share option program may be split in three main tranches

› 810 800 share options - the earliest of 9 months after entering into the agreement and a sucessful US listing
› 810 800 share options related to a sucessful US listing
› The remainig 4 862 800 shares are tied to a certain number of share options for redemption when the share price has exceeded defined intervals of average share price over a continuous period of 45 days. 5 levels of 324 320 share options with an average share price > NOK 8.0 > NOK 12.5, > NOK 16.50, > NOK 21.0 and > NOK 25.0, as well as 2 levels with 1 621 600 share options at an average share price of > NOK 42 og > NOK 55. The first level of 324 320 share options has been triggered in 2020, as the share price has been above NOK 8 for a continuous period of 45 days.

The fair values of the options have been calculated at the time of grant, 17 October 2019, and expensed over the vesting period of 36 months. TNOK 827 has been expensed in 2019 on the option program and the fair value of the program has been estimated to TNOK 12 342. Fair value of the options has been estimated using the Black and Scholes option pricing model. Share options mentioned in bullet point number 3 above has several elements attached to it, we have therefore applied a Monte Carlo simulation when estiating fair value for this group. Important assumptions applied in the fair value calculation using the Black & Scholes model are:

› The share price at the time of grant was NOK 5.98 and the «strike price» was set to NOK 0.01
› Historical volatility of the company's shares has been assumed indicative of the future volatility, measured at 57.1 % over 12 months, 55.8 % over 24 months and 61.2 % over 36 months – on this basis an expected volatility of 60 % has been applied in the valuation
› Expected dividends has been set to TNOK 0 for the 36 months period
› The risk-free rate which has been applied in the calculations of the options is equal to 3 year government bonds over the term of the option levetid, i.e. 1.15 % over the full 36 month term
› The likelihood of a US listing within 12 months after entering into the consultant agreement has been set to 10 %, 24 months 15 % and 36 months 20 %

No share options have been exercised in 2019.

Mr. Berger has prior to the signing of the agreement assisted the company with a share issue of NOK 118 million (see statement of changes in equity above) directed towards international private investors and institutional funds. Success fees of TNOK 3 000 have been charged directly to equity as share issue costs.

AUDITOR'S FEES	Group		Parent	
(Amounts in NOK 1000)	2019	2018	2019	2018
Audit fees	662	658	586	556
Tax advice	54	87	54	78
Audit related services	416	312	416	312
Other services and confirmations	93	151	93	151
Total	**1 225**	**1 206**	**1 149**	**1 096**

VAT is not included in the amounts above.

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. Alliance Seafoods Inc was merged with the parent company Yokohama Reito Co., Ltd. as of 1 January 2020, so that it is now the last-mentioned company which is a share holder of Hofseth BioCare ASA.

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 and 2019:

- 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.
- 13 of the company's lease agreement for production equipment that are active in 2019 have been entered into with Hofseth AS, Hofseth International AS and Roger Hofseth AS and subleased to Hofseth BioCare ASA with a mark-up of 5-10 % on monthly instalments.
- Roger Hofseth AS provides 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 7,322 as of 31.12.19 (TNOK 9,757 as of 31.12.18). The loan expires on 30.09.22 and has a fixed interest rate of 4 %.
- Roger Hofseth AS has provided a subordinated loan to the group with an outstanding amount of TNOK 20 000 as of 31.12.2019 (TNOK 0 as of 31.12.2018). The loan expires 30.09.2024 and carries an interest rate of Nibor + 4.5 %.
- Roger Hofseth AS has purchased goods worth of TNOK 24,400 in 2019 (TNOK 8,024 in 2018), and paid warehouse rentals of TNOK 725 in 2019 (TNOK 0 in 2018).
- Hofseth International AS has purchased goods worth of TNOK 30 290 in 2019 from Alliance Seafoods Inc, in 2017 and 2018 such goods were sold from Hofseth BioCare ASA.
- Hofseth North America has purchased goods worth TNOK 0 in 2019 (TNOK 1,351 in 2018).
- Alliance Seafoods Inc. purchased goods worth TNOK 5,829, and paid warehouse rent of TNOK 100 in 2018.
- The Group rents factory buildings at Midsund and Berkåk as well as office premises in Ålesund from Syvde Eiendom AS at a cost of TNOK 7,771 in 2019 (TNOK 7,665 in 2018). The lease terms is for 15 years until 2032.
- In the share issue in August 2019 Roger Hofseth AS participated through the conversion of debt of TNOK 15,000. In the share issue in August 2018, the following related companies and persons subscribed for shares by conversion of debt and cash payments, 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	
(Amounts in NOK 1000)	2019	2018	2019	2018
Machines and equipment (leasing)	0	20 895	0	20 895
Right of use assets	81 292	0	56 561	0
Trade receivables	1 207	1 966	1 207	1 467
Subordinated loan	-20 000	0	-20 000	0
Loan from shareholders	-7 322	-9 757	-7 322	-9 757
Leasing liabilities	-79 307	-15 302	-54 568	-15 302
Trade payables	-10 450	-20 514	-10 330	-20 514
Other current liabilities	-2 975	-1 874	-2 975	-1 874
Total	-37 555	-24 585	-37 427	-25 084

PROFIT AND LOSS ITEMS	Group		Parent	
(Amounts in NOK 1000)	2019	2018	2019	2018
Sales revenue	24 400	15 733	24 400	15 733
Total revenue	**24 400**	**15 733**	**24 400**	**15 733**
Cost of sales	37 989	32 828	37 989	32 828
Other operating expenses	4 242	9 312	4 242	6 696
Financial expenses	5 974	1 844	4 301	1 844
Total costs	**48 205**	**43 984**	**46 532**	**41 368**

Raw material agreements

The parent company has purchased raw material (fish off-cuts) from Hofseth Aalesund AS, Hofseth AS and Seafood Farmers of Norway AS, which are shareholders or related parties of shareholders. The raw material agreements started to run in 2015 and ran until the end of 2017. The agreement gave the parent company and the group the exclusive right to have all the by-products from their production delivered. Throughout 2018, the Group 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 started to run in 2019 and runs over 3 years and gives the parent company the exclusive right to get all the by-products from the production of Roger Hofseth AS's suppliers.

Note 7: Financial income and expenses

FINANCIAL INCOME	Group		Parent	
(Amounts in NOK 1000)	2019	2018	2019	2018
Interest income	510	209	526	207
Gains and value changes on forward exchange contracts	3 060	1 665	3 060	1 665
Value adjustments on investment in equity instruments	4	0	4	0
Foreign exchange gains	1 574	1 162	1 574	1 162
Total	5 148	3 036	5 165	3 033

FINANCIAL EXPENSES	Group		Parent	
(Amounts in NOK 1000)	2019	2018	2019	2018
Interest expenses	8 574	3 830	7 554	4 573
Impairment of financial assets	0	0	5 053	5 553
Warranty provision	777	777	777	777
Losses and changes in value of forward exchange contracts	2 865	2 981	2 865	2 981
Value adjustment of equity investment (note 23)	0	40	0	40
Foreign exchange losses	2 576	2 237	2 576	2 236
Total	**14 792**	**9 865**	**18 825**	**16 159**

Note 8: Income taxes

INCOME TAXES	Group		Parent	
(Amounts in NOK 1000)	**2019**	**2018**	**2019**	**2018**
Income tax expense				
Prior year taxes	0	249	0	249
Tax expense	0	249	0	249
Calculation of taxable income				
Loss before tax	-89 218	-84 527	-89 586	-83 719
Permanent differences	1 512	40	1 512	40
Change in temporary differences	13 008	1 970	4 763	-1 169
Taxable result	-74 698	-82 517	-83 311	-84 848
Temporary differences				
Fixed assets	33 614	55 318	29 086	33 516
Loss carry forward	-693 514	-618 816	-677 167	-593 856
Other temporary differences	4 742	-3 978	-4 311	-3 978
Total	-655 158	-567 476	-652 392	-564 318
Calculated deferred tax asset 22%	-144 135	-124 845	143 526	-124 150

Deferred tax assets are not recognised in the balance sheet.

RECONCILITATION OF TAX EXPENSE	Group		Parent	
(Amounts in NOK 1000)	**2019**	**2018**	**2019**	**2018**
Loss before tax	-89 218	-84 527	-89 586	-83 719
Tax on loss 22% (23% in 2018)	-19 628	-19 442	-19 709	-19 255
Permanent differences	333	9	333	9
Errors in previous years tax base	0	249	0	249
Deferred tax asset, not recognised	19 295	13 758	19 376	13 602
Effect of change in tax rate	0	5 675	0	5 644
Total tax expense	0	0	0	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 by the weighted average number of shares outstanding during the year.

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	
(Amounts in NOK 1000)	**2019**	**2018**	**2019**	**2018**
Profit attributable to share holders	-89 218	-84 776	-89 586	-83 968
Weighted average number of shares outstanding	306 228	258 098	306 228	258 098
Earnings per share				
-ordinary	-0,29	-0,33	-0,29	-0,33
-diluted	-0,29	-0,33	-0,29	-0,33

Note 10: Iintangible asset

2018		Group and Parent		
(Amounts in NOK 1000)	**R&D**	**Patents**	**Other**	**Total**
Cost at 01.01.2018	23 265	3 671	2 599	29 648
Additions	0	0	0	0
Internally developed	2 308	0	0	2 308
Cost at 31.12.2018	25 573	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	10 years	5 years	5-10 years
Method of depreciaton	Straight line depreciation	Straight line depreciation	Straight line depreciation	Straight line depreciation

Included in the Group's intangible assets is TNOK 102 for a Webshop in the subsidiary Nøre Nutrition AS for which depreciations were not started as the development of the Website was not completed 31.12.2018.

2019			Group and Parent		
(Amounts in NOK 1000)	**R&D**	**IT-system and Web site***	**Other**	**Total**	**Sum**
Cost at 01.01.2019	25 573	0	3 671	2 599	31 843
Additions	0	1 866	0	0	1 866
Internally developed	7 889	0	0	0	7 889
Cost at 31.12.2019	33 462	1 866	3 671	2 599	41 598
Depreciation at 01.01.2019	9 586	0	2 607	2 375	14 568
Disposal	0	0	0	0	0
Depreciation charge of the year	2 302	0	367	14	2 684
Impairment					
Impairment and depreciation at 31.12.2019	11 888	0	2 974	2 389	17 252
Net book value at 31.12.2019	21 574	1 866	697	210	24 346
Economic life	10 years	5-10 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

*IT system and new Web site is under development.

Included in the group's intangible assets is a webshop developed in the subsidiary Nøre Nutrition AS, the carrying amount was TNOK 170 as of 31.12.2019 (TNOK 102 as of 31.12.2018).

In 2019, HBC R&D continued to work on improving and fine-tuning the production processes. Continued R&D work for out products is an important work which allows our existing and new customers to recognize the products for being unique and differentiated from our competitors' products. Research and development and documentation are core activities of HBCs R&D work.
Also in 2019 significant resources have been devoted to documentation and testing of the ingredients in the products ProGo® and OmeGo® and CalGo®. The work is absolutely crucial HBC to show the effects and properties of the products in marketing and sales.

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. Increased volumes of feedstock make the work of optimizing all chains in the production process crucial. Throughout the year the company has also to a larger extent than previously focused

on continued development of the products' bioactive health effects. More time has been spent in laboratories and at the factory in order to test and study these effects.

Furthermore, the group's operations 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

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 2019 were TNOK 11,294 (2018 TNOK 10,172). Of this, TNOK 7 889 has been capitalized (2018: TNOK 2 308). The most significant development projects with related capitalized dvelopment expenditures were:

- Further developed an oil product for sale i spray-bottles for the pet market – capitalized amount TNOK 1 412 in 2019 – the product has been launched in several forms and in several markets in 2019
- Further developed protein poweder for the human market in relation to various taste additives – capitalized amout TNOK 1 151 in 2019 – the parent company has launched new products available in, among others, the web-shop in January 2020
- Started the development project to discover new methods for adjusting the enzyms to make selected «peptides» of the SPH protein in full scale, in which the new products are to be important ingredients in future food supplement products, including
  - 17 of the 550 + peptides in the SPH protein accounts for more than 85 % av the effects with increased hemoglobin. The comany seeks to find new methods for adjusting the enzymes to only hydrolyze these 17 peptides, so that the product may be sold as a pure hemoglobine-ingredient for food supplement products – capitalized development expenditures TNOK 1 918 in 2019.
  - Correspondingly to adjust the enzymes in order to hydrolyze peptides in order to make a new ingredient to food supplement products in order to increase the mobility characteristics and the human muscles, capitalized development expenditures TNOK 1 189.
- Other projects amounts to TNOK 2 219 in total.

One of the development projects has also been approved as being entitled to the Norwegian tax incentive scheme, Skattefunn, headed by Norges Forskningsråd. For 2019 the group expects to be entitled to a refund amount of TNOK 1,493 worth of tax incentives (Skattefunn). This is treated as a permanent difference in the taxable income (see 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

2018		Group			Parent	
(Amounts in NOK 1000)	Machinery and equipment	Fixtures and fittings	Total	Machinery and equipment	Fixtures and fittings	Total
Cost at 01.01.2018	140 070	8 828	148 898	132 543	8 758	141 301
Additions	18 698	0	18 698	18 198	0	18 198
Disposals	0	0	0	0	0	0
Cost at 31.12.2018	158 768	8 828	167 596	150 741	8 758	159 499
Depreciations at 01.01.2018	73 600	7 205	80 805	70 995	7 134	78 129
Depreciations for the year	18 656	875	19 531	18 042	876	18 918
Disposals	0	0	0	0	0	0
Depreciations at 31.12.2018	92 256	8 080	100 336	89 037	8 010	97 047
Book value 31.12.2018	66 613	748	67 361	61 806	748	62 554
Economic life	5-10 years	3-10 years		5-10 years	3-10 years	
Method of depreciation	Straigt line depreciation	Straigt line depreciation		Straigt line depreciation	Straigt line depreciation	

2019		Group			Parent	
(Amounts in NOK 1000)	Machinery and equipment	Fixtures and fittings	Total	Machinery and equipment	Fixtures and fittings	Total
Cost at 01.01.2019	158 768	8 828	167 596	150 741	8 758	159 499
Additions	10 493	0	10 493	8 932	0	8 932
Reclassification of lease assets 1.1.	-32 096	0	-32 096	-32 096	0	-32 096
Cost at 31.12.2019	137 165	8 828	145 993	127 577	8 758	136 335
Depreciations at 01.01.2019*	82 283	8 080	90 363	80 862	8 010	88 872
Depreciations for the year	16 971	568	17 539	16 306	568	16 874
Depreciations at 31.12.2019	99 254	8 648	107 902	97 168	8 578	105 746
Book value 31.12.2019	37 910	180	38 090	30 409	180	30 589
Economic life	5-10 years	3-10 years		5-10 years	3-10 years	
Method of depreciation	Straigt line depreciation	Straigt line depreciation		Straigt line depreciation	Straigt line depreciation	

* The amounts have been adjusted for accumulated depreciations on reclassified leased assets – see note 13.

The company has pledged assets as collateral for loans. See note 16 for further details.

Note 12: Leases in the comparable amounts for 2018

The parent company and the group as lessee

The company's assets under finance leases were in the comparable amounts for 2018 included in machinery and equipment. In addition to the 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 continue to be leased at a lease of 1/12 of the original lease payment. The company may also purchase the equipment.

Assets under finance leases acc. IAS 17 and comparable figures include:

	Group		Parent	
(Amounts in NOK 1000)		**2018**		**2018**
Machinery and equipment		27 725	27 725	27 725
Depreciation		-4 651	-4 651	-4 651
Net booked value		**23 074**	**23 074**	**23 074**
Maturity of minimum lease payments				
Less than 1 year	5 947	5 947		5 947
1 - 5 years	14 325	14 325		14 325
After 5 years	0	0		0
Future minimum leases	**20 272**	**20 272**		**20 272**
Average interest rate	9.3%	9.3%		9.3%
Net present value	17 567	17 567		17 567
Of which				
Less than 1 year	4 646	4 646		4 646
1 - 5 years	12 921	12 921		12 921

The Group and the parent company acquired financial assets with an estimated cost of TNOK 14,839 in 2018.

The group and the parent company had operating leases in accordance with IAS 17 in 2018, for which ordinary lease payments for equipment comprised TNOK 1 404 for the group and TNOK 1 378 for the parent company and ordinary lease payments for factories comprised TNOK 7 344 for the group and TNOK 4 728 for the parent company.

Note 13: Leases

The company and the group as lessee

The company and the group's right of use assets include manufacturing facilities, machinery and equipment and fixtures and fittings:

2019	Group				Parent			
(Amounts in NOK 1000)	**Manu-facturing facilities**	**Machinery and equipment**	**Fixtures and fittings**	**Total**	**Land, manu-facturing facilities**	**Machinery and equipment**	**Fixtures and fittings**	**Total**
Cost 01.01.2019	66 078	0	1 948	68 026	42 538	0	1 585	44 123
Transferred at transition from IAS 17	0	32 096	0	32 096	0	32 096	0	32 096
Additions		6 225	170	6 395	0	3 025	0	3 025
Disposals	0	0	0	0	0	0	0	0
Cost at 31.12.2019	66 078	38 321	2 118	106 517	42 538	35 121	1 585	79 294
Depreciations 01.01.2019	0	0	0	0	0	0	0	0
Transferred at transition from IAS 17	0	9 022	0	9 022	0	9 022	0	9 022
Depreciations for the year	4 987	1 789	457	7 233	3 210	1 556	446	5 212
Disposals	0	0	0	0	0	0	0	0
Depreciations 31.12.2019	4 987	10811	457	16 255	3 210	10578	446	14 234
Carrying amounts 31.12.2019	61 091	27 511	1 661	90 263	39 328	24 543	1 139	65 009
Shortest of lease term or economic life	15 years	5 years	3-5 years		15 years	5 years	3-5 years	
Remaining lease term	12.25 years	0 - 5 years	0 - 5 years		12.25 years	0 - 5 years	0 - 5 years	
Depreciation method	Straigt line depreciation	Straigt line depreciation	Straigt line depreciation		Straigt line depreciation	Straigt line depreciation	Straigt line depreciation	

LEASE LIABILITIES:	Group		Parent	
(Amounts in NOK 1000)	**2019**	**2018**	**2019**	**2018**
Undiscounted lease liabilities and due dates for payments				
Less than 1 year	14 634	0	11 041	0
2-5 years	43 286	0	30 776	0
More than 5 years	41 334	0	26 588	0
Total undiscounted lease liabilities 31.12	**99 254**	**0**	**68 405**	**0**
Changes in lease liabilities				
At first time adoption 1.1.2019	68 026	0	44 123	0
Transferred at transition from fra IAS 17	17 567	0	17 567	0
New/changed lease liabilities recognized in the period	6 610	0	3 240	0
Payment of principal amounts	10 231	0	8 151	0
Payment of interest amounts	4 458	0	2 909	0
Interest related to the lease liabilities	4 458	0	2 909	0
Total lease liabilities 31.12	**81 971**	**0**	**56 778**	**0**
Current lease liabilities 31.12 (note 16)	9 953	0	8 068	0
Non-current lease liabilities 31.12 (note 16)	72 018	0	48 710	0
Cash outflows for lease liabilities	14 689	0	11 060	0

The lease agreements do not restrict the parent company's and the group's dividend policy or financing opportunities. The parent company and the group do not have significant residual value guarantees in the lease agreements.

The parent company and the group's leases of machinery and equipment include, in addition to lease payments, a requirement to maintain and secure the assets (right of use assets). The terms in the lease agreements varies from 3-7 year, and several of the agreements include an option to extend the lease. At the expiry date of the main term of the lease, the lease og the machinery and equipment may be continued for a lease payment of 1/12 of the lease payments in the main lease period. The company may also request to purchase the equipment. The company and the group's leases of manufacturing facilities (Midsund og Berkåk) have lease terms of 15 years, no extension options, and the leases expire 31 March 2032. When entering into an agreement the group assesses whether it is reasonably certain to exercise an option to purchase the assets. The leases of the manufacturing facilities have no options to purchase.

Leases of fixtures and fittings in the table above contain no extension or purchase options. The group's potential future lease payments which have not been included in the lease liabilities relating to purchase options were TNOK 0 as of 31 December 2019.

Applied practical expedients

The company and the group lease warehouses in which both the lessor and the company / group have the right to terminate the agreements on a 3-6 months notice period. For such agreements the company and the group do not recognize lease liabilities and related right of use assets. Such lease payments are expensed when incurred.

Lease payments for the abovementioned leases amount to TNOK 458 for fixtures and fittings for the group and to TNOK 522 for warehouses. For the parent company the amounts are TNOK 458 for fixtures and fittings and TNOK 299 for warehouses (see note 4).

Note 14: Fair value measurement

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

ASSETS MEASURED AT FAIR VALUE, GROUP

(Amounts in NOK 1000)	Date of measurement	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

Fair value of other financial assets has not been included in the table as it is assumed that fair value approximates the carrying amounts.

LIABILITIES MEASURED AT FAIR VALUE, GROUP

(Amounts in NOK 1000)	Date of measurement	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

(Amounts in NOK 1000)	Date of measurement	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

Fair value of other financial assets has not been included in the table as it is assumed that fair value approximates the carrying amounts.

LIABILITIES MEASURED AT FAIR VALUE, PARENT COMPANY

(Amounts in NOK 1000)	Date of measurement	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 18:					
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

ASSETS MEASURED AT FAIR VALUE, GROUP

(Amounts in NOK 1000)	Date of measurement	Amount	Active markets (Level 1)	Observed market prices (Level 2)	Non-observed input (Level 3)
Equity investments (not listed)					
HFS Alliance Inc Japan	31.12.19	477	0	0	477
Derivatives financial assets					
Foreign exchange forward contracts Euro	31.12.19	135	0	135	0

Fair value of other financial assets has not been included in the table as it is assumed that fair value approximates the carrying amounts.

LIABILITIES MEASURED AT FAIR VALUE, GROUP

(Amounts in NOK 1000)	Date of measurement	Amount	Active markets (Level 1)	Observed market prices (Level 2)	Non-observed input (Level 3)
Liabilities of which the fair value has been provided in note 18:					
Interes-bearing loan					
Interest-bearing loan floating interest rates	31.12.19	35 817	0	0	35 817
Lease liabilities	31.12.19	81 971	0	0	81 971
Interest-bearing loan fixed interest rates	31.12.19	14 679	0	0	14 679

ASSETS MEASURED AT FAIR VALUE, PARENT COMPANY

(Amounts in NOK 1000)	Date of measurement	Amount	Active markets (Level 1)	Observed market prices (Level 2)	Non-observed input (Level 3)
Equity investments (not listed)					
HFS Alliance Inc Japan	31.12.19	477	0	0	477
Derivatives financial assets					
Foreign exchange forward contracts Euro	31.12.19	135	0	135	0

Fair value of other financial assets has not been included in the table as it is assumed that fair value approximates the carrying amounts.

LIABILITIES MEASURED AT FAIR VALUE, PARENT COMPANY

(Amounts in NOK 1000)	Date of measurement	Amount	Active markets (Level 1)	Observed market prices (Level 2)	Non-observed input (Level 3)
Liabilities of which the fair value has been provided in note 18:					
Interes-bearing loan					
Interest-bearing loan floating interest rates	31.12.19	32 822	0	0	32 822
Lease liabilities	31.12.19	56 778	0	0	56 778
Interest-bearing loan fixed interest rates	31.12.19	14 679	0	0	14 679
Interest-bearing loan from subsidiary floating interest rates	31.12.19	14 798	0	0	14 798

Note 15: Financial assets

FINANCIAL ASSETS	Group		Parent	
(Amounts in NOK 1000)	**2019**	**2018**	**2019**	**2018**
Financial assets at fair value through profit or loss				
Equity investments (not listed)	477	473	477	473
Derivatives not designated as hedging instruments				
Foreign exchange forward contracts Euro	135	0	135	0
Total financial assets at fair value	**612**	**473**	**612**	**473**
Amortized cost receivables:				
Accounts receivable	5 542	14 697	5 446	13 071
Lending to employees	0	459	0	459
Receipt of value added tax and grants	1 493	2 402	1 493	2 172
Financial loans to subsidiaries	0	0	70	60
Other financial loans	1 842	3 138	1 842	3 138
Total financial assets	**8 877**	**20 696**	**8 851**	**18 900**
Total current financial assets	**7 054**	**18 260**	**7 028**	**16 464**
Total non-current financial assets	**1 823**	**2 436**	**1 823**	**2 436**

NON-CURRENT RECEIVABLES AND INVESTMENTS	Group		Parent	
(Amounts in NOK 1000)	**2019**	**2018**	**2019**	**2018**
Equity investments (not listed)	477	473	477	473
Foreign exchange forward contracts Euro	135	0	135	0
Other receivables and financial debt to others	1 848	2 436	1 848	2 436
Total non-current receivables and investments	**2 460**	**2 909**	**2 460**	**2 909**

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 23), where fair value corresponds to the calculated net asset value of the ownership interest in the company. The first full operating year in 2018 resulted in an estimated value reduction of TNOK 40 as of 31 December 2018 and the second operating year, 2019, has an estimated value increase of TNOK 4 as of December 2019.

IFRS 9 requires the Group's 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 receivables and collaterals on other receivables and loans and, hence, no significant provisions have been made in relation to these.

Note 16: Interest-bearing debt and borrowings

NON-CURRENT DEBT			Group		Parent	
(Amounts in NOK 1000)	Effective interest rate	Maturity	2019	2018	2019	2018
Bank borrowing, IN1	5,0%	2021-	2 689	4 482	2 689	4 482
Bank borrowing, IN2	5.0%	2021-	1 725	2 875	1 725	2 875
Rennebu kommune	NIBOR+2.0%	2021-	2 433	2 960	0	0
Loan from shareholder	4.0%	2021-	4 645	7 150	4 645	7 150
Subordinary loan	NIBOR+4.5%	2021-	20 000	0	20 000	0
Lease liability	6% - 8%	2021-	72 018	12 921	48 710	12 921
Total			**103 510**	**30 387**	**77 769**	**27 428**

CURRENT DEBT			Group		Parent	
(Amounts in NOK 1000)	Effective interest rate	Maturity	2019	2018	2019	2018
Bank borrowing, IN1	5.0%	2020	1 793	1 793	1 793	1 793
Bank borrowing, IN2	5.0%	2020	1 150	1 150	1 150	1 150
Rennebu kommune	NIBOR+2.0%	2020	541	554	0	0
Loan from shareholder*	4.0%	2020	2 677	2 607	2 677	2 607
Loan from shareholder	11.7%	2020	0	1 471	0	1 471
Factoring liability	6.6%	2020	12 843	15 691	12 823	15 691
Lease liability	6% - 8%	2020	9 953	4 646	8 068	4 646
Total			**28 956**	**27 912**	**26 510**	**27 358**
Total interest-bearing debt			**58 300**	**104 279**	**54 786**	**54 786**

* loans are issued in JPY - unrealized losses calculated at TNOK 811 as of 31.12.2019 (TNOK 804 as of 31.12.2018)

In addition to the above, the parent company has current interest-bearing liabilities towards the subsidiary HBC Berkåk AS amounting to TNOK 14 798 as of 31.12.2019 (TNOK 18 765 as of 31.12.2018). The interest rate has been agreed to NIBOR + 3 %.

Collaterals

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

(Amounts in NOK 1000)	2019	2018
Fixed assets	30 589	39 480
Trade receivable	5 446	13 071
Inventory	33 358	29 096
Total	**69 393**	**81 647**

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 arrangements in the parent company for accounts receivable and inventories towards a factoring partner has been 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%.

Financial covenants

Bank borrowings Innovation Norway

As of 30 June, and 31 December each year, the company shall have a liquidity reserve of minimum 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. When including the subordinated loans as equity, the company had an equity ratio of 50.3% and NOK 92.2 million in liquidity reserve and was thus not in breach of covenants given in the loan agreement with Innovation Norway as of 31.12.2019.

Note 17: Other financial obligations

OTHER FINANCIAL OBLIGATIONS	Group		Parent	
(Amounts in NOK 1000)	**2019**	**2018**	**2019**	**2018**
Derivatives not classified as hedges:				
Forward foreign exchange contracts	0	1 336	0	1 336
Total financial liabilities at fair value	**0**	**1 336**	**0**	**1 336**
Other liabilities at amortized cost:				
Accounts payable	29 712	32 112	26 553	28 851
Public taxes	4 494	2 660	3 913	1 836
Financial loans from related parties	3 213	2 112	2 975	1 874
Total other financial liabilities	**37 419**	**36 884**	**33 441**	**32 561**
Total other short-term financial liabilities	**37 419**	**36 884**	**33 441**	**32 561**
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 18: Financial assets and liabilities by category

	Group		Parent	
(Amounts in NOK 1000)	**2019**	**2018**	**2019**	**2018**
Financial assets at fair value through profit or loss:				
Equity investments (not listed)	477	473	477	473
Derivatives not designated as hedging instruments				
Foreign exchange forward contracts Euro	135	0	135	0
Total financial assets at fair value through profit or loss	**612**	**473**	**612**	**473**
Financial assets at amortized cost:				
Long-term financial lending and deposit	1 823	2 436	1 823	2 436
Accounts receivable	5 542	14 697	5 446	13 071
Other financial loans (see note 15)	1 512	3 563	1 582	3 393
Total financial assets amortized cost	**8 877**	**20 696**	**8 851**	**18 900**
Total financial assets	**9 489**	**21 169**	**9 463**	**19 373**
Fair value is equal to carrying amount.				
Financial liabilities at fair value through profit or loss:				
Forward exchange contracts (note 24)	0	1 336	0	1 336
Financial liabilities at amortized cost:				
Interest-bearing short-term debt	19 003	23 266	18 442	22 712
Accounts payable	29 712	32 112	26 553	28 851
Interest-bearing short-term debt subsidiaries	0	0	14 798	18 765
Other short-term debt (note 24)	13 084	10 154	11 298	7 996
Non-current interest-bearing debt	31 492	17 467	29 059	14 507
Non-current leasing obligations	81 972	17 567	56 778	17 567
Total financial liabilities amortized cost	**175 263**	**100 565**	**156 928**	**110 398**
Total financial liabilities	**175 263**	**101 901**	**156 928**	**111 734**

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

LEVEL 3, GROUP	2019		2018	
(Amounts in NOK 1000)	**Book value**	**Fair Value**	**Book value**	**Fair Value**
Current interest-bearing liabilities	28 956	28 909	27 912	27 861
Non-current interest-bearing liabilities	103 510	103 690	30 387	29 722

LEVEL 3, PARENT COMPANY	2019		2018	
(Amounts in NOK 1000)	**Book value**	**Fair Value**	**Book value**	**Fair Value**
Interest-bearing short-term debt	26 510	26 463	27 358	27 307
Interest-bearing long-term debt	77 769	77 949	27 428	26 762
Interest-bearing short-term debt of subsidiaries	14 798	14 369	18 765	18 221

Presentation of fair value measurements by level in the fair value hierarchy:
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, except for forward exchange contracts. 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 «ordinary» conditions.

Note 19: 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.

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 non-current interest-bearing loans, current interest-bearing loans and lease liabilities. Loans with floating interest rates lead to interest rate risk for the company's and the Group's cash flow. See note 18 for the book value and fair value of the financing activities and note 16 for interest rate terms relating to interest-bearing financing obligations as of 31 december 2019.

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 and Innovasjon Norge are at fixed prices. The loans are recognized 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 profit – before tax (Amounts in NOK 1000)
2018	+100	-407
	-100	407
2019	+100	-1 178
	-100	1 178

Average interest rates on financial instruments were as follows:

Average interest rate in %	2019	2018
Factoring	7.85	8.45
Loan from shareholders	4.19	4.20
Subordinated loan	6.49	5.42
Secured debt	4.52	5.00
Lease liabilities	7.50	9.33

The following table shows the parent 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 profit – before tax (Amounts in NOK 1000)
2018	+100	-372
	-100	372
2019	+100	-896
	-100	896

Foreign exchange risk

The parent company and the group have a foreign exchange 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 monitored movements in the foreign exchange market and has assessed hedging strategies in 2019 based on the parent company's and the group's contractual and predictable income streams. The parent company and the group therefore entered into forward exchange contracts both in 2018 and in 2019 in order 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 2019:

› Sales 250 000 EUR exchange rate 10.16663 maturity 11.03.2020
› Sales 250 000 EUR exchange rate 10.02226 maturity 07.05.2020

The market values of the positions are calculated to unrealized gains of TNOK 135 at 31 December 2019 for both the company and the Group.

The parent company and the group had 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 were calculated to unrealized losses of TNOK 1,336 at 31 December 2018 for both the parent 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 parent 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	Change in NOK	Effect on profit before tax			Effect on balance		
(Amounts in NOK 1000)	**to foreign currency**	**EUR**	**USD**	**JPY**	**USD**	**EUR**	**JPY**
2018	+10%	1 151	-4 922	-976	6 220	n/a	976
	-10 %	-1 151	4 922	976	-6 220	n/a	-976
2019	+10%	-377	69	-644	n/a	493	644
	-10 %	377	-69	644	n/a	-493	-644

Credit risk

The parent company and the Group are exposed to credit risk primarily related to accounts receivable, non-current financial loans, current 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 21 for further information on credit exposure and maturity analyzes on accounts receivable).

The maximum risk exposure of trade receivables for the group as of 31 December 2019 was TNOK 5,542 (TNOK 14,697 at 31 December 2018), and TNOK 5,446 (TNOK 13,071 at 31.12.2018) for the parent company. The risk of loss on accounts receivable is considered low and there has been no need to provide for losses. See note 21 for further information.

Maximum risk exposure financial loans was TNOK 5,754 as of 31 December 2019 (TNOK 10,014 as of 31 December 2018) for the group, and TNOK 5,571 (TNOK 9,047 as of 31.12.2018) for the parent company. Mainly consisting of receivable value added taxes, subsidy funds, deposits and prepaid expenditures, where there is no credit risk. Financial loans include loans to employees TNOK 0 (TNOK 459 in 2018), value of foreign exchange contracts TNOK 135 (TNOK 0 in 2018) and, for the parent company, loan to subsidiaries TNOK 70 (TNOK 60 in 2018), where credit risk is considered low. (see notes 14, 18 and 21 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 parent 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 parent company and 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 2019, the group had MNOK 94.5 of cash and cash equivalents, of which MNOK 1.3 were restricted cash.

The group expects to have a stable production level with stable quality which satisfies the requirements for human quality. The 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 flows. Expected cash flows are subject to uncertainties related to achieved sales prices and volume.

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

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 an election 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 1-3 months» column.

2018					Group					
(Amounts in NOK 1000)	1-3 months	4-6 months	7-9 months	10-12 months	2021	2022	2023	2024	> 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
Loan and subordinated loan from shareholders	5 691	0	0	10 686	0	0	0	0	0	16 377
Factoring debt	1 526	1 524	1 523	1 5161	5 508	3 720	2 865	2 706	0	20 889
Lease libilities	32 112	0	0	0	0	0	0	0	0	32 112
Trade payables	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					
(Amounts in NOK 1000)	1-3 months	4-6 months	7-9 months	10-12 months	2021	2022	2023	2024	> 5 years	Total
Interest bearing debt to financial institutions	777	850	842	833	3 243	3 102	1 498	0	0	11 145
Loan and subordinated loan from shareholders	503	492	1 074	1 058	2 678	2 583	2 488	1 449	0	12 327
Factoring debt	5 691	0	0	10 686	0	0	0	0	0	16 377
Lease libilities	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
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**

2019					Group					
(Amounts in NOK 1000)	1-3 months	4-6 months	7-9 months	10-12 months	2021	2022	2023	2024	> 5 years	Total
Interest bearing debt to financial institutions	766	1 133	809	1 111	3 718	2 092	577	561	274	11 043
Loan and subordinated loan from shareholders	307	307	900	893	22 681	2 499	1 394	0	0	28 983
Factoring debt	12 843	0	0	0	0	0	0	0	0	12 843
Lease libilities	3 659	3 659	3 661	3 655	13 842	11 662	10 465	7 317	41 334	99 254
Trade payables	29 712	0	0	0	0	0	0	0	0	29 712
Other current liabilities	10 167	2 918	0	0	0	0	0	0	0	13 085
Total	**57 454**	**8 018**	**5 369**	**5 659**	**40 242**	**16 253**	**12 437**	**7 878**	**41 608**	**194 920**

2019					Parent					
(Amounts in NOK 1000)	1-3 months	4-6 months	7-9 months	10-12 months	2021	2022	2023	2024	> 5 years	Total
Interest bearing debt to financial institutions	766	818	809	800	3 108	1 499	0	0	0	7 802
Loan and subordinated loan from shareholders	307	307	900	893	22 681	2 499	1 394	0	0	28 983
Factoring debt	12 823	0	0	0	0	0	0	0	0	12 823
Lease libilities	2 757	2 760	2 763	2 761	10 379	8 326	7 257	4 813	26 588	68 405
Trade payables	26 553	0	0	0	0	0	0	0	0	26 553
Other current liabilities	8 978	2 321	0	14 798	0	0	0	0	0	26 097
Total	**52 184**	**6 207**	**4 473**	**19 253**	**36 169**	**12 324**	**8 651**	**4 813**	**26 588**	**170 663**

In February 2020 the parent company and the group entered into a new credit facility of up NOK 37 million with Sparebank 1 Nordvest for working capital need related to future sales contracts. In addition to the available cash and cash equivalents as of 31 December 2019, this secures the group and the company sufficient liquidity for the first half of 2020.

The group is still dependent on increasing capacity and sales, or that new capital is injected to be able to service the ongoing obligations through 2020. Management and the board implement measures to be able to pay overdue accounts payable, lease liabilities, the current portion of interest and installments on interest-bearing debt, as well as future operating expenses in 2020. See note 2 on going concern and note 16 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 group and the parent 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 group and the parent company will support its operations, thus maximizing the value of its shares.

The parent 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 2019. The Group's equity ratio was 40.2% as of 31.12.19 (45.8% as of 31.12.18 including subordinated loans). The parent company's equity ratio was 43.1% at 31.12.19 (43.9% as of 31.12.18 including subordinated loans).

Note 20: Inventory

INVENTORY	Group		Parent	
(Amounts in NOK 1000)	**2019**	**2018**	**2019**	**2018**
Salmon oil	77	924	77	924
Soulible protein	3 931	8 287	3 931	8 287
Calcium	26 741	17 528	26 741	17 528
Non-soluble protein and other	0	194	0	194
Webshop products	955	643	891	643
Total finished goods	**31 704**	**27 576**	**31 640**	**27 576**
Packaging and auxiliary materials	2 282	1 826	1 718	1 520
Total inventory	**33 986**	**29 402**	**33 358**	**29 096**

Obsolescence provisions have been increased from TNOK 2,599 as of 31.12.2018 to TNOK 13,089 as of 31.12.2019. The income statement effect of changes in obsolescence provisions, included in cost of goods sold, was TNOK 10,410 in 2019 (TNOK 4,601 in 2018). See notes 2, 3 and 4 for more information.

The Group has, on behalf of customers, stored water-soluble protein, non-soluble protein, calcium and oil capsules as of 31 December 2019. The contracted sales value amounts to TNOK 64,035 and has been recognized as revenue in 2017, 2018 and 2019, as and when the customers are taking over the risk and control of the goods.

Note 21: Trade receivables and other current receivables

TRADE RECEIVABLES	Group		Parent	
(Amounts in NOK 1000)	2019	2018	2019	2018
Trade receivables	5 542	14 697	5 446	13 071
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						
(Amounts in NOK 1000)	Total	Not due	<30d	30-60d	60-90d	>90d
2019						
Accounts receivables	5 542	2 512	2 356	0	0	674
Credit-secured share	4 221	2 257	1 310	0	0	654
Expected credit loss	0	0	0	0	0	0
2018						
Accounts receivables	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

AGING OF TRADE RECEIVABLES - PARENT						
(Amounts in NOK 1000)	Total	Not due	<30d	30-60d	60-90d	>90d
2019						
Accounts receivables	5 446	2 489	2 283	0	0	674
Credit-secured share	4 221	2 257	1 310	0	0	654
Expected credit loss	0	0	0	0	0	0
2018						
Accounts receivables	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

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 an increasing 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 19 on credit risk). The Group and the parent company have NOK 0 million in provisions for losses on accounts receivable both in 2018 and 2019.

OTHER CURRENT RECEIVABLES	Group		Parent	
(Amounts in NOK 1000)	2019	2018	2019	2018
Prepayments	2 258	2 592	2 005	1 795
VAT receivable	0	380	0	150
Intercompany Group	0	0	70	60
Benefit funds	1 493	2 022	1 493	2 022
Other	19	2 584	19	2 583
Total	**3 771**	**7 578**	**3 588**	**6 611**

Note 22: Cash and cash equivalents

Deposits with a credit institution totaled TNOK 94,553 at 31 December 2019 and TNOK 48,641 at 31 December 2018 and the Group earns interest income according to agreed floating interest rate terms.

At 31 December 2019, restricted funds for the Group amounted to TNOK 1,342 which derives from the employees' tax deductions. As of 31 December 2018, this amounted to TNOK 1,324.

Note 23: Equity investments

Subsidiaries	Country	Head office	Share capital	Owner-ship	Voting share	Earnings 2019	Equity 31.12.2019
Hofseth Biocare Rørvik AS	Norway	Rørvik	100	51%	51%	-17	-1 402
HBC Berkåk AS	Norway	Rennebu	100	100%	100%	-1 533	18 865
Nøre Nutrition AS	Norway	Ålesund	2 000	100%	100%	-2 550	-1 344

Current liabilities to subsidiaries amount to TNOK 14,798 as of 31 December 2019 (current liabilities TNOK 18,765 in 2018).

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 financial statements and for the group, see notes 14, 15 and 18. 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 477 31 December 2019 (TNOK 473 31.12.2018). Cost was TNOK 513.

NOTES TO THE ACCOUNTS

Note 24: Accounts payable and other short-term liabilities

ACCOUNTS PAYABLE	Group		Parent	
(Amounts in NOK 1000)	2019	2018	2019	2018
Accounts payable	19 262	11 598	16 223	8 337
Accounts payable related companies	10 450	20 514	10 330	20 514
Total	**29 712**	**32 112**	**26 553**	**28 851**

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	
(Amounts in NOK 1000)	2019	2018	2019	2018
Public duties payable	4 494	0	3 913	0
Accrued holiday pay	2 918	2 871	2 321	2 308
Other accrued costs	2 698	5 407	2 089	3 811
Negative carrying value forward contract	0	1 336	0	1 336
Short-term debt to group companies	0	0	14 798	18 765
Short-term debt related company	2 975	1 874	2 975	1 874
Total	**13 085**	**11 490**	**26 097**	**28 097**

Note 25: Share capital, shareholders and dividends

As of 31 December 2019, Hofseth BioCare ASA had NOK 325,820,511 in share capital, divided into 325,820,511 shares, each with a nominal value of NOK 1.00. All shares are fully paid.

There is only one class of shares and all shares have equal voting rights and equal rights to dividends. The 20 largest shareholders of Hofseth BioCare ASA as of 31 December 2019 are:

Largest shareholders	# of shares	% share
Six Sis AG	76 954 942	23.62
Roger Hofseth AS	51 389 998	15.77
Alliance Seafoods Inc.	40 951 333	12.57
Hofseth AS	32 403 409	9.95
Brilliant Invest AS	11 000 000	3.38
Seafood Farmers Of Norway AS	10 574 921	3.25
Hofseth International AS	8 585 905	2.64
Credit Suisse (Switzerland) Ltd.	8 458 282	2.60
Goldman Sachs & Co. Llc	5 012 894	1.54
Hofseth Aalesund AS	4 860 718	1.49
Initia AB	4 276 000	1.31
Swelandia International AB	3 745 000	1.15
Varma Mutual Pension Insurance Co.	3 648 352	1.12
JPMorgan Chase Bank, N.A., London	3 373 215	1.04
UBS Switzerland AG	3 228 417	0.99
Morgan Stanley & Co. Int. Plc.	2 907 471	0.89
UBS AG	2 679 804	0.82
Hofseth Logistics AS	2 456 825	0.75
Ødegård Prosjekt AS	2 104 039	0.65
Saxo Bank A/S	2 006 536	0.62
In total, the 20 largest shareholders	**280 618 061**	**86.13 %**
Total others	45 202 450	13.87%
Total number of shareholders	**325 820 511**	**100.00 %**

Total no. of shareholders: 1020

Note 26: 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.

Amendments to ifrs 3 definition of business

The amendments will assist entities in the assessment of whether an acquisition constitutes a business or a group of assets. The amended definition emphasizes the entity's ability to create products in the form of goods and services to customers, related to which the previous definition focused on return in the form of dividend, lower expenditures or other economic benefits for the investors or other owners. In addition to amend the definition the accompanying guidance has been expanded.

The amendments are to be applied to acquisitions taking place at or after the start of the first financial statement period starting at or after 1 January 2020. There have been no such acquisitions in the period up until the approval of these financial statements and the amendments have no impact to the group as of today.

Amendments to IAS 1 and IAS 8 - definition of materiality

The International Accounting Standards Board (IASB) has issued amendments to the definition of materiality in order to make it easier for entities to perform materiality assessments. The definition of materiality is an important concept in the IFRS framework, and help entities assessing what information should be included in their financial statements. The new definition causes amendments to IAS 1 and IAS 8.

The amendments are based on feedback received from entities related to the challenges in the application of and interpretation of the previous definition in the assessment of whether a piece of information was material to the entity.

The amendments align the definition of materiality across the standards and clarify and explain the definition in more detail. The amendments will also ensure that the concept of materiality is consistent in the whole IFRS framework.

The amendments are effective for financial statement periods starting after 1 January 2020 but can be early adopted. The amendments are not expected to have any impact on the financial statements of the company or the group.

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 financial statements of the parent company.

Note 27: Subsequent events

After the outbreak of the coronavirus (covid-19), authorities in an increasing number of countries, including Norway, have taken strong measures to reduce the spread of the virus. This is likely to reduce the macroeconomic environment for a certain period of time, which again temporarily might affect the demand for Hofseth BioCare's products or may impact our value chain, especially related to outbound logistics.

Hofseth BioCare has established crisis task force and established a contingency plan and detailed guidelines for how the company should operate in different scenarios in the event of infection or outbreak at or near our factories and plants. The contingency plan and guidelines are concrete in relation to incremental action points with clear steps on what to do and who is responsible. Hofseth Biocare is monitoring the development, including updating risk assessment, liquidity and implementing measures.

In February 2020 the company and the group signed a new credit facility of up to an amount of NOK 37 million with SpareBank 1 Nordvest for working capital needs related to future sales contracts.

Negotiations for a joint venture-contrakt and technical planning has been started together with Atlantic Sapphire for the planned facility in i Miami, FL.

Alliance Seafoods Inc was merged with the parent company Yokohama Reito Co., Ltd. as of 1 January 2020, so that it is now the last-mentioned company which is a share holder of Hofseth BioCare ASA.

Declaration of the Board of Directors and CEO in Hofseth BioCare ASA

We confirm that the financial statements for the period 1 January to 31 December 2019 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 the Group.

Hofseth BioCare ASA Board of Directors,
Ålesund, 20 March 2020

Ola Holen
Chariman of the board

Henriette G. Heggdal
Board member

Christoph Baldegger
Board member

Torill Standal Eliassen
Board member

Roger Hofseth
CEO

Auditors report

CHAPTER 4

EY
Building a better working world

Statsautoriserte revisorer
Ernst & Young AS

DaaeGården, NO-6010 Ålesund
Langelandsvegen 1, NO-6010 Ålesund

Foretaksregisteret: NO 976 389 387 MVA
Tlf: +47 24 00 24 00
Fax:
www.ey.no
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 position as at 31 December 2019, the statement of comprehensive income, the statement 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 2019 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 over the first half year of 2020, 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 2020. In a potential forced sale, the value of the Company 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 2019. 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 33 986 and the parent company had inventories of TNOK 33 358 per 31 December 2019, of which Calcium (CalGo®) amounts to TNOK 26 741. 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 20 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), lease obligations related to production equipment and factory buildings on Midsund and Berkåk and agreement of long-term loan and subordinated debt. 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 2019. In determining financial terms in agreed lease agreements and subordinated debt in 2019, 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 lease agreements and subordinated debt with related parties. Discretions is used in determining the purchase terms for raw materials and the financial terms in the lease agreements and subordinated debt, 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 2019. We evaluated the financial terms in the lease agreements and subordinated debt 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 agreements. 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 on the other information obtained prior to the date of the auditor's report, 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.

Aalesund, 20 March 2020
ERNST & YOUNG AS

Ivar-André Norvik
State Authorised Public Accountant (Norway)

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

Sustainability, ESG report

CHAPTER 5

Sustainability, ESG report

CEO Letter

There is a growing demand for proteins in the world and providing sustainable high-quality products to the market is the main goal for Hofseth BioCare. Through innovative production technology and logistics, we preserve the quality of protein, calcium and oil extracted from fish. Products that previously were considered waste or could only be used for animal feed can now be made suitable for human nutrition and nutraceuticals. We are thus contributing to efficient use of marine resources by upcycling what others consider waste into high-quality products.

At the same time, Hofseth BioCare has an economic, social and environmental impact on our surroundings and stakeholders. Some of these impacts are positive contributions to the economy and the societies in which we operate, others are potentially negative consequences of our operations and business relations such as waste and emissions, health and safety risks and the risk of corruption.

This impact comes with great responsibility and requires that we are in ongoing dialogue with our stakeholders and constantly strive to deliver quality products while at the same time fulfilling our commitments to business ethics and responsible operations. For Hofseth BioCare, sustainability is about both the products we make and the raw materials we use, and the way we run our business operations. We strive to make sustainable products in a sustainable way, while ensuring profits for our shareholders.

We also see an increased focus in society on sustainable business operations and investors and analysts increasingly ask for ESG information when assessing our company. Customers and vendors also ask about the sustainability of our products and production processes, and our employees wish to work for a responsible employer.

This year, we deliver Hofseth BioCare's first sustainability report in accordance with the GRI Standards core option. For the 2019 report we have completed Hofseth BioCare´s first materiality assessment and undertaken systematic stakeholder dialogue according to the GRI Standards Management Approach. An interdisciplinary task force with representatives from different parts of Hofseth BioCare's organisation has done a thorough review of our approach to sustainability and topics to prioritise in our ongoing sustainability work and reporting. The materiality assessment and chosen material topics will ensure that our reporting is aligned with Hofseth BioCare's business objectives, supports our strategy and minimises risks.

The identified material topics which you can read about in this report are:

› **Responsible business operations**, including value creation, quality, job creation and anti-corruption.

› **Environmental and climate impact**, including waste and pollution prevention, energy use and transportation.

› **Working environment:** Worker's rights, HSE and diversity and non-discrimination.

As the CEO of Hofseth BioCare, I believe responsibility and sustainability should be integrated in our business model and when making strategic decisions. For us, sustainability and efficient use of marine resources are at the heart of everything we do and will contribute to making Hofseth BioCare a profitable company. We will also be open and transparent about the potential risks and negative aspects of our business operations and take the necessary steps to reduce such risks and impacts.

This year we report on core KPI's for each topic, and we have set goals for how to improve our work in the year to come. Going forward, we will work to strengthen our governance regarding systematic work on business ethics and working environment. We will also look into improving management-employee dialogue and ensuring the appropriate channels for reporting concerns are put in place.

We look forward to sharing our goals and progress in our annual sustainability reports, and hope that this report will provide our stakeholders with the information they need about how Hofseth BioCare works to deliver high-quality products based on a sustainably sourced raw-material, processed and distributed in an efficient and sustainable manner.

Roger Hofseth, Hofseth BioCare CEO

About this report

For information about this report and its content, please contact Hofseth BioCare ASA and CFO Jon Olav Ødegård or COO Karl Inge Slotsvik.

This report is prepared for Hofseth BioCare ASA in accordance with GRI Standards Core version. For GRI matrix, visit Hofseth BioCare's homepage or the GRI Database.

The Hofseth BioCare sustainability report has been reviewed and approved by the Board of Directors.

The claims and data in this report has not been audited by a third party.

About Hofseth BioCare

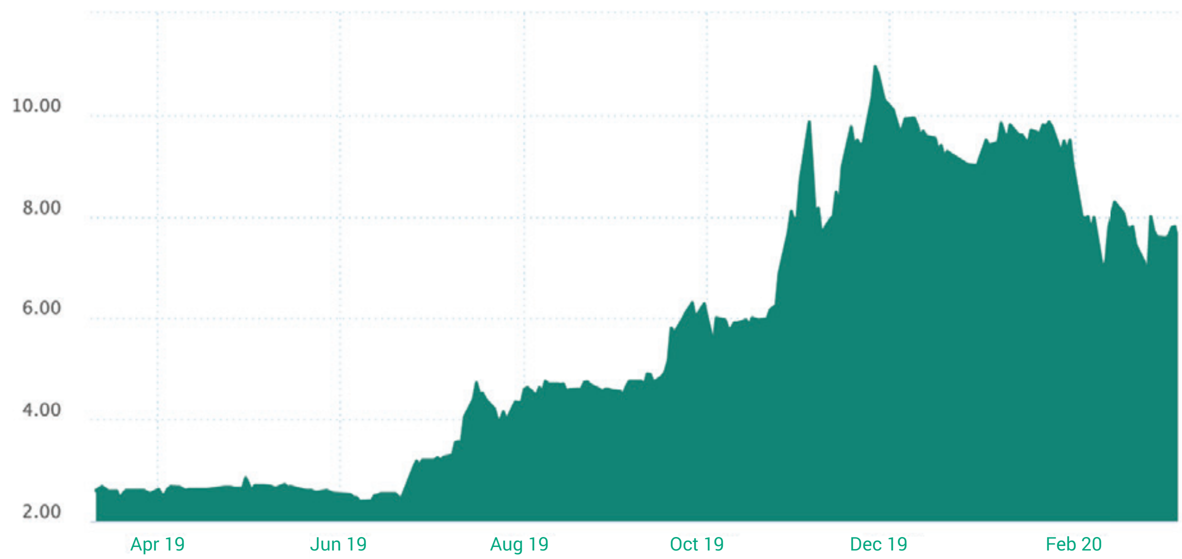
Hofseth BioCare is a Norwegian biomarine company with roots back to year 2000. Our proprietary technology is based upon a new method for fully controlled residual raw material refinement up to high-end products. After 12 years of R&D, testing and documentation, the company's proprietary enzymatic hydrolysis-process converts residual raw material to sustainable value-added products. Hofseth BioCare's products are sustainable and traceable.

There is a growing demand for proteins in the world and providing sustainable high-quality products to the market is the main goal for Hofseth BioCare. The company's key objective is to provide high value added biomarine ingredients for human applications. Through innovative production technology and logistics, we preserve the quality of protein, calcium and oil extracted from fish, and this technology is proprietary to our company. Raw materials that previously could only be used for animal feed can now be made suitable for human consumption and pharmaceuticals, and we are thus contributing to efficient use of marine resources.

Locations

Hofseth BioCare has operations in Ålesund (headquarter), Midsund, Berkåk and Oslo.

Hofseth BioCare is an ASA company listed on the Oslo Stock Exchange (ticker: HBC).



Revenue 2019

Key figures:
No. of employees: 51
(Berkåk: 9, Midsund: 34, Ålesund: 7, Oslo: 1)
Revenue: NOK 67 778 000
Profit (EBIT): NOK -79 574 000
Equity ratio: 40.2%

Economic impact and tax information

In addition to creating value for our shareholders, our goal is to have positive economic impact on the area in which we operate, both directly and indirectly. We use Norwegian raw material, strive to employ local labour, contribute to local value creation by purchasing goods and services and by paying taxes.

Payroll and social security expenses
See note 5.

Procurement of goods and services
See note 4.

Tax
See note 8.

Hofseth BioCare's approach to sustainability

This report covers sustainability topics that are of importance to Hofseth BioCare and the company's stakeholders. Hofseth BioCare's approach to sustainability reporting is based on the materiality assessment undertaken in January and February 2020. Hofseth BioCare shall comply with applicable laws and regulations, respect human rights and act in a socially responsible manner.

Corporate governance

Hofseth BioCare's business activities and internal operations are conducted with a high level of integrity and with a clear ambition to be a responsible company acting ethically and lawfully in all aspects of our value chain. Hofseth BioCare's corporate governance structure shall ensure a systematic approach to our corporate social responsibility.

Management Approach

Hofseth BioCare's general system for governance is linked to the Norwegian Code of Practice for Corporate Governance.

Annual General Meeting (AGM)

The Annual General Meeting (AGM) is Hofseth BioCare's supreme governing body and where shareholders can influence how sustainability is practiced.

The Board of Directors

The Group Board of Directors bears the ultimate responsibility for Hofseth BioCare's sustainability approach and the sustainability report is discussed and approved by the Board.

Corporate Executive Management

Corporate Executive Management bears the responsibility for the Group's strategy, development and day-to-day work. This means Corporate Executive Management is responsible for compliance with legislation and regulations and our Human Resource's Handbook, as well as for the implementation of appropriate and effective initiatives to ensure that we reach our goals.

The Sites

The business areas are responsible for follow up and compliance with policy, strategy, targets and governance documents related to sustainability. The day-to-day work with corporate social and environmental responsibility is usually handled by the sites together with the Quality Manager and with support from the Corporate Executive Management.

Hofseth BioCare's stakeholders

The prioritisation of Hofseth BioCare's stakeholders as well as the stakeholder dialogue was undertaken by an interdisciplinary working group consisting of Hofseth BioCare's employees representing Finance, Operations and Quality Management together with Corporate Communications.

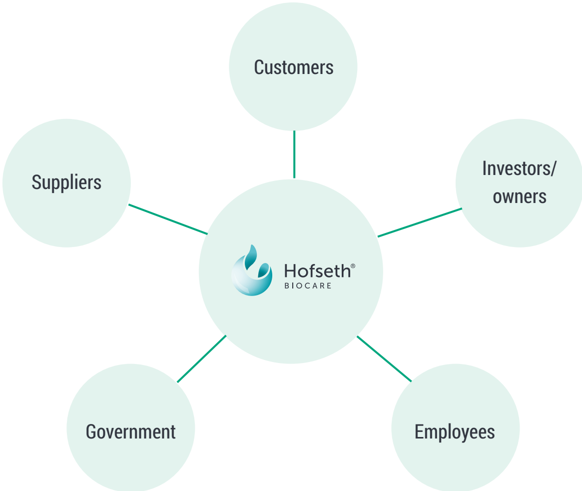


Figure 1: Hofseth BioCare's stakeholder groups

Owners

Hofseth BioCare's investors and owners are primary stakeholders and directly affects the company's priorities and strategic direction.

Employees

Hofseth BioCare's employees are directly affected by the company's internal policies and activities.

Suppliers

Hofseth BioCare's suppliers are economically affected by the company and their responsibility is indirectly affected by Hofseth BioCare's focus on responsible practices and the expectations placed on them by the company.

Customers

Hofseth BioCare's customers directly affect the company economically and customer expectations is part of driving Hofseth BioCare's sustainability priorities.

Civil Society

Civil society including governments and regulatory authorities affect Hofseth BioCare and the company's operating conditions directly and indirectly. Local communities are indirectly socially, environmentally and economically affected by Hofseth BioCare's activities, in terms of job creation, contribution to local value creation and environmental impacts.

Stakeholder group	Expected of HBC	Arena for dialogue
Owners	· High rating · Good external perception · See process and progress	· ISS reports · Meetings (board membership) · E-mail
Employees	· Following Norwegian laws in terms of worker's rights, human rights and anti-corruption	· Townhall meetings · Courses/training · Written documentation (newsletters, boards, posters etc.)
Suppliers	· Following Norwegian laws in terms of worker's rights, human rights and anti-corruption	· Web page · E-mail · Meetings
Customers	· High quality · Low waste / responsible operations · Fish welfare, including food and low use of medicines such as antibiotics · Not overpopulate the area · Following Norwegian laws in terms of worker's rights, human rights and anti-corruption · Employment (districts) Certificates	· Web page · Meetings · Written documentation (brochures, dossiers etc.) · Newsletter · Certificates · Sustainability report
Civil Society	· Production and operations in line with regulations · Following Norwegian/European laws	· Written documentation · Meetings (inspections/observation) · Web page

Table 1: Stakeholder groups and arena for dialogue

Stakeholder dialogue

To ensure a strategic approach to sustainability reporting and to adhere to the intent of the GRI Standards Management Approach Hofseth BioCare has together with Corporate Communications undertaken systematic stakeholder dialogue in January and February 2020 and keeps an ongoing dialogue with key stakeholder groups.

For Hofseth BioCare to be in ongoing conversation with its most relevant stakeholders strengthens the company's relationship with the society in which it operates. The stakeholder dialogue also benefits the company by allowing Hofseth BioCare to detect, investigate and manage potential risks arising in its immediate surroundings.

In January and February 2020, Hofseth BioCare and Corporate Communications invited key stakeholders to give their opinion on how they perceive Hofseth BioCare and relevant sustainability topics. This was done through semi-structured interviews with owners, employees, suppliers, customers and civil society. The findings from the stakeholder dialogue were gathered and structured for discussion with Hofseth BioCare's Management Group and used as a basis for the materiality assessment.

The stakeholder dialogue is both a means and an end in itself, as ongoing systematic stakeholder dialogue is a key objective in the Euronext ESG guidelines and GRI Standards. The findings from the stakeholder dialogue guided Hofseth BioCare's priorities in the materiality assessment.

Materiality assessment

The materiality assessment was established in February 2020 by the Executive Management Group and Corporate Communications based on the stakeholder dialogue and information gathering. The main goal of the materiality assessment is to establish key reporting topics for Hofseth BioCare, reflecting the risks and opportunities associated with Hofseth BioCare's business activities. Furthermore, these topics are included in Hofseth BioCare's sustainability report, describing how the most important topics are included in general risk management and strategy process, and the measures Hofseth BioCare is taking to reduce risks associated with material issues and how these are integrated into operational management and corporate governance.

Based on stakeholder input and priorities and an assessment of the company's business impact, the materiality assessment concluded the following three material topics for Hofseth BioCare's report to focus on:

› **Responsible business operations**, including value creation, quality, job creation and anti-corruption.

› **Environmental and climate impact**, including waste and pollution prevention, energy use and transportation.

› **Working environment**: including worker's rights, HSE, diversity and non-discrimination.

The results are presented in the below materiality matrix, with topics considered material for Hofseth BioCare in the upper right section.

Importance to stakeholders

Major				Health, safety and environment Quality • Product • Productiuon process Value creation for owners
Significant		Fish welfare in aquaculture • Antibiotics and GMO • Feed • Lice	Transportation	Anti-coruption Job-creation Midsund Waste and polution prevention energy use
Moderate		Human rights	Diversity and non-discrimination	Worker's rights
			Job-creation Berkåk	Contribution to local value creation
Low				Emissions to air and water
	Low	Moderate	Significant	Major

HBC business impact

Figure 2: Materiality matrix

Reporting on material topics

In the next chapter, each of the suggested over-arching sustainability topics and their relevance to Hofseth BioCare are developed in detail, including an explanation of why the topic is material to the company, the direct and indirect impact on the company and its stakeholders as well as the significance of its business impact on the company and on the assessments and decisions of stakeholders. This chapter includes reporting according to GRI 205 Anti-Corruption, GRI 305 Emissions and GRI 403 Occupational Health and Safety.

Responsible business operations

The key topics for Hofseth BioCare are as expected core to the company's value creation: the use of a high-quality raw material, upcycled through a technologically advanced process, creating a safe and high-quality end-products for human and animal consumption. By processing and producing in rural areas of Norway, the company achieves both the goal of preserving the freshness and quality of its raw material while also contributing to job creation and value creation in local communities. Hofseth BioCare's high-quality products and processes are a prerequisite for the company's contribution to value creation for owners and society, and for future growth.

The company must gain access to high quality raw material, and refine these raw materials through a safe, secure and quality assured process, creating a safe, predictable and effective product providing the desired effects for distributors and end-users. The company has direct impact on, and is also directly impacted by, the competence and quality delivered by its employees, as well as the access to competent labour. The same applies to internal quality and food safety processes, which is both directly controlled by the company and also directly impacts the company and its stakeholders.

Hofseth BioCare is also directly and indirectly exposed to risks and opportunities in its business relations with other companies in its supply chain. As an integral part of the Hofseth Group value chain, the company is directly affected by and affects other Hofseth Group companies. In addition to this, other parts of the company's supply chain have direct and indirect effects on delivery risks, product and process risk, as well as the risk of being exposed to potential corruption or unethical business practices.

Local value creation

Our goal is to positively impact the area in which we operate, both directly and indirectly. We strive to employ local labour, contribute to local value creation, and maintain an open and transparent dialogue with relevant stakeholders. Our contribution to local job creation in the community which we operate are important to us.

In 2019, 9 of the company's employees were located at our factory in Berkåk, 27+6 employees were located at the Midsund factory, and 7 were hired at the headquarter in Ålesund. Equally important for the company's economic contribution is to buy goods and services locally in order to contribute to local value creation and pay taxes to local authorities.

High quality products

Hofseth BioCare's key objective is to provide high value added biomarine ingredients for human applications. Through innovative production technology and logistics, we preserve the quality of protein, calcium and oil extracted from fish, and this technology is proprietary to our company.

Our products have no additives, are not concentrated nor subjected to destructive processing techniques. We use a gentle, low-temperature, production process which preserves all the best qualities of fresh Norwegian Atlantic Salmon and Rainbow trout.

All our plants and products are certified for human nutrition and approved by Norwegian authorities. Our low oxidation salmon oil has a natural red colour and has shown excellent results when compared to generic fish oil.

Business ethics and corruption prevention

How Hofseth BioCare achieves its results is important. In all our actions, we focus on activities that reflect an ethical and honest behaviour. Our goal is to establish an organisation with high integrity, and thus, maintaining high standards for professionals and individuals is of the utmost importance.

Hofseth BioCare does not permit or tolerate any form of corruption. Our ethical guidelines are set out in the Human Resources Handbook as well as in our contracts. Customers and suppliers should at all times operate within a risk-based governance and compliance framework, and should comply with regulations, codes, governmental orders or other requirements or rules of law. Risk assessments are typically conducted when entering into business arrangements in a new country with a heightened risk of corruption.

At the moment, Hofseth BioCare does not participate in any collaborative partnerships concerning anti-corruption, but the Management Group is continuously monitoring changes in regulations on this area. The company has in 2019 internally evaluated its Financial Department for corruption risk and corruption prevention and continuously evaluate the Management Group as well as employees that are in contact with distributors and in charge of contracts.

All employees are responsible for understanding and identifying possible conflicts of interest and have been informed about their responsibility in such cases. There are also thresholds for approvals and roles in our internal systems, in order to minimise risks. Employees are to resolve and report such cases by themselves and when unsure, consult our legal experts. The Human Resources Handbook contains information on how to comply with standard regulations for insider information/trading.

Hofseth BioCare regularly sponsor and donate gifts to local and voluntary organisations, including local sports clubs or bands as well as an organisation for search and rescue dogs. In terms of receiving gifts from customers or partners, employees can find information on how to act if offered gifts by customers or our collaborative partners in the Human Resources Handbook to which all employees have been onboarded.

Our anti-corruption policy is outlined in all of our contracts and communicated to customers, distributors, partners and owners, and all new business partners are required to sign contracts where our anti-corruption policies are outlined. Employees can find information about business ethics and anti-corruption in our Human Resources Handbook, and all employees are required to familiarise themselves with its content and guidelines. Both the Board of Directors as well as the Management Group have undergone anti-corruption training. New employees undergo anti-corruption training upon hiring, and all employees undergo such training annually.

All conditions, which give raise to ethical issues or matters that could involve a breach of laws and which may cause legal liability, loss of value or reputation for Hofseth BioCare should be reported. Examples of concerns related to Hofseth BioCare's business practices that may be reported include allegations such as:

› Violations of Hofseth BioCare's Human Resources Handbook
› Violation of corruption laws
› Conflicts of interest
› Health and safety breaches

Hofseth BioCare does not today have an official whistleblowing channel for reporting irregularities.

There were no identified incidents of corruption in 2019.

Hofseth BioCare has set the following goals for ethics and anti-corruption in 2020:

› Review and update our Human Resources Handbook so that its content is clear and easy to understand for everyone working at Hofseth BioCare

› Document ethics and anti-corruption training as part of onboarding of new employees

› Make sure that all current employees are up to date on guidelines concerning ethics and anti-corruption

› Establish whistleblowing channel for reporting irregularities

Environment and climate impact

As a manufacturing business, Hofseth BioCare's production has both direct and indirect environmental impact. Hofseth BioCare's business operations has direct environmental impact in the form of water use, emissions to air and water as well as waste generation.

The use of process water leads to wastewater emissions which needs to be accounted for and kept within the limits approved by the county administrator. Hofseth BioCare's direct emissions to air is through steam generation, which was previously also a cause of concern due to smell pollution. Hofseth BioCare did not receive any complaints concerning smell pollution in 2019. Today, Midsund uses an open-loop scrubber, while Berkåk uses a closed-loop scrubber to ensure minimal negative impact on local communities near Hofseth BioCare's sites, but air emissions still need to be accounted for and reported to the Environmental Authorities.

As an energy intensive business, the company also generates direct and indirect emissions from energy use in operations, the direct emissions from installation of boilers on-site as well as indirect emissions from purchased electricity. Hofseth BioCare also generates indirect environmental and climate impacts through its supply chain and business activities, the main sources assumed to be transportation, employee business travel, purchased goods and services.

	Midsund	Berkåk
Energy use (MWh)	4573 MWh	6337 MWh
Diesel (t)	523 tonnes	-
Fish oil used as fuel (t)	117 tonnes	-
Emissions to water (m^3)	50064 m^3/year	
Waste (t)	340 tonnes	

Table 2: Environmental impacts

In addition to the need to minimise the negative environmental and climate impacts from Hofseth BioCare's business operations, the company can be said to have a positive impact through avoided emissions and the use of products that would otherwise be considered waste. By using a by-product from aquaculture, waste is minimised, and the company contributes to upcycling and efficient use of resources. Hofseth BioCare is also taking steps to avoid unnecessary emissions by using process heating inside factories and focussing on heat- and energy recovery as part of its processes.

Location	Tonnes CO_2-equivalents		
	Scope 1	Scope 2 location based	Sum
Midsund	1619,6	37,9	1657,5
Berkåk	0,0	52,5	52,5
Group total	1619,6	90,4	1710,0

Table 3: GHG emissions per location in CO_2-equivalents

For Hofseth BioCare, direct emissions from on-site combustion, mainly of diesel in the Midsund factory, is the main source of GHG-emissions. This is due to inefficient power supply from the electricity grid to the island of Midsund, which is the reason why the company used a diesel generator for the power supply today. Indirect emissions from purchased electricity is the second largest source off GHG emissions.

Hofseth BioCare will work systematically to reduce energy consumption and GHG emissions, with special focus on energy consumption, effective communication and transportation.

Hofseth BioCare's CO_2-emissions have been calculated in accordance with the «Greenhouse Gas Protocol» published by the World Business Council for Sustainable Development (WBCSD) and World Resources Institute (WRI). The above data on greenhouse gas emissions includes the following sources of CO_2 emissions:

› **Scope 1 direct emissions**: emissions from fuel combustion on-site and on-site generation of electricity, heat or steam. All emission factors for Scope 1 emissions are from DEFRA 2018.

› **Scope 2 indirect emissions** from electricity purchased: emissions from the consumption of electricity purchased. CO_2 emission factors used for electricity are location based and calculated using IEA emission factors.

Hofseth BioCare has set the following goals for environment and climate impact in 2020:

› Review and make a plan for energy efficiency in our operations
› Consider offsetting or purchasing guarantees of origin to lower GHG emissions
› Switch from diesel supply to LNG for peak power generation at Midsund

Working environment

Employees are a key stakeholder group being directly affected by and having a high impact on Hofseth BioCare's operations and business success. The ability to attract and retain skilled workers as well as maintaining a safe and healthy working environment are key interests of both the company and its stakeholders. The company can directly impact the working environment through its policies and agreements, as well as indirectly through dialogue with employee representatives and unions.

As for any production environment, the company and its employees are exposed to risks of accidents and incidents affecting employee safety and security – as well as the direct and indirect ability and responsibility to affect such risk through policies, processes and by maintaining a proactive approach to health and safety risks in the physical and psychological working environment. There is also an opportunity represented by engaged employees, helping to maintain a safe and effective working environment through safety culture.

Worker's rights, diversity and non-discrimination

Hofseth BioCare operates in accordance with the Norwegian Working Environment Act. All employees are committed to a set of values and are expected to act in line with these values. Our values are:

- **Honest**: we are not afraid to speak up and we always deliver what we promise to. We do not 'cut lines' or otherwise behave in an unethical way.
- **Innovative**: we should build on our expertise and seek new knowledge. We should use our competence to find new and innovative solutions.
- **Collaborative**: we see, hear, gain and share knowledge internally and if necessary, seek new solutions externally.

Hofseth BioCare aims to have an inclusive and open working environment that encourages employees to share their opinions and ideas. The company opposes discrimination in any form, whether it is based on political views, membership in workers' organisations, sexual orientation, disability and/or age. In addition to following the Working Environments Act, Hofseth BioCare also operates in accordance with the Gender Equality Act, which aims to protect against discrimination based on gender, as well as the Anti-Discrimination Act, which protects against discrimination on the grounds of ethnicity, religion or the like. Women's amount of men's pay was 97,3 per cent in 2019. Hofseth BioCare also has its own Human Rights Policy which is outlined in our Human Resources Handbook.

Hofseth BioCare's company structure can be described as 'egalitarian' and employees are encouraged to actively contribute with their opinions on how the working environment can be improved. The company has not established an official whistleblowing channel but conducts talks with all employees annually on their wellbeing and other work-related questions. Hofseth BioCare does not have a Work Environment Committee (AMU) as of today, but the HSE Group and the Quality Manager handles most of the questions that the AMU would be responsible for. Employees at Berkåk does not have union membership today, but the employees at Midsund are members of Industri & Energi, which is the Norwegian trade union for those who work in the industry and energy sectors.

Occupational health and safety

Health and safety in the working environment (HSE) is very important to Hofseth BioCare. The company aims to provide a safe, healthy and satisfactory workplace and has thus implemented an occupational health and safety management system which builds on the Norwegian Working Environment Act as well as regulations relating to systematic health, environmental and safety activities in enterprises (internal control regulations).

One of the main objectives of the Working Environment Act is to ensure that the employees themselves participate in and influence the design of their own working environment. At each of our factories, both a safety delegate and a fire chief has been appointed. At Berkåk, the HSE Group is led by the Quality Manager, who has the highest responsibility for HSE at Hofseth BioCare's sites. Midsund did not have a dedicated HSE Group in 2019 and the company has identified room for improvement concerning HSE monitoring and reporting at the factory. For Berkåk, the HSE Group consist of the Plant Manager, the Production Manager, the Technical Manager, the safety representative and the fire protection leader.

Hofseth BioCare has developed a quality system where internal control for HSE is integrated into a comprehensive system. Internal control HSE will be subject to revisions through the Norwegian Labor Inspection Authority, the county administrator and fire and rescue services. All HSE targets are set out in the HSE Policy that apply to all company divisions and locations. The HSE Policy is updated at least annually and shared with all employees. The HSE activities are also mentioned in the company's Annual Calendar of activities and followed up at scheduled HSE meetings. The meetings also discuss feedback from internal audits, safety inspections and regulatory authorities, as well as changes in regulations, reports from occupational health services and input from employees, etc.

Our main goal is zero accidents, loss or damage to people, material and the environment. Injuries and work-related accidents are registered at site level. While the ambition of the company is to have zero accidents, it is of critical importance to have full overview of any incident or accidents at any of Hofseth BioCare's sites in order to be able to work on prevention and ensure a healthy and safe workplace. Work at both our facilities at Berkåk as well as Midsund could involve health and safety risks to the employees, first and foremost in the manual processing and where chemical liquids and the like are used. There is also a long-term risk associated with the fulfilment of repetitive tasks.

One work incident was reported at Midsund in 2019. This was an eye damage which was caused by an employee getting enzyme in his/her eye. The incident did not lead to permanent damage. Two other employees also got enzyme in their eyes, but this did not have any effect. In the two latter cases, the employees did not wear protective eyewear, which is a requirement. At Berkåk the company did not register any work incidents, but there was a couple of cases concerning skin problems when we toll produced. After we stopped this practice, those who had skin problems experienced improvement, which has led us to believe that the problems were linked to the type of products we worked with at the time. At Berkåk, several employees have reported hearing deficiencies, but it is difficult to say if this is work-related, as some have leisure activities that can also cause hearing damage if hearing protection is not used. For both factories, there is a risk of respiratory disease when working with powder production. Hofseth BioCare is not familiar with any such cases and have implemented measures to reduce the risk to an acceptable level, including regular measurements of dust.

It is important that incidents are prevented and that employees have regularly health checks so that possible injuries are detected at the earliest possible time. Thus, all employees have access to an occupational health service scheme.

Types of injuries and work-related illnesses have occurred this year: 1 eye damage caused by enzyme on the eye. The damage was not permanent.

	Midsund	Berkåk
Injury rate*	2941	0
Work injuries (total number)	1	0
LTI (lost time injuries, number of injuries that have led to sick leave)	0	0
Deaths caused by work injuries	0	0
Absence due to illness	5.39 %	1.01 %

*Injury rate is calculated as the number of new cases of injury during the calendar year divided by the number of workers in the reference group during the year, multiplied by 100,000.

Table 4: Number of injuries in 2019 divided by locations

In 2019, Berkåk had a sick leave of 1.01%. This is unique, even in a national context. At Midsund the absence due to illness was 5,39%. A good working environment and the possibility to develop are important factors to keep the absence due to illness at low levels. In an effort to reduce this number, we have made changes in how the factories are managed, and in 2019 we hired an external consultant to help us improve the working culture at Midsund. It is important that employees feel appreciated and needed and we believe that increased feeling of involvement and responsibility can help reduce the number of people on sick leave.

Hofseth BioCare has set the following goals for HSE and the working environment in 2020:

› Establish a Code of Conduct which can be shared with external stakeholder groups

› Adapt HSE best practice from Berkåk to the Midsund facility

› Increased focus on guidelines for use of protective eyewear when working with high risk products such as enzymes

› Increased focus on guidelines for use of protective hearing devices when working with noisy equipment/in noisy surroundings

Hofseth BioCare ASA
Havnegata 11, NO-6005 Aalesund, Norway