ARNARLAX NUMBERS 2019

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2019

Arnarlax ehf.
Strandgata 1
465 Bíldudalur
Reg. no. 580310-0600

ARNARLAX CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2019

CONTENTS

BOARD OF DIRECTORS' REPORT

Main operation

The Company was founded in 2010. The Company's and its subsidiaries main purpose is production, processing and sale of seafood and seafood based products.

These Consolidated Financial Statements comprise the Financial Statements of Arnarlax ehf. and its subsidiaries, Fjarðalax ehf. and Bæjarvík ehf., limited liability companies domiciled in Iceland, together referred to ast the Group. These Consolidated Financial Statements are prepared in accordance with the Icelandic Financial Statements Act and Regulation on the Presentation and Contents of Financial Statements and Consolidated Financial Statements. These Consolidated Financial Statements are prepared according to the same accounting principles as the Group's Financial Statements in the previous year.

Operating results

According to the Consolidated Income Statement the Group's net profit for the year 2019 amounted to EUR 2,2 million compared to a loss of EUR 16,0 million for the year 2018. Total assets, according to the Consolidated Balance Sheet at year-end 2019, amounted to EUR 123,5 million compared to EUR 105,7 million at year-end 2018. Shareholders equity was EUR 60,6 million at year-end 2018 compared to EUR 58,4 million at year-end 2018. Average number of full-time employees in the year 2019 was 111 compared to 109 in the year 2018.

It is the opinion of the Board of Directors that these Consolidated Financial Statements present fairly the financial position of the Group for the year ended 31 December 2019, the results of its operations for the year 2019 and changes in the financial position of the Group for the year 2019.

Share capital and Articles of Association

According to the parent company's articles of association, the nominal value of the share capital amounted to ISK 5,985 million at year-end 2019 and has not changed from previous year. At the year-end there was one owner of all shares in the parent company, Arnarlax AS in Norway. Ownership has not changed during the year.

There will not be paid dividend to shareholders in the year 2020 arising from the operating year 2019. Reference is made to the Consolidated Financial Statements regarding other changes in equity.

The Board of Directors has three members, one woman and two men.

Future outlook

The year 2019 was a year of improvement for Arnarlax and a big step towards our vision of "Sustainable Icelandic Salmon from the Westfjords" by building a sustainable industry for salmon farming in Iceland. With a 2019 production and harvest of 10.000 MT of ASC certified Icelandic salmon, Arnarlax plays an important role as the industry locomotive in developing Iceland as a farming area through dialogue with governments, surveillance agencies and local and national authorities. Despite our general concern regarding limited visibility on development of the regulatory framework, a new national fish farming legislation was implemented last year and recently the Marine Research Institute has suggested an allowed biomass of over 100.000 MT of Atlantic salmon, based on a renewal of the risk-assessment of the wild stock of Atlantic salmon.

Mr. Björn Hembre was appointed as Arnarlax CEO with effect from January 2019. Mr. Hembre holds a M.Sc in Biology and brings a great deal of industry expertise from several senior positions within the farming industry.

SalMar ASA, a Norwegian public limited company listed at the Oslo Stock Exchange with the ticker SALM, increased its shareholding in Arnarlax AS in February from 42% to 54%. Following a compulsory offer to purchase the remaining shares in Arnarlax their shareholding was 59,4% at the end of 2019. The SalMar team has "passion for salmon" as their corporate tenet as well as a strong industry track record with build-up of different farming areas. As one of the world largest salmon farming companies, SalMar has a strong financial backbone and industrial expertise that is of great importance to Arnarlax and the fragile communities in the rural areas.

Arnarlax is vertically integrated along the value chain from buying roe, smolt production to harvesting, packing and sales. Arnarlax harvested 10.000 MT of Icelandic salmon in 2019 out of total harvest in Iceland of 21.000 MT. An important milestone was reached through finalizing expansion of freshwater facilities in Eldisstöðin Isþór hf in Þorlákshöfn and in Bæjarvik ehf in Tálknafjörður. These investments will lay the ground for our future juvenile production and growth in line with license capacity. Increased focus on overall bio-security has led to establishing of the initial structure of farming areas, handling of byproducts and waste-water. Further investments in the production line and production facilities together with the head office in Bildudalur were completed in 2019. Arnarlax is actively supporting national educational programs for aquaculture and further driving organizational development through the Arnarlax academy for our employees, our most valuable resource. Arnarlax sales department in Hafnarfjordur sold our first Icelandic salmon to China where the free trade agreement between the countries is of great importance.

Arnarlax sold our high-quality Icelandic salmon mainly internationally, exporting to 20 countries in 2019. The countries in the European Union are the biggest customers, with 20% of sales value going to UK, followed by USA with 12%, and the domestic market with 7%. Accounts are therefore mainly settled in EUR, GBP and USD. Total export of farmed salmonids grew to 10% of all Icelandic seafood in 2019, making Icelandic salmon the second largest seafood item for exports. Arnarlax has guided for production volume of 12.000 MT in 2020 where total exports of Icelandic salmon is expected over 30.000 MT, we therefore expect that the growth will continue and exports of Icelandic salmon will soon be a valued addition to the wide range of high quality sustainable Icelandic seafoods and become a major export item for the Icelandic economy. We expect Arnarlax to continue playing a lead role in that development with our ambition to create “Iceland´s leading salmon farmer”.

Total global supply of farmed Atlantic salmon is expected 2.7 million MT in 2020 which is a 4% increase from the previous year. Growth in the main farming areas Norway, Chile and North America is expected less than 4% in 2020. However up to 10% growth is expected in production from the Faroe Islands and 18% from other countries. Despite possible growth pain, the expected over 50% volume growth in Iceland could lead to, gaining market share will be important for the Iceland industry to develop logistic routs and increase economics of scale along the value chain in addition to increasing awareness and presence in main markets. It should be kept in mind that the production increase is well within the carrying capacity and the risk assessment to wild salmon stocks and through proven sea site technology and equipment where our ambition is to build a premium quality product for the growing global demand.

Arnarlax today holds licenses of 25.200 MT maximum allowed biomass in the southern part of the Icelandic Westfjords, Arnarfjörður, Patreksfjörður and Talknafjörður. The license process has been unpredictable and partly exposed to political uncertainty regarding future strategy and planning of the industry. However, the governments implemented a new legislation for aquaculture in the summer of 2019 together with special taxation which is linked to the price of salmon. Furthermore, the Marine Research institute has recently reviewed the Risk Assessment, opening for 106.000 MT of maximum allowed biomass on the east and west coast of Iceland. Arnarlax is in the process of applying for 10.000 MT license in Ísafjarðardjúp and 4.500 MT expansion of a license in Arnarfjörður.

In November 2019, Arnarlax AS, the mother company of Arnarlax ehf was registered at the NOTC of Oslo Stock Exchange with the ticker ALAX.

The outbreak of Covid-19 has been a major threat to our community threatening both health and the economical foundation of the nation. Arnarlax and the salmon farming industry hopes to be an important contributor to our society creating jobs and rising prosperity that benefits the communities we live in. In order to succeed in building a sustainable industry efficiently producing salmon at a competitive rate it is important that Government creates the needed platform and actively supports efforts to tackle logistic challenges in addition to the challenges we are faced by mother nature. It is our firm belief that such infrastructure can be established in Iceland in near future.

Given the Covid situation management and board is focused on liquidity where Arnarlax has strong bank relationship where the current long-term facility has maturity 1Q 2022 and is complying within financial covenants. The financial statement gives a true and fair view of the Group and the Company's consolidated assets, liabilities, financial position and results of operations as well as forecasts for the year ahead. Board of Directors' opinion that required conditions for continued operations exist and the Arnarlax group is a going concern.

Subsequent events

Mortality at Hringsdalur

In January 2020 Arnarlax experienced increased mortality with challenging biological conditions following a few months period of extreme weather conditions and low sea temperatures at the Hringsdalur site in Arnarfjörður. This resulted in considerable loss of biomass due to winter wounds. The site was insured and has now been harvested out. The Financial Impact is expected around 7 – 800k EUR in 1Q 2020 as per note 15.

Coronavirus (COVID-19) pandemic

The COVID-19 coronavirus situation is challenging, and Arnarlax as an organization is doing its best to deal with it as best we can from day to day. There is no way of knowing how long this situation will last or what its long-term consequences may be. Arnarlax produces healthy food in a sustainable way, and the world's population needs food. Despite the considerable uncertainty attaching to assessments of future market and production-related conditions, both with and without the spread of the coronavirus, the board is of the view that the Group's outlook is bright. For further information see note 15.

Non-financial information in accordance with article 66 d) of the Financial Statement Act no. 3/2006

As stated in article 66 d), of the Financial Statement Act no. 3/2006, the group is obligated to give information on matters relating to environmental-, social- and employment within the company. The Board of Directors is currently working on a policy for those matters but refers to the company´s website for further information.

The Board of Directors of Arnarlax ehf. and the Managing Director hereby confirm these Consolidated Financial Statements for the year 2019 by their signatures.

Bíldudalur, 12 May 2020

Board of Directors:

Kjartan Ólafsson

Kjartan Ólafsson, Chairman of the board

Trine S. Romuld

Trine Sæther Romuld

Matthías Garðarsson

Managing Director:

Bjorn Hembre

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Arnarlax ehf.

Opinion

We have audited the consolidated financial statements of Arnarlax ehf. and its subsidiaries (the Group), which comprise the Board of Directors Report, consolidated balance sheet as at December 31, 2019, and the consolidated income statement and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Icelandic law on annual accounts and adopted accounting rules and that the directors report includes applicable information in accordance with Icelandic law on annual accounts if not presented elsewhere in the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Board of Directors Report and note 15 of the consolidated financial statements, which describes subsequents events for the Group; Covid-19 and mortality at Hringsdalur. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Icelandic law on annual accounts and adopted accounting rules, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.

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

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

Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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.

Reykjavík 12 May 2020
PricewaterhouseCoopers ehf.

Arna G. Tryggvadóttir
State Authorized Public Accountant

OUR NUMBERS

CONSOLIDATED INCOME STATEMENT FOR THE YEAR 2019

	Notes	2019	2018
Operating income			
Operating revenue		63.278.362	42.013.257
Other revenue		3.392.797	3.140
		66.671.159	42.016.397
Operating expenses			
Cost of good sold		41.196.511	35.426.992
Salaries and related expenses	3	9.771.574	8.388.447
Other operating expenses		8.648.653	11.864.929
		59.616.738	55.680.368
Change in biological assets		(8.756.243)	(10.574.185)
		50.860.495	45.106.183
EBITDA		**15.810.664**	**(3.089.786)**
Depreciation and disposals	6	(7.588.011)	(8.751.406)
Amortization of intangible assets	5	(2.298.011)	(2.299.651)
		(9.886.022)	(11.051.057)
Operational EBIT		**5.924.642**	**(14.140.843)**
Financial income (expenses)			
Financial income and expenses	4	(2.657.558)	(4.908.071)
Effects of associated companies	7	209.784	0
Profit (loss) before taxes		**3.476.868**	**(19.048.914)**
Income tax	8	(1.325.551)	3.097.312
Net profit (loss)	11	2.151.317	(15.951.602)

All amounts in EUR

CONSOLIDATED BALANCE SHEET 31 DECEMBER 2019

Assets	Notes	Dec 31 2019	Dec 31 2018
Fixed Assets			
Intangible assets:			
Goodwill	5	14.868.540	17.168.977
Property, plant and equipment:			
Property, plant and equipment		21.802.295	16.257.787
Floating marine pen and aquaculture tanks		10.210.789	13.280.543
Investment in progress		9.488.198	4.212.709
	6	41.501.282	33.751.039
Long-term financial assets:			
Investment in associates	7	2.352.063	2.317.444
Deferred tax assets	8	4.518.292	5.940.695
Receivables - related parties	13	3.692.217	116.401
		10.562.572	8.374.540
Total Fixed Assets		66.932.394	59.294.556
Current Assets			
Biological assets valued at cost and other inventories	9	46.786.092	37.481.198
Trade receivables	10	5.886.506	5.539.113
Receivables - related parties	13	268.519	140.766
Other receivables and prepayments		1.908.315	2.825.576
Cash and cash equivalents		1.717.986	394.193
		56.567.418	46.380.846
Total Assets		123.499.813	105.675.402

CONSOLIDATED BALANCE SHEET 31 DECEMBER 2019

Equity And Liabilities	**Notes**	**Dec 31 2019**	**Dec 31 2018**
Shareholders Equity			
Share capital		43.104.455	43.104.455
Share premium		33.960.552	33.960.552
Other reserves		306.435	49.438
Accumulated deficit		(16.782.204)	(18.704.816)
	11	60.589.238	58.409.629
Liabilities			
Long-term liabilities:			
Bank loans		44.425.000	8.370.393
Lease liabilities		162.465	0
	12	44.587.465	8.370.393
Current liabilities:			
Short-term bank loans	12	4.592.949	28.969.693
Trade payables		7.393.468	5.770.091
Payables - related parties	13	115.197	175.495
Current maturities of long-term liabilities	12	3.060.715	2.178.663
Other current payables		3.160.781	1.801.438
		18.323.110	38.895.380
Total Liabilities		62.910.575	47.265.773
Total Equity And Liabilities		123.499.813	105.675.402
Other information	1-2, 14, 16		
Subsequent events	15		

All amounts in EUR

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR 2019

	Notes	Dec 31 2019	Dec 31 2018
Cash flows (to) from operating activities			
Cash generated (to) from operations:			
Net profit (loss) for the year	11	2.151.317	(15.951.602)
Items not affecting cash:			
Depreciation and amortization	5, 6	9.886.022	11.051.057
Profit from sale of fixed assets		0	146.971
Currency exchange and other items		285.973	1.095.697
Deferred tax assets (increase)	8	1.325.551	(3.097.312)
		13.439.079	(6.755.189)
Decrease (increase) in operating assets:			
Biological assets and inventories		(9.304.894)	(1.005.756)
Short term receivables		(32.903.294)	(4.373.204)
Increase (decrease) in operating liabilities:			
Current liabilities		32.692.009	3.706.695
		(9.516.179)	(1.672.265)
Net Cash (To) From Operating Activities		3.922.900	(8.427.454)
Cash Flows (To) From Investing Activities			
Investments in fixed assets	6	(12.351.771)	(7.203.446)
Proceeds from the sale of fixed assets		0	248.902
		(12.351.771)	(6.954.544)
Cash Flows (To) From Financing Activities			
Share capital increase		0	20.091.374
Proceeds from borrowings	12	51.585.280	0
Repayments of borrowings	12	(16.116.356)	(3.138.949)
Repayments of lease liabilities		(1.442.755)	0
Short-term borrowings, change		(24.273.507)	(1.975.511)
		9.752.662	14.976.914
Increase (decrease) in cash and cash equivalents		1.323.793	(405.084)
Cash and cash equivalents at the beginning of the year		394.193	799.278
Cash and cash equivalents at year-end		1.717.986	394.193

NOTES

1. The company

Arnarlax ehf. (the "Company") is an Icelandic limited liability company that was founded in 2010. The main purpose of Arnarlax ehf. is salmon farming. These Consolidated Financial Statements of the Group for the year ended 31 December 2019 comprise the Arnarlax, the parent Company and its subsidiaries, Fjarðalax ehf. and Bæjarvík ehf.

Arnarlax ehf. is based in Iceland. The registered address of the company is Strandgata 1, 465 Bíldudalur.

2. Summary of significant accounting policies

2.1 Basis of preparation

These Consolidated Financial Statements are prepared in accordance with the Icelandic Financial Statement act (no.3/2006). The significant accounting policies are the same as the previous year.

2.2 Management Judgement

The preparation of these Consolidated Financial Statements requires management to make judgements, estimates and assumptions, which affect the application of accounting policies and the reported amounts of assets and liabilities as well as income and expenses. These estimates are based on information available to management at the time and actual results may differ from these estimates.

2.3 Changes in accounting policies

Based on currently valid Act no. 3/2006 on Annual Accounts the Group has elected to account for leases in accordance with the International Financial Reporting Standard IFRS 16 Leases. The accounting method was implemented as of 1 January 2019 and applies for all periods there after.

According to IFRS 16, the Group recognises right of use assets (ROU assets) and lease liabilities for all lease agreements that previously were classified as operating leases. A lease liability is initially recognised as the present value of lease payments that are not paid on the commencement date of the lease contract. The lease payments are discounted by using the by using the Group's incremental borrowing rate as a discount rate. The Group assesses it's incremental borrowing rate based on it´s current rating, adjusted for nature of the underlying asset and duration of the lease agreement.

A lease liability is subseqentally measured by using effective interest rate. The lease liability is revalued when there is a change in future payments due to a change in index or interest rate. The lease liability is also revalued if there is a change in the Group's estimation on residual payments in relation to the lease contract, if there is a change in estimation on utilisation of an option to buy the underlying asset, or if there is a change in the expected lease term.

The right of use asset is depreciated on a straight line basis from the commencement date until the final date of the contract, exept when the Group becomes an owner of the asset at the end of the lease period or has an option to purchase the asset at the end of the lease period, and intends to do so. In those cases the asset is depreciated over the expected useful life of the asset, which is the same method as used for depriciation of other operating assets of the Group. The right of use asset is adjusted for any impairment or revalutation of the lease liability.

The Group recognises right of use assets and a lease liability for lease agreements of ships and buildings.

The impact of these changes on the Groups' Consolidated Financial Statements results in a right of use assets and lease liabilities of EUR 3,2 million as at 1 January 2019. Due to this change in accounting method lease expense in the Consolidated Income Statement for the year 2019 are lower by EUR 1,5 million as compared to previous accounting method. Furthermore, depreciation in the Consolidated Income Statement is higher by EUR 1,6 million and interest expense is higher by EUR 0,1 million compared to the previous accounting method. The effect of the adoption of this new accounting method is summarised below.

Lease assets 1 January 2019 classified among property, plant and equipment	3.165.022
Lease liabilities 1 January 2019 classified among long-term liabilities	(3.165.022)
Depreciation during the year	1.532.505
Interests expensed during the year	88.374
Lease expense during the year	(1.620.879)

2.4 Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at the fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the Consolidated Income Statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 Revenue recognition

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer and the amount can be reliably measured. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, net of VAT and discounts.

2.6 Financial income (and expenses)

Interest income recognition is based on an effective yield basis for bond receivables and based on accrued interest income of bank deposits and trade receivables, unless there is a doubt about their collectability.

Transactions in foreign currencies are translated at the spot exchange rate at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

2.7 Fixed assets

Fixed assets are stated at cost less depreciation. Depreciation is calculated using the straight-line method to expense the difference between the amortised cost /revalued cost and residual value over their estimated useful lives as follows:

Ships	10 - 20 years
Building	33 - 40 years
Initial capital investment	3 - 5 years
Machinery and equipment	3 - 10 years
Goodwill	10 years

When the carrying amount of an asset exceeds its recoverable amount the asset is written down to the recoverable amount.

Gains and losses on disposals are determined by the sale price and the book value of assets on the date of sale and are included in operating profit. When assets are sold that have been revalued separately, the amounts in revaluation of equity belonging to the assets is transferred to retained earnings.

Repairs and maintenance costs are expensed when incurred. Costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and that the cost of the item can be measured reliably. Major renovations are depreciated over the estimated life of the related assets.

2.8 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Trade receivables are carried at original invoice amount less allowance for doubtful accounts. An allowance against trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables.

2.9 Cash and cash equivalents

Cash and cash equivalents in the Consolidated Balance sheet and the Consolidated Cash Flow Statements includes cash, call deposits, short-term securities for less than three months less overdrafts on bank accounts.

2.10 Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown as a deduction from the proceeds.

2.11 Dividends

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.12 Deferred tax liability (asset)

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted at the balance sheet date. Current income tax is based on estimated income tax expected to be paid next year to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority.

2.13 Borrowings

Borrowings are recognized initially at their fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the Consolidated Income Statement, taking into account the amortization of discounts / premium.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.14 Trade payables

Trade payables are stated at their nominal value plus accrued interest.

2.15 Price index and foreign exchange rates

(a) Balances at year-end

Foreign currency assets and liabilities at year end are translated into the euros using the exchange rates prevailing at year end. Price index at year end is used for applicable assets and liabilities. Foreign exchange gains and losses and price index changes are recognised in the income statement.

(b) Group companies

Assets and liabilities for each balance sheet item presented are translated at the closing rate at the date of that balance sheet, and income and expenses for each income statement item are translated at average exchange rates. All resulting exchange differences are recognised as a separate component of equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the Consolidated Income Statement as part of the gain or loss on sale.

	Average rate of the year			Rate at year-end		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
Euro (EUR)	136,9	127,4	7,5%	135,4	132,8	2,0%
Consumer price index				472,8	460,5	2,7%

3. Salaries and related expenses

	2019	2018
Salaries and related expenses for the period are as follows:		
Salaries	7.351.623	6.525.337
Related expenses	2.419.951	1.863.110
	9.771.574	8.388.447

The Group employed an average of 111 employees during the year 2019 (2018: 109 employees). Salaries and fees to management amounted to EUR 676 thousand in the year 2019 (2018: EUR 447 thousand).

4. Financial income (and expenses)

	2019	2018
Financial income (expenses) are as follows:		
Interest income and indexation	27.571	73.874
Interest expense and indexation	(2.820.243)	(2.397.738)
Interest expense on lease liabilities	(88.374)	0
Currency rate exchange	223.487	(2.584.207)
	(2.657.558)	(4.908.071)

Interest paid for the year 2019 amounted to EUR 2.8 million (2018: EUR 2.4 million).

5. Goodwill

The Groups' goodwill relates to its' subsidiaries and associated companies. Goodwill is amortized on a straight-line basis over ten years.

Year-end 2018:

Book value at beginning of year	19.476.065
Amortization	(2.299.651)
Translation difference	(7.437)
Book value at beginning of year	17.168.977

Book value at year-end 2018 is as follows:

Cost	22.986.881
Accumulated amortization	(5.817.904)
Book value at year-end	17.168.977

Year-end 2019:

Book value at beginning of year	17.168.977
Amortization	(2.298.011)
Translation difference	(2.426)
Book value at beginning of year	14.868.540

Book value at year-end 2019 is as follows:

Cost	22.982.510
Accumulated amortization	(8.113.970)
Book value at year-end	14.868.540

Goodwill in owned companies is as follows:	**2019**	**2018**
Bæjarvík ehf.	176.491	205.906
Fjarðalax ehf.	14.603.436	16.850.119
Eldisstöðin Ísþór hf.	88.613	112.952
	14.868.540	17.168.977

6. Property, plant and equipment

	Property, plant, equipment and lease assets	Floating pen & aquaculture tanks	Work in Progress	Total
Year-end 2018:				
Book value at beginning of year	15.592.452	19.598.868	1.308.560	36.499.880
Additions	4.226.695	23.605	2.953.146	7.203.446
Book value of sold assets	(395.873)			(395.873)
Depreciation	(2.980.172)	(5.771.234)		(8.751.406)
Translation difference	(185.316)	(570.696)	(48.997)	(805.009)
Book value at year-end	16.257.787	13.280.543	4.212.709	33.751.039
Book value at year-end 2018 is as follows:				
Cost	25.679.985	23.010.246	4.212.709	52.902.940
Accumulated depreciation	(9.422.198)	(9.729.703)	0	(19.151.901)
Book value at year-end	16.257.787	13.280.543	4.212.709	33.751.039
Year-end 2019:				
Book value at beginning of year	16.257.787	13.280.543	4.212.709	33.751.039
Corrections on cost value	2.596.471	(10.730.751)		(8.134.280)
Corrections on accumulated depreciation	452.840	7.402.793		7.855.633
ROU assets recognised due to a change in accoung policy	3.165.022			3.165.022
Additions	5.207.638	1.909.918	5.234.215	12.351.771
Equipment written-off		0	0	0
Depreciation and disposals	(5.965.202)	(1.622.809)		(7.588.011)
Translation difference	87.739	(28.905)	41.274	100.108
Book value at year-end	21.802.295	10.210.789	9.488.198	41.501.282
Book value at year-end 2019 is as follows:				
Cost	36.736.855	14.160.508	9.488.198	60.385.562
Accumulated depreciation	(14.934.561)	(3.949.719)	0	(18.884.279)
Book value at year-end	21.802.295	10.210.789	9.488.198	41.501.282

Depreciation and disposals are as follows:	**2019**
Depreciation of property, plant and equipment	4.163.724
Depreciation of right of use asset	1.532.505
Disposals	1.891.782
	7.588.011

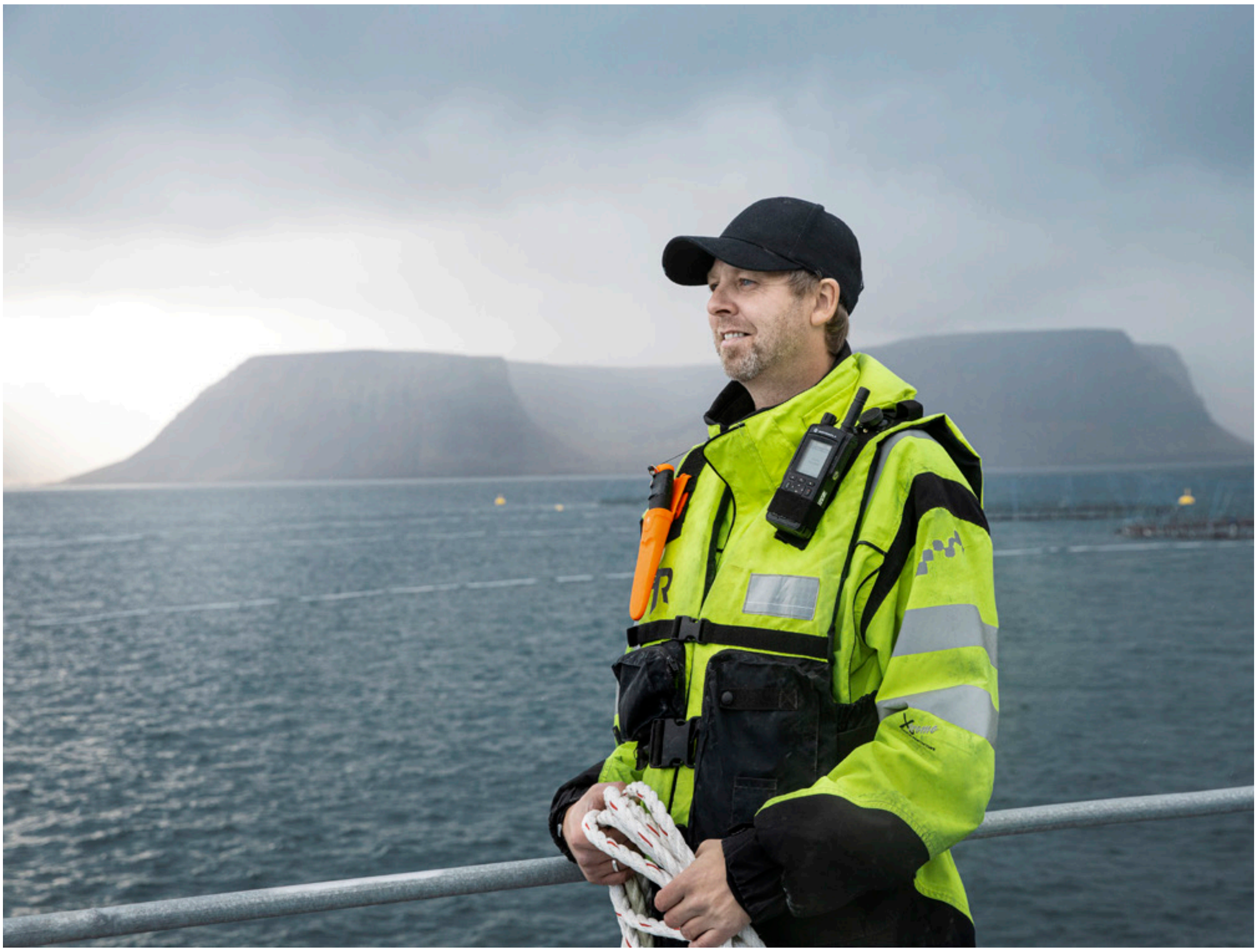
Other information:	Official value	Official value	Book value
Strandgata 1, Vesturbyggð	403.965	3.219.524	1.673.821
Strandgata 13, Vesturbyggð	46.921	312.325	208.458
Strandgata 16, Vesturbyggð	142.667	453.020	402.182
Hafnarbraut 2, Vesturbyggð	115.899	811.328	934.396
Gileyri og Eysteinseyrar, Vesturbyggð	90.829	188.126	3.628.152
Strandgata 43, Tálknafjarðarhreppur	97.475	1.137.203	94.893
Við Patrekshöfn, Vesturbyggð	118.889	1.502.171	225.468
Floating marine pen and aquaculture tanks		11.973.431	8.305.675
Ships		5.549.058	5.610.227
Other fixed assets, equipment etc.		14.822.559	10.738.924
Eysteinseyri land			190.888
Work in progress			9.488.198
	1.016.644	39.968.745	41.501.282

7. Shares in associated companies

The groups investment in Eldisstöðin Ísþór hf. is accounted for in accordance with the equity method. In accordance to the equity method the share of profit and loss of the associate is included in the Consolidated Income Statement. Cumulative effects are included in the carrying amount of the shares in the associate. Associates are entities in which the Company generally holds between 20 and 50% of the shares or has significant influence without having direct control over the entity. Other associated companies are designated at cost.

Shares in associates are specified as follows:	**Share**	**Nominal value ISK**	**2019**	**2018**
Eldisstöðin Ísþór hf., Þorlákshöfn (equity method)	50%	2.000.000	2.344.679	2.309.026
Flax 3 ehf., Tálknarfjörður	100%	500.000	3.692	4.209
Norðanlax ehf., Tálknafjörður	100%	500.000	3.692	4.209
			2.352.063	2.317.444

Share in profit of associates are specified as follows:	**Share**	**2019**	**2018**
Eldisstöðin Ísþór hf., Þorlákshöfn	50%	209.784	0



8. Deferred income tax asset

Effective income tax in the Consolidated Income Statement is as follows:	**2019**	**2018**
Loss before tax	3.476.868	(19.048.914)
Calculated income tax with 20% income tax rate	(695.374)	3.809.783
Non-deductible expenses - depreciated goodwill	(413.263)	(455.220)
Subsidiary carry forward losses expired	(3.503)	0
Other non-deductible expenses and foreign exchange variance	(213.411)	(257.251)
Income tax in the Income Statement	(1.325.551)	3.097.312
Effective income tax rate	38%	16%

Change in deferred tax asset during the year is as follows:	**2019**	**2018**
Deferred tax asset at beginning of year	5.940.695	3.122.106
Income tax from continuing operations	(1.322.048)	3.097.312
Subsidiary carry forward losses expired	(3.503)	0
Exchange rate difference	(96.852)	(278.723)
	4.518.292	5.940.695

Deferred tax assets (liabilities) are broken down into the following items:	**2019**	**2018**
Fixed assets	(440.850)	(33.893)
Trade receivables	101.566	456.603
Inventories	(225.786)	0
Lease liability	344.636	0
Carry forward losses	4.606.812	5.100.108
Exchange rate difference	131.912	417.877
Deferred tax asset at year-end	4.518.292	5.940.695

8. Deferred income tax asset, continued

The Group will not pay income tax due to carry forward taxable from previous years. Carry forward loss not utilised in 10 years expires. Carry forward loss from 2009 amounting to EUR 18 thousand expired at year-end. Carry forward loss at year-end amounted to EUR 23.0 million and specifies as follows:

Loss for 2011, expires end of 2021	925.003
Loss for 2012, expires end of 2022	567.988
Loss for 2013, expires end of 2023	749.055
Loss for 2014, expires end of 2024	7.400.457
Loss for 2015, expires end of 2025	1.619.386
Loss for 2016, expires end of 2026	3.828.785
Loss for 2018, expires end of 2028	7.943.385
	23.034.058

9. Biological assets valued at cost and other inventories

Biological assets are valued at cost or net realizable value if lower. Cost value is comprised of direct labour, other direct costs and indirect production costs but excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business less costs of completion and selling expenses. At year-end biological assets and other inventories were pledged as securities against the Groups' loans.

Biological assets valued at cost and other inventories are as follows:	**2019**	**2018**
Biological assets	44.364.527	35.889.609
Raw materials (feed for the farming business)	2.022.965	1.515.446
Boxes	9.290	36.143
Finished products	389.310	40.000
	46.786.092	37.481.198

10. Trade receivables

Trade receivables are as follows:	2019	2018
Trade receivables	6.268.678	6.318.098
Trade receivables, bonds	427.809	430.338
Allowance for doubtful receivables	(809.981)	(1.209.323)
Trade receivables, net	5.886.506	5.539.113

Trade receivables are written down at year-end 2019 amounting to EUR 0.8 million (2018: EUR 1.2 million) The allowance for doubtful receivables as follows:

Allowance for doubtful receivables at beginning of year	1.209.323	896.721
Written off in the year	(81.177)	(1.109.642)
Allowance for doubtful receivables	(313.101)	1.443.217
Exchange rate difference	(5.064)	(20.973)
Allowance for doubtful receivables at year-end	809.981	1.209.323

Receivables are written down to meet the credit risk of these assets. This is not a final write-off but is an allowance account for possible losses and is deducted from capitalised receivables in the Consolidated Balance Sheet.

11. Equity

Shares

The nominal value of Share Capital of Arnarlax was unchanged in the year 2019 and amounted to ISK 5.984.855.405 as of 31 December 2019.

Each ISK 1 - one Icelandic krona - of share capital in the Company carries 1 - one - vote.

Restricted reserve due to unrealised profit of subsidiaries and associates

According to the Icelandic Financial Statements act, no. 3/2006 companies can not pay dividends on profit from subsidiaries and associates in excess of the amount that has been paid as dividends to the parent company. The parent company´s share in profit from associated companies, in excess of dividends received, is therefore designated as a restricted equity.

Statement of changes in equity

Changes in 2018	Share capital	Premium capital	Other reserves	Accumulated deficit	Total equity
Equity 1.1.2018	32.664.060	23.520.157	293.987	(2.753.214)	53.724.990
Paid in capital	10.440.395	10.440.395			20.880.790
Translation difference			(244.549)		(244.549)
Loss for the year				(15.951.602)	(15.951.602)
Equity 31.12.2018	43.104.455	33.960.552	49.438	(18.704.816)	58.409.629

Other items are as follows:

	Statutory reserve	Translation difference	Restricted profit of associates	Other reserves total
Balance at beginning of year	887	293.100	0	293.987
Translaction difference		(244.549)		(244.549)
Balance at year-end	887	48.551	0	49.438

Changes in 2019	Share capital	Premium capital	Other reserves	Accumulated deficit	Total equity
Equity 1.1.2019	43.104.455	33.960.552	49.438	(18.704.816)	58.409.629
Translation difference			47.213		47.213
Share-based payments				(18.921)	(18.921)
Profit for the year				2.151.317	2.151.317
Profit of associates			209.784	(209.784)	0
Equity 31.12.2019	43.104.455	33.960.552	306.435	(16.782.204)	60.589.238

Other items are as follows:

	Statutory reserve	Translation difference	Restricted profit of associates	Other reserves total
Balance at beginning of year	887	48.551	0	49.438
Translation difference		47.213		47.213
Profit of associates			209.784	209.784
Balance at year-end	887	95.764	209.784	306.435

The Parent Company operates a share-based incentive scheme, dated 3 December 2014, in which the companies within the Parent Company's Group receive services from the employees in return for equity instruments in the Group. The fair value of the services the entities received from employees in return for the entitlements granted is recognised as a cost in the income statement. At the time of release of the shares there will not be any recognitions in the income statement.

In the year 2019 cost amounting to EUR 50 thousand was recognised in the income statement and equity. At the time of release an invoice amounting to EUR 69 thousand was recognised among accounts payable and equity.

12. Liabilities

Bank loans are as follows:	2019	2018
Liabilities in EUR	45.925.000	7.976.271
Liabilities in ISK	0	2.572.785
	45.925.000	10.549.056
Current maturities of bank loans	(1.500.000)	(2.178.663)
	44.425.000	8.370.393

Payments of long term liabilities as at year-end 2019 are as follows:

2020 / 2019	1.500.000	2.178.663
2021 / 2020	1.500.000	2.452.082
2022 / 2021	42.925.000	2.241.232
2023 / 2022	0	1.287.969
2024 / 2023	0	386.955
Later	0	2.002.154
	45.925.000	10.549.056

Lease liabilities are as follows:	2019	2018
Lease liabilities	1.723.180	0
Current maturities of lease liabilities	(1.560.715)	0
	162.465	0

Payments of long-term lease liabilities as at year-end 2019 are as follows:

2020 / 2019	1.560.715	0
2021 / 2020	97.033	0
2022 / 2021	10.009	0
2023 / 2022	10.384	0
2024 / 2023	10.773	0
Later	34.267	0
	1.723.180	0

Total long-term liabilities are shown on the Balance Sheet as follows:

Maturities of bank loans after one year,as long term liabilities	44.425.000	8.370.393
Maturities of lease liabilities after one year, as long term liabilities	162.465	0
	44.587.465	8.370.393

Current maturities of liabilities are as follows:	2019	2018
Maturities of bank loans in 2020, recognized as current liabilities	1.500.000	2.178.663
Maturities of lease liabilities in 2020, recognized as current liabilities	1.560.715	0
	3.060.715	2.178.663

Short-term liabilities of EUR 4.592.949 are bank overdrafts. Total interest bearing liabilities of the company, excluding lease liabilities amounted to EUR 50,5 million at year end compared to EUR 39,5 million at year end 2018.

13. Related parties

Related parties are individuals and companies that have interest in the company. Parent company, owners, key employees and others. Business between related parties and other are comparable.

Business with related parties in the year 2019:	2019	2018
Long-term receivables:		
Eldisstöðin Ísþór hf., associated company	3.692.217	116.401
Short-term receivables:		
Eldisstöðin Ísþór hf., associated company	100.657	84.639
Arnarlax AS, shareholder	167.862	56.127
	268.519	140.766
Payables:		
Salmar ASA, shareholder in Arnarlax AS	115.197	0
Haganes AS, shareholder in Arnarlax AS	0	87.748
Edinborg AS, shareholder in Arnarlax AS	0	87.747
	115.197	175.495

Business with related parties:	2019	2018
Revenue:		
Salmar ASA, shareholder in Arnarlax AS	1.665.569	0
Entities related to ultimate parent	64.442	0
Eldisstöðin Ísþór hf., associated company	10.866	0
	1.740.877	0
Cost:		
Salmar ASA, shareholder in Arnarlax AS	179.266	0
Entity related to ultimate parent	273.706	0
Eldisstöðin Ísþór hf., associated company	1.959.638	2.254.713
	2.412.610	2.254.713

14. Off Balance Sheet items

In March 2017 the company entered into a wellboat rental agreement that runs until the end of 2020. Until end of 2018, the rental agreement was not recognised as an asset. In 2019 the agreement is recognises in the Consolidated Balance sheet as an ROU asset and lease liability, amongst other lease agreements.

15. Subsequent events

Mortality at Hringsdalur

During the period from week no five, until week eight in 2020, a high mortality was measured in Hringsdalur. The high mortality is mainly due to bad weather hitting the area during the first weeks of year 2020. Due to the high mortality actions were taken to save as much of the stock value as possible and harvesting was set to maximum. Number of service boats and a harvest vessel were rented that resulted in increased harvesting capability. Total harvesting in February was 2,2 million kg. The financial impact for the high mortality is not fully clear but the increased harvesting cost will have a significant impact on the year 2020 financials. It is estimated that the additional cost of the actions taken to reduce mortality will be around 700-800 thousand EUR in Q1 2020. Cost of mortality that is treated as extra-ordinary stock change is estimated 2,2 million EUR that will impact the EBITDA. It is expected that insurance will cover the rest of the mortality, or around 500 thousand EUR. At the time of harvesting out from Hringsdalur, market conditions were good, and the Nasdaq prices were high. The net effect of the mortality there for had less impact to the operation than first expected.

Covid-19

In beginning of March 2020, the effect of COV-19 began to show impact on market situations. Cost of transportation increased, transportation routes are limited, and market prices fell. In addition to that, an action was taken to reduce the risk of high mortality in one of our sites, Eyri, by harvesting more out of the site than initially was planned for. The outlook to the situations is not fully foreseen but we expect that in coming weeks a larger proportion of the harvested fish will be sent to freezer than before and that will result in lower income during the harvest period. The impact of the logistic may cause higher proportion of the sales value to end up in cost of transportation and cost of freezing will affect the operational cost.

Those two significant events will have an impact on the Groups' liquidity for coming months and will have effect on the borrowing base. It is expected that all Covenants in the Groups' loan agreement will hold.

16. Financial risk management

Financial risk factors

Operations of the Group entail various risks such as effects of changes in foreign exchange rates, interest rate changes, credit risk and liquidity risk.

The Managing Director and Board of Directors are responsible for monitoring risk and implementing mitigating measures to reduse the Groups' risk.

Currency risk

The Group operates in a global environment which subjects it to foreign currency fluctuations. The Directors of the Group monitor the risk related to currency fluctuation in relation to day to day operations. The Group has not entered into any forward contract or other derivatives in relation to currency risk.
The Company makes an agreement with the Risk Management department to hedge currency risk on specific assets, liabilities or future transactions.

Interest rate risk

The Groups operating results and cash flow from operations are largely independent of changes in market interest rates. The Group has an insignificant part of its assets which are interest-bearing. The Groups long-term loans have variable interest rates. The Group has not entered into any swaps or other derivatives in relation to interest rate risk.

Credit risk

The Group is exposed to credit risk in relation to sales of its products. To mitigate credit risk in relation to trade receivables, the company has insurance against certain buyers and certain trade receivables. The value of the insurance needed is revised regularly.

Liquidity risk

Cash flow forecasting is performed by the Group to estimate its´ liquidity requirements. The forecast is monitored regularly to ensure that the Group has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities.

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