

# Andfjord Salmon Board of Directors report 2023

## NATURE OF THE ENTERPRISE

Andfjord Salmon is developing the aquaculture industry of the future and has an ambition of building the most fish-friendly and sustainable aquaculture facility of its kind. The benefits of both sea and land-based salmon farming are combined to achieve this. The result is a high level of salmon welfare and sustainable production by using Arctic seawater in land-based pools. Andfjord Salmon is a Norwegian company that was established in Andøy municipality in 2014. The company is developing production facilities and operating premises on Andøya. The company has a license to farm 10,000 tonnes of maximum allowed biomass (MAB), at Kvalnes, Andøya. The Company is currently developing the Kvalnes site. Yearly production is expected to be 19,000 tonnes HOG when the build-out has been completed mid-2027. Andfjord Salmon has also secured for coastal properties at Fiskenes and Breivik on Andøya for future expansion. In total, the company has a long-term ambition of an annual production of 90,000 tonnes HOG from all three sites.

## OVERVIEW OF THE ANNUAL FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2023 have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU).

During 2023, a restructuring of the company structure was carried out with the establishment of a holding structure. The group now consists of parent company Andfjord Salmon AS and one subsidiary, and the consolidated accounts for 2023 include these two companies (“the group”).

Loss before income tax for 2023 was NOK 69.8 million for the Group, compared to a loss of NOK 56.7 million in 2022. In 2023, the company employed 23 full-time equivalents and employee benefit expenses amounted to NOK 25.2 million after capitalisation of expenses related to construction. Depreciation and amortisation expenses were NOK 24.9 million in 2023, while other operating expenses totalled NOK 31.7 million. The loss is in line with the board’s expectations for the current phase of the company. In June 2022 the company released close to 200,000 smolt of 120 grams into its first pool, and the fish was harvested in June/July 2023 with strong biological results. Survival rate after transportation to the processing facility was 97.5 %, which is significantly better than the industry average of 83.3 % in 2023. In total, 540 tonnes (HOG) were harvested. After completion of the first harvest, the focus has been shifted to the construction of four new pools at Kvalnes, which are expected to be completed by mid-2025, reaching a production capacity of 8,000 tonnes HOG per year. This construction period also includes the establishment of shared infrastructure, such as harbour area and waterways, that will support a total annual production capacity of 40,000 tonnes HOG at Kvalnes. The next release of smolt will be when the next four pools are completed in 2025, followed by continuous production.

The group generated its first sales revenue in 2023, with total income of NOK 37.3 million from the first production cycle.

Net cash flow from operating activities was NOK -29.1 million, while operating loss was NOK -79.6 million. Incoming cash flow related to sales income occurred in 2023, which has a positive effect on cash flow from operations. The group’s cash flow from investment activities was NOK -326.9 million, which is related to construction of four new pools and associated infrastructure. Net cash flow from financing activities was NOK 523.1 million in 2023.

Total assets at the end of 2023 were NOK 1,212.9 million for the group. Total non-current assets were NOK 908.8 million, which consisted of investments in property, facility and equipment at Kvalnes, property at the Breivik and Fiskenes locations and intangible assets of NOK 14.4 million. Since its inception in 2014, the group has carried out research and development that has resulted in a patented solution that has been implemented in the first pool. Direct expenses for equipment and external consultants in connection with development of the solution are entered in the balance sheet as intangible assets. Direct expenses related to the patent itself are also accounted for as an intangible asset.

Current assets mainly consist of bank deposits, biological assets and current receivables.

## RISK FACTORS

### MARKET RISKS

#### *Liquidity risk*

The group has financed the construction of four new pools, which will increase annual production capacity to 8,000 tonnes HOG, and infrastructure such as waterways and harbour area which will support a complete development of Kvalnes to a production capacity of 40,000 tonnes of HOG per year. The financing package consists of equity and a construction loan of NOK 825 million from Sparebank 1 Nord-Norge, Sparebank 1 SR-Bank and Sparebank 1 SMN, supported by a guarantee of 50% from Eksfin, that will be opened during 2024. At the end of 2023, the group had a cash balance of NOK 250 million and unused credit facilities of NOK 20 million, in addition to the unused construction loan of NOK 825 million.

The group's growth strategy and future plans are capital intensive and dependent on further future financing to continue to increase the production capacity beyond 8,000 tonnes HOG yearly. The successful first production cycle has proven the concept and provided the basis for the strong financing the group secured in 2023.

#### *Currency risk*

The market for sale of salmon is international and the group is exposed to currency risk in relation to sales income. In the future, currency hedging will be used to reduce such exposure.

#### *Interest rate risk*

The group is exposed to fluctuations in interest rate levels through interest-bearing debt. Total interest-bearing debt at the end of 2023 was NOK 67.6 million. Liquidity reserves are deposited on bank accounts and is thus exposed to interest rate fluctuations.

#### *Credit risk*

The group is currently exposed to credit risk through the placement of surplus liquidity in Norwegian regulated banks. Customer receivables are limited in the current phase.

### CYBERSECURITY RISK

Andfjord Salmon depends on IT systems throughout the company's operations. The risk of falling victim to a cyberattack is rising to companies in general. Disruptions to critical systems could negatively affect Andfjord Salmon's ability to operate safely and effectively.

### PANDEMIC RISK

In mid-2023, the World Health Organization announced that the COVID-19 pandemic no longer constituted a public health emergency of international concern. A negative development in the COVID-19 situation or other pandemics may impact Andfjord Salmon and the economy at large. For example, long-term impact on the global economy may result in impairment of assets and future decrease of the market as consumers change their habits and investors reduce their investments. Further, personnel may not be able to work due to illness, quarantines, travel restrictions and social distancing causing shut down of operations of the company and its suppliers.

### GOING CONCERN

The accounts have been prepared under the assumption that the companies within the group is a going concern. In accordance with Section 3-3a of the Norwegian Accounting Act, the board of directors confirms that the companies and the group fulfil the requirements necessary for them to continue to operate as a going concern. The board bases this on the group's financial position, which is good.

## WORKING ENVIRONMENT

The board of directors considers the group's working environment to be good. No special measures have been implemented to improve the working environment. Registered sickness absence was 0.83% in 2023, while sickness absence in 2022 was 2%. The group has not had any accidents or incidents in 2023 that have led to personal injuries.

## FUTURE OUTLOOK

The group holds a fish farming licence of 10,000 tonnes MAB and expects to reach yearly production volume of 19,000 tonnes (HOG) in the next construction phase at Kvalnes that is expected to be completed by mid-2027. The group has secured rights to coastal properties at Fiskenes and Breivik on Andøya, enabling a potential future production of 90,000 tonnes HOG. The current licence will be used in its entirety at the company's first production facilities at Kvalnes.

The first pool has a production capacity of 1000 tonnes HOG on a stand alone basis. The current construction phase started in July 2023 and four new pools will be ready by mid-2025. The board considers the future prospects to be good. Successful biological results have strengthened the company's position significantly.

At the same time as the company is working on developing the first location at Kvalnes, it is also working on regulation of the Fiskenes and Breivik sites and will apply for a license for 20,000 tonnes MAB (25,000 tonnes HOG) for each of the locations. The zoning plan for Breivik was approved by the local municipality in 2022. There are also plans to further develop the Kvalnes site to a total production capacity of 40,000 tonnes HOG per year.

Andfjord Salmon benefits from the well-developed salmon farming industry in the Vesterålen area, where the necessary infrastructure with sufficient capacity and expertise has already been established. This makes it possible to have a fully integrated value chain, from smolt production and salmon farming to sales and distribution to end customers.

The group's financial position and outlook is primarily dependent on the price of farmed salmon and the level of production costs. Historically, the market price of farmed salmon has been subject to market fluctuations. Andfjord Salmon's flow-through concept requires low energy consumption. Due to the facilities' unique location directly adjacent to the Gulf Stream, they have access to water at very favourable temperatures year-round. Inlet water is sourced at 40 meters' depth, below the water levels where salmon lice lives. Salmon lice treatment represents a significant production cost in sea based salmon farming, and avoiding this gives a significant production cost advantage compared to traditional sea based industry. The company is largely dependent on maintaining its current license and being awarded new licenses in order to develop the business in the future.

## CORPORATE GOVERNANCE

Andfjord Salmon has prepared a report on corporate governance that is included in the annual report, which is available on the company's website. Although the company is not subject to the Norwegian Code of Practice for Corporate Governance, it aims to comply with the principles of the recommendations as the business transitions into an operational phase. The report on corporate governance sets out the company's status in relation to the recommendations.

## GENDER EQUALITY AND DISCRIMINATION

In 2023, 23 full-time equivalents were performed by employees of the group. At the end of the year, the board consisted of eight members, of which two are females. At the end of 2023, the group had 24 employees in total, of which eight are women. The proportion of woman among employees has increased considerably during the last couple of years. Based on an assessment of the size of the group, the number of employees and job categories, the board has not found it necessary to take further action with respect to gender equality at this time. However, Andfjord Salmon is keen to further increase the share of female employees, both in senior positions and in the group in general. Andfjord Salmon shall be a workplace where there is full gender equality between women and men, and it shall ensure that there is no discrimination based on gender. More information on the status of gender

equality in the company can be found in the ESG report, which is part of the annual report available on the company's website.

## THE NATURAL ENVIRONMENT

The group does not pollute the natural environment to any significant extent in its current phase, but it has nevertheless implemented environmental measures in connection with the development at Kvalnes. It is a clear goal that the business shall have the smallest possible environmental footprint. Biological waste from the facility is captured and refined as a commercial resource, limiting emissions from the facility. The company has prepared a separate ESG report as part of the annual report, which contains a detailed account of how it works towards achieving sustainability goals.

## OTHER MATTERS

Andfjord Salmon performs evaluation and assessment of suppliers in line with the Transparency Act. The group will publish statement on due diligence assessments on its website by the end of June 2024.

The group has taken out insurance for the board members and the general manager for their possible liability to the group and third parties, with an insurance sum of NOK 300 million.

The board of directors does not know of any other matters of importance to consider the group's position and profit/loss, other than those presented in the annual financial statements and notes to the annual financial statements. No matters have arisen after the end of the financial year that have an impact on the board of directors' assessment of the annual financial statements.

## DECLARATION BY THE BOARD OF DIRECTORS AND CEO OF ANDFJORD SALMON AS

We hereby confirm that it is our sincere conviction that the financial statements for the period 1 January to 31 December 2023 have been prepared in accordance with the provisions and good accounting practices set out in the Norwegian Accounting Act, and that the information in the financial statements provides an accurate picture of the company's and the group's assets, liabilities, financial position, and profit/loss as a whole. We hereby confirm that the annual report provides an accurate overview of the development, annual profit/loss and position of the company and the group, together with a description of the most important risks and uncertainties the enterprise is facing.

Andøy, 17 April 2024

Roger Brynjulf Mosand  
**Chair**

Roy Bernt Pettersen  
**Director**

António Serrano  
**Director**

Tore Traaseth  
**Director**

Knut Roald Holmøy  
**Director**

Bettina Flatland  
**Director**

Kim Strandenæs  
**Director**

Gro Skaar Knutsen  
**Director**

Martin Rasmussen  
**CEO**