

2006-1(ENG) Letter to Shareholders

Akureyri 18. apríl 2006

Dear shareholder,

In this letter we will give various information about the status of operation for Fiskeldi Eyjafjardar hf. Following topics will be discussed:

1. **Year end result for 2005**
2. **Juvenile production in 2005**
3. **Status of on-growing operation**
4. **Projections for 2006 and 2007**
5. **Resignation from the Icelandic Stock Exchange**
6. **Electronic registration of shares**
7. **General meeting for 2006**

1. Year end result for 2005

1.1 Preface

Last year was in many ways difficult for us. Juvenile production from one of the three production groups failed because of too high seawater temperatures at our broodstock farm in Dalvík in the summer and autumn 2004. Chilling system has been installed in Dalvík to prevent this from happening again in the future. Estimated loss because of this is around 70 million ISK and early in the year it was clear that plans had to be re-evaluated and there was a need for refinancing of the company.

Refinancing proved difficult and the final resort was to devalue the stock equity by 80% in order to gain more interest from existing shareholders and other investors. The result was that new equity shares were issued for the amount of 131,6 million ISK from the biggest shareholders Marine Research Institute, Samherji, Brim, Afl Investment, Grandi and one new investor, KEA. In the last projections we planned to increase production in the on-growing farm in Thorlákshöfn to 350-400 tons which would result in a profit. However the result of the refinancing showed that it would not be possible to raise capital for the expansions in Thorlákshöfn. As a result a decision was made to close the operation in Thorlákshöfn and focus only on the core business, the juvenile production.

The closing process of Thorlákshöfn has been costly, especially on the live fish asset's valuation, which was greatly reduced because of added farming cost in the year 2005. In April this year the site in Thorlákshöfn will be empty of fish and the farm will be put up for sale..

Juvenile production from the last group of the year went very well and so did sales of the fish. Demand for juveniles has increased in Norway, juvenile sales to China doubled from last year and we also sold juveniles to Scotland..

1.2 Figures from operations in 2005.

Below is the result of the operation in 2005 compared to 2004.

Million IKR	2005	2004
Operation income	120,9	184,8
Gross profit	-116,5	-53
Ratio:	-96,4%	-28,7%
Depreciation	-30,7	-30
Finance cost	-4,2	-10
Minority interest	-33,3	-66,8
Loss	-209,1	-159,8
Working capital from operations	-150,1	-69
Net cash from operations	-142,8	-43

The loss in 2005 was 209 million ISK compared to 160 million ISK loss the year before. The main reason for bad results is because of capitalization of cost due to the closing of the operations in Thorlakshofn. The operations income was 85 million ISK less than last year which is explained by less revenue from the on-growing farm in Thorlakshofn and also because part of the juveniles from the last production group of the year 2005 were sold in the beginning of the year 2006 for the amount of around 40 million ISK. High valuation of the Icelandic krona has also resulted in less income. On the other hand, rationalization of operations has reduced costs of which closing of the office in Akureyri accounts for the most.

33 million ISK loss for Fiskeldi Eyjafjardar constitutes because of devaluation of book value of the subsidiary Scotian Halibut Ltd. in Nova Scotia. Scotian Halibut has now a registered book value of 10 million ISK

Balance:	31.12 2005	31.12 2004
Fixed assets	273,7	358,3
Current assets	126,2	122,2
Total assets	399,9	480,5
Equity	204,9	270,3
<i>Capital Stock</i>	300,6	845
Long term debt	157,3	125,4
Short term debt	37,7	74,2
Equity and liabilities	399,9	469,9
Current asset ratio	3,35	1,65
Equity ratio	51,2%	0,58

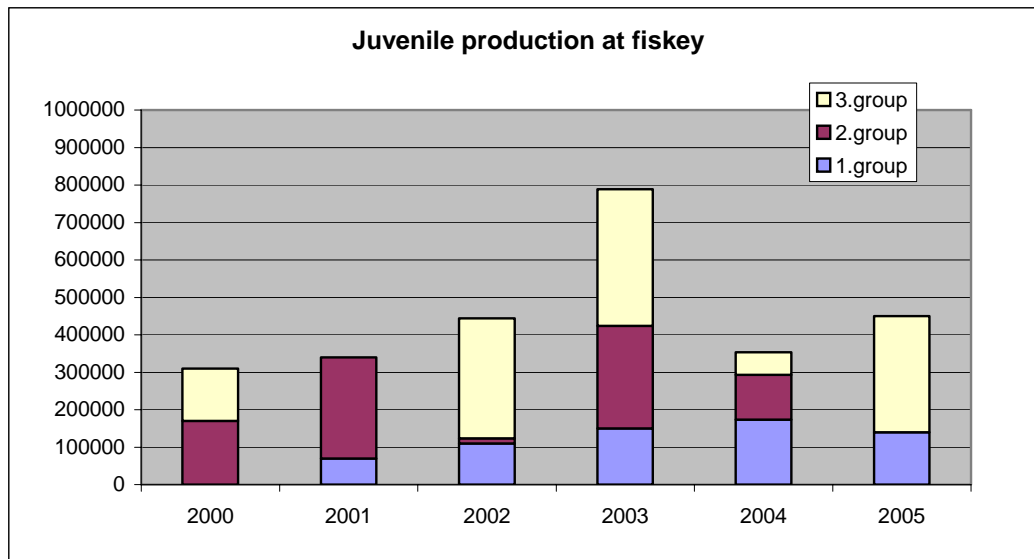
At year end the total assets of the company was 399,9 million ISK. Fixed assets were total of 273,7 million ISK and current assets 126,2 million ISK. Total debt was total of 195,0 million ISK and equity was 204,9 million. The current asset ration was 3,3 and the equity ratio was 51,2%.

In June the capital stock was devaluated by 80% and after devaluation the capital stock was 169,0 million ISK. New shares for the amount of 116,6 million ISK was issued in 2005 and 15 million ISK in February this year. The capital stock of the company is now 300,6 million ISK

2. Juvenile production in 2005:

Fiskey produced just over 450.000 juveniles in the year 2005 which is the second best result since the start of the company. Total world production of halibut juveniles is estimated around 850.000 and for the fourth year in a row Fiskey is producing around 50% of the all juveniles in the world.. Figure 1 shows the development of the juvenile production at Fiskey the last 6 years.

Figure 1: Juvenile production (number of 5-10g fish ready for export)



The figure clearly shows that in 2005 there are only 2 production groups because production from group 2 failed. The reason for the failure is because of increased seawater temperature at the broodstock site in Dalvik during summer and autumn 2003-2004 where temperature were around 2°C higher than in a normal year. The broodstock fish in production group 2 is especially vulnerable for such high temperatures at this time, because it is in a critical period in the egg development. Table 1 shows a summary of liters of eggs collected, fertilization percentage and survival of fertilized eggs. It is striking to see the low fertilization percentage of eggs in the second group. A chilling system has now been installed at Dalvik to prevent this from happening again.

Table 1. Egg development in 2005

2005	Collected eggs (L)	Fertilization (%)	Survival (%)	Eggs to silos (L)
Group 1	123	43,4	40	21,2
Group 2	283,2	17,5	26	12,2
Group 3	182	60	60	66,2
total:	586,2			99,6

In group 2 very few larvae survived the yolk sac stage and they did not perform well after first feeding. The yolk sac stage and first feeding of the other 2 groups went well with survival of above 80% from first feeding to weaning.

Very safe transport protocols of juveniles has been developed by Fiskey and mortalities above 1% is now considered unacceptable. Total of 307 thousand juveniles were exported from Hjalteyri to 6 customers, of which 4 were from Norway.

Table 2 : Juvenile deliveries from Fiskey in 2005

Country	Number of juv.
Norway	215000
China	52.000
Iceland	40.000
Alls	307.000

Approximately 150.000 juveniles from the last production group of the year 2005 were sold in January and February this year, most to Norway but also to Scotland. It is clear that demand for halibut juveniles is increasing and Fiskey is still the world leader in juvenile production.

3. On growing production in Thorlakshofn:

Since the beginning there has been a lot of development work at the on growing farm in Thorlakshofn. Technically the farming has been successful with no diseases or major complications. The farm has also served as a breeding station, where the best performing individuals have been selected for future broodstock.

On the other hand the farm in Thorlakshofn has been operated with loss from the beginning. The main reason is because the production volume has been too low and the fish has been growing too slow. The growth of the fish is primarily determined by the rearing temperature, whereas the optimum temperature is between 10 and 13 °C. In Thorlakshofn the seawater is pumped from boreholes which has a constant 7°C throughout the whole year. The result is that it takes around 4 years to reach market size in Thorlakshofn. Estimated production plans of 350-400 tons per year showed that the operation would be profitable, but financing of the expansion was not

successful. The potential investors did not find this production plan profitable enough in relation to the high risk of the operation.

Because of lack of capital we were forced into the decision of stopping the production in Thorlakshofn. There was a challenging task ahead to empty the farm. In June 2005 there was over 200 tons of fish in the farm, most of it small fish which is difficult to sell on the market. In late summer we accepted an offer from Nordic Seafarms to buy all the fish and transport it live to Norway by a well boat. If successful it would be quite beneficial for both parties, but after 3 attempts we decided to stop because of too high transport mortalities.

The farm will be empty in April this year. 20.000 large juveniles (900g) were sold to Shetland Islands in January and around 4000 large juveniles will be transported to Silfurstjarnan, a land based farm in North Iceland. All other fish has been harvested and sold on both domestic and foreign markets. Operation will be kept at a minimum until we manage to sell the farm.

Experimental farming at Silfurstjarnan has proved very successful with a much higher growth rate than at Thorlakshofn. Silfurstjarnan is planning a 300 ton production of halibut annually. Fiskey and Silfurstjarnan have discussed the possibility of a close co-operation in halibut where Silfurstjarnan would buy juveniles from Fiskey and provide facilities and assistance for the breeding program which was previously done at Thorlakshofn.

4. Production plans for 2006-2007

In 2006 the aim is to produce around 700.000 juveniles and 850.000 in the year 2007. The market for juveniles is promising because the demand is increasing and the number of customers has increased. Here below is the operation projections for 2006 and 2007.

<i>Thousands IKR</i>	2006	2007
Income		
Sales revenue	233.794	188.350
Change in live fish assets	-41.379	-7.310
	192.415	181.040
Operation cost:	154.640	137.717
EBITDA	37.775	43.323
Depreciation.....	-34.853	-32.258
EBIT	2.922	11.065
Finance cost.....	-9.690	-9.690
Earnings before tax	-6.768	1.375

The operation plan for 2006 estimates just over 230 million ISK in sales revenue. 177 million ISK is from juvenile sales and around 55 million ISK from sales of market size fish. Gross profit (EBITDA) in 2006 is estimated around 38 million ISK. In 2007 sales revenue is estimated around 188 million ISK and gross profit is estimated 43 million ISK.

The effects of the subsidiary Scotian Halibut on the result on the operation is now minimal, because registered book value of the shares in Scotian Halibut is now only 5 million ISK

In 2007 the farm in Thorlakshofn will have little impact on the results of the operation of the company. Operation cost is reduced to less than 138 million ISK and therefore the operation risk has been greatly reduced. However the heavy loss of the operation the last couple of years has made the company quite sensitive to unexpected difficulties in the operation.

The most important thing in the future is to increase the juvenile production. The aim is to produce over 1 million juveniles in the year 2008 and if we succeed the operation result will improve considerably.

5. Resignation from the Icelandic Stock Exchange:

In January of this year Fiskeldi Eyjafjardar hf requested resignation from the Icelandic Stock Exchange (ISE) and was granted. The official resignation date is June 30th 2006.

There were 2 main reasons for being listed on the ISE. The first was that it would be easier for the shareholders to buy or sell shares in the company which would also result in a more visible pricing of the shares. The second reason was that at the time of listing the company was being re-financed with new stock capital. Being listed on the ISE would allow new investors to invest in the company, such as pension funds which have restrictions in the investment of unlisted companies.

After nearly 3 years on the ISE the result is that the exchange of shares have been very limited and pension funds have not invested in the company. The number of shareholders has changed very little from the time of listing. In addition there is a considerable cost of being listed on the ISE which is too high for a company of the size of Fiskeldi Eyjafjardar hf.

6. Electronic registration of shares

The board of Fiskeldi Eyjafjardar hf has decided to take into action electronic registration of shares. The registration will be handled by Icelandic Security Depository (www.vbsi.is) (ISD) and the official date of registration will be **May 15th 2006 at 9:00** a.m. and no exchange of shares will be allowed that day.

To get access to your shares you must establish a VS-account in a financial institution which will facilitate the establishment of the VS-account. The VS-account shows your share value, exchanges and dividends. All transaction of the shares after the start of electronic registration will be handled by the financial institution which manages the VS-account

The stock value of «**Name of shareholder**» registered January 1st 2006 is ISK. «**Nominal value**».

If you believe that the registered value of your shares is not correct, please make your enquiries by e-mail to fiskey@fiskey.is.

8. General meeting in 2006

The general meeting of Fiskeldi Eyjafjardar hf has been decided May 5th at 13:00 in the conference room at Brim Seafood, Akureyri. Detailed agenda will be advertised at the latest one week before the meeting.

Yours Sincerely,
On behalf of
Fiskeldis Eyjafjarðar hf. and Fiskey ehf

A handwritten signature in black ink, appearing to read 'Arnar Freyr Jónsson'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Arnar Freyr Jónsson
Managing Director.