

# 2007-1 Letter to Shareholders

Hjalteyri 16. maí 2007

Dear Shareholder,

With this letter we want to inform about the operation of Fiskey. We will inform about the following:

- 1. Operation results for 2006**
- 2. Production information**
- 3. Outlook for 2007-2008**

## 1. 1. Operation results for 2006

### 1.1 Preface

The daughter company Fiskey ehf was merged with Fiskeldi Eyjafjarðar hf from January 1st 2006. The name of the merged company was changed the 9th of August 2006 to Fiskey hf.

The loss in operations was 71 million ISK in the year 2006. Earnings before depreciation (EBIDTA) was, 11 million ISK and that is a step in the right direction. Total income was 217 million which is an increase of over 70% between years. The main reason for the increase in income is because of increased number of juveniles sold.

Considerable structural changes in the operations were made in the year 2006. The main thing was that on-growing in Thorlakshofn was stopped which resulted in reduction of personnel by 4 persons. Minimum operation is now in Thorlakshofn with one employee caring for specially selected fish from each generation which are intended as future broodstock fish. This results in cost reduction in most categories of the operation. The farm in Thorlakshofn is for sale.

The juvenile production was successful in most aspects with a production of 0.5 million juveniles. There were no major problems in the production and survival rates were stable and acceptable from all 3 production groups. Production goal of 650-700 thousand juveniles were not reached because of lack of viable eggs.

Total of 540 thousand juveniles were sold in the year 2006. By far the biggest market is Norway with 88% of purchased juveniles, followed by 8% to Silfurstjarnan in Iceland and 4% to Scotland.

Scotian Halibut went through a financial restructure in the year 2006. The result was that Fiskey's share in the company was reduced to 5% and is therefore not a subsidiary anymore. The book value at year end 2006 is now recorded 0,3 million and because of a difficult financial situation the loan to Scotian Halibut was devalued further by 4,7 million for this year's statement and is now recorded 0.3 million in book value. Total devaluation of the loan to Scotian Halibut in The Company statements is 122,4 million.

In connection to the restrucure of Scotian Halibut an agreement was made which allows Fiskey to purchase 200 liters of eggs from Scotian Halibut over the next three years. This will help to stabilize the juvenile production, because egg availability has been a limiting factor.

## 1.2 Key figures of operations in 2006.

Below is the result of the operation in 2005 compared to 2004. (In million ISK).

| <b>Income Statement</b>                 | <b>2006</b>    | <b>2005</b>     |
|---|----------------|-----------------|
| Sales .....                             | 207,9          | 120,4           |
| Cost of Sales .....                     | 193,1          | 236,9           |
| <b>Gross profit (loss)</b>              | <b>14,8</b>    | <b>( 116,5)</b> |
| Other operating income .....            | 9,0            | 0,5             |
| Export cost .....                       | 13,7           | 14,9            |
| Other cost .....                        | 29,7           | 40,7            |
| <b>Operation loss</b> .....             | <b>( 19,6)</b> | <b>( 171,6)</b> |
| Finance cost .....                      | ( 51,8)        | ( 4,6)          |
| Minority interest in subsidiaries ..... | 0,0            | ( 33,3)         |
| <b>Loss</b>                             | <b>( 71,4)</b> | <b>( 209,1)</b> |

According to the financial statement for the year 2006, the sales were 207.9 million which is an increase of 73% from the year before. Gross profit was 14.8 million compared to 116,5 million in gross loss last year. Operation loss was 19.6 million and loss before tax was 71.4 million. The profit before depreciation was 11 million in the year 2006 compared to 140,9 million in loss before depreciation in 2005.

| <b>Balance Sheet</b>               | <b>31.12.2006</b> | <b>31.12.2005</b> |
|------------------------------------|-------------------|-------------------|
| Non-current assets .....           | 226,7             | 273,7             |
| Current assets .....               | 110,9             | 126,2             |
| Total assets .....                 | 337,6             | 399,9             |
| <br>                               |                   |                   |
| Total equity .....                 | 136,8             | 204,9             |
| Non-current liabilities .....      | 176,9             | 157,3             |
| Current liabilities .....          | 23,8              | 37,7              |
| Total equity and liabilities ..... | 337,6             | 399,9             |
| <br>                               |                   |                   |
| Equity ratio .....                 | 40,5%             | 51,2%             |
| Current ratio .....                | 4,7               | 3,3               |

Total assets at year end 2006 was 337,6 million ISK of which 110,9 million are current assets. Total liabilities are 200,8 million of which 23,8 are current liabilities. Current ratio is 4.7 at year end 2006, compared to 3.3 the year before. Total equity is

136,8 million at year end which is 40,5% of total assets compared to 51.2% at year end 2005.

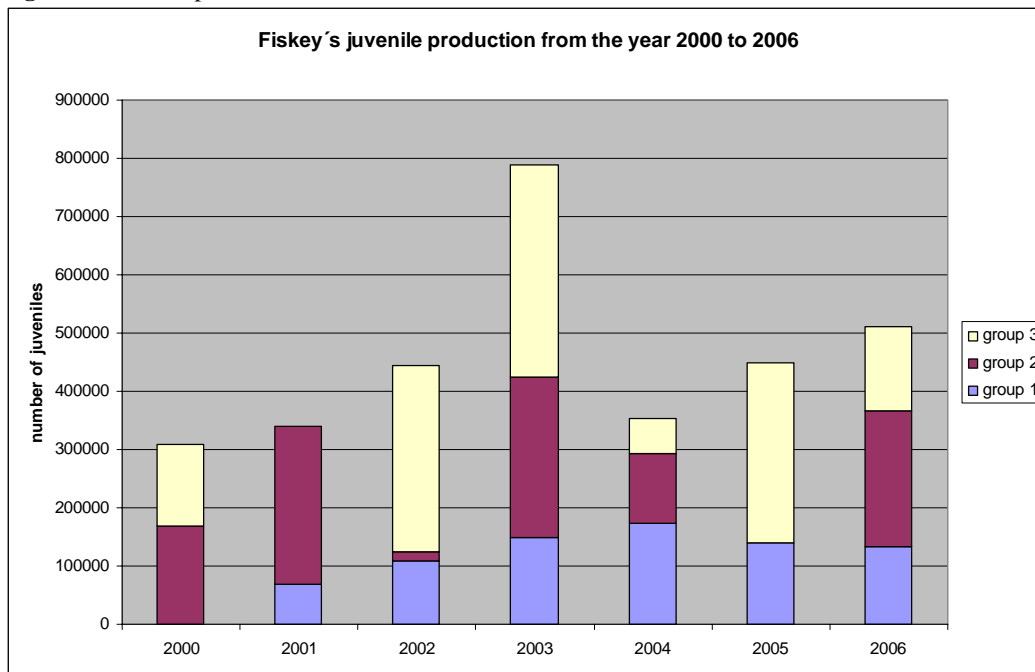
| <b>Cash Flow statement</b>                    | <b>2006</b> | <b>2005</b> |
|---|-------------|-------------|
| Net cash from (to) operating activities ..... | 29,1 (      | 142,8)      |
| Investing activities .....                    | ( 7,3)      | 22,7        |
| Financing activities .....                    | 13,2        | 121,7       |
| Change in cash at year end .....              | 35,0        | 1,5         |
| Cash at year end .....                        | 39,4        | 4,4         |

Net cas from operation was 29,1 million in the year 2006, compared to 142,8 million to operation the year before. Investing activities were negative by 7.3 million and financing activities were positive by 13,2 million. Change is cash was positive by 35,0 million and cash at year end was 39.4 million.

## 2. Juvenile production in 2006:

Fiskey produced just over 510.000 juveniles in the year 2006 which is the second best results since the company started. The goal was to produce 700.000 juveniles but the quantity and quality of eggs were the two biggest limiting factors. The world production of halibut juveniles in 2006 increased about 40 % between years and the total number of juveniles produced was around 1.330.000, so Fiskey is still in the lead as the single biggest producer. Figure 1 shows Fiskey’s juvenile production and how it is divided between the three spawning groups for the last 7 years.

**Figure 1:** Juvenile production



Fiskey's broodstock is divided into three different groups where the time of spawning is controlled by different light regimes. The composition of the broodstock has changed dramatically during the last few years, where the wild fish (caught in 1986-1889) is gradually disappearing and Fiskey's own production, the F1 generation is taking over. The temperature control, water exchange and water quality has not been sufficient and that has negative effects on the spawning and egg quality. It is also a well known fact that females spawning for the first and second time give fewer liters of eggs with lesser quality, i.e. lower fertilization rates and survival, than the females that have spawned more often. Table 1 shows the number of liters of eggs, fertilization rates, survival of fertilized eggs and number of viable liters of eggs that go into the silos for the three groups in the year 2006..

**Table 1.** Spawning in the year 2006

| <b>2006</b> | <b>Liters of eggs</b> | <b>Fertilization %</b> | <b>Survival of fertilized eggs %</b> | <b>Viable eggs transferred to silos (L)</b> |
|-------------|-----------------------|------------------------|--------------------------------------|---|
| Group 1     | 165                   | 42,1                   | 39                                   | 27,3  |
| Group 2     | 269                   | 41,3                   | 40                                   | 44,8  |
| Group 3     | 201                   | 43,3                   | 36,7                                 | 35  |
| total:      | <b>635</b>            |                        |                                      | <b>107,1</b>                                |

The fertilization percentage and the survival of fertilized eggs is low and the liters of viable eggs are therefore only 107 liters of the 635 total collected, which means only 17%. Lot of work is being done in Dalvik to improve the conditions for the fish, but the broodstock site in Dalvik is getting too small for Fiskey's broodstock which now counts well over 800 fish. The access to good quality seawater is a problem because the intake is in a shallow water.

The silos (yolk sac stage) had similar survival rates as for the last few years and the startfeeding tanks also gave good results.

The transport of juveniles from Hjalteyri was very successful and now a mortality rate over 1% is not acceptable. The total number of juveniles transported from Hjalteyri was 550.000 and there were five different buyers, most of them in Norway as shown in table 2.

**Table 2 :** Juvenile transport from Hjalteyri 2006

| <i>Seiðaflutningar frá Hjalteyri 2006</i> |                            |
|---|----------------------------|
| <b>Country</b>                            | <b>Number of juveniles</b> |
| Norway                                    | 475.500                    |
| Scotland                                  | 24.100                     |
| Iceland                                   | 42.550                     |
| <b>Total #</b>                            | <b>542.150</b>             |

It is clear that the demand for juveniles is increasing and it is therefore very important for Fiskey to maintain its position as the leading juvenile producer. To be that,

Fiskey needs to concentrate on improving the broodstock facilities and it's breeding program.

### **3. Outlook for 2007-2008.**

The original projection for 2007 accounted for around 700 thousand juveniles produced. However the second production group of the year has not performed as scheduled. Revised production plan therefore accounts for 600 thousand juveniles produced in the year 2007. This will result in a loss before tax although there will be a profit before depreciation of around 30 million.

The egg production at Dalvik has been unstable for the last 2-3 years because of fast recruitment of the broodstock. We have been granted an import license of eggs from Scotian Halibut which could prove to be very important, because we have learned from the past that abundant amount of eggs is a key factor in the production. Therefore we enter into the year 2008 confident that egg availability will not be a limiting factor and then it is a fully realistic goal to produce 900 thousand juveniles in the year 2008. Increasing the juvenile production is vital for the company and with 900 thousand juveniles produced the operation result will improve dramatically and result in the first ever year with a profit before tax.

Yours sincerely,  
on behalf of Fiskey Ltd.

A handwritten signature in black ink, appearing to read 'Arnar Freyr Jónsson', with a stylized flourish at the end.

Arnar Freyr Jónsson  
Managing Director