



March 19, 2007

Dear Lessor:

We have been thinking of sending out an annual update about the company's progress for a while now. Recent requests for regular information from a couple of you have prompted me to put pen to paper. I'd like to discuss our planting efforts to date, the overall price of geoduck we've been experiencing these past few years, regulatory issues, and plans for the coming year.

We have 3 main farm areas at the moment: the Sandy Point area near Tolmie State Park in Thurston County, Spencer Cove in Case Inlet on the northeast side of Harstine Island, and just south of Hunter Point between Eld and Totten Inlets. We also have almost a dozen other smaller farms spread throughout South Puget Sound. Like real estate, location is a key variable in the success of a farm. Additionally, because geoduck farming is such a new industry, we have had our struggles in being able to consistently get good survival rates on our summer plantings. Seed size, weather conditions, substrate, food availability in the water, fresh water influxes-particularly in the winter, planting methods/equipment, seed transport, and seaweed issues all play a role in our success or on some beaches, the lack of. However, rising survival rates at virtually all our farm locations suggests that we are learning what matters.

The Sandy Point area is the farm area where we have had the most difficulties getting a consistent positive result. As most of you who live there know, the sheer volume of macro algae (seaweed) that grows in the Sandy Point area during the summer months can be staggering. All this seaweed can cause significant issues with regards to young geoduck. In fact, too much seaweed piled up and decaying on the beach can even kill a 3-4 year old juvenile geoduck. There are also significant fresh water inflows, particularly in the winter, in the middle of the farm area which can cause significant mortalities for young geoduck. This has resulted in widely varying success from year-to-year and even beach-to-beach. The unfortunate result is that some beach owners have seen much better results, with correspondingly bigger participation payments at harvest, than their neighbors. Fortunately, the last couple years have seen consistently better survival rates from our plants so the differences should be less in the years to come.

In early 2006 we formed a joint venture with Keith Ware, a Canadian researcher with extensive experience in the British Columbia geoduck dive fishery as well as in designing aquaculture equipment. Specifically, we wanted to explore better ways to plant geoduck with a heavy emphasis on the R&D of non-visible, biodegradable, economic systems. We were specifically interested in developing a cost effective and environmentally friendly way to plant geoduck clams in deep water. A method of planting was developed and, although it might be a bit early to give it a 100% approval rating (especially since it's not yet biodegradable), we were

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confident enough in what was co-developed that we planted over half of the 2006 crop using this method of planting. We call this new method of planting the "tunnel method" (see picture at end of letter) as opposed to our traditional tube method of planting geoducks. Many of the tunnels we put out last year were put in by divers late in the year so the new method has not been visible due to the lack of daylight low tides when the tunnels could be seen. Although we believe we have experienced high survival rates in our tunnels, it is still too early to scientifically and statistically determine survival rates.

As a point of reference, when we sample our beaches to determine survival rates, we generally can't do so until at least one year after we have planted them as the geoducks are too small to sample in their first year of growth. Last summer we sampled the 2005 crop for the first time and determined the overall survival rate to be 55%, which is an improvement over 2004's 47%. In 2006, we made some changes which we hope will have even more of a positive impact on our survival rates.

Some other observations come to mind with regards to our other farms. In general we're seeing darker animals harvested from our Totten Inlet farms and a correspondingly smaller price for harvested geoduck because of the color. The consensus in the industry is that this is because Totten Inlet is too rich in terms of nutrients which lead to too much algae production and ultimately low oxygen levels. The sources of these excess nutrients are suspected to be failing septic systems, pet wastes, lawn fertilizers, farm runoff, and storm water runoff. In fact, a soon to be released Environmental Impact Statement suggests that Totten Inlet is even in danger of going eutrophic (too little oxygen and too much nitrogen), like parts of Hood Canal. The upside of big food production in Totten is that the shellfish seem to grow faster than they do on our other farms in S. Puget Sound. Depending on location it is taking 4-6 years to grow geoduck to a market size. In some locations, particularly at higher beach elevations, it might even take a year or two longer.

On the pricing front the sales price for geoduck keeps rising. In 2006 we averaged \$9.48 per pound sold versus 2005's average price per pound of \$7.35. The market for geoduck clams continues to be strong and the sales price per pound reflects this: \$6.14 per pound in 2002, \$6.47 per pound in 2003-a year to date increase of 5.4%, \$6.84 per pound in 2004-a year to date increase of 5.7%, \$7.35 per pound in 2005-a year to date increase of 7.5%, and now \$9.48 in 2006-a year to date increase of 22.5%. Recently, I read an article in *Fish Farming International* titled "Chinese Consumption will be Unmatched" which sees "seafood consumption in China rising by 40% by 2020." In short, China's increasing prosperity, where 80% of our product is shipped, accounts for much of the rising price of geoduck. Another reason for our higher price in 2006 is that we changed our distributor and began using Alaska Ice Seafoods, Inc. in the fall. They appear to be doing a more effective job of marketing our product (as opposed to just selling it) which has resulted in our obtaining a higher price per pound. Alaska Ice averaged \$11.00 per pound in the final four months of 2006 while our previous three distributors averaged \$8.75 in the first eight months.



We are still struggling to get our average weight per duck up to the size we'd like which is 1.75 pounds vs. the 1.4 to 1.5 pound average we are currently harvesting. Eventually, when we have greater volumes of geoducks to sell we intend to transition to a longer growout period for our geoduck which should not only result in bigger clams but more clams being graded and sold at the top grade. Bigger sized clams and higher grades, which results in more geoducks sold at higher prices, should translate into increased revenue.

Public relations and regulatory issues have consumed a huge amount of my time in the last year. In an effort to find new growing grounds in 2005 and 2006, the geoduck industry moved into Carr Inlet, an Inlet that has seen very little shellfish farming as compared to most of the rest of South Puget Sound. A few urban waterfront homeowners declared that they did not like the appearance of geoduck nursery tubes on their neighbors' tidelands. These people eventually mobilized into several very vocal and organized opposition groups that have since morphed into a broad attack on the shellfish industry. Since this opposition has arisen I have spent much of my time writing letters-to-the-editors, engaging more main stream environmental organizations in written and verbal dialogues, meeting with and educating state agency personnel about the issues, and attending numerous meetings with shellfish industry folks working on the problem, including extensive meetings with a public relations firm the shellfish industry engaged.

All of this activity has resulted in legislation to regulate the shellfish industry that is currently being proposed in the Washington legislature. As this is one of the last unregulated industries in the country it comes as no surprise to us as we have been anticipating this kind of governmental action for several years. After competing bills were proposed, a compromise bill was eventually put forth which should come into law.

Additional positive regulatory news related to all this attention to shellfish aquaculture is the fact that the new bill also includes funding for research into the environmental effects of geoduck farming, particularly harvesting effects. Although the new bill also includes a section on guidelines for farming geoduck, there is really nothing in there that our company is not and has not already been doing. On the Federal level the Army Corps of Engineers recently issued their new draft Nationwide Permit for Shellfish culture which looks like it will have little to no effect on our operations. We were also heavily involved in this effort to make sure the new proposed aquaculture permits would work for the shellfish industry. Finally, the Attorney General of Washington State issued a legal opinion, in response to a legislator's request on the issue, that stated that the shellfish industry did not need to get conditional use permits to farm and that we were not required to get hydraulic permits from the Washington Department of Fish and Wildlife to harvest.

We have plans to plant a large amount of seed this year, so don't be surprised if you see a lot of new planting going on the beaches near you. The Sandy Pt. farm area as well as the Spencer Cove farm area could both see some extensive plantings. If you know anyone who has not yet signed a lease with us but has expressed some interest, please feel free to pass our



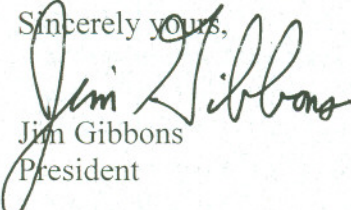
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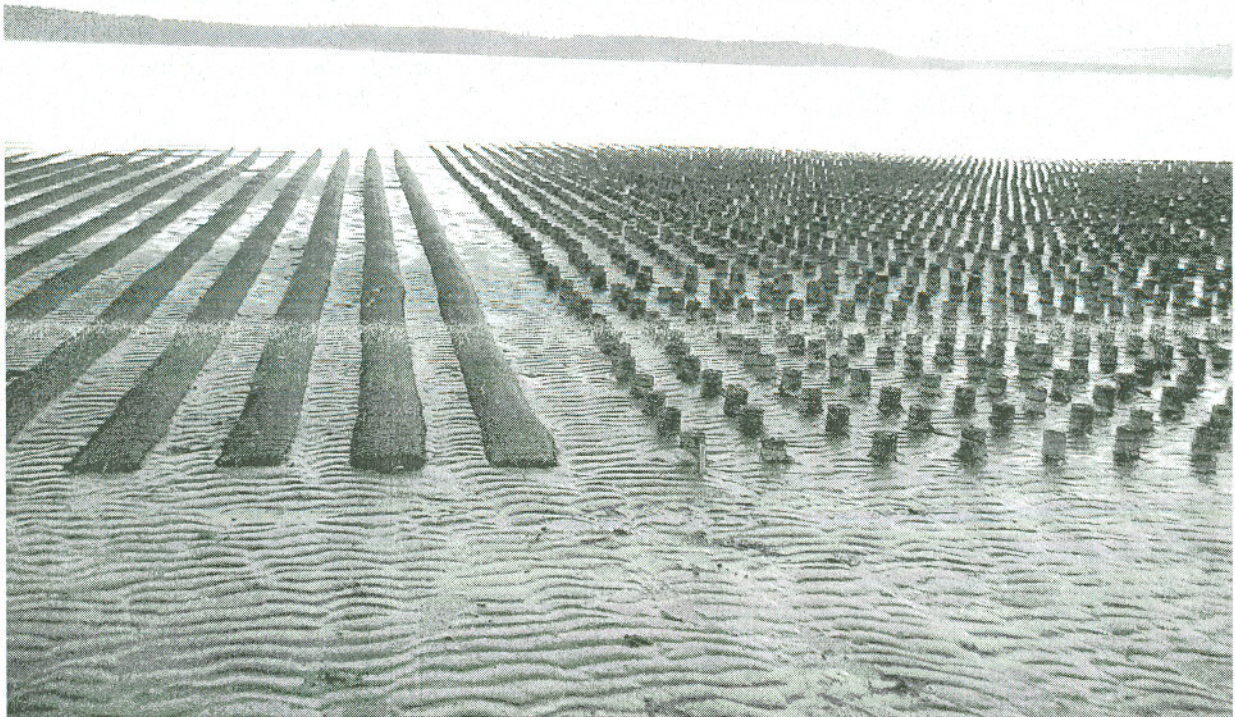
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name along. More importantly, on the regulatory front there are times when it would be very beneficial for us to have a satisfied geoduck lessor or two weigh in with their perspective on the pros and cons of geoduck farming. If you would be willing to write a letter or two or even testify at a legislative or county hearing, please let us know.

We have come a long way with our understanding of how to correctly plant geoduck, how to increase survival rates, and keep our geoducks alive until harvest. Please feel free to call Cathy Carlson or myself with concerns, questions or just a hello. Our toll free number is (877) 633-0461. Paul Harris, our Operations Manager, can be reached at 360-427-5264.

Sincerely yours,

  
Jim Gibbons  
President



New tunnel method (on left) adjacent to traditional tube method