

9580 Dos Pueblos Canyon Road, Goleta, California 93117  
t 805 685 1956 | f 805 685 5757 | info@culturedabalone.com

April 24, 2013

VIA EMAIL

Rebecca Flores-Miller  
State of California/Dept of Fish & Wildlife  
20 Lower Ragsdale Dr. #100  
Monterey, CA 93940

Eric Dockter  
State of California/Dept of Fish & Wildlife Business Services  
1416 9<sup>th</sup> St  
Sacramento, CA 95814

Karen Mitchell  
State of California/Dept of Fish & Wildlife Aquaculture Program  
830 S St  
Sacramento, CA 95814

RE: The Cultured Abalone Inc.

Dear Ms Flores-Miller, Mr. Dockter and Ms Mitchell,

We are sending a joint correspondence to you all as there are multiple administrative issues related to The Cultured Abalone of which one or more may fall into each of your areas of authority and we thought it might be best to send you all a complete packet of information covering all issues at hand.

Please note that The Cultured Abalone Inc. has been a longstanding registered aquaculture entity in California since 1986 engaged in the cultivation of red abalone (*rufens haliotis*) as well as the lessee of Kelp Bed 26; this lease was awarded 5/26/11 and the document has just been generated for execution by all parties within the last few weeks. The Cultured Abalone has also maintained a longstanding lease on Kelp Bed 208.

Please be advised that The Cultured Abalone Inc has undergone a financial reorganization in 2012; while the location, functionality and contact information has not changed, all aspects of the abalone farming activity will be operated under a single newly created LLC (The Cultured Abalone Farm LLC) going forward. In recognition of the sometimes lengthy administrative process related to the transfers of permits, licenses, etc necessitated by this reorganization, the new LLC has been operating under an interim management agreement on behalf of The Cultured Abalone Inc. since the reorganization took place in 2012; a copy is included for your file. Now that the lease document for Kelp Bed 26 is ready for execution we feel it is the appropriate time to request the following actions:

- 1) Transfer of the California Dept of F&W aquaculture registration for The Cultured Abalone Inc. (copy attached ) to be transferred to the new operating entity, The Cultured Abalone Farm LLC.
- 2) Assignment of the lease for Kelp Bed No 26 from The Cultured Abalone Inc as lessee to The Cultured Abalone Farm LLC as assignee (copy of newly generated lease attached).
- 3) Assignment of the lease for Kelp Bed No 208 from The Cultured Abalone Inc to The Cultured Abalone Farm LLC as assignee.

Note that the 2013 Kelp Harvesting license and the commercial vessel registration for the kelp harvesting vessel FV Ocean Harvest are current and registered to the The Cultured Abalone Farm LLC,; these items do not require any action.

Please note that the historic operation of The Cultured Abalone Inc et al, namely cultivation of red abalone (*Haliotis rufescens*) will continue unchanged under the new entity structure. Doug Bush who served as manager of The Cultured Abalone Inc. will serve as General Manager of The Cultured Abalone Farm LLC. New investors have joined the group and bring in a very high level of expertise in the biological sciences in general and aquaculture in particular. It is our intention to continue to maintain the highest standards with respect to the integrity of our aquaculture operation as well as the resource and regulatory stewardship responsibility that comes with granting of the various licenses and permits provided by the Dept of F&W.

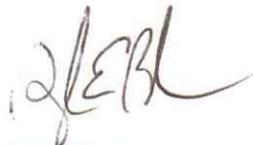
For your information we have also engaged the State Lands Commission in a similar process to assign our State Lands lease for our sea water intake lines; a copy of their assignment that was processed last month is included for your reference.

Please do not hesitate to call either of the undersigned with any questions or concerns in this regard. We look forward to hearing from you as to how best to accomplish these requested administrative matters in an efficient and timely manner.

Sincerely yours,



David P. Albaum  
LLC Manager



Doug Bush  
General Manager

cc: Randy Lovell/Dept of F&W State Aquaculture Coordinator  
Sonke Mastrup/California Fish and Game Executive Director

## MANAGEMENT AGREEMENT

This Management Agreement (this "Agreement") is dated as of March 22, 2012 (the "Effective Date"), by and among The Cultured Abalone Farm LLC, a California limited liability company (the "Buyer"), TCA, L.P., a California limited partnership (individually, "TCA") and The Cultured Abalone, Inc., a California corporation (collectively with TCA, the "Seller").

### RECITALS

A. The Seller operates an abalone aquaculture facility (the "Farm") on that portion of the real property identified as "Dos Pueblos Ranch" that is identified as parcels N1 (east of the creek), a portion of N5, N10 (east of the creek), N11 (east of the creek), N14A, portion of N14B, N14C, portion of N14D, portion of N15, the easterly portion of parcel N9, including the improvements thereon (collectively, the "Property").

B. TCA, the Buyer, and the other parties named therein, are entering into that certain Asset Purchase and Sublease Agreement of even date herewith (the "APA"), pursuant to which the Buyer is acquiring certain assets of TCA related to the Farm.

C. TCA and the Buyer are also entering into a sublease agreement of even date herewith (the "Sublease"), pursuant to which the Buyer will sublease the Property.

D. Operation of the Farm requires various governmental permits, licenses and agreements described on Exhibit A attached hereto (collectively, the "Licenses"). Some of the Licenses may not be transferred to the Buyer without consent of the applicable governmental agency or third party.

E. The Seller and the Buyer desire to enter into the APA and the Sublease and such other related agreements prior to the consent, transfer and assignment of the Licenses to the Buyer. Consequently, the Buyer has agreed to manage the operation of the Farm even though the Seller will continue to be responsible for the operation of the Farm subject to the terms of this Agreement and the Licenses.

NOW, THEREFORE, in consideration of the foregoing recitals which are incorporated herein by this reference, the mutual promises and covenants contained herein, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereby agree as follows:

### AGREEMENT

1. **Management of the Farm.** To the extent allowed pursuant to applicable law, the Buyer shall manage the operation of the Farm under the authorities granted to the Seller through the Licenses. Although the Buyer is managing the operation of the Farm, the Seller shall at all times during the Term (as defined in Section 3.1 below), as holder of the Licenses, possess authority and control over the Farm and shall cause the Farm to abide by all applicable laws. The Buyer shall abide by all applicable laws in connection with managing the operation of the Farm and otherwise acting as the agent of the Seller pursuant to this Agreement, and the Buyer

shall assist the Seller in assuring that the Farm abides by all applicable laws. In connection with the Buyer's management of the Farm, TCA hereby grants to the Buyer an irrevocable, exclusive, transferable, fully-paid-up license to use and operate the 1990 Peterbilt kelp truck (Lic. 6V88777), along with its bed and crane (collectively, the "Truck"). TCA shall convey the Truck to the Buyer pursuant to a separate bill of sale upon receipt of the Buyer's notice of election to acquire the Truck and the Buyer's delivery to TCA of One Dollar (\$1.00), and shall execute and deliver such other documents as the Buyer deems reasonably necessary to convey title to the Truck to the Buyer.

**2. Transfer and Assignment of Licenses.** The parties shall use commercially reasonable efforts to obtain all third party consents required in connection with the transfer and assignment of the Licenses to the Buyer, including, without limitation, the extension of the State Land Lease (as defined in Exhibit A).

**3. Term and Termination.**

3.1 The Term. The term of this Agreement (the "Term") shall commence on the Effective Date and shall continue until terminated pursuant to Sections 3.2 or 3.3 below.

3.2 Automatic Termination. This Agreement shall automatically terminate upon the earlier of (a) receipt of all extensions, consents and transfers of all the Licenses to the Buyer, (b) termination of the Sublease in compliance with its terms, or (c) the Buyer's receipt of its own governmental licenses, leases and permits that are substantially similar to the Licenses and which, in Buyer's reasonable opinion, enable the Buyer to operate the Farm in compliance with applicable law in a manner that is substantially similar to the operation of the Farm prior to the Effective Date.

3.3 Buyer's Termination Rights. The Buyer may, at any time on or before January 1, 2015, terminate this Agreement upon sixty (60) days advance written notice to TCA in the event that the State Land Lease is (a) not extended, (b) extended for a period that is less than twenty (20) years from and after January 1, 2012, or (c) extended on terms that are materially less favorable to the Buyer than the terms of the existing State Land Lease.

**4. Operating Expenses and Revenue.** The Buyer shall be responsible for all operating expenses of the Farm arising on and after the Effective Date. The Buyer shall be entitled to all revenues arising from the operation of the Farm during the Term ("Revenue"). Neither party shall receive any compensation pursuant to the terms of this Agreement. In the event that the Seller, during the Term or thereafter, collects Revenue attributable to the operation of the Farm during the Term or thereafter, the Seller shall, within ten (10) days after receipt, remit all Revenue to the Buyer.

**5. Reimbursement for Payment of Excluded Liability.** To the extent that the Buyer pays for any Excluded Liability (as defined in the APA), the Seller shall, within thirty (30) days after written notice from the Buyer, reimburse the Buyer an amount equal to the amount the Buyer paid for such Excluded Liability. If the Seller fails to reimburse the Buyer for such Excluded Liability within such thirty (30)-day time period, then the Buyer may offset the amount of such Excluded Liability against any amounts owed by the Buyer to the Seller.

**6. Indemnification.**

6.1 The Buyer's Indemnification Obligations. The Buyer shall protect, defend, indemnify and hold the Seller, and its officers, directors, shareholders, partners, independent contractors, employees and agents (collectively, the "Seller Parties"), harmless from and against all third party claims, demands, and causes of action, and all related costs and expenses (including without limitation reasonable attorneys' fees) incurred in connection therewith (collectively, "Damages") that may be asserted against or incurred by any of the Seller Parties in connection with (a) the Buyer's operation of the Farm on and after the Effective Date, or (b) the Buyer's breach of this Agreement.

6.2 The Seller's Indemnification Obligations. The Seller shall protect, defend, indemnify and hold the Buyer, and its officers, members, managers, independent contractors, employees and agents (collectively, the "Buyer Parties"), harmless from and against all Damages that may be asserted against or incurred by any of the Buyer Parties in connection with (a) the Seller's operation of the Farm prior to the Effective Date, or (b) the Seller's breach of this Agreement.

6.3 Procedure. In the event of a claim for indemnification pursuant to this Section 6, the parties shall comply with the indemnification procedure terms set forth in Section 8.3 of the APA.

**7. LIMITATION OF DAMAGES.** NEITHER PARTY SHALL BE LIABLE TO THE OTHER PARTY FOR ANY INDIRECT, SPECIAL, PUNITIVE, OR CONSEQUENTIAL DAMAGES (INCLUDING, WITHOUT LIMITATION, LOST PROFITS) ARISING OUT OF THIS AGREEMENT.

**8. General Terms.**

8.1 Amendment. All amendments or modifications of this Agreement shall be in writing and shall be signed by each of the parties hereto.

8.2 Waiver. Any waiver of any right, power, or privilege hereunder must be in writing and signed by the party being charged with the waiver. No delay on the part of any party hereto in exercising any right, power, or privilege hereunder shall operate as a waiver of any other right, power, or privilege hereunder, nor shall any single or partial exercise of any right, power, or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power, or privilege.

8.3 Notices. All notices or other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be delivered pursuant to the terms of Section 10.1 of the APA.

8.4 Assignment. No party hereto may assign or delegate any of its rights or obligations hereunder without first obtaining the prior, written consent of the other party.

8.5 Law Governing and Jurisdiction. This Agreement has been negotiated, executed, and delivered and shall be performed in the State of California and shall be governed by and construed and enforced in accordance with the laws of the State of California, without regard for its conflict of laws rules.

8.6 Attorneys' Fees. Should a lawsuit or arbitration be commenced to interpret or enforce the terms of this Agreement, the prevailing party shall be entitled to recover reasonable costs and attorneys' fees in addition to any other recovery to which such party may be entitled.

8.7 Counterpart Execution. This Agreement may be executed in two or more counterparts, including by facsimile transmission or e-mail of a scanned signature page, all of which together shall constitute one and the same instrument.

8.8 Severability of Provisions. In the event any one or more of the provisions of this Agreement shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision hereof, and this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

8.9 Integration. This Agreement and Exhibit A constitute the entire understanding and agreement between the parties with respect to the transactions contemplated herein, and supersede all previous communications, representations, or understandings, either oral or written, between the parties relating to the subject matter hereof, all of which are merged herein. Exhibit A is included by this reference and made a part of this Agreement.

8.10 Construction. The headings in the sections of this Agreement are for convenience only and shall not constitute a part hereof. All references to numbered sections contained herein refer to the sections and subsections of this Agreement unless otherwise expressly stated. Whenever the context so requires, the masculine shall include the feminine and the neuter, the singular shall include the plural, and conversely. The terms and all parts of this Agreement shall in all cases be interpreted simply and according to their plain meaning and neither for nor against any party hereto.

[Signatures appear on next page.]

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the Effective Date.

THE BUYER

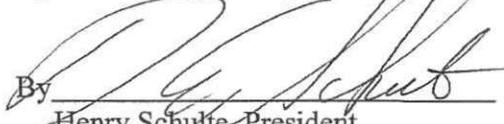
The Cultured Abalone Farm LLC

By:   
David Albaum, Manager

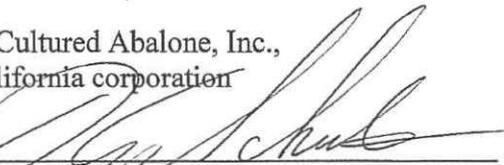
THE SELLER

TCA, L.P.,  
a California limited partnership

By: The Cultured Abalone, Inc., a California  
corporation, its general partner

By:   
Henry Schulte, President

The Cultured Abalone, Inc.,  
a California corporation

By:   
Henry Schulte, President