

LETTER FROM THE PRESIDENT

RE: Visit to China

DATE: January 10, 2007

Dear Reader,

I recently returned from a successful business trip to China. I attended the Chinese Seafood Exhibition in Qingdao, accompanied Tradex's full-time inspectors on several inspections and visited the plants of some of our suppliers.

Chinese Seafood Exhibition in Qingdao:

This year's event was larger than the previous one, a testament to the continued importance of the Chinese seafood processing industry. I saw an increase in the number of booths as well as a corresponding increase in the number of visitors since 2005.

Despite the increased number of booths, the products on display were largely the same, such as:

- Cod
- Pollock
- Salmon
- Shrimp
- Sole
- Surimi (imitation crab)

This show is an excellent opportunity to visit with our Chinese business partners as well as to develop new relationships.

A tale of two inspections:

For several years Tradex has sourced value-added products from Chinese plants. Over that time we have observed a number of unscrupulous production practices aimed at maximizing yields. We have fallen victim to some of these practices, but learned quickly from these experiences. We developed a preferred list of suppliers and in 2004 hired a staff of full-time inspectors in China.

Between regular plant inspections to qualify our suppliers and quality control inspections during production, we avoid potential problems before shipping. I observed this quality control process while visiting plants with our inspector.

After we toured our suppliers' plants, our senior inspector Johnson Zong, introduced us to a competitor's facility where we were graciously allowed to roam freely through the plant.

Diagram 1 – Belly flap tucked under portions from Trim C fillet

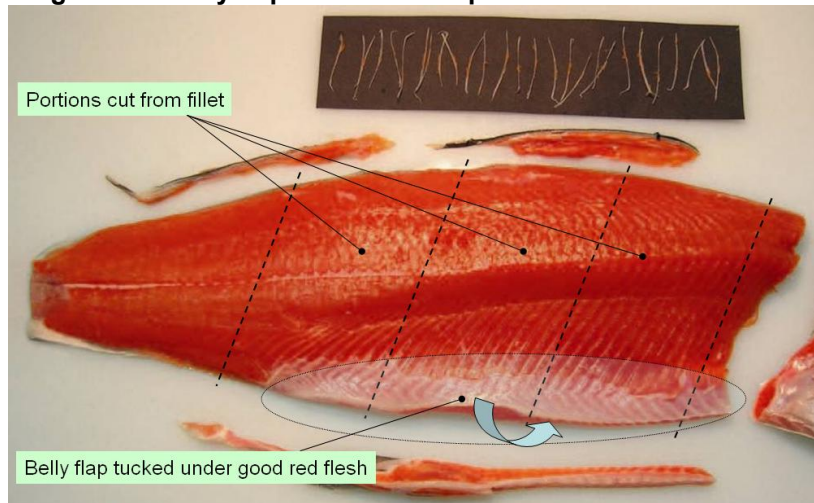


Photo credit: Alaska Seafood Marketing Institute (ASMI)

We surveyed the production line as the staff produced an order of chum salmon portions for a North American client. The plant was clean and efficient, but Johnson and I immediately recognized that the processor was producing this order for yield and price rather than for quality.

In general a processor cuts a chum salmon portion from a Trim C fillet (see Diagram 1), with the belly fully trimmed. For this order, to achieve the desired result, the plant

was not trimming the belly flap, folding it instead under the body of the meat before cutting the portions. This practice increases the plant's yields but shortchanges the end user.

We also noticed that this plant was soaking its portions in additional chemicals. It is common practice in frozen meat industries, seafood included, to apply a phosphate solution such as sodium tripolyphosphate (STPP) to the meat before freezing. Used in moderation, this prevents moisture loss from the flesh during long periods in a frozen state. Some producers abuse the practice, applying excessive amounts of STPP to increase yields with extra water retention.

This plant was not necessarily over-soaking with STPP but was adding a red dye (EVC-NA) to improve the color of the salmon meat, especially for the paler chum portions. As a result, these predominantly pale portions would likely be sold as good meat color product in North America.

In conclusion I enjoyed a successful trip to China. I connected with new and existing business partners as well as with Tradex's staff in China. I was also pleased to see how measures Tradex has taken in China have succeeded in mitigating the effects of unscrupulous business practices on our customers and ourselves.

Sincerely

Robert Reiersen
President / CEO
Tradex Foods Inc.