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Melanie Loyzim, Commissioner
Maine Department of Environmental Protection
17 State House Station
32 Blossom Lane
Augusta, ME 04333-0017

Carlos Mello, Chief Executive Officer
Finance Authority of Maine
P.O. Box 949
5 Community Drive
Augusta, ME 04332-0949

RE: Financial Capacity of Kingfish Maine, Inc.

Dear Commissioner Loyzim and Mr. Mello,

I wish to bring to your attention certain financial realities related to Kingfish Maine, Inc (“Kingfish Maine”).

On March 25th, 2021 Kingfish Maine filed a Site Location of Development Application (“SLODA”) with Maine’s Department of Environmental Protection (“DEP”). Kingfish Maine attached a letter from a financial institution purporting to provide a “commitment or intent to fund” the company’s “minimum of \$110m” proposed development of a land-based Recirculating

Aquaculture System (“RAS”) that would grow and harvest yellowtail kingfish in Jonesport, Maine.¹

The letter, from Cooperatieve Rabobank U.A. (Netherlands) (“Rabobank”), addressed to Kingfish Maine’s parent, The Kingfish Company, NV. (Netherlands) (“Kingfish NV”), provided no such commitment.

To the contrary, the letter stated that, “A significant portion of this investment will have to be financed by equity”. Rabobank remarked that, “subject to sufficient equity financing being in place, Rabobank is interested in further exploring this financing opportunity with you.” Toward the end of the letter, Rabobank noted starkly that “This LOI is for discussion purposes only and does not constitute, and may not be construed as constituting a commitment or an offer to commit to any transaction or financing by Cooperatieve Rabobank U.A.”

The reason for such a weak letter was that the Kingfish NV venture was, and still is, essentially a speculative start-up. The science and technology of the RAS has not been commercially proven. Indeed, the company admitted that “land-based Yellowtail Kingfish farming is a new industry....still in its development phase”². Biofiltration to convert ammonia excreted by fish into nitrates, removal of solids excreted by fish, oxygenation of the system water to maintain high production densities, and strict water temperature control, among other processes, have never before been achieved together at scale. Consequently, no meaningful operating history, much less profitability, has ever occurred.

On November 12, 2021 the DEP approved Kingfish Maine’s SLODA. Under “Financial Capacity” the DEP states: “The total cost of the project is estimated to be \$110 million. The applicant submitted a letter from Rabobank Bank, dated March 10, 2021 indicating that it intends to provide financing for this project.”

The DEP was incorrect on both statements. The “total cost of the project” was never going to be \$110 million (indeed Kingfish called this number a “minimum”). Based on results in the Netherlands, this amount would be enough to fund Phase 1 only, and completion of just Phase 1 would not render the operation profitable. Much more would have to be invested in Phases 2 and 3 to prove commercial viability. “The Company is planning to commence construction of the first phase (approximately 6,500t WFE capacity) of its Maine site in the United States during H2 2021”but that it “does not currently have sufficient liquidity for the capital expenditure relating to the contemplated expansion...*estimated to be in the range of EUR 170 million to EUR 190 million.*” (*\$204 million to \$228 million*).³ Kingfish Maine and Kingfish NV knew that the \$110 million number was incorrect to complete the project prior to filing the SLODA.

¹ Appendix 3A Financial Statements of the SLODA – “Letter of Intent” from Cooperatieve Rabobank U.A. dated 10 March, 2021.

² EU Growth Prospectus - The Kingfish Company NV “Subsequent Offering” dated 22 December, 2022

³ Admission Document of The Kingfish Company NV to trade on the Merkur Market dated 24 November, 2020

Secondly, as noted above, Rabobank did not indicate any intent to provide financing for the project. Consequently, no financial capacity was ever demonstrated by Kingfish Maine or Kingfish NV. Financial capacity is vitally important not just for ongoing operations, but also to cover potential future liabilities, environmental or otherwise. While it is true that the DEP deferred a final finding on financial capacity by placing a condition on the permit, it is not true that the financial hurdle to complete the project is \$110 million. A much higher hurdle will need to be met, including supplements to cover potential environmental remediation.

Having no operation of its own, Kingfish Maine is 100% reliant on Kingfish NV for its funding. Since the SLODA submission over two years ago, a number of developments have occurred that question the financial capacity of Kingfish NV to support the proposed Jonesport venture.

By way of background:

- Kingfish N.V. was listed on the EuroNext Growth (Oslo Stock Exchange) in November 2020 to raise money for an experimental land-based fish farm in the Netherlands. Combined with earlier private placements of nearly \$40 million since 2015, the Initial Public Offering (“IPO”) funding brought the total raised to build out just Phase I of the system to approximately \$100 million.⁴
- The early market capitalization of the company was described by Kingfish NV as “ranging from \$200 million to \$270 million”, with the IPO “oversubscribed”.⁵
- The global interest rate environment when the company went public was the lowest in decades. Equity markets were very liquid. There was significant optimism surrounding a new ecologically grounded venture in the production of farm-raised fish.
- Though the operation was not expected to make money initially, the company envisaged a rapid development schedule, “targeting to reach production levels of Yellowtail Kingfish of 20,000 tons per annum by 2025.”⁶

The reality since the IPO has been far less positive or optimistic. In the roughly two and one-half years since the public offering, the following has transpired:

- The operation has continued to lose significant money. In 2020, the company lost \$6.8 million before tax effects; in 2021, the loss was \$9.1 million; and in 2022, the loss was \$9.8 million.⁷ Recent loss projections for 2023 and 2024 are \$11.5 million and \$2.1 million, respectively.⁸ Profitability is not expected until 2025 at the earliest. By the end of 2024, the cumulative operational losses over the previous 5 years are projected to be close to \$40 million.

⁴ Appendix 3A Financial Statements of the SLODA – letter from Kingfish Maine, dated February 24, 2021

⁵ *ibid.*

⁶ Admission Document of The Kingfish Company NV to trade on the Merkur Market, dated 24 November, 2020

⁷ The Kingfish Company NV Annual Reports for 2021 and 2022

⁸ Analyst “Simply Wall Street” dated 03 May 20223

- The failure to achieve targeted production levels due to delayed development of automation systems and software, coupled with operating losses and cost overruns on its planned plant expansions, have caused Kingfish NV to return to the market several times for capital, each time more expensively. It turns out that the IPO at the end of 2020 had barely raised enough to complete Phase 1 of the project.
- In April '22, the company announced it had secured a \$79 million Senior facility Agreement from P Capital Partners (“PCP”) of Sweden for a maximum 5-year term at 8.0% base interest + 3-month Euribor (currently at 3.7%), for a total annual cost of 11.7%. The loan included a number of strict financial covenants linked to equity, liquidity, and profitability. Of note, it would not fund CAPEX overruns. Some \$20 million in proceeds from this loan were used to repay the previous lender, Rabobank. Rabobank then agreed to a new ancillary facility of \$5 million.⁹
- In September '22, the company announced a major revision in costs to complete its Phase 2 capital program to scale the business to a 3,500-ton capacity. “Tightening macroeconomic conditions, including a global labour shortage, challenges related to supply chain logistics, and scope enhancements have significantly impacted construction costs.”¹⁰ The timing to complete Phase 2 was also pushed out to the 4th quarter of '23. Costs originally scheduled at approximately \$65 million had mushroomed to \$94 million.¹¹ This estimate was increased in April '23 to approximately \$105 million, with Phase 2 harvesting not expected to reach “steady state” until the 4th quarter of 2024. “The company is monitoring its liquidity situation and is considering several funding alternatives to finance the biomass and working capital growth of Phase 2” and beyond.¹²
- The company also announced it had secured an equity private placement in the amount of approximately \$17 million, at a lower price than the IPO, diluting existing shareholders.¹³ Shares were down 9% on the news. While certain insiders participated, the company had to reach out to new groups, including Stolt-Nielsen M.S. Ltd. of London to complete the funding.
- *Part of the increase in CAPEX was occasioned by a requirement to build a full-scale wastewater treatment facility at the site. The company stated the following on a jobsite posting related to the new facility: “In the coming years, production from our site in Zeeland will expand significantly. Production inevitably is accompanied by the discharge of wastewater and nutrients into the environment. The discharge of nutrients, especially of nitrogen and phosphorus, can cause eutrophication of surface water. To minimize the impact on the environment, Kingfish Zeeland wants to treat its wastewater*

⁹ EU Growth Prospectus - The Kingfish Company NV “Subsequent Offering” dated 22 December, 2022

¹⁰ EU Growth Prospectus - The Kingfish Company NV “Subsequent Offering” dated 22 December, 2022

¹¹ Market Screener, Oslo Stock Exchange dated 16 September 2022

¹² Market Screener dated April 20, 2023

¹³ Market Screener dated 27 September, 2022

before discharge.”¹⁴ Note that this apparent concern for the environment does not extend to its proposed facility in the United States, where the company is on a course to externalize the bulk of its wastewater and nutrient discharge costs into the pristine and fragile waters of Chandler Bay in Jonesport, Maine.

- At the end of 2022, Kingfish NV had approximately \$59.8 million in total borrowings, which had mushroomed from \$8.9 million the year before. Finance Costs on borrowings from 2020 had ballooned from \$0.4 million to \$2.2 million and are accelerating. Based on what we know about the P Capital loans, it is projected that 2023 interest costs could be in the range of \$9-\$10 million, which will increase Kingfish NV’s cash burn rate. As noted, the company’s operations do not make money, so these Finance Costs need to be covered through the raising of more equity or more debt. Kingfish NV had only \$1.7 million in cash at the end of last year.
- In January ‘23 the company closed on a \$22 million “Subsequent Offering”.¹⁵ The effect on existing non-participating shareholders was catastrophic, causing a 38.9% dilution. Overall dilution caused by equity offerings since the IPO (including shares reserved for its most recent Convertible Loan) has been a staggering 167%, at progressively lower prices.
- In April ‘23 Kingfish NV’s auditors (Baker Tilly) gave an unqualified opinion expressing doubt that the company could continue as a going concern. Their opinion in the Annual Report for 2022 states: “Given the possibility of a breach of covenants and the need for funding in the coming 12 months, the company is depending on the willingness of investors and financiers to continue the existing financing facilities and/or provide additional funding to operate as a going concern. This indicates the existence of a material uncertainty with respect to the going concern.”¹⁶
- At the time of this announcement, the company said, “Management remains positive about the outlook for the Kingfish Company despite a recent spike in energy costs and feed prices”.¹⁷ Feed prices were up 30%.
- Finally, in July of this year the company announced the raising of an unsecured Convertible Loan in the amount of \$34.7 million.¹⁸ While certain insiders participated, Kingfish NV had to reach out to yet another new group, the Ocean 14 Capital Fund, for \$11.9 million to complete the funding. The unsecured Convertible Loan is expensive. It bears an interest rate of 15% with an upfront fee of 3%. The reason for taking this loan on appears to be able to pay the interest on the company’s other loans. Because Kingfish NV’s operations do not generate sufficient cash flow, interest for this loan is being “paid in kind”; this is similar to credit card debt, where the loan balance keeps ballooning as it rolls over each interest period.

¹⁴ Posting on jobs.lever.co by The Kingfish Company NV – “Internship Waste Water Treatment”, June, 2023

¹⁵ EU Growth Prospectus - The Kingfish Company NV “Subsequent Offering” dated 22 December, 2022

¹⁶ Market Screener news release dated 18 April, 2023 and 2022 Annual Report

¹⁷ Market Screener news release dated 20 April, 2023

¹⁸ NewsWeb Oslo Bors dated 5 July 2023

- In all, by the end of 2023, the current estimate to have completed Phases 1 and 2 of the company's business exceeds \$250 million – a massive commitment of capital to produce only 3,500 tons of fish per year, from an operation that will still not be profitable.
- The impact on the company's share price has been devastating. From early 2021 until August 2023 the share price has fallen from a high of \$3.14 to \$0.84, a drop of 73%, for one of the worst performances within its peer group. The company's market capitalization currently stands at approximately \$93 million, a fraction of what it would take to support any expansion into Jonesport, Maine.
- In a July 20 '23 press release, the company noted it had "completed some feed trials resulting in new formulations which aim to reduce the content of marine ingredients, while reducing feed costs". Total Raw Materials costs, per ton of product sold, had already increased 6% in 2022. The requirement for electricity had increased to such a degree that it no longer could be gathered from "green sources". Increasing operating costs were continuing to squeeze margins.
- Such deterioration does not come without calling management to account. Both the founder/Chief Executive Officer and the Chief Financial Officer, who were with the company at the time of the IPO, "stepped down" during the last half of 2022.¹⁹ And recently, the Chief Technology Officer and Kingfish NV co-founder has stepped down as well.²⁰

Kingfish NV has an admirable Investor Relations department that generates glowing reports of increased production and technological milestones being met. However, it is clear that the company faces some serious problems. Profitability is two years off, at the earliest. Operating margins are not as robust as projected. Even should Kingfish NV eventually reach operating breakeven, its estimated \$120 million in debt by the end of this year will cause all available cash to be directed toward repaying its lenders. Total debt service costs in 2024 look to accelerate to \$15 million. The continued lack of proven technology at scale will no doubt cause further delays, and CAPEX costs, especially for Phase 3 (which will nearly double the Phase 2 capacity from 3,500 tons to 6,000 tons), will be formidable. Lastly, the PCP loan of \$79 million is due in 3 ½ years. Where will the funding come from?

When Rabobank issued its letter in early 2021, Kingfish NV had more promise, interest rates were lower, prices of feed and electricity were lower, construction costs and completion times were less, and the company was a valued customer. It is unclear how Rabobank would support this venture now.

Conclusions:

As Kingfish NV scrambles in the Netherlands to achieve a viable enterprise, it is clear that it does not have the capability to fund Kingfish Maine, which at a projected 8,500 tons capacity is more

¹⁹ Market Screener – October 31 and August 17, 2022, respectively

²⁰ Undercurrent News – June 13, 2023

than 40% larger than the company's Phase 3 steady-state in Europe. For Kingfish NV shareholders and debt holders the US venture would represent yet another lengthy and costly start-up, with as yet unproven technology and significant environmental risk.

The foregoing facts raise the issue of whether Kingfish Maine misrepresented its financial capacity to the State in its SLODA, to the Town of Jonesport in its Site Application process, and to FAME in order to obtain loan insurance. On the face of it, Kingfish Maine appears to have been granted a free option to build its project based on an illusion and a prayer, shrouding a highly speculative economic situation with misleading and selective operational highlights from the Netherlands pilot project of its parent.

Maine and its environment deserve better than this.

Sincerely yours,

A handwritten signature in black ink, appearing to read "John P.M. Higgins", with a long horizontal flourish extending to the right.

John P.M. Higgins
Financial Consultant