AquaCarotene Limited

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Natural Culture

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17 May 2004

Mr Marcus Hodge
Senior Companies Advisor
Australian Stock Exchange Limited
Level 8, Exchange Plaza
2 The Esplanade
PERTH WA 6000

By facsimile: 9221 2020

Dear Mr Hodge

AQUACAROTENE LIMITED

We refer to your correspondence dated 12 May, which was only received by us on 14 May and reply as follows.

Prior to addressing the issues we hereby provide you with some background information to some of our current activities.

1. As previously announced we have renegotiated Terms and Conditions in respect of the Carr Civil Contracting agreement concerning the Company's mining leases located in Karratha. The Company has received the first two payments.

2. The Company has entered into an arrangement to establish a sand extraction facility on the Company's mining leases with Pilbara Plant Hire. The expectation is of monthly quantities of between 800 and 2,000 cubic metres of material per month. The negotiated rate is $8.00 per cubic metres. We are preparing the Application to the Department of Industry and Resources for these works to be undertaken. The initial deposit sum has been received.

3. The Company has recently completed carting a further 11,000 tonnes at a rate of $5.80 per tonne. The contract rate of $5.80 was invoiced as at 30 April 2004 with payment due 30 May 2004.

4. We are expecting to supply a further three to five thousand tonne of material during the month of May.

5. We are currently negotiating an additional quantity of material upward to 20,000 cubic metres during the month of June.

6. We are in discussion with an overseas group who has indicated the possibility of substantial equity participation within Australia, together with a proposal for technology transfer and overseas joint venture activities.

7. Management is not incurring any expenditure in terms of remuneration for labour and services.

We now respond to your questions in the order of those questions:

1. The Company will not continue to expend cash at the rate as the last quarter. That figure included a substantial payment of a long outstanding liability of a non-recurring nature.

   The Company believes that it has sufficient resources to meets its activities for the next quarter and acknowledges that it is not expected to have any substantial external creditor liabilities.

2. No. As can be seen from the above information, the Company does not expect to be operating a negative cash flow.

3. Other than as mentioned in 1 above the Company's actual revenue and expenditure in the quarter as reported in the Appendix C is acknowledged as being anticipated and there were no other issues that were considered to be extraordinary.

4. Refer to (3) above.

5. The Company has established a detailed Business Plan and as can be seen by the information contained herein has taken steps to establish a continuous form of income and is satisfied that it can continue to meet its commercial and financial responsibilities as and when they occur.

6. The Company acknowledges that is it is in compliance with the Listing Rules and in particular, Listing Rule 3.1.

7. In view as the above information the Directors of the Company are of the opinion the Company is able to pay its debts as and when they fall due.

Should you require any further information or have any queries please do not hesitate to contact the writer.

Yours faithfully

Douglas Wood

DOUGLAS WOOD
Director

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FAXED
12 May 2004

Mr D McArthur
Company Secretary
Aquacarotene Limited
Suite 7, 95 Hay Street
SUBIACO WA 6008

By facsimile: 9389 8327

Dear Sir

Aquacarotene Limited (the "Company")

I refer to the Company's Quarterly Report in the form of Appendix 4C for the period ended 31 March 2004, released to Australian Stock Exchange Limited ("ASX") on 30 April 2004, (the "Appendix 4C").

ASX notes that the Company has reported the following.

1. Receipts from customers of $5,000.

2. Net negative operating cash flows for the quarter of $155,000.

3. Negative cash at end of quarter of $51,000.

In light of the information contained in the Appendix 4C, please respond to each of the following questions.

1. It is possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the quarter indicated by the Appendix 4C, the Company will not have sufficient cash to fund its activities for the next quarter. Is this the case, or are there other factors that should be taken into account in assessing the Company's position?

2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Appendix 4C for the quarter and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?

3. To what extent have the Company's actual revenues and expenses in the quarter, as reported in the Appendix 4C, matched the Company's anticipated revenues and expenses for that reporting period?

4. If the Company's actual revenues and expenses are not substantially in accordance with the Company's anticipated revenues and expenses, when did the Company become aware that its revenues and expenses would not substantially match the anticipated revenues and expenses? You may wish to outline any circumstances that may have had an effect on the Company's revenues and expenses.

5. What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives?

6. Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?

7. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

Listing rule 3.1

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in the rule.

In responding to this letter you should consult listing rule 3.1 and the guidance note titled "Continuous disclosure: listing rule 3.1".

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

This letter and your response will be released to the market. If you have any concerns about your response being released, please contact me immediately. Your response should be sent to me on **facsimile number (08) 9221 2020.** It should <u>not</u> be sent to the Company Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, not later than the close of business (ie **5.00pm W.S.T.**) on **Friday, 14 May 2004.**

If you are unable to respond by the time requested you should consider a request for a trading halt in the Company's securities.

If you have any queries regarding any of the above, please let me know.

Yours faithfully

Marcus Hodge
<u>Senior Companies Advisor</u>