WHK Horwath

To	ASX	From	Mervyn Kitay
Attention		Pages	**3 (including cover)**
Facsimile	1300 135 638	Date	7 September 2010
Subject	Update to Shareholders	Email	

☑ Urgent ☐ For review ☐ Please comment ☐ Please reply ☐ Please recycle

This facsimile may contain privileged and confidential information. Use of any of the information by other than the addressee is expressly prohibited. If you have received this facsimile in error, please advise us immediately and return it to the address below at our cost.

Dear Sir/Madam

AAQ HOLDINGS LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 098 236 938
FORMERLY KNOWN AS "AUSTRALIS AQUACULTURE LIMITED"

Please find attached an update to shareholders to be lodged as soon as possible, but in any event no later than 5pm today.

Please do not hesitate to contact me or Ms Caitlin Searle on (08) 9481 1448 if you have any queries.

Yours faithfully
for and on behalf of AAQ Holdings Limited (Subject to Deed of Company Arrangement)

Mervyn Kitay
Deed Administrator

Member Horwath International
WHK Horwath Pty Ltd ABN 84 006 466 351
Level 6, 256 St Georges Terrace Perth WA 6000 Australia
GPO Box P1213 Perth WA 6844 Australia
Telephone +61 8 9481 1448 Facsimile +61 8 9481 0152
Email perth@whkhorwath.com.au www.whkhorwath.com.au
A WHK Group firm

Horwath

Horwath refers to Horwath International Association, a Swiss verein. Each member of the Association is a separate and independent legal entity.

AAQ HOLDINGS LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
FORMERLY AUSTRALIS AQUACULTURE LIMITED ("AAQ" OR "THE COMPANY")

DEED ADMINISTRATOR'S UPDATE TO SHAREHOLDERS

7 SEPTEMBER 2010

I am pleased to provide shareholders with the following updates on the administration of AAQ:

1. RECONSTRUCTION

Background

Promptly after my appointment as Administrator in January 2009, I initiated a marketing campaign inviting proposals for the reconstruction of AAQ, and as a result, have received a number of proposals.

However, further progress on the reconstruction was delayed due to the need for me to first deal with shareholder claims against AAQ for alleged misleading and deceptive conduct (per *Sons of Gwalia* precedent), and for alleged breaches of continuous disclosure requirements, which arose during that time (please see section 3 for further details).

Having dealt with a majority of the shareholder claims in or about November 2009, I re-commenced the reconstruction exercise. Due to the time which lapsed since last advertising for interested parties to participate in the reconstruction (in January 2009), as well as the change in market conditions during this time, I considered it necessary to re-advertise for fresh interests. Pursuant to an advertisement in November 2009, I received more than 20 expressions of interest, and a number of fresh proposals.

Execution of Reconstruction Deed

I am pleased to advise that I have selected Charterhouse Capital Pty Ltd ("Charterhouse") as the Proponent of the reconstruction. In this regard, a Reconstruction Deed has been executed today between Charterhouse and AAQ. As part of the reconstruction process, shareholders will be required to consider and approve the reconstruction proposal at an Extraordinary General Meeting ("EGM"), which is expected to be convened in the next two months. Further details on the Reconstruction Deed will be provided to shareholders in due course, by way of an Explanatory Memorandum (together with the necessary meeting notices and documents).

2. DEED OF COMPANY ARRANGEMENT

Background

At the second meeting of creditors of AAQ held on 20 February 2009 under s439A of the *Corporations Act 2001* ("the Act"), creditors voted in favour of AAQ to enter into a "holding" DOCA for a period of 6 months, and that I be appointed Deed Administrator. The "holding" DOCA was executed between the parties on 11 March 2009.

The "holding" DOCA allowed me to pursue the restructuring of AAQ, which would not be possible if AAQ went into liquidation.

Variation of "Holding" DOCA by Creditors

Having entered into a Reconstruction Deed with Charterhouse, I will within the coming weeks, convene a meeting of creditors under section 445F of the Act, to propose the necessary variations to the "holding" DOCA to allow for the reconstruction of AAQ (as the "holding" DOCA did not contain such specific provisions).

3. SHAREHOLDER CLAIMS

Shortly after my appointment, I received calls and correspondences from AAQ's shareholders expressing their concerns in relation to the collapse of the Company and seeking compensation in the form of damages (akin to those sought in *Sons of Gwalia* case). Therefore, I was required to conduct extensive investigation into the allegations made by AAQ's shareholders. As a result of the *Sons of Gwalia* case, shareholders may in certain circumstances be treated as creditors and participate in dividends that mat be paid to the Company's unsecured creditors.

As a result of my investigations, I have concluded that some shareholders may have a basis for a claim, and therefore in July 2009, I invited shareholders to lodge any claims that they may have. Consequently, I received in excess of 240 claims totalling approximately $6.3 million (several creditors have since revised their claim, thereby reducing the total quantum of claims to approximately $3.6 million). I was therefore required to adjudicate these claims to determine the number and value of claims to be admitted to the pool of creditors, prior to proceeding with the reconstruction of AAQ.

Further, I have advised the Company's Directors and Officers ("D&O") Insurers of such claims. I would expect that shortly after the EGM, further consultation will be had between my solicitor and the Insurer with regard to the shareholder claims.

To date, I have formally rejected approximately 180 shareholder claims, totalling approximately $2 million. I am required to seek further expert and/or legal advice to finalise my adjudication of the remaining 60 or so claims totalling approximately $1.6 million. This exercise is likely to take place after the reconstruction of AAQ is finalised.

Further information can be obtained by contacting the Deed Administrator by email on perth@whkhorwath.com.au.

Mervyn Kitay
Deed Administrator
7 September 2010