

AMERICAN ARBITRATION ASSOCIATION
Commercial Arbitration Tribunal

Westminster Securities Corp. and
John O' Shea

Claimants

v.

Case No.
13 199 Y 00334 06

HQ Sustainable Maritime Industries, Inc.,

Respondent

MEMORANDUM AND AWARD OF THE ARBITRATORS

We, THE UNDERSIGNED ARBITRATORS, having been designated in accordance with the arbitration agreement entered into between the above-named parties dated January 5, 2004 (the "Agreement") amended by an Amendment Agreement dated October 7, 2005 (the "Amendment Agreement") and an arbitration agreement dated April 22, 2004, and having been duly sworn, and having duly heard the proofs and allegations of the parties, and for the reasons set forth below, do hereby AWARD as follows:

The Parties and the Nature of the Case

Claimant, Westminster Securities Corp. ("Westminster") is an investment banking firm located in New York City. Claimant, John O'Shea, ("O'Shea") is an officer of Westminster and has a separate claim for damages.

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Respondent, HQ Sustainable Maritime Industries, Inc.

("HQ") through a complex series of transactions has succeeded to the business of Chinese companies primarily engaged in the business of aquaculture in China exporting its products to the U.S., Canada, Japan and European countries. HQ entered into the Agreement with Westminster in connection with securing financing for its operations and business expansion.

The issues in this case are chiefly what the arrangement was between the parties and whether any of a number of events entitle Westminster to compensation.

Before the hearings the parties conducted extensive depositions, the transcripts of which were submitted to us and which were used as a part of the record. We held two days of evidentiary hearings in July, 2007, and an additional hearing on October 30, 2007. We reviewed the record, the documents the parties presented to us, including closing briefs, and have deliberated. Our conclusions are as follows.

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The chief question was whether or not the Agreement made Westminster HQ's exclusive placement agent and, if so, what rights this conferred on Westminster. If Westminster was the exclusive agent, it argues that it would be entitled to be paid a placement agent fee with respect to all of HQ's investment banking transactions whether or not Westminster was involved. HQ argues that Westminster was not an exclusive agent.

While the Agreement does not expressly call Westminster a "placement agent" and does not specify the consequences were HQ to engage another agent in contravention of the exclusivity, we conclude that the Agreement by its terms and by the actions and testimony of the parties, did make Westminster an exclusive agent for investment banking transactions and prohibited HQ from engaging and paying another agent (however described) for such transactions. We find that the proper remedy intended by the agreement and contemplated by the parties at the time was that as to those transactions where a placement

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fee was paid to another agent, Westminster should receive the commission it would have received under the Agreement had it acted as the agent on the transaction.

The Agreement provided that for private placement equity transactions, Westminster was to receive a fee of 8% of the amount raised and warrants equal to 10% of the amount raised, exercisable at the price paid by the investors in the private placement.

There were in all five relevant transactions during the term of the Agreement. In October, 2007 we reopened the hearings for the limited purpose of determining exactly what Westminster was claiming. We directed the parties to provide us answers to the following questions with respect to each of the transactions for which Westminster claims to be entitled to any compensation:

1. What is the date and nature of the transaction?
2. Which entities are parties to the transaction?
3. If an advisor or placement agent of any form was used, the identity of the same and the amount of

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compensation received.

4. If warrants were involved in any such transaction what was their exercise price at the time.

On the basis of the prior record and the information received at the hearing held October 30, 2007, we find that Westminster is entitled to fees on only one of the transactions. Our determination is as follows.

The transaction of April 21, 2004 was a transaction with John Cheng, a closely related party to HQ. While Mr. Cheng was given a fee in stock of the company, we find that Westminster had no expectation that it would be paid for this transaction. We find that Westminster is entitled to no recovery in respect thereto.

Similarly, the transactions of August, 2004, mergers and acquisitions, as Westminster's Post-Hearing brief describes them, were "closely related deals with family members of the founding family of HQ." Westminster had no expectation of payment and indeed made the contemporaneous decision not to seek compensation. No fees were paid to an

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agent in connection with these transactions. We find that Westminster is entitled to no recovery in respect thereto.

On January 26, 2006 HQ raised \$5,255,000.00 plus warrants. It paid a fee to Bernstein & Lindsey. We find that Westminster is entitled to be compensated for this transaction in accordance with the Agreement. This would amount to \$418,000.00 and 87,083 warrants to purchase shares exercisable at \$6.00.

On November 8, 2006 HQ raised \$5,000,000.00. No fee was paid with respect to this transaction and we find that Westminster is entitled to no compensation with respect thereto.

We turn to the separate claim of John O' Shea. O' Shea is a party to a Stock Purchase Agreement dated April, 2004 (the "Stock Purchase Agreement") under which he received warrants to purchase HQ stock. The agreement contains a prohibition on issuance of S-8 stock and convertible debt without the consent of 75% of the share owners. HQ violated these provisions by the issuance of stock in November, 2005

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and convertible debt in January, 2006. We find that HQ knew that these issuances were in violation of the Stock Purchase Agreement.

We find that the proper remedy for HQ's action is to order a repricing of the exercise price of O'Shea's warrants to \$5.00 per share for the 28,000 Class C and D shares covered by the warrants. We are not awarding punitive damages but see our determination below regarding attorney's fees.

There are several items that are not in dispute and we are ordering HQ to pay them. These are:

Expenses and costs incurred in the initial reverse merger and private placement in the amount of \$45,754.41. HQ does not dispute that it owes this amount but it has not been paid. No invoice was submitted by Westminster. We find HQ liable for this amount.

Westminster claims to be entitled to a warrant fee pursuant to the Amendment in the amount of \$20,622.00 for obtaining the exercise of warrants as therein provided. HQ

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does not dispute that it owes this amount but it has not been paid. No invoice was submitted by Westminster. We find HQ liable for this amount.

Both sides have claimed attorney's fees as the "prevailing party" under the Agreement and the Stock Purchase Agreement. Both sides have prevailed in part. There is no definitive method provided in either agreement as to how to allocate the fees under the circumstances and we must exercise our discretion to award attorney's fees as follows:

Westminster originally claimed compensation with respect to transactions totaling \$37,640,550.00. It prevailed with respect to transactions totaling \$5,255,000.00. On the other hand, O'Shea has prevailed on his claim that HQ violated the Stock Purchase Agreement. We find these violations to have been knowing and deliberate and that merely repricing O'Shea's warrants is not sufficient redress for HQ's behavior in this regard. Allocation of attorneys fees to O'Shea as the "prevailing

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party" under that agreement is an appropriate additional remedy in order to compensate O'Shea for some of the foreseeable expenses he incurred by reason of the intentional breach of the agreement.

We are directing HQ to pay Westminster 50% of Westminster's and O'Shea's attorneys fees and expenses and Westminster shall not be required to pay any part of HQ's attorneys fees. Westminster claims attorneys' fees and expenses in the amount of \$85,295.50. We are awarding it half of that amount or \$42,648.00.

Award

For the foregoing reasons, we award as follows:

1. Within 30 days of the date of this Award, Respondent shall

(i) pay to Claimant Westminster Four Hundred Eighteen Thousand Dollars and Zero Cents (\$418,000.00) together with interest at the statutory rate of 9% from January 26, 2006 through January 3, 2008 (2 years, eleven months

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and 3 days) of \$110,234.00, a total amount of \$528,234.00 and thereafter until the date of payment; (ii) pay to Claimant Westminster Sixty-Six Thousand Three Hundred Seventy-Six dollars and Forty-One Cents (\$66,376.41), for the items that are not in dispute but for which no invoice was submitted, with interest at the statutory rate of 9% from the date of this award until the date of payment; and (iii) issue warrants to Claimant Westminster to purchase shares of HQ exercisable at \$6.00 per share.

2. Within 30 days of the date of this Award, Respondent is ordered to effect a repricing of the exercise price of Claimant O'Shea's warrants to purchase 28,000 Class C and D shares to \$5.00 per share and to provide him evidence of the same.

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3. Within 30 days of the date of this Award Respondent shall pay to Claimant Westminster Forty-Two Thousand Six Hundred Forty-Eight Dollars and Zero Cents (\$42,648.00) with respect to Claimants' attorney's fees with interest thereon at the statutory rate of 9% from the date of this award to the date of payment.
4. The administrative fees of the American Arbitration Association totaling \$11,750.00 and the compensation of the Arbitrators totaling \$40,287.00 shall be borne equally by the Parties. Therefore, Respondent shall reimburse Westminster the sum of \$5,625.00, representing that portion of said fees in excess of the apportioned costs previously incurred by Claimants, Westminster.
5. All other claims are denied.
6. This Award is in full satisfaction of all claims submitted to this arbitration.

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We hereby certify that, for the purposes of Article 1 of the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards, this Final Award was made in New York, New York.

This Award may be executed in any number of counterparts, each of which shall be deemed an original, and all of which shall constitute together one and the same instrument.

Jan 2, 2008
Date

William L.D. Barrett
William L.D. Barrett

Date

Michael D. Friedman

Date

Peter Gates

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I, William L.D. Barrett, do hereby affirm upon my oath as
Arbitrator that I am the individual described in and who
executed this instrument which is my Award.

Jan 2, 2008 William L.D. Barrett
Date William L.D. Barrett

I, Michael D. Friedman, do hereby affirm upon my oath as
Arbitrator that I am the individual described in and who
executed this instrument which is my Award.

Date Michael D. Friedman

I, Peter Gates, do hereby affirm upon my oath as
Arbitrator that I am the individual described in and who
executed this instrument which is my Award.

Date Peter Gates

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Date

William L.D. Barrett

January 1, 2008

Date

Michael D. Friedman

Michael D. Friedman

Date

Peter Gates

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I, William L.D. Barrett, do hereby affirm upon my oath as
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executed this instrument which is my Award.

Date

William L.D. Barrett

I, Michael D. Friedman, do hereby affirm upon my oath as
Arbitrator that I am the individual described in and who
executed this instrument which is my Award.

January 1 2008

Date

Michael D. Friedman

Michael D. Friedman

I, Peter Gates, do hereby affirm upon my oath as
Arbitrator that I am the individual described in and who
executed this instrument which is my Award.

Date

Peter Gates

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January 2, 2008

Date



Peter Gates

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I, William L.D. Barrett, do hereby affirm upon my oath as
Arbitrator that I am the individual described in and who
executed this instrument which is my Award.

Date

William L.D. Barrett

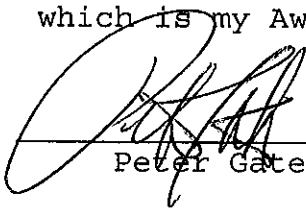
I, Michael D. Friedman, do hereby affirm upon my oath as
Arbitrator that I am the individual described in and who
executed this instrument which is my Award.

Date

Michael D. Friedman

I, Peter Gates, do hereby affirm upon my oath as
Arbitrator that I am the individual described in and who
executed this instrument which is my Award.

January 2, 2008
Date



Peter Gates