

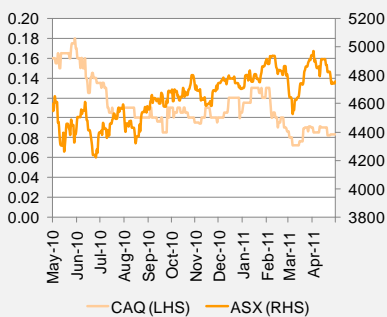
Cell Aquaculture Limited

(Ticker:ASX:CAQ)

May 17, 2011

RB MILESTONE GROUP 
EQUITY RESEARCH AND MARKET INTELLIGENCE

Price (A\$):	0.083
Target Price (A\$):	0.25
Beta:	0.54
Price/Book Ratio:	4.97
Debt/Equity Ratio:	0.0
Listed Exchange:	ASX



Recent News

19/04/2011: Cell Aquaculture Limited increases shares through partial conversion of convertible note

28/02/2011: Cell Aquaculture Limited not to pay interim dividend

27/01/2011: Cell Aquaculture Limited secures \$6 million financing facility

18/10/2010: Thailand Production Commences

21/06/2010: Cell Aquaculture Limited announces establishment of Food Processing and Marketing Division

18/02/2010: European fund invests \$2.4 million in Cell Aquaculture Limited

Shares in Issue

205.523 M

Market Cap

(A\$M) 17.06

52 Week (High): A\$0.180

52 Week (Low): A\$0.072

Commercial Harvesting to Pave Way for Profits

Cell Aquaculture Limited (CAQ) is an Australian based aquaculture company focused on breeding, growing, fabricating and marketing fish products. The company functions under a unique 'Hatch to Dispatch' business model encompassing the entire value chain of the aquaculture industry. Currently focused on the Australian barramundi species, the company aims to extend its activities to other species.

With projects at the development or planned stages in different geographies such as Thailand, Malaysia, Singapore and South Africa, the risk profile is attractive. Its hatchery operations are located in Australia's James Cook University. The company prides itself on having a proven and superior hatchery technology and re-circulating grow-out facility, which was even hailed by EU officials as a model modern aquaculture production farm.

The company will begin commercial harvesting from its Thailand facility in June 2011 with an initial capacity of 150 tons and eventually reaching 1,000 tons. At full capacity, we expect EBITDA and net profit margins of ~50% and ~35% respectively from this facility as the output will be shipped for value-added processing in Australia, thus enabling higher prices. Hence, at full capacity, expected by FY13, the Thailand facility will contribute strongly to free cash flows.

The second facility, in South Africa, is expected to be developed via a JV in KwaZulu Natal and would have a higher capacity at 2,000 tons. CAQ's stake in the JV is 40% and the output would initially be sold locally as whole fishes. Hence, EBITDA and net profit margins for this facility are expected to be slightly lower at ~44% and ~31%, respectively. Nonetheless, it would be free cash flow positive as the terms of this JV are very lucrative with limited initial cash outflow from CAQ.

At the current share price of A\$0.083, we find CAQ to be an attractive investment opportunity with strong upside and limited downside risk. As such, we initiate coverage with a target price of A\$0.25/share. We have used a discounted cash flow model to value the expected cash flows from the Thailand and South Africa facilities.

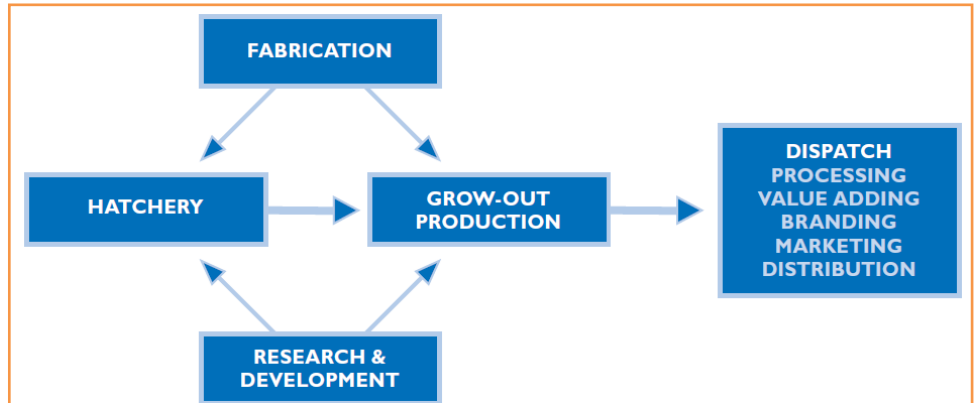
Investment Arguments

- **Aquaculture Growing Strongly:** Fish supply from traditional fishing is dwindling, putting significant pressure on traditional fisheries. About 30% of marine captured fisheries are fully exploited while per capita consumption is increasing incessantly. While traditional fisheries contracted 0.5% annually in 2004-2009, aquaculture grew by 5.6% p.a. The macro-economic factors definitely favor the aquaculture industry with growth intensifying even further as aquaculture gradually replaces traditional fishing
- **Superior Technology:** CAQ's hatchery technology and grow-out facilities are superior to other such systems in the industry. The hatchery facility located in Australia has increased efficiency five-fold over the last five years, and tests are underway for its use in other species. In addition, its re-circulating grow-out system used in Thailand has proven to produce the highest quality fishes while lowering mortality rates
- **Commercial Harvesting Imminent:** Its facility in Thailand will begin commercial harvesting as early as June 2011. At full capacity of 1,000 tons p.a., it is expected to contribute ~A\$17.5 million to annual revenues and A\$8.75 million to annual net profit. The second facility in South Africa is also in advanced stages and will contribute over A\$2.2 million to annual net profit upon completion. At the current market capitalization of A\$17.06 million, CAQ appears considerably undervalued

Company Overview

Cell Aquaculture Limited (CAQ) is headquartered in Western Australia and is listed on the Australian Stock Exchange. The company is focused on supplying a full range of environmentally sustainable seafood production services. The company is vertically integrated and offers services encompassing everything from ‘Hatch to Dispatch.’ It supplies and installs growing systems and manages the operations as well as the processing, value-adding, branding and sales of finished product.

Exhibit 1 : CAQ’s Vertically Integrated ‘Hatch to Dispatch’ Model



Source: Company Reports

CAQ’s proprietary Cell™ system is a complete land-based environmentally responsible aquaculture system developed for the production and supply of premium quality fin-fish. The company has established hatchery operations in Australia for the Australian Barramundi fish at James Cook University, Queensland. It is also conducting production trials for other high-value premium species in Australia. The company also has a facility in Malaysia, which is currently used for Research and Development activities.

CAQ has established its first commercial, ~150 ton capacity facility in Thailand, with first harvests scheduled in June 2011. The capacity will eventually reach 1,000 tons. The company also has plans to build a facility in South Africa that will have twice the maximum capacity of the Thailand facility.

In addition, the company has a number of large-scale land-based re-circulating production projects at various stages of development in Singapore and Malaysia.

Key Processes and Facilities

Hatchery and Research & Development

Australia

CAQ’s hatchery operations are set-up in Australia’s James Cook University in Townsville, Queensland. This facility is also the company’s primary research and development facility. The research operations in this facility have achieved considerable success, establishing a reliable and consistent supply of high quality juvenile fish. The company is also focusing on an advanced program to optimize its hatchery technology and operating methods.

Currently CAQ is only hatching barramundi from this facility but aspires to eventually branch out to other species, an option it is currently investigating and exploring. It is also conducting advanced research on barramundi in the areas of selective breeding and fingerling selection protocols which will help it to further improve the quality of seed stock for commercial operations. Improvement in these areas will enhance both productivity and profitability.

In its fifth year, this facility is counted among the leading barramundi joint commercial/R&D ventures in Australia.

Due to the critical and proprietary nature of its technology, CAQ has not provided much technical details on this facility. However, the success of this facility is underpinned by the following factors:

- Technical infrastructure that optimizes water and environmental conditions while minimizing the operating footprint
- Sophisticated operational protocols incorporating bio-security and fish health management
- Sophisticated nutritional management protocols
- Quality assurance selection protocols (proprietary methods developed to identify 'genetic tracers' and isolate fast growing fish)
- In addition, its hatchery operations offer the unique advantage of having control over supply; lower operating costs; and increased bio-security by removing "foreign" risks.

CAQ's R&D efforts have led to a five-fold increase in the output from the hatchery over the last five years invested in this facility. CAQ wants to develop its hatchery operations to a level where it can be effectively transported to another location without comprising its biological predictability and commercial viability. It eventually wants to be a world leader in hatchery supply.

Malaysia

CAQ has a facility in Malaysia that it is currently using for small scale production and R&D purposes. This facility located in Terengganu State was originally planned as a "grow-out" production facility with an ultimate capacity of ~1,200 tons of barramundi.

During 2008, the company held strategic discussions with the Malaysian government, with which it had strong relationships (both at state and federal levels), to develop the Malaysian facility. Malaysia was chosen due to its lower cost base.

The company successfully built and commissioned the first stage of the Terengganu facility with an annual production capacity of ~100 tons. This facility achieved its first commercial harvests in March 2009, representing a significant milestone for the company, essentially serving as proof of its superior hatchery and production process.

By the end of 2009, CAQ had signed an important MoU with a Malaysian based global multinational organization, with turnover in excess of AU\$5 billion per annum, to commence detailed feasibility. The aim was to establish large scale, land based aquaculture production, utilizing CAQ's unique Cell production technologies.

Due to regime changes at the Malaysian state and federal governments, funding for the next stages of these projects stalled and the current Terengganu facility is relegated to small scale production and used as an R&D facility. However, the company is in advanced talks with the government at both the state and federal levels to revive this venture, the possibility of which we believe will grow after it establishes its Thailand facility which could serve as a testament to CAQ's superior processes and technology.

Fabrication

The company continues to operate fabrication facilities, enabling the manufacture of key proprietary components. While awaiting a number of projects to progress from MOU stage to contract stage, the company has been manufacturing and stockpiling various key components to enable a shorter lead-time to production once the projects are fully

committed. The company has also maintained a strong emphasis on R&D of new components and production techniques throughout the year.

Grow-Out Production

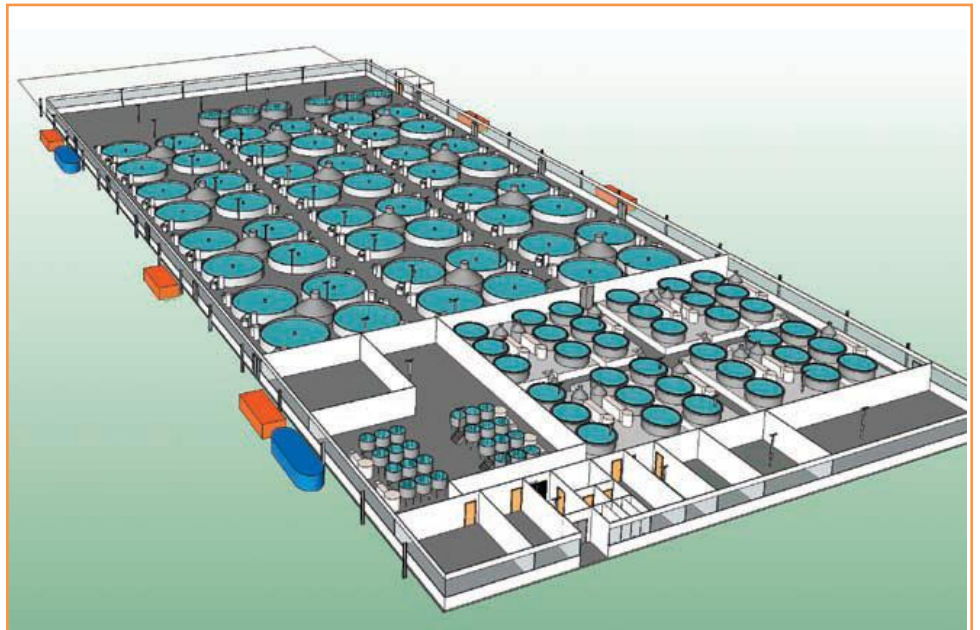
CAQ has moved forward a number of MOUs for developing grow-out production operations. The bureaucratic hurdles typically associated with seeking approvals for such projects has stifled the company's desire to proceed at its desired pace. As production commencement delays continued as a result of lengthy lead-times, the board made the decision to take a pro-active approach. It took the aim to source a suitable 'low-cost' production location, with all relevant approvals in place, to enable the establishment of a 100% company owned, commercial scale grow-out production operation.

Thailand

Subsequent to FY 2010, the company formally secured a production site in Phuket, Thailand, with all relevant approvals in place. The production site has a superior quality water source as well as all necessary infrastructure and services in place. It has the capacity to develop production in excess of 500 tons of premium finfish per annum with total capacity of the project expected to reach 1,000 tons

The site is located adjacent to an existing Abalone farm which had newly constructed, but unused, production shed and tanks available. The long term leasing arrangement covers the leasing of the existing shed and tanks as well as the additional adjoining vacant land. The existing shed and tanks have been retro-fitted entirely with 'Cell' filtration components, significantly increasing the yield of the existing operation and also enabling accelerated commencement of production.

Exhibit 2 : State-Of-The-Art New Cell™ Facility To Be Constructed In Thailand



Source: Company Reports

The securing of this outstanding production opportunity, in a 'low-cost' operating environment, represents a key step forward for the company. Having approvals in place and the ability to retro-fit an existing facility accelerates production targets by up to 12 months. The operations team is working with an aggressive timetable and the first fingerlings (baby fish) were shipped to this new production venture in early October 2010.

Once the existing facility retro-fit is complete, construction of a new purpose-built 'Cell' production facility will commence immediately on the adjacent vacant land.

This production venture will be a 100% Cell Aquaculture Limited owned project, enabling the company to maintain complete control and advance at its desired pace. The production from this facility will be sold through the company's recently established, wholly owned subsidiary, Cell Aqua Foods Pty Ltd.

Exhibit 3 : Internal View of the New Thailand Production Facility



Source: Company Reports

Premium quality fingerlings will be first supplied from the company's Queensland based hatchery operations. The fingerlings are then grown-out in the bio secure 'Cell' production environment in Thailand. Finally the grown barramundi are processed and transported back to Australia where the company undertakes fabrication and value-added processing. The final output is in the form of fillets and other such premium products that are distributed through Cell Aqua Foods. The company is now actively developing markets for its unique range of premium fresh, smoked and value added barramundi products – marketed under the Eco-Star™ brand.

South Africa

In April 2009, CAQ signed an MOU with a consortium of South African entrepreneurs to develop a 2,000 ton per annum Cell production facility in the Eastern Cape region of South Africa. These entrepreneurs have a strong grounding in the food & beverage industries, primarily seafood. In fact, the head of the consortium is a key player and major developer of a highly recognized global food brand and restaurant chain with an excess of 1,000 outlets in 34 countries. The other members of the consortium have a strong blend of finance, legal and seafood marketing expertise. The total cost of this facility is expected to be ~A\$20 million. This project will be one of the largest fully integrated, re-circulating land-based premium seafood production facilities. CAQ will take the entire responsibility for design, construction and operation of the entire project.

The project will be a JV and CAQ will have 40% equity in the project. CAQ will be assigned as the exclusive aquaculture partner in the venture and the facility will be

designed on the basis of CAQ's proprietary Cell technology. As CAQ will take the entire responsibility for the development and operations of the facility, it will be compensated by way of license fees for its intellectual property, sale of CAQ proprietary equipment and management of the facility.

As the consortium has a strong establishment in the South African food industry, it has been agreed that all partners will jointly assume responsibility for the marketing, branding and distribution of the seafood produced from the facility. Further, it has been planned that ~50% of the production will be sold domestically within South Africa while the remaining percentage of production will be exported to European and Middle Eastern markets. Finally, it has also been agreed that no cannibalization of CAQ's existing or future markets will occur. Three government backed Industrial Development Zones are competing to offer attractive terms to get the project in their region and CAQ has also shortlisted suitable sites.

Although this JV was established approximately two years ago, the progress has been slow. We believe this was driven by the global financial crisis and CAQ's focus at the time on its Malaysian facility, in addition to the timely approval processes for the venture.

However, there has been positive news flow from the company with respect to progress on this facility. CAQ's management has indicated that the company is planning to begin building this facility in six months, i.e. October 2011. We expect this facility to be completed by August 2012 and commencement of commercial harvesting by April 2013.

Others

Cell Aqua Foods Pty Ltd.

In FY2010, CAQ established a wholly owned subsidiary, Cell Aqua Foods Pty Ltd. by acquiring an existing food processing business in Osborne Park, Western Australia. The company is engaged in food processing, value-adding, packaging and marketing of seafood. The acquisition of an existing business gave CAQ access to its customer base, product range and distribution network including supermarkets, restaurants and catering customers. Cell Aqua would also realize instant cash flows and reduction of distribution costs for the commercial harvests of its facilities in future.

Exhibit 4 : Product Snapshot



Source: Company Reports

Cell Aquaculture has also secured the services of a local award winning chef with over 15 years experience in food processing and new product development. Cell Aqua has developed a range of unique smoked and value-added Australian barramundi products including 'ready to eat' barramundi meals. The company has successfully marketed its products in local supermarkets under the Eco-Star™ brand and has also showcased its product range at the Melbourne Fine Food exhibition, receiving very positive feedback. The company launched its new range of products in April 2011, beginning with Western

Australia and gradually proceeding to a national roll-out in the near future. This acquisition completes CAQ's presence in the entire value chain and makes it an integrated 'Hatch to Dispatch' player.

Singapore

In October 2009, CAQ signed a MOU for a joint venture with a Singapore based private investment group for deploying the Cell land based production facility in Singapore. The first stage of this project was estimated at ~A\$4 million with further planned expansion stages. The facility is designed to grow a range of 'high-value' Grouper species, to be marketed 'Live' directly into the lucrative high-end Singapore market.

Similar to the South African JV, CAQ will assume full responsibility for design, construction and technical operation of the project and would be duly compensated. Revenue flow to CAQ will be derived from project management of the facility; licensing of intellectual property; sale of CAQ proprietary equipment; as well as ongoing profitability of the facility once in production. The Singaporean partners will play an active role in the day-to-day management of the business and marketing and distribution of 'Live' local produce.

In FY 2010, CAQ and its Singaporean partners established a JV company CellMore (S) Pty Ltd. CAQ's stake in the JV is 50% with a firm funding commitment of ~A\$4.15 million for establishing the first phase of the production farm and for assessing further food processing opportunities. CAQ and its partners have been actively in discussion with the Singapore Economic Development Board (SEDB) to source a suitable production site.

Financing

Since December 2008, CAQ has raised capital three times. In December 2008, the company received a funding commitment of ~A\$1.1 million from its Malaysia JV partner Terengganu Agrotech Development Corporation to ensure that the production targets are met on time in addition to supporting production trials for high-value species.

In February 2010, CAQ secured an initial \$2.4 million from a Dutch based private equity fund, Linnaeus Capital Partners. The fund had acquired 25 million CAQ shares at 9.6 cents. This investment is expected to be the first in a series of future investments. The funding was raised for financing the development of the Malaysian facility.

Most recently in January 2011, CAQ executed a funding agreement with US based institutional investor, La Jolla Cove Investors Inc. for providing \$6 million to fund the company growth objectives. CAQ will be using these funds to develop its Thailand facility and progress further development of new seafood related retail products and international markets via CAQ's wholly owned food processing subsidiary – Cell Aqua Foods Pty Ltd. The additional funding will also be utilized to further advance the company's projects in Singapore, Malaysia and South Africa.

Important details of the funding are as follows:

- The funding agreement comprises three convertible notes of US\$2 million each, totaling US\$6 million
- Each convertible note will have a repayment term of four (4) years from the date of initial drawdown
- Interest is payable quarterly in arrears at a low fixed rate of 4.75% per annum, on the then outstanding unconverted principal amount
- The funds would be released on a monthly basis at a drawdown rate of \$150,000 per month which may be adjusted upwards or downwards periodically
- Finally the three notes have an option to being converted to ordinary shares. The first note can be converted at a price lesser of

- A\$0.30 or 80% of the average of the 3 lowest Volume Weighted Average Prices during the 21 trading days prior to investor's election to convert
 - Similarly, the second note is convertible at lesser of A\$0.60 and 80% of the average of the 3 lowest Volume Weighted Average Prices during the 21 trading days prior to investor's election to convert
 - The third note is convertible at lesser of A\$0.90 and 80% of the average of the 3 lowest Volume Weighted Average Prices during the 21 trading days prior to investor's election to convert
- Finally the funding agreement places a limit of 19.99% as the maximum holding that La Jolla Cove can have in CAQ's share capital on issue. The agreement also restricts La Jolla Cove from 'short selling' the Company's ordinary shares while any note is outstanding

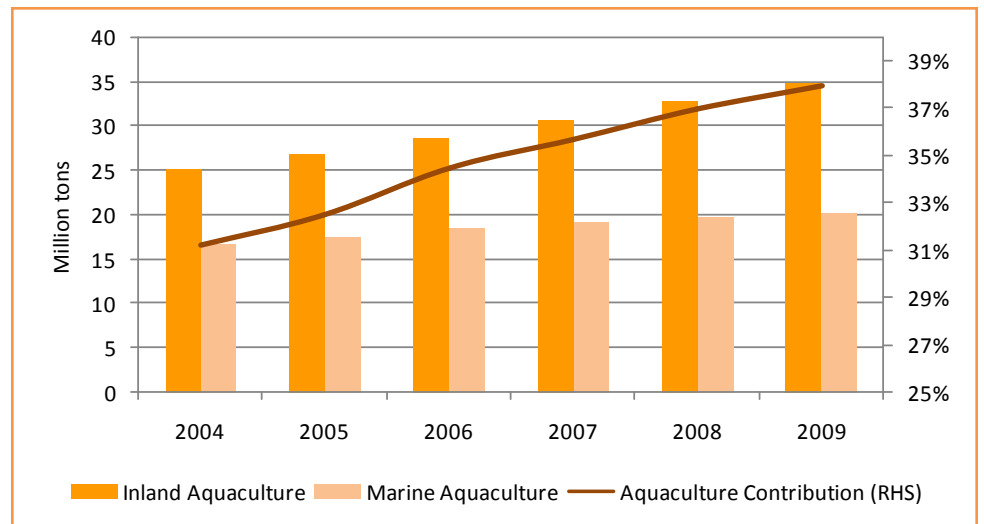
Industry Overview

Aquaculture refers to the farming of aquatic organisms including fish, mollusks, crustaceans and aquatic plants. Farming is understood to encompass an intervention in the rearing process in order to enhance production such as regular stocking, feeding, protection from predators, etc. Aquaculture is the fastest growing sector of the world food economy, increasing by more than 10% per year and currently accounting for more than 30% of all fish consumed.

Contribution to Total Fisheries

Aquaculture contributed 55.1 million tons, or about 38%, to total fisheries in 2009. Its contribution has continually increased from 31.2% in 2004. In fact, data suggests that aquaculture is gradually replacing capture fisheries. During 2004-2009, the total fisheries production increased by 1.6% annually, of which total capture fisheries declined by 0.5% while aquaculture grew by 5.6%.

Exhibit 5 : Aquaculture Production and Contribution to Total Fisheries



Source: Food and Agriculture Organization, RB Milestone

Fish provides more than 1.5 billion people with about 20% of their per capita average intake of animal protein and another 3 billion people with at least 15% of such required protein. Of the total fisheries output of 145.1 million tons in 2009, 117.8 million tons was used for human consumption, or about 17.2 kg per capita, an all-time high. Human consumption on a per-capita basis is also increasingly rising, from 16.2 kgs in 2004 to 16.9

kgs in 2007 and 17.2 kgs in 2009, a CAGR of 1.2%. In addition, annual population growth of 1.2% has led to a 2.4% increase in human consumption of fisheries. This has and will lead to sustained pressure on the supply of fisheries, thus accounting for the increasing importance of aquaculture.

Although aquaculture has been practiced in many countries for several centuries, globally the industry is relatively young but has grown significantly over the last 40 years. The aquaculture industry has clocked a significant growth rate of 8.3% between 1970 and 2008. Aquaculture production is mostly channeled for human consumption. In China, over 80% of human fish consumption was from aquaculture, up from 23.6% in 1970.

Aquaculture continues to be the fastest growing animal food producing sector with the per capita supply from aquaculture increasing from 0.7 kg in 1970 to 7.8 kg in 2008. It is set to overtake capture fisheries as a source of food fish. The monetary value of aquaculture production was US\$7.4 billion in 2008. The value of the world aquaculture harvest, excluding aquatic plants, is estimated at US\$98.4 billion in 2008. The actual total output value from the entire aquaculture sector should be significantly higher than this level because the value of aquaculture hatchery and nursery production and that of the breeding of ornamental fishes are yet to be estimated and included. If aquatic plants are included, world aquaculture production in 2008 was 68.3 million tons with an estimated value of US\$106 billion.

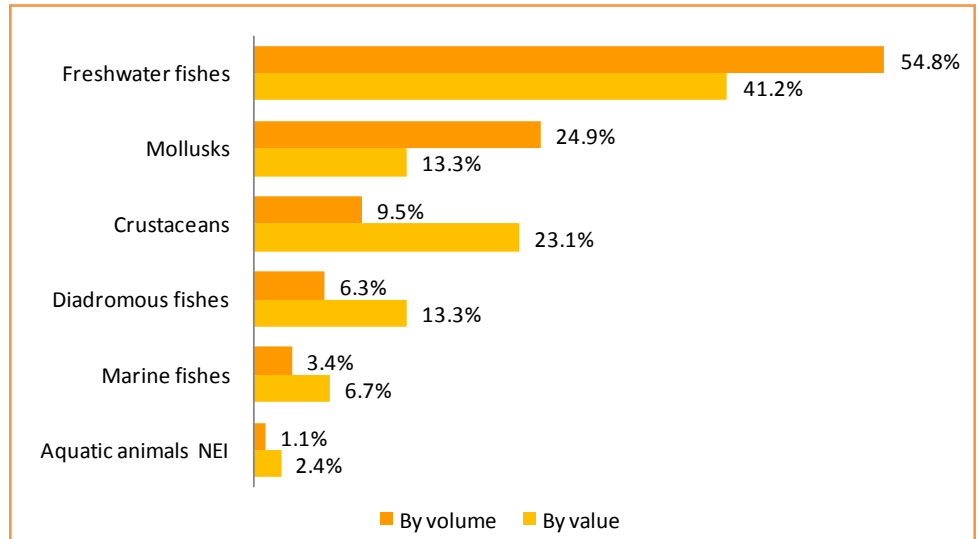
Aquaculture Trends – Important Species

Aquaculture production using freshwater contributes 59.9% to world aquaculture production by quantity and 56.0% by value. Aquaculture using seawater (in the sea and also in ponds) accounts for 32.3% of world aquaculture production by quantity and 30.7% by value. Aquaculture in seawater produces many high-value finfish, crustaceans and abalone species in addition to a large amount of oysters, mussels, clams, cockles and scallops. Although brackish-water production represented only 7.7% of world production in 2008, it accounted for 13.3% of total value, reflecting the prominence of relatively high-valued crustaceans and finfishes cultured in brackish water.

In 2008, freshwater fishes continued to dominate with a production of 28.8 million tons (54.7%) valued at US\$40.5 billion (41.2%), followed by mollusks (13.1 million tons); crustaceans (5 million tons); diadromous fishes (3.3 million tons); marine fishes (1.8 million tons); and other aquatic animals (0.6 million tons).

The production of freshwater fishes in 2008 was dominated by carps (Cyprinidae 20.4 million tons or 71.1%). A small portion (2.4%) of freshwater fishes was cultured in brackish water, including tilapia farmed in Egypt. In 2008, the largest producer of all carps was China (70.7%) followed by India (15.7%), while 10.2% of all carps were produced by Bangladesh, Myanmar, Viet Nam, Indonesia and Pakistan. The main components of mollusk production in 2008 were oysters (31.8%); carpet shells and clams (24.6%); mussels (12.4%); and scallops (10.7%).

Exhibit 6 : World Aquaculture Production By Species (2008)



Source: Food and Agriculture Organization, RB Milestone

World production of crustaceans was relatively even in distribution among brackish water (2.4 million tons or 47.7%), freshwater (1.9 million tons or 38.2%) and marine water (0.7 million tons or 14.1%). Crustaceans farmed in freshwater include more than 0.5 million tons of the marine species white leg shrimp (*Penaeus vannamei*) produced by China, which was previously reported as production from brackish water. Diadromous fish production in 2008 was dominated by Atlantic salmon (1.5 million tons or 44%); milkfish (0.68 million tons or 20.4%); rainbow trout (0.58 million tons or 17.4%) and eels (0.26 million tons or 7.9% – *Anguilla japonica* and *A. anguilla* combined). Norway and Chile are the world’s leading aquaculture producers of salmonids, accounting for 36.4% and 28% of world production, respectively. Other European countries produced another 18.9%, while Asia and North America contributed only 7.9% and 7.4%, respectively.

Flatfish production increased significantly from 26,300 tons in 2000 to 148,800 tons in 2008, with China and Spain being the leading producers. Aquaculture production of all major species groups continued to increase in the period 2000–08, although finfish and mollusk production grew more slowly than in the period 1990–2000. In contrast, crustacean production grew at an average annual rate of almost 15% in this period, faster than in the previous decade.

The contribution from aquaculture to global total production of major species groups has increased markedly since 1950, except for marine fishes. In 2008, aquaculture accounted for 76.4% of global freshwater finfish production including 64.1% of mollusks, 68.2% of diadromous fishes and 46.4% of crustacean production. Although cultured crustaceans still account for less than half of the total crustacean global production, the culture production of penaeids (shrimps and prawns) in 2008 was 73.3% of the total production.

The stocks of most of the top 10 species, which together accounted for 30% of the world marine capture fisheries production, are fully exploited. The two main stocks of Anchoveta in the Southeast Pacific and Alaska Pollock in the North Pacific as well as Blue Whiting in the Atlantic are fully exploited. In addition, several Atlantic herring stocks are either fully exploited or depleted. Japanese Anchovy in the Northwest Pacific and Chilean Jack Mackerel in the Southeast Pacific are also considered to be fully exploited. Of the 23 tuna stocks, most are more or less fully exploited (possibly up to 60%), some are overexploited or depleted (possibly up to 35%) and only a few appear to be underexploited (mainly Skipjack). Going forward, the substantial demand for tuna may lead to further deterioration in their stock unless there is improvement in supply management. Concern about the poor status of some Bluefin stocks and the difficulties in managing them led to a proposal to the

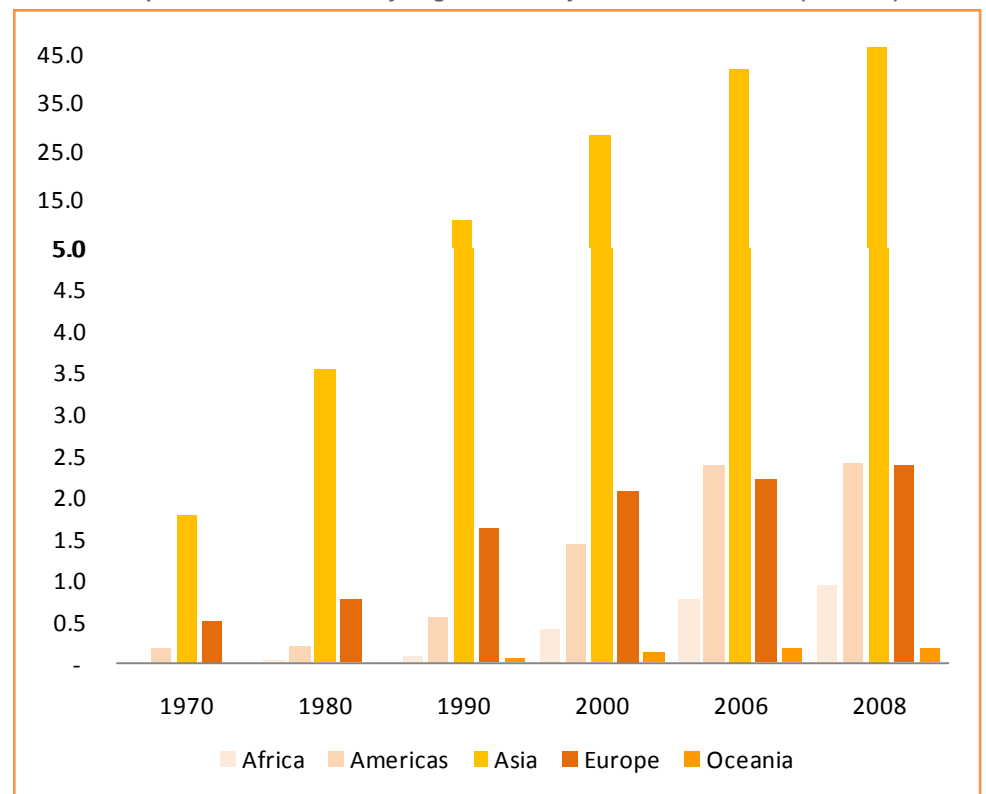
Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) in 2010 to ban the international trade of Atlantic Bluefin.

The FAO opines that there has been good progress made in reducing exploitation rates and restoring overfished fish stocks and marine ecosystems through effective management actions in some areas such as off-Australia, on the Newfoundland–Labrador Shelf; the Northeast United States Shelf; the Southern Australian Shelf; and in the California Current ecosystems.

Biggest producers

The Asia-Pacific region dominates world aquaculture and accounted for 89% of production and 79% of value in 2009. China alone accounts for 62% of global production while contributing 51% to the world value of total world aquaculture. China’s aquaculture production grew at a CAGR of 10.4% in 1970-2008 but has declined to 5.4% after 2009, much less than the 17.3% clocked in the 1980s and 12.7% in the 1990s.

Exhibit 7 : Aquaculture Production By Region: Quantity Of World Production (Mn Tons)



Source: Food and Agriculture Organization, RB Milestone

The average annual growth in aquaculture production in Europe and North America since 2000 has also slowed substantially to 1.7% and 1.2%, respectively. Countries that were once leading in aquaculture production such as France, Japan and Spain have shown falling production in the past decade. It is expected that while world aquaculture production will continue to grow in the coming decade, the rate of increase in most regions will slow. In the 1970-2008 period the growth in aquaculture production was led by Latin America and the Caribbean with an annual growth of 21.1% followed by the Near East at 14.1% and Africa at 12.6%.

Trade and Prices

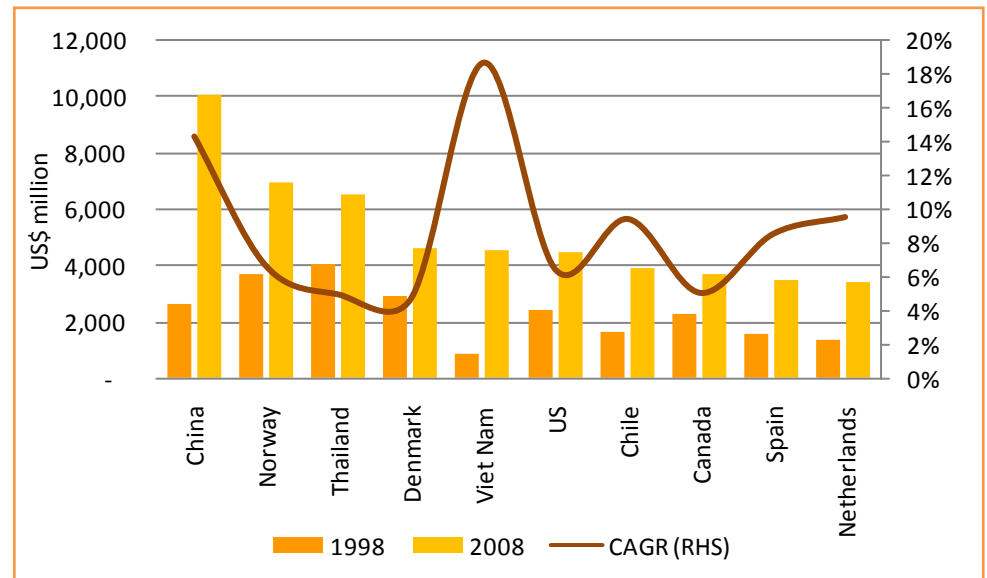
In 2008, 197 countries reported exports of fish and fishery products. Trade in fish represents a significant source of foreign currency earnings in addition to the sector’s important role in employment, income generation and food security. In 2008, trade in fish

and fishery products represented about 10% of total agricultural exports (excluding forest products) and 1% of world merchandise trade in value terms. In 2008, exports of fish and fishery products reached a record of \$102.0 billion, 9% higher than 2007, nearly doubling the US\$51.5 billion corresponding value in 1998. In real terms (adjusted for inflation), fishery exports grew by 11% in the period 2006–08, by 50% between 1998 and 2008 and by 76% between 1988 and 2008. In quantity terms (live weight equivalent), exports reached a peak at 56 million tons in 2005, representing an increase of 28% since 1995 and of 104% since 1985. Thereafter, export volumes decreased, accounting for 55 million tons in 2008. This decline was mainly because of a fall in the production of and trade in fishmeal (down 10% in the period 2005–08), but also due to the first signs of contraction in demand, and therefore of trade, as a consequence of the food price crisis which affected consumer confidence in major markets.

In the period from late 2006 to mid-2008, international agricultural prices (particularly of basic foods) escalated to record levels in nominal terms. A series of long- and short-term factors contributed to this growth. They included supply tightening; the intertwining of global markets; exchange rate fluctuations; rising crude oil prices; and rising freight rates. These soaring prices affected large population segments, in particular that of the poor in many developing countries. Prices of fish and fishery products were also affected by the food price crisis, following the general upward trend in all food prices. The FAO Fish Price Index indicates an increase from 93.6 in February 2007 to 128.0 in September 2008. This represents the highest value reached during the period covered by the index (from 1994 to the present, with the base year 1998–2005 = 100). Prices for species from capture fisheries increased more than those for farmed species (which reached 137.7 versus 117.7 in September 2008, with 2005 as base year = 100) because of the larger impact from higher energy prices on fishing vessel operations than on farmed species. The FAO Fish Price Index reported a drastic drop from 128.0 in September 2008 to 112.6 in March 2009, after which it recovered to 119.5 in November 2009.

Preliminary estimates indicate that trade in fish and fishery products declined by 7% in 2009 compared with 2008. Although the most acute phase of the global financial crisis seems to have passed and GDP growth rates are starting to improve, the outlook for the global economy remains uncertain and the recovery is fragile and slow. According to the World Bank’s Global Economic Prospects 2010 report, the world economy is expected to recover, with GDP projected to grow by 2.7% in 2010 and 3.2% in 2011.

Exhibit 8 : Top Ten Exporters of Fish And Fishery Products



Source: Food and Agriculture Organization, RB Milestone

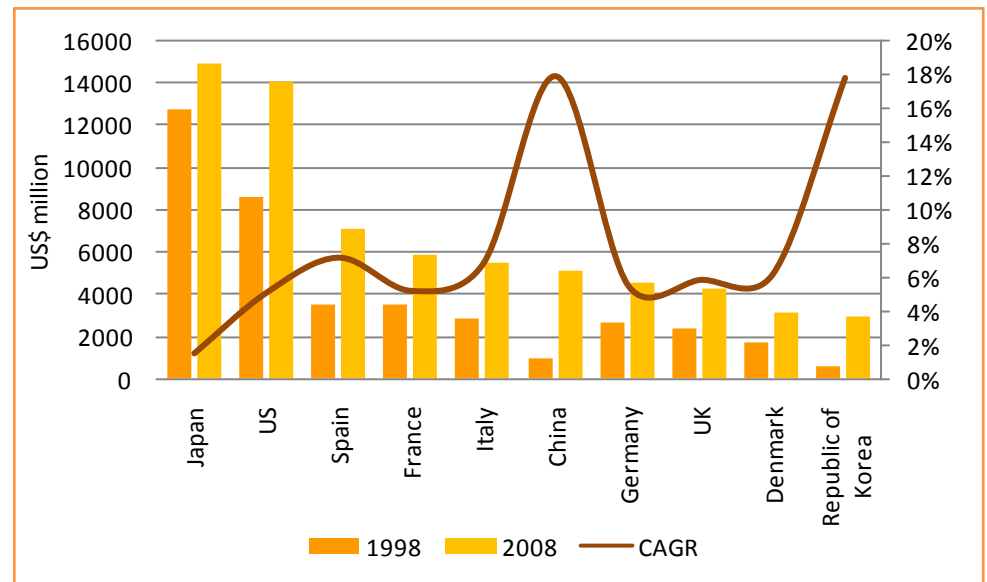
World trade volumes are forecasted to expand by 4.3% in 2010 and 6.2% in 2011. Available data for the first few months of 2010 indicate that there have been increasing signs that fish trade is recovering in many countries. The long term forecast for fish trade remains positive, with a growing share of fish production entering international markets.

China, Norway and Thailand are the top three exporters. Since 2002, China has been by far the leading fish exporter, contributing almost 10% of 2008 world exports of fish and fishery products, or about US\$10.1 billion, and increasing further to US\$10.3 billion in 2009. China’s fishery exports have grown considerably since the 1990s, although at present they represent only 1% of its total merchandise exports. A growing share of fishery exports consists of reprocessed imported raw material. China has experienced a significant increase in its fishery imports, up from US\$1 billion in 1998 to US\$5.1 billion in 2008, when it was the sixth-largest importer.

Vietnam has also experienced significant growth in its exports of fish and fish products, up from US\$0.8 billion in 1998 to US\$4.6 billion in 2008, when it became the fifth-largest exporter in the world. Its growing exports are linked to its flourishing aquaculture industry, in particular to the production of Pangasius and of both marine and freshwater shrimps and prawns.

In addition to China, Thailand and Vietnam, as well as many other developing countries play a major role in global fisheries. In 2008, developing countries accounted for 80% of world fishery production. Their exports accounted for 50% (US\$50.8 billion) of world exports of fish and fishery products in value terms and 61% (33.8 million tons in live weight equivalent) in terms of quantity.

Exhibit 9 : Top Ten Importers of Fish And Fishery Products



Source: Food and Agriculture Organization, RB Milestone

In 2008, in value terms, 75% of the fishery exports of developing countries were directed to developed countries. In 2008, in value terms, 40% of the imports of fish and fishery products by developing countries originated from developed countries.

World imports of fish and fish products reached a new record of US\$107.1 billion in 2008, up 9% from the previous year and up 95% with respect to 1998. Preliminary data for 2009 point to a 7% decrease, as a consequence of the economic downturn and the contraction in demand from key importing countries. Japan, the United States of America and the EU are the major markets, with a total share of about 69% in 2008. Japan is the world’s largest single national importer of fish and fishery products, with imports worth US\$14.9 billion in 2008, a growth of 13% compared with 2007. In 2009, its imports decreased by

8%. The EU is by far the largest market for imported fish and fishery products. However, it is extremely heterogeneous with markedly different conditions from country to country.

In 2008, imports by the EU reached US\$44.7 billion, up 7% from 2007, and representing a share of 42% of total world imports. Figures for 2009 indicate a downward trend in EU imports, with a 7% decrease in value recorded. Developed countries as a whole are now responsible for 78% of the total import value of fish and fishery products. In volume (live weight equivalent), their share is significantly less at 58%, showing the higher unit value of commodities imported by developed countries. Owing to stagnating domestic fishery production, developed countries have to rely on imports and/or on aquaculture to cover their increasing domestic consumption of fish and fishery products. This may be one reason for rather low import tariffs on fish in developed countries, albeit with a few exceptions as in the case of some value-added products.

Barramundi Profile

Introduction

Barramundi is also known as Lates Calcarifer or Seabass in Asia. It is a large euryhaline member of the family Centropomidae that is widely distributed in the Indo-West Pacific region from the Arabian Gulf to China; the Taiwan Province of China; Papua New Guinea and northern Australia. Aquaculture of this species commenced in the 1970s in Thailand, and then rapidly spread throughout much of Southeast Asia.

Australian Barramundi has a reputation as one of the finest eating table fish in the world and is thought by many industry experts to be 'the next big fish,' thus offering significant growth potential for the industry's early innovators. Australian Barramundi is sought after in the food trade for its delicate yet firm, mild flavored flesh and excellent filleting yield. Barramundi is extremely versatile in its cooking preparations and can be grilled; baked; steamed; pan fried; deep fried, and is also an excellent Sashimi product

Barramundi has some peculiar characteristics that make it an ideal candidate for aquaculture, viz.

- Barramundi is ecologically robust and tolerates crowding. The species generally has wide physiological tolerances
- The female species exhibit high fecundity, enabling high yield during hatchery
- Barramundi feed well on pelleted diets, and juveniles are easy to wean to pellets
- Barramundi grow rapidly, reaching a harvestable size (350 g – 3 kg) in six months to two years

Most barramundi are produced in South Asia primarily from small coastal cage farms. Aquaculture of barramundi has also found its way into Iran; Guam; French Polynesia; Israel; and the US, namely in Hawaii and Massachusetts.

Barramundi aquaculture in Australia has been similar to the industrialized style of aquaculture prominent in Europe. Re-circulating¹ systems are popular when aquaculture is undertaken outside the tropics.

¹ Recirculating aquaculture systems (RAS) recycle water by circulating it through filters to remove fish waste and food and then recirculating it back into the tanks. This saves water and the waste gathered can be used in compost or, in some cases, could even be treated and used on land.

Habitat and Biological Features

Barramundi inhabit freshwater and brackish and marine habitats including streams, lakes, billabongs, estuaries and coastal waters. Barramundi are opportunistic predators with crustaceans and fish dominant in the diet of adult Barramundi.

Spawning² varies across geographies for this species. In Australia, spawning occurs between September and March while in the Philippines, barramundi spawn from late June to late October. In Thailand, spawning is associated with the monsoon season, with two peaks during the northeast monsoon (August – October) and the southwest monsoon (February – June).

The barramundi female is highly fecund with a single female capable of producing 30-40 million eggs. Juvenile barramundi remain in freshwater habitats until they are three–four years of age (60–70 cm TL) when they reach sexual maturity as males and then move downstream during the breeding season to participate in spawning. Barramundi are euryhaline³ and hence can be cultured in both fresh and seawater. Most of the barramundi remain in their original river system and deviate only short distances. This has led to the development of genetically different categories of barramundi.

Hatching and Maintenance

Although the Barrmundi broodstock can be maintained in water with varying salinity, it needs to be placed in seawater prior to the breeding season to facilitate some vital maturity process. The broodstock is usually fed 'trash' fish or commercially available baitfish, sometimes injected with vitamin supplements to improve nutrition. Fertilized eggs undergo rapid development and hatching occurs 12–17 hours after fertilization at 27–30 °C. The mouth and gut develop the day after hatching (day two) and larvae commence feeding from 45–50 hours after hatching.

Barramundi are harvested from the ponds when they reach 25 mm TL or greater (about three weeks after stocking), and are then transferred to nursery tanks. Survival of extensively reared barramundi averages about 20% but is highly variable, ranging from zero to 90%. Production rates of up to 640 000 fish/ha have been achieved in extensive rearing.

Barramundi juveniles (1.0–2.5 cm TL) may be stocked in floating or fixed nursery cages in rivers, coastal areas or ponds, or directly into freshwater or brackish water nursery ponds or tanks. The fish are fed minced trash fish (4–6 mm) or on small pellets. Vitamin premix may be added to the minced fish at a rate of 2%. This nursery phase lasts for 30 to 45 days, once the fingerlings have reached 5–10 cm TL they can be transferred to grow-out ponds. During the nursery and grow-out phases, cannibalism can be a major cause for mortalities. Barramundi have a tendency to cannibalize fish up to 61-67% of their length. Cannibalism can be reduced by segregating the fishes according to their size, usually every 7-10 days.

During the grow-out phase, Barramundi are fed on a diet of compounded pellets along with 'trash fish', at times injected with Vitamins. Food conversion ratios (FCRs) for barramundi fed on trash fish are high, generally ranging from 4:1 to 8:1.

Production Costs

Production costs vary according to the location and size of the Barramundi farm. For a small Australian farm (50 tons p.a.), the price at which all operating costs are covered is

² Refers to the mass of eggs deposited by the fish or amphibians or mollusks

³ Organisms that can adapt to wide variations in salinity

estimated to be ~A\$9.25/Kg. For a small farm (200 tons p.a.) the break-even price falls to about A\$6.9/Kg, while for a large farm (>1,000 tons p.a.) the break-even price is around A\$6-7/kg, due to economies of scale. All these figures are for farms located in Australia. For a similar farm located in Thailand, the break-even price is A\$2.6/Kg, underscoring the attractiveness of the East Asian regions due to their low-cost model.

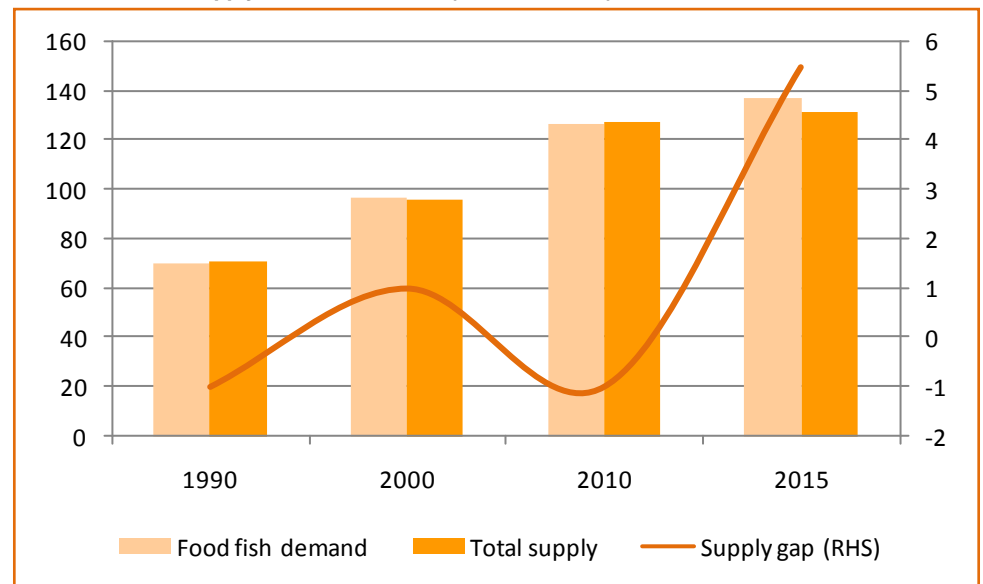
Growth Factors

Aquaculture Industry Growing Strongly

Traditional fishing is facing a bleak future as the fish supply is continually dwindling down while the demand has risen unabatedly. According to the Asian Development Bank (ADB), vessels in the Asian region, with about 42% of the registered global tonnage, have twice the capacity needed to extract what the oceans can sustainably produce.

This leads to a vicious circle where fishermen are forced to fish more for covering dwindling per vessel/trip profits, especially in the face of rising fuel cost. In addition, fish demand is relatively inelastic as rising prices have not led to a big impact on demand. Although prices have risen sharply for some species, the per capita consumption has increased from 9.0 kg four decades ago to 16.6 kg in 2005. Conclusively, the world is facing serious seafood shortage.

Exhibit 10 : Fish Supply Demand Scenario (in Million Tons)



Source: Company Reports, RB Milestone

This presents tremendous opportunity for the Aquaculture industry which is already gradually overtaking traditional fishing and has considerable room to continue its upward trajectory. Aquaculture is the fastest growing sub-sector within the broader food sector, and has been clocking a considerable 10% growth p.a. for the last few years. The following are some of the compelling factors behind the impressive growth shown by aquaculture and the bright prospects of the industry.

- Attractive Price Levels:** Fish prices rose 30% in 2006-08 in the UK due to strong demand from the region. Despite the tailwinds of the global economic crisis, seafood prices have been steadily rising. This underscores the 'defensive with strong growth' nature of this industry. The chart above explains why we can expect prices to remain strong going forward. According to FAO, the fish food supply gap is expected to increase from a surplus in 2010 to a deficit of ~5.2 million by 2015
- Shift from Fishing to Aquaculture.** Aquaculture contributed 31.2% to total fisheries in 2004 which further increased to 38% or 55.1 million tons in 2009. During this

intervening period, capture fisheries contracted by 0.5% annually while aquaculture grew by 5.6% p.a. The growth rate is much higher for a longer period between 1970 and 2008 at 8.3%. As indicated earlier, dwindling catch rate and rising fuel costs will continue to propel the growth of the aquaculture industry while capture fisheries is likely to keep on contracting

- **30% of Marine Capture Fishes are Fully Exploited.** The stocks of most of the top 10 species are fully exploited, together these accounted for 30% of the world marine capture fisheries production. The two main stocks of Anchoveta in the Southeast Pacific and Alaska Pollock in the North Pacific as well as Blue Whiting in the Atlantic are fully exploited. In addition, several Atlantic herring stocks are either fully exploited or depleted. Japanese Anchovy in the Northwest Pacific and Chilean Jack Mackerel in the Southeast Pacific are also considered to be fully exploited. Of the 23 tuna stocks, most are more or less fully exploited (possibly up to 60%), some are overexploited or depleted (possibly up to 35%) and only a few appear to be underexploited (mainly Skipjack). Going forward, the substantial demand for tuna may lead to further deterioration in their stock unless there is improvement in supply management. Concern about the poor status of some Bluefin stocks and the difficulties in managing them led to a proposal to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) in 2010 to ban the international trade of Atlantic Bluefin. While the FAO opines that there is progress made on restocking overfished stocks, we believe that this is a slow process and that the over-exploitation will benefit aquaculture in the future

Commercial Harvesting Imminent

CAQ's first plant in Thailand is about to begin commercial harvesting in June 2011 with 150 tons of capacity. This will transform CAQ into a profitable company with commercially proven and superior technology. The total capacity of this plant is 1,000 tons and would add meaningfully to the top and bottom-line. Below are some of the assumptions and key characteristics of this facility:

- **150 Tons in June 2011, Full Capacity by May 2013.** CAQ commenced production out of the Thailand facility in October-November 2010. It will begin the harvesting of the 150 tons of production in June 2011, at which point it will begin realizing revenue from this facility. Shortly thereafter it will begin adding another 400 tons to the facility, which will be complete by December 2011. We expect the gestation period for the baby fingerlings to mature into harvestable size to be at about 8 months, which means that the additional 400 tons will begin contributing to the top-line by August 2012. Finally we believe the remaining 450 tons will be added by September 2012 and revenue will begin to flow by May 2013
- **Revenue of A\$17.5 million, Net Profit of A\$8.75 Million.** We believe that CAQ will add A\$2.6 million to revenue in FY12 from 150 tons of capacity in Thailand. At full capacity, the revenue is expected to be A\$17.5 million in FY14 while net profit is expected to be A\$8.75 million

Superior Technology

Seafood has gained popularity over the years as a safer protein alternative due to a number of diseases affecting other animal meats such as E. Coli and Mad Cow Disease. However, poor production and processing methods have led to concerns surrounding the health-hazards posed by seafood. A prime example is the ban imposed by the EU on the importation of all fisheries products and live fish from Malaysia in July 2008. The ban was driven by the failure of Malaysian agricultural farms to meet the stringent EU health requirements. The ban, which was lifted in March 2009, caused significant losses to the RM1.5 billion industry. The exporting countries must adhere to the standards imposed by

developed countries as they are the primary customers and the biggest importers of seafood. CAQ's Cell system is a superior system and has the ability to transform the company into a leader in hatchery and related technology. The following table details some of the key unique advantages of a re-circulating aquaculture system vis-à-vis other comparable systems.

Exhibit 11 : Re-circulating System Vs Other Systems

Parameter	Sea Cage	Pond	Land based Flow-through systems	Re-circulating Aquaculture Systems
Technical sophistication	Low	Low	Medium/High	Medium/High
Site characteristics	Restricted sites available	Restricted to rural areas; requires large acreage	Rural and peri-urban, requiring medium acreage	Rural, peri-urban and urban, requiring small footprint
Location relative to market	Remote	Distant	Can be placed strategically close to market	Can be placed strategically close to market
Stocking densities	12-15 kg/m ³	2-5 kg/m ³	10-15 kg/m ³	30-100 kg/m ³
Water requirement	Natural water body	Surface or ground water	Medium utilization of limited resource	Maximum utilization of limited resource
Operating costs	High	Low	High	High
Key operating issues	Unable to control temperature, limited control over water quality, health	Unable to control temperature, limited control over water quality	Unable to control temperature, limited control over water quality. Effluent can be integrated into hydroponics etc, to value-add	Able to control ambient temperature, ability to control water quality, effluent can be integrated into hydroponics etc, to value-add
Environmental considerations	Accumulation of anoxic sediments below cages due to fecal/waste feed build-up; Negative impacts in public waters subject to close scrutiny; Bio-security cannot be ensured	Water seepage; Discharge of nutrient rich effluent into public waterways; Bio-security cannot be ensured	Water seepage; Discharge of nutrient rich effluent into public waterways; Bio-security cannot be ensured	Recognized as best environmental practice; Can discharge waste water into sewerage system in urban area, or re-inject treated water into an aquifer; Offers complete controlled, safe bio-secure environment
Major risk factors	Stock loss in extreme weather events	Muddiness – poor product quality	Water security	Minimal risk in a well designed and well managed RAS, with appropriate monitoring and back-up systems in place

Source: Company Reports, RB Milestone

- Stringent European Standards.** A well managed Re-circulating Aquaculture System (RAS) can ensure the key environmental, food safety and traceability required by the European Union as well as other international standards. CAQ's re-circulating aquaculture system in Terengganu was recently selected and described by EU health officials as a model modern aquaculture production farm.
- Elimination of Antibiotics.** Within the aquaculture industry, the chronic use of antibiotics has raised issues about the harmful effects of such procedures. Some

compounds such as chloramphenicol and nitrofurans are banned for use in food fish in many countries, including the EU. Advancement in detection procedures have further made the screening process at port in the EU even more stringent, which led to a virtual halt in the trade of fish food between Asia and the EU during 2008-2009. In contrast, CAQ's Cell system is a controlled bio-secure environment which offers significantly more control over the production process and virtually eliminates the requirement for antibiotics

- **Contamination and Pollution.** RAS are based on limited water exchange (typically up to 12% per day) and the reuse of the water in tanks, which are often housed in a fully-enclosed facility. RAS maximize water re-use by employing a comprehensive water treatment system. Ultimate control over culture conditions and water quality is provided by the treatment and manipulation of each of the key water quality concerns directly, in contrast to flow-through and partial reuse systems. RAS are recommended by the Food and Agriculture Organization of the United Nations (FAO) as best practice for sustainable fish production because they do not pollute coastal environments. RAS are widely considered to be 'the way of the future' in ensuring the sustainability of the rapidly growing aquaculture industry.

In addition, CAQ's strength also lies in its superior hatchery process. The hatchery process is essentially the growth engine for the aquaculture industry. A robust and reliable hatchery process can provide a regular flow of feed-stocks for the "grow-out" facilities. CAQ has developed a state-of-the-art hatchery facility in Australia and has been able to increase output by 500% over the last few years. CAQ's hatchery process is also believed to have a much lower mortality rate than the entire industry.

Presence across the Value Chain

The acquisition of Cell Aqua Foods Pty Ltd. has extended CAQ's offerings to the entire value chain of the aquaculture industry. A well established distribution chain enables the company to offer its value-added products across different end markets such as superstores and restaurants.

Having control over the distribution will also enable it to control the quality as well as make the company cost efficient. We believe this is a key strength as many companies in this space have focused on a specific process in the aquaculture supply chain. CAQ is likely to demand a valuation premium for this unique strategic positioning.

South Africa to Provide Further Upside

The company is in an advanced stage to finalize and begin developing its South African facility. There is a shortage of high-quality fish supply in South Africa which presents a lucrative opportunity for CAQ since it already has an MOU with a well-established local consortium. This facility will be twice the size of the Thailand facility at 2,000 tons. We believe that the margins will be a slightly lower for this facility as CAQ will sell the whole fish rather than processing it to value-add fillets. Once fully developed, we expect commercial harvesting by April 2012. The facility will contribute A\$7.2 million (at a 40% stake) to the top-line and A\$2.24 million to the bottom-line, annually. (Please refer to the valuation section for full details)

SWOT of Cell Aquaculture

Strengths

- The Thailand facility has completed 150 tons of capacity and the company is looking to begin commercial harvesting from this facility in as early as June 2011
- At full capacity the Thailand facility will contribute strongly to the company's cash flows
- CAQ's superior hatching and distribution facility give it an opportunity to maintain high margins through value-added processes and wide distribution reach
- The South African facility's JV is at attractive terms with low risk for CAQ and will provide cash flows by way of fees and retainers immediately upon completion
- CAQ's management is experienced and capable. The company's CEO, Mr. Peter Burns, has ~10 years in the aquaculture industry. Its management is its key strength, allowing CAQ to establish a proven technology and process

Weaknesses

- The company is expected to approach profitability but has so far been in the red
- Its Malaysian facility in Terengganu has been relegated to R&D activities, while it was originally designed as a manufacturing facility

Opportunity

- The company is looking to introduce the product from the South African facility to other markets beside South Africa. This may give it an opportunity to offer value-add products and increase profitability
- It is in talks with the Malaysian government to revive the Terengganu facility. If production resumes, it can provide a strong upside to cash flows
- Barramundi is becoming increasingly popular due to its superior characteristics

Threat

- Inability to raise capital for financing development activities
- Increasing competition can drive away profits
- Inability to adhere to local industry regulations can have a severe impact on operations

Financial Performance

Exhibit 12 : Annual Income Statement

Australian \$	Year Ended June 30, 2009	Year Ended June 30, 2010	YoY%
Revenue from continuing operations	385,003	538,717	39.9%
Foreign currency gain	12,429	(10,659)	-185.8%
Loss on disposal of plant and equipment	(19,183)		-100.0%
Raw materials and consumables used	(319,501)	(8,815)	-97.2%
Legal expenses	(12,260)	(14,292)	16.6%
Marketing expenses	(13,757)	(3,995)	-71.0%
Communication expenses	(8,690)	(3,268)	-62.4%
Consultancy expenses	(399,665)	(575,094)	43.9%
Employee benefits expense	(556,266)	(547,059)	-1.7%
Insurance expenses	(21,178)	(31,335)	48.0%
Occupancy Costs	(156,209)	(19,785)	-87.3%
Professional Costs	(119,394)	-	-100.0%
Travel Costs	(87,727)	(69,843)	-20.4%
Depreciation and amortization expense	(525,653)	(12,096)	-97.7%
Finance costs	(527)	(271)	-48.6%
Impairment charge – capitalized research costs	(192,343)	-	-100.0%
Cancellation of share based payment	176,625	-	-100.0%
Other expenses	(69,280)	(330,992)	377.8%
Share based payments	(82,863)	(31,112)	-62.5%
Share of net losses of associates using the equity method	(187,350)	-	-100.0%
Loss from continuing operations before income tax benefit	(2,197,789)	(1,119,899)	-49.0%
Income tax benefit	204,862	97,245	-52.5%
Loss for the year	(1,992,927)	(1,022,654)	-48.7%
Basic and diluted (loss) per share	(1.31)	(0.56)	-57.3%

Source: Company Filings, RB Milestone

During the financial year ending June 30th, 2010, CAQ achieved a 40% increase in revenue while reducing the loss attributable to members by 50%. The significant reduction in the loss was achieved through tight cost control and a rationalization of company operations. The company maintains a healthy cash position and debt free status. During the year, the company continued to actively progress the development of its unique vertically integrated 'Hatch to Dispatch' business model.

Valuation & Investment View

Cell Aquaculture is about to begin commercial harvesting from its Thailand facility in June 2011. The initial output at 150 tons is a fraction of the total capacity of 1,000 tons. This facility will transform CAQ into a profitable aquaculture player with a proven and superior technology. The Thailand facility will be a major value-creator for the company because a) the company intends to value-add the output from the facility by processing into fillets, etc. and b) this facility is 100% company owned.

We have valued CAQ on the basis of expected cash flows from its Thailand and South African facilities. We have discounted these free cash flows to equity by the appropriate discount rate and achieve a target price of A\$0.25 per share, a 213.1% upside from the last traded price of A\$0.083 per share.

Thailand facility

The Thailand facility will begin commercial harvesting from June 2011. The impact of this will be visible in FY12 results with an expected A\$2.63 million in revenues from the Thailand facility. The revenues from this facility are expected to increase considerably in FY14 when this facility runs at full capacity for all 12 months. We expect revenue from this facility to increase to ~A\$17.5 million by 2014 and a robust A\$8.75 million in profit before taxes.

Exhibit 13 : Contribution From the Thailand Facility

Thailand Facility	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Production (in tons)	150	550	1,000	1,000	1,000	1,000	1,000	1,000
Commercial harvesting (in tons)	2	75	296	500	500	500	500	500
Operating cost (in A\$ 000)	(515)	(2,313)	(6,656)	(8,750)	(8,750)	(8,750)	(8,750)	(8,750)
Revenue (in A\$ 000)	70	2,625	10,354	17,500	17,500	17,500	17,500	17,500
Profit before taxes (in A\$ 000)	(445)	313	3,698	8,750	8,750	8,750	8,750	8,750

Source: Company Filings, RB Milestone

Other key assumptions are as follows:

- We expect an additional 400 tons to be added to this facility by December 2011. Revenue from this additional capacity is expected to flow from August 2012, given the 8 months needed for baby fingerlings to grow into adults
- Simultaneously, we expect the remaining 450 tons to be added by September 2012, corresponding revenue by May 2013
- Total capital expenditure for building this entire facility is expected to be ~A\$7 million
- Cost per kg of fish fillet : A\$5
- Fish to fillet conversion of 0.5. Hence, cost per kg of fish for the fillet is A\$10/kg
- Transportation, processing, value adding, packaging and distribution of A\$7.5/Kg
- Revenue/Kg : A\$35

South Africa facility

The South Africa facility is also in advanced stages with a total capacity of 2,000 tons. However, we believe that after the construction stage, the involvement for CAQ is likely to be a bit passive vis-à-vis its involvement in the Thailand facility given that a) the target market is majorly South Africa in the beginning and hence the fishes will be sold as whole rather than value-add fillet conversion and b) CAQ has a 40% stake in the JV. Hence this is a low risk/low return proposition for CAQ. Its share of the capital outlay is also quite low considering the company's retainer fees.

Exhibit 14 : Contribution From the South African Facility

South Africa Facility	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Production (in tons)	-	-	2,000	2,000	2,000	2,000	2,000	2,000
Commercial harvesting (in tons)	-	-	333	2,000	2,000	2,000	2,000	2,000
Operating cost (in A\$ 000)	-	-	(8,333)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
Revenue (in A\$ 000)	-	-	3,000	18,000	18,000	18,000	18,000	18,000
Profit before taxes (in A\$ 000)	-	-	(5,333)	8,000	8,000	8,000	8,000	8,000
CAQ's share @ 40% stake	-	-	(2,133)	3,200	3,200	3,200	3,200	3,200

Source: Company Filings, RB Milestone

Key assumptions are as follows:

- We expect the facility to be completed by August 2012 and the corresponding first commercial harvests to flow by April 2013
- Total capital expenditure for the facility is A\$20 million
- CAQ's share of the capital expenditure is expected to be A\$4 million, which will be majorly set-off by development fees of A\$1 million along with retainer fees of A\$1.4 million
- Cost per kg of fish including transportation: A\$5
- Revenue/Kg : A\$9/Kg

Finally we converted these cash flows into free cash flow to equity (FCFE) by taking out the appropriate taxes (assumed at 30%) and adding back non-cash expenses. We have assumed depreciation to be equal to maintenance capital expenditure, which is based on a useful life assumption of 20 years for the facility. Thus, our valuation model gives us an upside of 213.1% with a price target of A\$0.25/share.

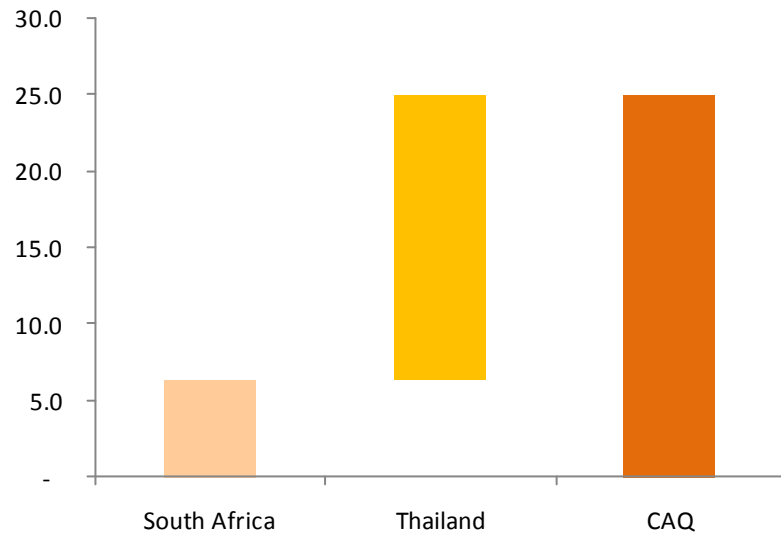
Exhibit 15 : DCF Valuation

FCFF Valuation for CAQ	in A\$ 000
Risk free rate	5.5%
Risk premium	6.5%
Beta	1.0
Cost of equity	12.0%
Terminal growth	1.0%
PV FCFE till 2018	17,273.3
PV of terminal	34,207.9
Value of equity	51,481.2
Number of shares o/s (in 000)	205,523
Value per share (in cents)	25.0
Last traded price (in cents)	8.0
Upside/downside	213.1%

Source: Company Filings, RB Milestone

The Thailand facility is the largest driver of the valuation for the company, despite the smaller capacity as CAQ's stake in this facility is 100%.

Exhibit 16 : Value Per Share Break-up (in cents)



Source: Company Filings, RB Milestone

Finally, the sensitivity analysis underscores the lower risk but potentially higher returns for this investment opportunity.

Exhibit 17 : Sensitivity Analysis – Ke and Terminal growth

	Cost of Equity					
Terminal g	25.0	8.0%	10.0%	12.0%	14.0%	16.0%
	0.4%	41.56	30.96	24.09	19.32	15.82
	0.7%	42.93	31.72	24.56	19.62	16.03
	1.0%	44.42	32.53	25.05	19.94	16.24
	1.3%	46.04	33.40	25.57	20.27	16.46
	1.6%	47.82	34.33	26.11	20.61	16.69

Source: Company Filings, RB Milestone

Exhibit 18 : Sensitivity Analysis – Fish Pricing in Thailand and South Africa

	Price/Kg (Thailand)					
Price/Kg (S. Africa)	25.0	25.00	30.00	35.00	40.00	45.00
	5.00	4.46	10.91	17.36	23.82	30.27
	7.00	8.30	14.76	21.21	27.66	34.11
	9.00	12.15	18.60	25.05	31.50	37.95
	11.00	15.99	22.44	28.89	35.34	41.79
	13.00	19.83	26.28	32.73	39.18	45.63

Source: Company Filings, RB Milestone

Key Risk Factors

- **Execution Risk.** All of CAQ's projects are in development/planning stage and thus failure in planned execution can be a concern
- **Financing Risk.** All the facilities need significant development capital outlay during the development stage. CAQ's prospects are significantly linked to identifying funding sources for its projects. Failure to obtain financing as and when needed can impact the continuation of CAQ's operations
- **Regulatory Risk.** The aquaculture industry is subject to stringent regulations, especially in the developed countries. Failure to comply with local rules or an unfavorable change in existing regulations (such as in Malaysia) can have a harmful impact on the company's prospects
- **Forecast Risk.** Although the company has reasonably assessed the capital outlay for its Thailand and South African facilities, a considerable deviation towards the upper side can have a material impact on the company's profitability
- **Operating Risk.** The company may be exposed to several risks such as operational and technical difficulties encountered in commissioning and operating plant and equipment; mechanical failure or plant breakdown; adverse weather conditions; industrial and environmental accidents; industrial disputes; and unexpected shortages or increases in the cost of fingerlings

Management and Board of Directors

Mr. Perryman J Leach, Chairman non-independent, Executive Director

Perry Leach, the creator of the Eco-Cell™ Recirculating Seafood Production System, is a civil engineer, project manager and builder. He has extensive experience in the intensive farming of poultry through the food chain to abattoirs, small goods processing, chiller and freezer works and pollution control. Mr. Leach has an ongoing role in species development and the further advancement of Cell's unique technologies. Mr. Leach has not held directorships in any listed companies during the past three financial years.

Mr. Peter Gerard Burns, Executive Director

Mr. Burns has been involved with Cell Aquaculture Ltd. for the past 9 years and has played a key role in the international development of the Company. He is actively involved in the day-to-day running of the Company's operations with a particular emphasis on the development of Cell's international markets and product branding. Mr. Burns holds a Bachelor of Business degree with a double major in management and marketing and possesses over 15 years experience in these respective fields. Mr. Burns has not held directorships in any listed companies during the past three financial years.

Capt. Suresh E Abishegam, Independent, Non-Executive Director

Capt. Abishegam is a Malaysian based businessman with public company experience. He currently owns and operates companies in the shipping and information technology industries. Capt. Abishegam has been associated with Cell for the past four years, making the introduction and providing the catalyst to complete the joint venture deal with the Malaysian Government. He is also a Director of the Malaysian subsidiary company, Cell-Aqua Malaysia Sdn Bhd and will play an instrumental role in driving the future expansion of this venture. Capt. Abishegam has not held directorships in any listed companies during the past three financial years.

Mr. Peter Philip Bodycoat, Finance Director

Mr. Bodycoat oversees all financial functions of Cell Aquaculture Ltd. Mr. Bodycoat has owned and managed his own South Perth based accounting and financial advisory practice, Acute Management Services, for over 15 years. In that time he has advised clients in many industries including mining, transport, manufacturing and civil contracting. He is a fellow of the National Tax & Accountants Association and a registered tax agent. Mr. Bodycoat holds a Bachelor of Business degree and is also a Director of numerous private companies. Mr. Bodycoat has not held directorship in any listed companies during the past three financial years.

Mr. Ian E Gregory, Company Secretary

The Company Secretary is Mr. Ian E Gregory. He has a Bachelor of Business from Curtin University and is a fellow of Chartered Secretaries Australia. He is also a fellow of CPA Australia and a member of the Australian Institute of Company Directors. Mr. Gregory was appointed in 2005 and has over 25 years experience in the provision of company secretarial and business administration services in a variety of industries, including exploration, mining, mineral processing, oil and gas, banking and insurance.

Disclaimer

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We strongly urge all investors to conduct their own research before making any investment decision.