

# <Cell>

AQUACULTURE LTD

## ANNUAL REPORT 2010







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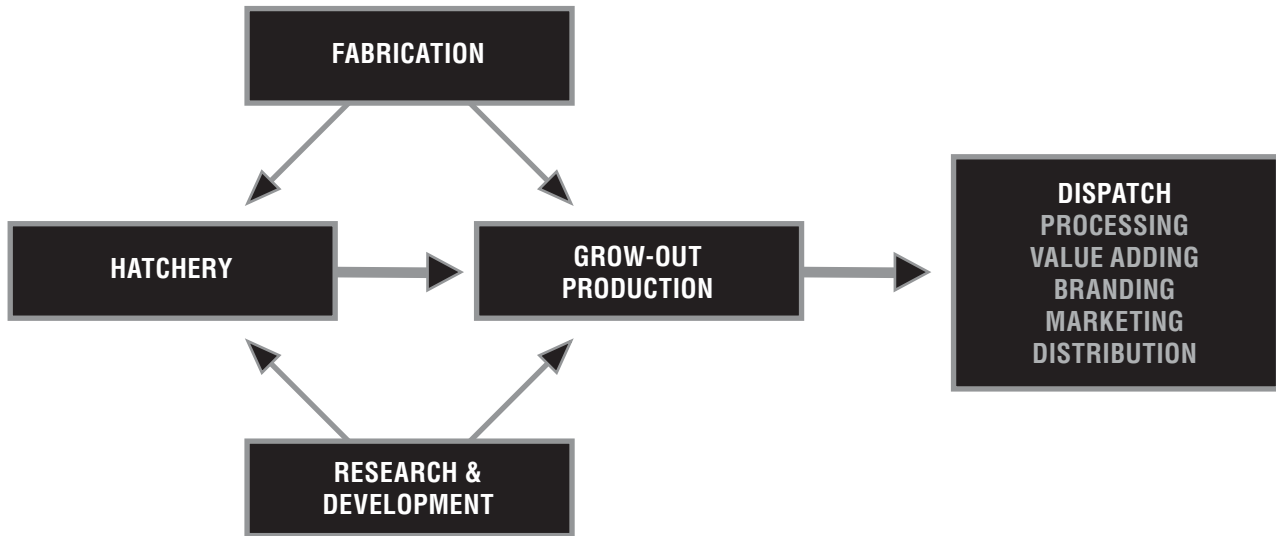
# chairman's report

**Dear Fellow Shareholder,**

On behalf of the Board of Directors and management of Cell Aquaculture Limited (CAQ), it is my pleasure to present a brief review of your Company's activities.

During the year and subsequent to the reporting period, we have continued to actively progress the development of our unique vertically integrated 'Hatch to Dispatch' business model. We have made significant progress in developing, owning and controlling all key steps of the business model and value chain, as well as progressing a number of potentially large scale production joint ventures.

Our vertically integrated 'Hatch to Dispatch' business model is detailed below:



During the financial year ending 30<sup>th</sup> June 2010, the Company achieved a 40% increase in revenue, whilst reducing the loss attributable to members by 50%.

The significant reduction in the loss of the Company has been achieved through tight cost control and a rationalisation of company operations. The Company maintains a healthy cash position and debt free status, seeing it well poised for the 2011 financial year and a move towards the achievement of profitability.

To follow is a brief review of your company's operations:





#### **Hatchery and R & D**

Hatchery progress throughout the year has been outstanding from the commercial/research and development operations, located at James Cook University, Townsville, Queensland.

The James Cook University based operations continue to achieve a consistent reliable supply of high quality juvenile fish, whilst continuing an advanced program to optimise hatchery technology and operating methods. This program is now in its fifth year of operation, with Commercial and Research and Development objectives continuously evaluated. Today, this facility stands alone as being the leading joint Commercial/R & D Barramundi venture in Australia.

As a result of significant research and development over the last five years, output from the same hatchery footprint has increased by over 500%. Given the significant success of this program, R & D in this area still continues, with the ultimate goal to perfect this part of the aquaculture supply chain and be a world leader in hatchery supply. This goal is being met for Barramundi and other species are now under investigation.

Current R & D is focused on new species development, whilst more advanced work is underway for Barramundi in the areas of selective breeding and fingerling selection protocols, to further improve the quality of seed stock for commercial operations. This activity directly enhances productivity and profitability of the production ventures.

#### **Fabrication and R & D**

The Company continues to operate fabrication facilities, enabling the manufacture of key proprietary components. Whilst 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**

During the year, the Company has progressed a number of MOU's to develop grow-out production operations in Malaysia, Singapore and South Africa. The advancement of these projects has been hindered primarily by the lengthy lead-times and cumbersome processes of gaining all relevant approvals in the various regions. This has been a source of great frustration and has stifled our ability to move forward at our 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 and aim to source a suitable 'low-cost' production location, with all relevant approvals in place, to enable the establishment of a Company owned, commercial scale grow-out production operation. This would enable the Company to complete its vertically integrated 'Hatch to Dispatch' business model on a true commercial scale and propel the Company towards profitability.

Subsequent to the financial year ending 30<sup>th</sup> June 2010, the Company formally secured an outstanding production site, with all relevant approvals in place, located in Phuket, Thailand. The production site has a superior quality water source as well as all necessary infrastructure and services in place.

The site is located adjacent to an existing Abalone farm, which has a 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 additional adjoining vacant land. The existing shed and tanks are currently being retro-fitted with our proprietary 'Cell' filtration components, which will significantly increase the production 'yield' of the existing operation and also enable accelerated commencement of production.

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.

Our first batches of Australian Barramundi fingerlings (baby fish) were successfully shipped to this new production venture in mid October 2010.

Following completion of the retro-fit of the existing facility, construction of a new purpose-built large-scale 'Cell' production facility will commence immediately on the adjacent vacant land.

The production site had an initial capacity of approximately 500 tonnes of premium finfish per annum, however we have recently managed to also obtain an option on the adjoining site, which will now see the project's capacity potentially increase to over 1,000 tonnes per annum.

Being a company owned project, we can now aggressively advance this venture at our desired pace.

We are also continuing to actively progress our various MOU's in Malaysia, Singapore and South Africa, with a view to converting them into profitable production ventures in the near future.

### **Dispatch – Processing, Value-adding, Marketing, Branding and Distribution**

Subsequent to the 2010 financial year, the Company recently established a wholly owned subsidiary 'Cell Aqua Foods Pty Ltd' - a fully operational, food processing, value-adding, packaging and marketing division.

The Company acquired the assets, customer base and product range from an existing food processing business and established a new facility located in Osborne Park, Western Australia. The acquisition of an existing business and distribution network, including numerous supermarkets, restaurants and catering customers, offers instant cash flow from the operations, whilst providing a solid platform for the Company to further develop our product range and distribution network.

We have been fortunate to secure the services of a local award winning chef with over 15 years experience in food processing and new product development.

Via Cell Aqua Foods, we have now developed a unique range of Premium fresh, smoked and value added Barramundi products – which are being actively and successfully marketed under our Eco-Star™ brand.

The first quarter of the 2011 financial year has been spent on rationalising and streamlining the Cell Aqua Foods business and will be followed by an aggressive growth strategy to expand the product range and distribution network – creating further domestic and export markets for the 'Grow-out Production' opportunities outlined previously.

Revenues from Cell Aqua Foods Pty Ltd have not been realised in the 2010 financial year.

### **Outlook**

Due to the extensive lead-times to obtain relevant approvals in various target production regions, progress during the 2010 financial year has been slower than expected, however the Company is now well 'on-track' with a pro-active strategy, the right 'proven' business model and a highly motivated, committed and dedicated team.

The Company's ability to now establish low-cost production operations and then process, value add, brand and distribute the produce into premium markets, offers a very compelling business case and sees the Company on a positive path to profitability.

Having secured investment from a key cornerstone investor during the year, the Company maintains a healthy cash position, debt free status, and is well poised for the 2011 financial year.

On behalf of the Board, I wish to thank all our staff for their tireless dedication and commitment to CAQ and also to our very loyal and patient shareholders for their tremendous ongoing support of the Company.



**Perryman James Leach**  
Executive Chairman  
Cell Aquaculture Limited





director's report

The Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Cell Aquaculture Limited and the entities it controlled at the end of, or during the financial year ended 30 June 2010.

**Directors**

The names of the Directors in office at any time during or since the end of the financial year are:

- Perryman James Leach
- Peter Gerard Burns
- Suresh Emmanuel Abishegam
- Peter Philip Bodycoat

**Perryman J Leach M.I.E. Aust. (age 69)  
Chairman non-independent, Executive Director**

Perry Leach, the creator of the Eco-Cell TM 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 B.Bus A.I.M.M. A.M.A.M.I. (age 34)  
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 (age 49)  
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 (age 44)  
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.

**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.

**Principal Activities**

The principal activities of the Company during the financial year were: Development, Commercialisation & Marketing Technology relating to aquaculture farming.

No significant change in the nature of these activities occurred during the year.

**Dividends Paid or Recommended**

No dividends were paid during the year and no recommendation is made as to dividends.

**Operating and Financial Review**

The consolidated operating result for the year ended 30 June 2010 is:

	Financial Year 2010 \$	Financial Year 2009 \$
Revenue from continuing operations	538,717	385,003
Net Income/(Loss) for the year	(1,022,654)	(1,992,927)



## **Review of Operations**

During the financial year ending 30<sup>th</sup> June 2010, the Company achieved a 40% increase in revenue, whilst reducing the loss attributable to members by 50%.

The significant reduction in the loss of the Company has been achieved through tight cost control and a rationalisation of company operations. The Company maintains a healthy cash position and debt free status, seeing it well poised for the 2011 financial year and a move towards the achievement of profitability.

During the year, the Company continued to actively progress the development of its unique vertically integrated 'Hatch to Dispatch' business model.

To follow is a review of operations for the financial year ending 30<sup>th</sup> June 2010:

### **Hatchery and R & D**

Hatchery progress throughout the year has been outstanding from the commercial/research and development operations, located at James Cook University, Townsville, Queensland.

The James Cook University based operations continue to achieve a consistent reliable supply of high quality juvenile fish, whilst continuing an advanced program to optimise hatchery technology and operating methods. This program is now in its fifth year of operation, with Commercial and Research and Development objectives continuously evaluated. Today, this facility stands alone as being the leading joint Commercial/R & D Barramundi venture in Australia.

Specific details of operational protocols developed through this program are proprietary and commercially sensitive, however the success of this facility is characterised by use of:

- Technical infrastructure that optimises water and environment conditions, whilst minimising 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).

One of the key goals has been to develop highly efficient hatchery operations, which can effectively be transposed to another production location, whilst still optimising biological predictability and commercial viability.

The now highly developed Cell hatchery concept offers the distinct advantages of:

- Direct control over timing of supply;
- Reduced operating costs;
- Increased bio-security by removing 'foreign' risks;
- Ability for species-specific hatcheries to be tied to each production facility that they serve.

As a result of significant research and development over the last five years, output from the same hatchery footprint has increased by over 500%. Given the significant success of this program, R & D in this area still continues, with the ultimate goal to perfect this part of the aquaculture supply chain and be a world leader in hatchery supply.

This goal is being met for Barramundi and other species are now under investigation. Current R & D is focused on new species development, whilst more advanced work is underway for Barramundi in the areas of selective breeding and fingerling selection protocols, to further improve the quality of seed stock for commercial operations. This activity directly enhances productivity and profitability of the production ventures.

### **Fabrication and R & D**

The Company continues to operate fabrication facilities, enabling the manufacture of key proprietary components. Whilst 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**

During the year, the Company has progressed a number of MOU's to develop grow-out production operations. The advancement of these projects has been hindered primarily by the lengthy lead-times and cumbersome processes of gaining all relevant approvals in the various regions. This has been a source of great frustration and has stifled the Company's ability to move forward 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 and 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. This would enable the Company to complete its vertically integrated 'Hatch to Dispatch' business model on a true commercial scale and propel the Company towards profitability.

Subsequent to the financial year ending 30<sup>th</sup> June 2010, the Company formally secured an outstanding production site, with all relevant approvals in place, located in Phuket, Thailand. The production site has a superior quality water source as well as all necessary infrastructure and services in place, with capacity to develop production in excess of 500 tonnes of premium finfish per annum.

The site is located adjacent to an existing Abalone farm, which has a 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 additional adjoining vacant land. The existing shed and tanks will be retro-fitted entirely with 'Cell' filtration components, significantly increasing the yield of the existing operation and also enabling accelerated commencement of production.

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 are working to an aggressive timetable and 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 Company also continues to actively progress its various MOU's, with a view to converting them into profitable production ventures in the near future.

### **Dispatch – Processing, Value-adding, Marketing, Branding and Distribution**

Subsequent to the 2010 financial year, the Company recently established a wholly owned subsidiary 'Cell Aqua Foods Pty Ltd' - a fully operational, food processing, value-adding, packaging and marketing division.

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Revenues from Cell Aqua Foods Pty Ltd have not been realised in the 2010 financial year.

Via Cell Aqua Foods, the Company has now developed a unique range of Premium fresh, smoked and value added Barramundi products – which are now being actively marketed under the Company’s Eco-Star™ brand.

The Company recently showcased its product range at the Melbourne Fine Food exhibition, receiving tremendous feedback. A number of key supply contracts are in the latter stages of negotiation and further updates will be provided as details are finalised.

**Summary**

Due to the extensive lead-times to obtain relevant approvals in various target production regions, progress during the 2010 financial year has been slower than expected, however the Company is now well ‘on-track’ with a pro-active strategy, the right ‘proven’ business model and a highly motivated, committed and dedicated team.

The Company’s ability to now establish low-cost production operations and then process, value add, brand and distribute the produce into premium markets, offers a very compelling business case and sees the Company on a positive path to profitability.

Having secured investment from a key cornerstone investor during the year, the Company maintains a healthy cash position, debt free status, and is well poised for the 2011 financial year.

**Environmental Issues**

The Company’s operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a State or Territory. The Group has not yet fully reviewed the reporting requirements under the Energy Efficient Opportunities Act 2006 or the National Greenhouse and Energy Reporting Act 2007, but believes it has adequate systems in place to ensure compliance with these Acts having regard to the scale and nature of current operations.

**Meetings of Directors**

The numbers of meetings of the Company’s Board of Directors and of each Board Committee held during the year ended 30 June 2010, and the numbers of meetings attended by each Director were:

	Directors Meetings	
	A	B
PJ Leach	6	6
S E Abishegam	6	6
P G Burns	6	6
P Bodycoat	1	1

**Notes**

A Number of meetings attended.

B Number of meetings held during the time the director held office during the year.

Being a small executive Board, the Directors are in contact virtually on a daily basis, minimising the requirement for numerous formal Board meetings throughout the year.



## Share Options

### Shares under Option

Unissued ordinary shares of Cell Aquaculture Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Exercise price of options	Number under option
29 November 2007	29 November 2010	\$0.20	5,500,000
23 January 2008	18 January 2011	\$0.20	1,550,000
28 February 2008	31 January 2011	\$0.20	1,116,667
1 April 2008	1 April 2011	\$0.20	3,050,000
			11,216,667

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

### Directors' Share and Option holdings

As at the date of this report the interests of the Directors in the shares and options of the Company were:

Director	Ordinary Shares	Options over Ordinary Shares
P J Leach	16,007,501	-
P G Burns	1,250,395	1,500,000
S E Abishegam	1,293,816	2,500,000
P Bodycoat	1,640,540	-

Note that SE Abishegam owns 10% of the issued capital of Cell Aquaculture Malaysia Sdn Bhd, a subsidiary of Cell Aquaculture Ltd.

### Remuneration Report

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Services agreements
- D Share-based compensation

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*. The executives of the Company during the financial year were Directors, Company Secretary and General Manager.

#### (A) Principles used to determine the nature and amount of remuneration

The objective of the Company's remuneration framework is to ensure reward for performance is competitive and appropriate for the results delivered and set to attract the most qualified and experienced candidates.

Remuneration levels are competitively set to attract the most qualified and experienced Directors and senior executive officers, in the context of prevailing market conditions.

The Company embodies the following principles in its remuneration framework:

- the Board seeks independent advice if required on remuneration policies and practices including recommendations on remuneration packages and other terms of employment for executives; and
- in determining remuneration, advice is sought from external consultants on current market practices for similar roles and the level of responsibility, performance and potential of the executive and performance of the Group.

The Directors are responsible for determining and reviewing compensation arrangements for the Directors and the executive team. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

The Australian resident Directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. All remuneration paid to Directors and executives is valued at the cost to the Company and expensed. Options are valued using the Binomial methodology. The Board policy is to remunerate non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-Executive Directors is subject to approval by shareholders at the Annual General Meeting (currently \$200,000). Fees for non-Executive Directors are not linked to the performance of the economic entity.

### **Executives**

All executives, with the exception of the Executive Chairman, receive a base salary (which is based on factors such as length of service and experience) and superannuation. The Board reviews executive packages annually by reference to the economic entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries. The Board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Service agreements are in place for the Executive Director which provides for a fixed base fee per annum. External remuneration information provides benchmark information to ensure the base pay is set to reflect the market for a comparable role. Base fees are reviewed annually to ensure the level is competitive with the market. There is no guaranteed base fee increases included in the Executive Director contract.

The Executive Chairman receives a fixed fee for his services as a Director, and is remunerated on an hourly basis for services provided in excess of a base number of hours.

The Company does not offer any variable remuneration incentive plans or bonus schemes to the Executive Director or the Executive Chairman or any retirement benefits, as such there is no performance related links to the existing remuneration policies.

The following table shows the gross revenue and losses and the share price of the Group at the end of the respective financial years.

	30 June 2006	30 June 2007	30 June 2008	30 June 2009	30 June 2010
Revenue	983,559	1,103,234	1,567,104	385,003	538,717
Net loss	(348,829)	(4,710,575)	(4,050,190)	(1,992,927)	(1,022,654)
Share price	22 cents	18.5 cents	12.5 cents	8.3 cents	14.5 cents

### **Non-Executive Directors**

Fees and payments to the Non-Executive Directors reflect the demands which are made on, and the responsibilities of the Directors. Non-Executive Directors' fees and payments are reviewed annually by the Board.

The current base remuneration for Non-Executive Directors was last reviewed in August 2009.

The Company's Non-Executive Director's remuneration package contains the following key elements:

- primary benefits – Director's fees paid monthly; and
- equity – share options.

In addition, Non-Executive Directors are remunerated on an hourly basis for services provided in excess of their roles as Non-Executive Directors.



**(B) Details of remuneration**

The Key Management Personnel of the Group are as follows:

- (i) Directors
- |                      |                          |
|----------------------|--------------------------|
| Perryman James Leach | Chairman (Executive)     |
| Suresh Abishegam     | Director (Non Executive) |
| Peter Gerard Burns   | Director (Executive)     |
| Peter Bodycoat       | Director (Executive)     |
- (ii) Other Key Management Personnel
- |                    |  |
|--------------------|--|
| Christopher Bolger | General Manager (from 25 May 2010 to 30 June 2010) |
|--------------------|--|

In addition, Ian Gregory has been included as a specified executive as required to be disclosed under the Corporations Act 2001.

Details of the remuneration of the Directors and Key Management Personnel and other executives of the Group are set out below:

Year ended 30 June 2010	Short-Term		Post employment		Share-Based Payments		Total	Remuneration consisting of options %
	Salary & Fees	Consulting	Termination payments	Super annuation	Options	Shares		
<b>Directors</b>								
PJ Leach	39,993	-	-	-	-	-	39,993	-
PG Burns	214,654	-	-	17,550	4,036	-	236,240	1.7
SE Abishegam	39,937	-	-	-	13,076	-	53,013	24.6
P Bodycoat	10,000	-	-	-	-	-	10,000	-
<b>Other key management personnel</b>								
IE Gregory	-	-	-	-	-	14,000	14,000	-
CM Bolger	12,030	-	-	1,083	-	-	13,113	-
	316,614	-	-	18,633	17,112	14,000	366,359	4.7

Year ended 30 June 2009	Short-Term		Post employment		Share-Based Payments		Total	Remuneration consisting of options %
	Salary & Fees	Consulting	Termination payments	Super annuation	Options	Shares		
<b>Directors</b>								
PJ Leach	-	183,126	-	-	-	-	183,126	-
PG Burns	191,231	-	-	16,131	30,360	-	237,722	12.7
SE Abishegam	39,158	-	-	-	28,783	-	67,941	42.4
<b>Other</b>								
IE Gregory	-	-	-	-	-	-	-	-
	230,389	183,126	-	16,131	59,143	-	488,789	12.1

The above persons are among the five highest paid as required to be disclosed in accordance with the Corporations Act 2001.

**(C) Service agreements**

On appointment, the Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter outlines the Board policies and terms, including remuneration relevant to the office of Director.

Remuneration and other terms of employment for the Executive Director and Executive Chairman are formalised in letter agreements. The major provisions relating to remuneration are set out below.

Peter G Burns, Executive Director

- Term of agreement – no specified term.
- Base fee of \$195,000 pa (Salary - \$155,000 pa, Directors Fees - \$40,000 pa) as at 30 June 2010, to be reviewed annually.
- Payment of long service leave equal to 3 months of base fee upon completion of 7 years of continuous service.
- Statutory superannuation is payable under the agreement.
- No performance based benefits payable under the agreement.
- Post-employment benefits include accrued long service leave, which is due and payable after every seven consecutive years of service. No other termination benefits are payable. 1 month notice period is required for termination of the contract.

Perryman Leach, Executive Chairman

- Term of agreement – no specified term.
- Base fee of \$40,000 pa as at 30 June 2010 in relation to his Directorship, to be reviewed annually. In addition an hourly rate of \$100 is payable in respect of his executive duties.
- Long service leave does not accrue.
- Statutory superannuation is not payable under the agreement.
- No post employment or termination benefits are payable.
- There is no notice period required for termination of the contact.

Peter Bodycoat, Finance Director

- Term of agreement – no specified term.
- Base fee of \$180,000 pa (Fees for taxation, finance and business advice, compliance services, bookkeeping, all other statutory reporting, corporate headquarters registered office, and Rent - \$140,000 pa, Directors Fees - \$40,000 pa) as at 30 June 2010, to be reviewed annually.
- Long service leave does not accrue.
- Statutory superannuation is not payable under the agreement.
- No post employment or termination benefits are payable.
- There is no notice period required for termination of the contact.

Christopher Bolger, General Manager

- Term of agreement – no specified term.
- Base fee of \$146,000 pa (Salary - \$140,000 pa, Motor Vehicle Allowance - \$6,000 pa) as at 30 June 2010, to be reviewed annually.
- Statutory superannuation is payable under the agreement.
- All statutory leave provisions apply.
- Performance bonus of 250,000 share options in Cell Aquaculture Ltd, exercisable at 20 cents per share will be allocated, subject to the market capitalisation of the Company at the end of the first 6 months of employment being a minimum of 25% greater than at the beginning of the employment period, 25 May 2010.
- No other termination benefits are payable.

#### ***(D) Share-based compensation***

Options over shares in the Company are granted under the Cell Aquaculture Employee Share Option Plan ('ESOP') which was approved by shareholders on 31 October 2007. The Plan is used to reward Directors and employees for their performance and to align their remuneration with the creation of shareholder wealth. There are no performance requirements to be met before exercise can take place. The Plan is designed to provide long-term incentives to deliver long-term shareholder returns. Participation in the Plan is at the discretion of the Board and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. The issue of options is not linked to performance conditions because by setting the option price at a level above the current share price at the time the options are granted, provides incentive for management to improve the Company's performance.

During the financial year ended 30 June 2010, Christopher Bolger, at the time of recruitment, was given an opportunity to take part in Performance Bonus Share Option Plan. Performance bonus of 250,000 share options in Cell Aquaculture Ltd, exercisable at 20 cents per share will be allocated, subject to the market capitalisation of the Company at the end of the first 6 months of employment being a minimum of 25% greater than at the beginning of the employment period, 25 May 2010. The Company has not issued any performance bonus options as at 30 June 2010.

Options granted under the ESOP carry no dividend or voting rights.

Details of options over ordinary shares in the Company provided as remuneration to each Director is set out below. When exercisable, each option is convertible into one ordinary share of Cell Aquaculture Ltd.

No shares have been issued to Directors as a result of the exercise of any Plan options in the current financial year (2009: Nil).

**This is the end of the Audited Remuneration Report.**

#### ***Indemnification of Officers and Auditors***

During the financial year, the Company paid a premium in respect of a contract of insurance insuring the Directors and officers of the Company against certain liabilities specified in the contract. The contract prohibits disclosure of the nature of the liabilities insured and the amount of the premium.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company against a liability incurred as such an officer or auditor.



### ***Non-Audit Services***

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor or a related practice of the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are also satisfied that the provision of non-audit services by the auditor if any, as set out in note 19 to the financial statements, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor, and
- None of the services undermine the general principles relating to auditor's independence as set out in APES 110 Code of Ethics for Professional Accountants.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included in this Financial Report.

Details of amounts paid or payable to the auditor, BDO Audit (WA) Pty Ltd, for audit and non-audit services provided during the year are set out in note 19 to the financial statements. No fees were paid or payable to the auditor for non-audit services.

### ***Proceedings on Behalf of the Company***

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

The Company was not a party to any such proceedings during the year.

Signed in accordance with a resolution of the Board of Directors:



PETER G BURNS  
Director

Dated at Perth this 30th day of September, 2010.





FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2010

# Director's declaration

The Directors of the Company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, Statement of Cash Flow, statements of changes in equity, accompanying notes, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards, the Corporations Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the consolidated entity.
2. In the Director's opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
3. Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.
4. The remuneration disclosures included on pages 8 to 12 of the Director's Report (as part of the Remuneration Report) for the year ended 30 June 2010, comply with Section 300A of the Corporations Act 2001.
5. The Directors have been given the declarations as required by Section 295A by Mr P G Burns, whom performs the Chief Executive functions, and Mr P Bodycoat, who performs the Chief Financial Officer functions, in the Company.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



**PETER G BURNS**

Director

Dated at Perth this 30th day of September, 2010.



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Subiaco, WA 6008  
PO Box 700 West Perth WA 6872  
Australia

30<sup>th</sup> September 2010

The Directors  
Cell Aquaculture Limited  
Suite 1  
Unit 53, 15 Labouchere Road  
South Perth 6151

#### **DECLARATION OF INDEPENDENCE BY PETER TOLL TO THE DIRECTORS OF CELL AQUACULTURE LIMITED**

As lead auditor of Cell Aquaculture Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Cell Aquaculture Limited and the entities it controlled during the period.

**Peter Toll**  
Director

**BDO Audit (WA) Pty Ltd**  
Perth, Western Australia

## **INDEPENDENT AUDITOR'S REPORT**

To the members of Cell Aquaculture Ltd

### **Report on the Financial Report**

We have audited the accompanying financial report of Cell Aquaculture Ltd, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### **Directors' Responsibility for the Financial Report**

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1 (a), the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Independence**

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

### **Basis for Qualified Auditor's Opinion**

Attention is drawn to the recoverability of the consolidated entity's trade receivable owing from TRG Cell as disclosed in Note 10. Negotiations for repayment are currently in progress however as at the date of our report these have not been finalised and accordingly, we were unable to perform sufficient audit procedures in relation to the recoverability of this receivable. Due to this limitation of scope, we have not been able to determine if an impairment provision against this trade receivable is necessary or the amount of the effect, if any, that an impairment provision would have on the consolidated statement of financial position and statement of comprehensive income.

#### Qualified Auditor's Opinion

1. In our opinion:
  - (a) In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to satisfy ourselves on the matter referred to in the preceding paragraph; the financial report of Cell Aquaculture Limited is in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
  - (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1 (a).

#### Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

#### Auditor's Opinion

In our opinion, the Remuneration Report of Cell Aquaculture Ltd for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.



**BDO Audit (WA) Pty Ltd**



**Peter Toll**  
Director

Signed in Perth, Western Australia  
Dated this 30<sup>th</sup> day of September 2010

# Consolidated statement of comprehensive income

FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	Consolidated	
		2010 \$	2009 \$
Revenue from continuing operations	5(a)	538,717	385,003
Foreign currency gain		(10,659)	12,429
Loss on disposal of plant and equipment		-	(19,183)
Raw materials and consumables used		(8,815)	(319,501)
Legal expenses		(14,292)	(12,260)
Marketing expenses		(3,995)	(13,757)
Communication expenses		(3,268)	(8,690)
Consultancy expenses		(575,094)	(399,665)
Employee benefits expense		(547,059)	(556,266)
Insurance expenses		(31,335)	(21,178)
Occupancy Costs		(19,785)	(156,209)
Professional Costs		-	(119,394)
Travel Costs		(69,843)	(87,727)
Depreciation and amortisation expense	5(b)	(12,096)	(525,653)
Finance costs	5(b)	(271)	(527)
Impairment charge – capitalised research costs	13(a)	-	(192,343)
Cancellation of share based payment	26(d)	-	176,625
Other expenses		(330,992)	(69,280)
Share based payments	26(d)	(31,112)	(82,863)
Share of net losses of associates using the equity method	11	-	(187,350)
<b>Loss from continuing operations before Income Tax Benefit</b>		<b>(1,119,899)</b>	<b>(2,197,789)</b>
Income tax benefit	6	97,245	204,862
<b>Loss for the year</b>		<b>(1,022,654)</b>	<b>(1,992,927)</b>
<b>Other comprehensive income</b>			
Exchange differences on foreign currency translation		(11,906)	5,435
<b>Total comprehensive income for the year</b>		<b>(1,034,560)</b>	<b>(1,987,492)</b>
Loss is attributable to:			
Owners of Cell Aquaculture Ltd		(1,002,886)	(2,004,592)
Non-controlling interests		(19,768)	11,665
		(1,022,654)	(1,992,927)
Total comprehensive income for the year is attributable to:			
Owners of Cell Aquaculture Ltd		(1,013,602)	(1,999,157)
Non-controlling interests		(20,958)	11,665
		(1,034,560)	(1,987,492)
<b>Basic (loss) per share</b>	25	<b>(0.56)</b>	<b>(1.31)</b>
<b>Diluted (loss) per share</b>		<b>(0.56)</b>	<b>(1.31)</b>

The accompanying notes form part of these financial statements.

# Consolidated statement of financial position

AS AT 30 JUNE 2010

	NOTE	Consolidated	
		2010 \$	2009 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	2,656,495	450,857
Trade and other receivables	8	275,666	481,317
Inventories	9	90,000	90,000
<b>TOTAL CURRENT ASSETS</b>		<b>3,022,161</b>	<b>1,022,174</b>
<b>NON CURRENT ASSETS</b>			
Receivables	10	581,788	-
Property, plant and equipment	12	124,325	54,703
<b>TOTAL NON CURRENT ASSETS</b>		<b>706,113</b>	<b>54,703</b>
<b>TOTAL ASSETS</b>		<b>3,728,274</b>	<b>1,076,877</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	297,488	265,440
<b>TOTAL CURRENT LIABILITIES</b>		<b>297,488</b>	<b>265,440</b>
<b>NON CURRENT LIABILITIES</b>			
Borrowings	15	-	13,162
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>-</b>	<b>13,162</b>
<b>TOTAL LIABILITIES</b>		<b>297,488</b>	<b>278,602</b>
<b>NET ASSETS</b>		<b>3,430,786</b>	<b>798,275</b>
<b>EQUITY</b>			
Contributed equity	16	18,194,635	14,544,676
Accumulated losses	17(b)	(15,525,029)	(14,522,143)
Reserves	17(a)	782,138	775,742
Parent entity interests		3,451,744	798,275
Non-controlling interests		(20,958)	-
<b>TOTAL EQUITY</b>		<b>3,430,786</b>	<b>798,275</b>

The accompanying notes form part of these financial statements.



# Consolidated statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2010

Consolidated	Contributed equity	Accumulated losses	Share Based Payment Reserve	Foreign Currency Translation Reserve	Total	Non-controlling Interest	Total
<b>Balance at 1.7.2008</b>	<b>13,794,676</b>	<b>(12,517,551)</b>	<b>897,765</b>	<b>(33,296)</b>	<b>2,141,594</b>	<b>(11,665)</b>	<b>2,129,929</b>
Loss for the year	-	(2,004,592)	-	-	(2,004,592)	11,665	(1,992,927)
Exchange difference on translation of foreign operations	-	-	-	5,435	5,435	-	5,435
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>(2,004,592)</b>	<b>-</b>	<b>5,435</b>	<b>(1,999,157)</b>	<b>11,665</b>	<b>(1,987,492)</b>
<b>Transactions with owners in their capacity as owners:</b>							
Issue of shares	750,000	-	-	-	750,000	-	750,000
Share based payments	-	-	(94,162)	-	(94,162)	-	(94,162)
<b>Balance at 30.06.2009</b>	<b>14,544,676</b>	<b>(14,522,143)</b>	<b>803,603</b>	<b>(27,861)</b>	<b>798,275</b>	<b>-</b>	<b>798,275</b>
<b>Balance at 1.7.2009</b>	<b>14,544,676</b>	<b>(14,522,143)</b>	<b>803,603</b>	<b>(27,861)</b>	<b>798,275</b>	<b>-</b>	<b>798,275</b>
Loss for the year	-	(1,002,886)	-	-	(1,002,886)	(19,768)	(1,022,654)
Exchange difference on translation of foreign operations	-	-	-	(10,716)	(10,716)	(1,190)	(11,906)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>(1,002,886)</b>	<b>-</b>	<b>(10,716)</b>	<b>(1,013,602)</b>	<b>(20,958)</b>	<b>(1,034,560)</b>
<b>Transactions with owners in their capacity as owners:</b>							
Issue of shares	3,649,959	-	-	-	3,649,959	-	3,649,959
Share based payments	-	-	17,112	-	17,112	-	17,112
<b>Balance at 30.06.2010</b>	<b>18,194,635</b>	<b>(15,525,029)</b>	<b>820,715</b>	<b>(38,577)</b>	<b>3,451,744</b>	<b>(20,958)</b>	<b>3,430,786</b>

The accompanying notes form part of these financial statements.

# Consolidated statement of cash flow

FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	Consolidated	
		2010 \$	2009 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		150,000	197,414
Grant received		-	39,647
Interest received		47,767	26,036
Borrowing costs		-	(527)
Payments to suppliers and employees		(1,659,504)	(1,915,620)
Income tax refund		-	204,862
<b>Net cash outflow from operating activities</b>	<b>23</b>	<b>(1,461,737)</b>	<b>(1,448,188)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment		(65,084)	-
Proceeds from Sale of Property, Plant and Equipment		-	10,000
<b>Net cash (outflow) inflow from investing activities</b>		<b>(65,084)</b>	<b>10,000</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from Share Issues		3,732,459	648,500
Repayment – Lease Liabilities		-	(15,909)
<b>Net cash inflow from financing activities</b>		<b>3,732,459</b>	<b>632,591</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>2,205,638</b>	<b>(805,597)</b>
Cash and cash equivalents at the beginning of the financial year		450,857	1,257,864
Effects of exchange rate changes on cash and cash equivalents		-	(1,410)
<b>Cash and cash equivalents at end of year</b>	<b>7(a)</b>	<b>2,656,495</b>	<b>450,857</b>

The accompanying notes form part of these financial statements.



# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

## **Note 1: Summary of significant accounting policies**

### **(a) Basis of Preparation**

This financial report is a general purpose financial report that has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group Interpretations.

#### *Compliance with AIFRS*

The financial report of the Group also complies with International Financial Reporting Standards (IFRS).

#### *Historical cost convention*

The financial report has also been prepared on an accrual basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

#### *Critical accounting estimates*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

#### *Financial statement presentation*

The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. Additionally, the Corporations Amendment (Corporate Reporting Reform) Bill 2010 which became effective on 28 June 2010 dictates that parent entity financial statements are no longer required. As a result, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

Separate financial statements for Cell Aquaculture Ltd, as an individual entity, are no longer presented as a consequence of a change to the Corporations Act 2001. Financial information for the Company is set out in Note 27.

### **(b) Principles of Consolidation**

#### *Subsidiaries*

Subsidiaries are entities controlled by the Company. The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Consolidated Entity, being Cell Aquaculture Limited ("Company" or "Parent Entity") and its subsidiary as defined in AASB 127: *Consolidated and Separate Financial Statements*.

Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of the subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity. Acquisitions of entities are accounted for using the acquisition method of accounting.

In preparing the consolidated financial statements, all inter-Company balances and transactions, income and expenses and profit and losses resulting from intra-Group transactions are eliminated in full.

Investments in subsidiaries are accounted for at cost in the financial report of Cell Aquaculture Limited.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income and statement of financial position respectively. Total comprehensive income is attributable to the owners of Cell Aquaculture Limited and non-controlling interests even if this results in the non-controlling interests having a debit balance.

#### *Changes in ownership interest*

The Group treats transactions with non-controlling interests that does not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interest and any consideration paid or received is recognised in a separate reserve within equity attributable to the owners of Cell Aquaculture Limited.

#### *Changes in accounting policy*

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control, joint control or significant influence from 1 July 2009 when a revised AASB127 *Consolidated and Separate Financial Statements* became operative. The revisions to AASB 127 contained consequential amendments to AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*.

Previously transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in the consolidated statement of comprehensive income and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to the consolidated statement of comprehensive income or directly to retained earnings.

Previously when the Group ceased to have control, joint control or significant influence over an entity, the carrying amount of the investment at the date control, joint control or significant influence ceased became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

The Group has applied the new policy prospectively to transactions occurring on or after 1 July 2009. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

## *Associates*

The Company's investments in associates are accounted for using the equity method of accounting in the financial statements. The associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the Statement of Financial Position at cost plus post-acquisition changes in the Company's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Company determines whether it is necessary to recognise any additional impairment loss with respect to the Company's net investment in the associate. The statement of comprehensive income reflects the Company's share of the results of operations of the associate.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Where there has been a change recognised directly in the associate's equity, the Company recognises its share of any changes and discloses this in the consolidated statement of comprehensive income.

Although the balance date of the associates is 31 December results have been calculated to 30 June based upon the latest available management information. The associate's accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

## **(c) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Cell Aquaculture Ltd.

A business segment is a Group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

## *Change in accounting policy*

The Group has applied AASB 8 *Operating Segments* from 1 July 2009. AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker.

## **(d) Foreign currency translation**

### *(i) Functional and presentation currency*

The financial statements are presented in Australian dollars, which is Cell Aquaculture Ltd's functional and presentation currency.

### *(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

### *(iii) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position;
- income and expenses for each Statement of Comprehensive Income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the statement of comprehensive income, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

## **(e) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

### *(i) Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

### *(ii) Interest income*

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

## **(f) Government grants**

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

Where a grant is received in relation to the tax benefit of research and development costs, the grant shall be credited to income tax expense in the statement of comprehensive income in the year of receipt.

## **(g) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary difference arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the Statement of Financial Position date and are expected to apply when the deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity. Cell Aquaculture Limited and its Australian controlled entity has implemented the tax consolidation legislation.

## **(h) Other taxes**

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flow on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

## **(i) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Lease incentives are recognised in the statement of comprehensive income as an integral part of the total lease expense.

## **(j) Business combinations**

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at a fair value or at a non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets required is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted at their present value as at the date of the exchange. The discount rate used is the entity's incremental borrowing rate, being the rate in which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

## *Change in accounting policy*

A revised AASB 3 *Business Combinations* became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of the acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

If the Group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

The changes were implemented prospectively from 1 July 2009.

## **(k) Cash and cash equivalents**

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

## **(l) Trade and other receivables**

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

## (m) Inventories

Inventories are valued at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

## (n) Non-current assets (or disposal Groups) held for sale and discontinued operations

Non-current assets (or disposal Groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets, investment property and non-current biological assets that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

## (o) Investments and other financial assets

### Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

### Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

### Fair value

Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

### Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

## (p) Property, plant and equipment

Property, plant and equipment are brought to account at cost or at independent or Directors' valuation, less where applicable any accumulated depreciation or amortisation. The carrying amount of property, plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of expected net cash flows which will be received from the assets employment and subsequent disposal.

The gain or loss on disposal of all fixed assets, including revalued assets, is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, and is included in the statement of comprehensive income. Any realised revaluation increment relating to the disposed asset which is included in the revaluation reserve is transferred to retained earnings.

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, are depreciated over their useful lives commencing from the time the asset is held ready for use. Properties held for investment purposes are not subject to a depreciation charge.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Buildings on Leasehold Land	25%
Plant and equipment	5 – 40%

## (q) Intangibles

### (i) Patents, technology and licences

Patents, technology and licences are valued in the accounts at cost of acquisition. They have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents, technology and licences are amortised over their useful life, estimated at 5 years.

### (ii) Research & development

Expenditure during the research phase of a project is recognised as an expense when incurred.

Development costs are capitalised only when technically feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Capitalised development costs are recorded as intangible assets and amortised from the point in which the asset is ready for use on a straight line basis over its useful life, estimated at 3 years.

Where a grant is received or receivable in relation to research costs which have been charged to the statement of comprehensive income during this or a prior financial year, the grant shall be credited to the statement of comprehensive income.

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

Where a grant is received in relation to the tax benefit of research and development costs, the grant is credited to income tax expense/benefit in the statement of comprehensive income upon receipt.

## **(r) Impairment of assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

## **(s) Trade and other payables**

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

## **(t) Borrowing costs**

Borrowing costs are recognised as an expense when incurred.

## **(u) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

## **(v) Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

## **(w) Employee benefits**

### *(i) Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

### *(ii) Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

*(iii) Share-based payments*

The Company provides benefits to employees (including Directors) in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an internal valuation using a Binomial option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired; and (ii) the number of options that, in the opinion of the Directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted the cancelled and new award are treated as if they were a modification of the original award.

**(x) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**(y) Earnings per share**

Basic earnings per share is calculated as net profit attributable to members, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**(z) New accounting standards and interpretations**

The AASB has issued new, revised and amended standards and interpretations that are not mandatory for 30 June 2010 reporting periods. The Group has decided against early adoption of these standards. A discussion of these future requirements and their impact on the Group is set out below.

Affected Standard	Title of Affected Standard	Nature of Change	Application Date *	Impact on Initial Application
AASB 2009-5 (issued May 2009)	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process	Not urgent, but necessary changes to AIFRS as a result of the IASB's 2008 annual improvement process.	1 January 2010	
- AASB 107	Statement of Cash flows	Clarifies that only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as cash flows from investing activities.	1 January 2010	Initial adoption of this amendment will have no impact as the entity only recognises cash flows from investing activities for expenditures that result in a recognised asset in the statement of financial position.

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

Affected Standard	Title of Affected Standard	Nature of Change	Application Date *	Impact on Initial Application
- AASB 5	Non-Current Assets Held for Sale and Discontinued Operations	Clarifies that disclosures required for non-current assets classified as held for sale are limited to those required by AASB 5 unless disclosures are specifically required for these assets by other AASB's.	1 January 2010	There will be no impact as these requirements are only required to be applied prospectively to disclosures for non-current assets classified as held for sale.
AASB 2009-8 (issued July 2009)	Amendments to Australian Accounting Standards-Group Cash-Settled Share based Payment transactions	Clarifies the scope and accounting for Group cash-settled share-based payment transactions in the individual financial statements of an entity receiving goods/ services when that entity has no obligation to settle the share-based payment transaction. Supersedes Interpretation 8 Scope of AASB 2 and Interpretation 11 AASB 2 Group and Treasury Share Transactions.	1 January 2010	No impact as there are no share-based payment transactions where the entity receives goods or services with no corresponding obligation to settle the share-based payment transaction.
AASB 2009-10	Amendments to Australian Accounting Standards- Classification of Rights Issues [AASB 132]	Clarifies that such transaction where an issue of rights or options to a fixed number of shares for a fixed amount in a different currency to the functional currency must be treated as equity.	1 February 2010	There will be no impact as the entity does not issue rights or options to a fixed numbers of shares for a fixed amount in a different currency to the functional currency.
AASB 9 (issued December 2009)	Financial Instruments	Amends the requirements for classification and measurement of financial assets.	1 January 2013	Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2014 year end, the entity has not yet made an assessment of the impact of these amendments.
AASB 124 (issued December 2009)	Related Party Disclosures	Clarifies the definition of a related party.	1 January 2011	As this a disclosure standard only, there will be no impact on amounts recognised in the financial statements.
AASB Interpretation 19 (issued December 2009)	Extinguishing Financial Liabilities with Equity Instruments	Equity instruments issued to a creditor to extinguish all or part of a financial liability are 'consideration paid' to be recognised at the fair value of the equity instruments issued, unless their fair value cannot be measured reliably, in which case they are measured at the fair value of the debt extinguished. Any difference between the carrying amount of the financial liability extinguished and the 'consideration paid' is recognised in profit or loss.	1 July 2010	There will be no impact as the entity has not undertaken any debt for equity swaps.
IFRS 7	Financial Instruments Disclosures	Deletes various disclosures relating to credit risk, renegotiated loans and receivables and the fair value of collateral held.	1 January 2011	There will be no impact on initial adoption to amounts recognised in the financial statement as the amendments result in fewer disclosures.

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

## Note 2: Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (interest rate risk and foreign exchange risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group does not use derivative financial instruments; however, the Group uses different methods to measure different types of risk to which it is exposed.

Risk management is carried out by the Board of Directors with assistance from suitably qualified external advisors. The Board provides written principles for overall risk management and further policies will evolve that are commensurate with the evolution and growth of the Company.

The carrying values of the Group's financial instruments are as follows:

	Consolidated	
	2010 \$	2009 \$
<b>Financial assets</b>		
Cash and cash equivalents	2,656,495	450,857
Trade and other receivables	854,037	481,318
	3,510,532	932,175
<b>Financial liabilities</b>		
Trade and other payables	297,488	265,440
Borrowings	-	13,162
	297,488	278,602

The Group's principal financial instruments comprise cash and short-term deposits. The Group does not have any borrowings.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group are cash flow (interest rate risk, liquidity risk and credit risk). The Board reviews and agrees policies for managing each of these risks and they are summarised below.

### (a) Market risk

#### (i) Foreign exchange risk

Although the Group operates internationally all material financial assets are denominated in the respective entity's functional currency. Therefore its exposure to foreign exchange risk arising from currency exposures is limited to the transfer of funding from the Australian head office to some of its overseas operations.

#### (ii) Cash flow and interest rate risk

The Group's only interest rate risk arises from cash and cash equivalents held. Term deposits and current accounts held with variable interest rates expose the Group to cash flow interest rate risk. The Group has no borrowings.

### (b) Credit risk

Credit risk is managed by the Board and arises from cash and cash equivalents as well as credit exposure including outstanding receivables and committed transactions.

All cash balances held at banks are held at internationally recognised institutions.

For the Group, the majority of receivables are from associated companies.

There are no formal credit approval processes and risk management in place. However, the Company reviews management information for subsidiaries or associates to ensure early detection of risks.

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

The maximum exposure to credit risk at reporting date is the carrying amount of the financial assets as summarised at the start of Note 2. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about default rates.

Financial assets that are neither past due and not impaired are as follows:-

	Consolidated	
	2010 \$	2009 \$
<b>Financial assets - counterparties without external credit rating</b>		
Existing customers with defaults in past that have been fully recovered	-	29,389
New customers (less than 6 months)	-	-
Other receivables – no defaults in the past	256,617	103,255
	256,617	132,644
<b>Cash and cash equivalents</b>		
AA S&P rating	2,656,495	450,857

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash balances and access to equity funding.

The Group's exposure to the risk of changes in market interest rates relate primarily to cash assets and floating interest rates. The Group is not materially exposed to changes in market interest rates.

The Directors monitor the cash-burn rate of the Group on an on-going basis against budget and the maturity profiles of financial assets and liabilities to manage its liquidity risk.

As at reporting date the Group had sufficient cash reserves to meet its requirements. The Group has no access to credit standby facilities or arrangements for further funding or borrowings in place.

The financial liabilities the Group had at reporting date were trade payables incurred in the normal course of the business. These were non interest bearing and were due within the normal 30-60 days terms of creditor payments.

The following table sets out the carrying amount, by maturity, of the financial instruments including exposure to interest rate risk:

**Consolidated**

	<1 year	1 - 5 Years	Over 5 Years	Total contractual cash flows
<b>Year ended 30 June 2010</b>				
Financial Liabilities:				
Trade payables and Advance deposits	297,488	-	-	297,488
Other loans	-	-	-	-
	297,488	-	-	297,488
<b>Year ended 30 June 2009</b>				
Financial Liabilities:				
Trade payables and Advance deposits	265,440	-	-	265,440
Other loans	13,162	-	-	13,162
	278,602	-	-	278,602

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

## (d) Fair value estimation

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short term nature.

The fair value of long-term borrowings is not materially different from their carrying value.

The consolidated entity's principle financial instruments consist of cash and deposits with banks, accounts receivable, trade payables and loans payable. The main purpose of these non-derivative financial instruments is to finance the entity's operations.

## (e) Capital risk

The Group determines capital to be the equity as shown in the Statement of Financial Position plus net debt (being total borrowings less cash and cash equivalents).

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

During 2010, the Group's strategy, which was unchanged from 2009, was to keep borrowings to a minimum. The Company's equity management is determined by funds required to undertake its development activities and meet its corporate and other costs.

### **Note 3: Critical accounting estimates and judgements**

In the process of applying the accounting policies, management has made certain judgements or estimations which have an effect on the amounts recognised in the financial statements.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

#### Share-based payment transactions

The cost of share-based payments to employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Binomial model, taking into account the terms and conditions upon which the options were granted.

#### Impairment of intangibles

The Group tests annually whether its intangible assets have suffered any impairment in accordance with the accounting policy stated in Note 1(r). The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations are cashflow projections based on financial budgets approved by management covering a 3 year period. The discount rate is 10%. Income forecasts are based on anticipated sales levels.

In making this judgement the Group evaluated the historical performance of the business, the performance of the business relative to annual budgets, the anticipated future revenue streams to assess whether any impairment occurred. Further details are contained in Note 13(a).

### **Note 4: Segment information**

#### (a) Description of Segments

The Board of Directors has determined the operating segments based on geographical location. The Group has two reportable segments; namely, Australia and Malaysia, which are the Group's strategic business units.

The Australian segment incorporates the Company's hatchery, fabrication and food-processing. The financial information related to food-processing business is immaterial and thus, it is not reported as a separate segment for the financial year ended 30 June 2010. The Malaysian segment incorporates corporate office, Terengganu based facility and any future Malaysian based projects.

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

(b) Segment Information provided to the strategic steering committee

In AUD	Australia		Malaysia		Total	
	2010	2009	2010	2009	2010	2009
Total segment revenue	338,567	252,878	372,964	259,842	711,531	512,720
Inter-segment revenue	(220,581)	(153,753)	-	-	(220,581)	(153,753)
<b>External Revenues</b>	<b>117,986</b>	<b>99,125</b>	<b>372,964</b>	<b>259,842</b>	<b>490,950</b>	<b>358,967</b>
<b>Adjusted EBITDA</b>	<b>(636,514)</b>	<b>(1,091,827)</b>	<b>(455,116)</b>	<b>(1,113,000)</b>	<b>(1,091,630)</b>	<b>(2,204,827)</b>
Depreciation and amortisation	(9,968)	(525,653)	-	-	(9,968)	(525,653)
Income tax benefit	97,245	204,862	-	-	97,245	204,862
Share of net losses from associates	-	-	-	(187,350)	-	(187,350)
<b>Total segment assets</b>	<b>1,180,461</b>	<b>511,443</b>	<b>989,227</b>	<b>330,514</b>	<b>2,169,688</b>	<b>841,957</b>
Total assets includes:						
Additions to non-current assets (other than financial assets and deferred tax)	-	-	578,370	-	578,370	-
<b>Total segment liabilities</b>	<b>58,916</b>	<b>136,247</b>	<b>1,376,821</b>	<b>447,779</b>	<b>1,435,737</b>	<b>584,026</b>

(c) Other segment information

(i) Segment revenue

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties reported to the strategic steering committee is measured in a manner consistent with that in the Statement of Comprehensive Income.

Segment revenue reconciles to total revenue from continuing operations as follows:

	Consolidated	
	2010 \$	2009 \$
<b>Total segment revenue</b>	<b>711,531</b>	<b>512,720</b>
Intersegment eliminations	(220,581)	(153,753)
Interest revenue	47,767	26,036
<b>Total revenue from continuing operations (note 5(a))</b>	<b>538,717</b>	<b>385,003</b>



# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

(ii) Adjusted EBITDA

The strategic steering committee assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event. Furthermore, the measure excludes the effects of equity-settled share-based payments and unrealised gains/ (losses) on financial instruments. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

A reconciliation of adjusted EBITDA to operating loss before income tax is provided as follows:

	Consolidated	
	2010 \$	2009 \$
<b>Adjusted EBITDA</b>	<b>(1,091,630)</b>	<b>(2,204,827)</b>
Intersegment eliminations	36,852	321,814
Interest revenue	47,767	26,036
Finance costs	(271)	(527)
Depreciation	(9,968)	(19,664)
Amortisation	-	(505,989)
Share-based payments	(31,112)	(82,863)
Impairment of assets	-	(192,343)
Other	(71,538)	460,574
<b>Loss from continuing operations before tax</b>	<b>(1,119,900)</b>	<b>(2,197,789)</b>

(iii) Segment assets

The amounts provided to the strategic steering committee with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Reportable segments' assets are reconciled to total assets as follows:

	Consolidated	
	2010 \$	2009 \$
<b>Segment assets</b>	<b>2,169,688</b>	<b>841,957</b>
Intersegment eliminations	(997,967)	(319,191)
Unallocated:		
Cash and cash equivalents	2,548,959	450,857
Corporate headquarters assets	7,594	9,720
Other assets	-	93,534
<b>Total assets as per the Statement of Financial Position</b>	<b>3,728,274</b>	<b>1,076,877</b>

(iv) Segment liabilities

The amounts provided to the strategic steering committee with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment.

Reportable segments' liabilities are reconciled to total liabilities as follows:

	Consolidated	
	2010 \$	2009 \$
<b>Segment liabilities</b>	<b>1,435,737</b>	<b>584,026</b>
Intersegment eliminations	(1,235,494)	(305,424)
Unallocated:		
Current tax asset	97,245	-
<b>Total liabilities as per the Statement of Financial Position</b>	<b>297,488</b>	<b>278,602</b>

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

## Note 5: Revenue and Expenses

	Consolidated	
	2010 \$	2009 \$
(a) Revenue from continuing operations		
- Sale of produce and goods	490,950	319,320
- Interest received	47,767	26,036
- Other – Export Market Development Grant	-	39,647
Total revenue	538,717	385,003
(b) Expenses		
Cost of Sales	8,815	319,501
Depreciation of non-current assets		
Plant and equipment	12,096	19,664
Total depreciation	12,096	19,664
Amortisation of non-current assets		
Development costs	-	492,239
Intellectual property / licence	-	13,750
	-	505,989
Finance costs		
Interest paid	271	527
	2010 \$	2009 \$
Rental expense on operating lease – minimum lease payments	-	38,672

## Note 6: Income Tax

(a) Income tax benefit

	Consolidated	
	2010 \$	2009 \$
Current tax benefit		
Previous year tax benefit not previously brought to account ( Refer Note 6(e) )	97,245	204,862
	97,245	204,862



# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

(b) The prima facie income tax expense on the pre-tax accounting loss reconciles to the income tax benefit in the financial statements as follows:

	Consolidated	
	2010 \$	2009 \$
Loss from continuing operations before Income Tax	(1,119,899)	(2,197,789)
Income tax benefit at 30%	(335,970)	(659,336)
<b>Permanent Differences:</b>		
Non-deductible expenses – Other	200	-
Non-deductible expenses – Legal	-	5,656
	(335,770)	(653,680)
Movements in unrecognised temporary differences	75,588	182,469
Tax effect of current year tax losses for which no deferred tax asset has been recognised	260,182	471,211
R & D Cash Rebate Claimed (see note 6(e))	(97,245)	(204,862)
Income tax benefit	(97,245)	(204,862)

(c) The franking account balance at year end was \$nil (2009: \$nil).

(d) Unrecognised temporary differences

	Consolidated	
	2010 \$	2009 \$
Deferred Tax Assets (at 30%)		
On income tax account		
Carry forward tax losses	1,717,750	1,706,036
Capital losses	1,363,992	1,363,992
Other	120,948	120,948
	3,202,690	3,190,976
Deferred Tax Liabilities (at 30%)		
Capitalised intangible assets and development costs which have been claimed for tax purposes	-	-
Net deferred tax assets	3,202,690	3,190,976

Net deferred tax assets have not been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised.

(e) During the year ended 30 June 2010 the Company applied for a rebate from the Australian Taxation Office of \$97,245 (2009 \$204,862) representing the tax value of research and development costs for the year ended 30 June 2009. This rebate was received after 1 July 2010. This amount is shown as an income tax benefit in the statement of comprehensive income for the year ended 30 June 2010. The Company intends claiming the same rebate in respect of expenditure for the year ended 30 June 2010. The rebate applied for is estimated at \$64,172. If this is successful, the refund will be shown as an income tax benefit for the year ended 30 June 2011.

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

## Note 7: Current assets - Cash and cash equivalents

### (a) Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position, as follows:

	Consolidated	
	2010 \$	2009 \$
<b>Current Assets</b>		
Cash at bank and in hand	2,656,495	450,857
Net Cash	2,656,495	450,857

### (b) Interest Rate Risk Exposure

The Group's exposure to interest rate risk is discussed in note 2.

## Note 8: Current assets: Trade and other receivables

	Consolidated	
	2010 \$	2009 \$
<b>Current</b>		
Trade receivables	157,958	378,062
Other receivables	117,708	103,255
	275,666	481,317

(a) Trade receivables are non-interest bearing and are generally on 30 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. The amount of the allowance/impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

### (b) Impaired trade and other receivables

At 30 June 2010, there were no current trade receivables of the parent entity that were impaired (2009: \$128,000).

### (c) Receivables Past due but not impaired

#### (i) Group

As at balance date, there were receivables totalling \$157,958 (2009: \$348,693) that were past due but not impaired.

	Consolidated	
	2010 \$	2009 \$
1 to 3 months	-	-
3 to 6 months	-	-
6 to 12 months	138,909	348,693
Over 12 months	19,049	-
	157,958	348,693

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

(d) Foreign exchange risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note 2.

(e) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

**Note 9: Current Assets - Inventories**

	Consolidated	
	2010 \$	2009 \$
Raw materials – at cost	90,000	90,000
	90,000	90,000

**Note 10: Non-current assets – Receivables**

	Consolidated	
	2010 \$	2009 \$
Rental bond – Cell Aqua Foods Pty Ltd	3,418	-
Trade receivables – TRG Cell*	578,370	-
	581,788	-

\*Trade receivables from TRG Cell are past due but not impaired. Directors believe that these receivables are recoverable. The recovery process may take more than 12 months from the balancing date and thus, these receivables are treated as non-current assets in the consolidated statement of financial position. The amounts owing have been outstanding for in excess of 6 months. The Company continues to negotiate recovery through a combination of options which the directors believe they are confident in resolving which would result in the repayment of the amounts outstanding. As at the date of our report these options are yet to be finalised.

**Note 11: Non-current assets – Investments accounted for using the equity method**

	Consolidated	
	2010 \$	2009 \$
Interests in associated entities	-	-

(a) Interests are held in the following associated entities

Name	Principal Activities	Country of Incorporation	Shares	Ownership Interest		Carrying amount of Investment	
				2010	2009	2010 \$	2009 \$
TRG Cell Sdn Bhd	Aquaculture	Malaysia	Ordinary	30%*	30%*	-	-
						-	-

\* Shares in TRG Cell Sdn Bhd are owned by Cell Aqua Malaysia Sdn Bhd, a subsidiary of Cell Aquaculture Limited.

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

	TRG Cell Sdn Bhd	Total \$
(b) Movements during the year ended 30 June 2009		
Carrying amount at 1 July 2008	163,464	163,464
Foreign currency adjustment	23,886	23,886
Share of loss after income tax	(187,350)	(187,350)
Carrying amount at 30 June 2009	-	-
(c) Movements during the year ended 30 June 2010		
Carrying amount at 1 July 2009	-	-
Carrying amount at 30 June 2010	-	-
(d) Share of Associates' contingent liabilities and expenditure commitments, other than for the supply of inventories		
As at the date of this report, there are no contingent liabilities or material expenditure commitments of associated entities		

	Ownership interest %	Assets \$	Liabilities	Revenues	Profit / (Loss)
<b>2010</b>					
TRG Cell Sdn Bhd	30	-	-	-	-
		-	-	-	-
<b>2009</b>					
TRG Cell Sdn Bhd	30	522,275	551,990	156	(263,100)
		522,275	551,990	156	(263,100)

(f) Share of unrecognised losses

The share of unrecognised losses of the associate as at balance date is as follows:-

	Consolidated	
	2010 \$	2009 \$
Groups share of losses to balance date	75,750	263,100
Less: amounts recognised	-	(187,350)
Balance of unrecognised loss	75,750	75,750



# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

## Note 12: Non-current assets - Property, plant and equipment

	Consolidated		
	Buildings \$	Plant and equipment \$	Total \$
At 30 June 2008			
Cost or fair value	371,699	331,819	703,518
Accumulated depreciation and impairment	(371,699)	(228,272)	(599,971)
Net book value	-	103,547	103,547
Year ended 30 June 2009			
Opening net book value	-	103,547	103,547
Exchange differences – sale proceeds	-	(10,000)	(10,000)
Loss on disposal	-	(19,182)	(19,182)
Depreciation charge for the year	-	(19,662)	(19,662)
Closing net book value	-	54,703	54,703
At 30 June 2009			
Cost or fair value	-	103,547	103,547
Accumulated depreciation and impairment	-	(48,846)	(48,846)
Net book value	-	54,701	54,701
Year ended 30 June 2010			
Opening net book value	-	54,703	54,703
Additions	36,032	45,686	81,718
Depreciation charge for the year	-	(12,096)	(12,096)
Closing net book value	36,032	88,293	124,325
At 30 June 2010			
Cost or fair value	36,032	100,389	136,421
Accumulated depreciation and impairment	-	(12,096)	(12,096)
Net book value	36,032	88,293	124,325

## Note 13: Non-current assets: Intangible assets

	Consolidated		
	Intellectual property / licenses \$	Development Costs * \$	Total \$
At 30 June 2008			
Cost (gross net book value)	330,000	1,476,578	1,806,578
Accumulated amortisation and impairment	(316,250)	(791,996)	(1,108,246)
Net book value	13,750	684,582	698,332
Year ended 30 June 2009			
Opening net book value	13,750	684,582	698,332
Impairment Charge	-	(192,343)	(192,343)
Amortisation	(13,750)	(492,239)	(505,989)
Closing book value	-	-	-
At 30 June 2009			
Cost (gross net book value)	13,750	684,582	698,332
Accumulated amortisation and impairment	(13,750)	(684,582)	(698,332)
Net book value	-	-	-
Year ended 30 June 2010			
Opening net book value	-	-	-
Additions – acquisitions	-	-	-
Closing book value	-	-	-
At 30 June 2010			
Cost (gross net book value)	-	-	-
Accumulated amortisation and impairment	-	-	-
Net book value	-	-	-

\* Capitalised development costs is an internally generated intangible asset.

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

(a) Impairment charge on capitalised development costs – Year Ended 30 June 2009

Because projected sales forecasts mainly arising from the Group's Malaysian investments had not been met, the Directors at 30 June 2009 reviewed the carrying value of its development costs having regard to conservative sales forecasts.

Although the Directors were confident of successfully developing new projects in future periods, the carrying value could not be supported by existing sales orders.

Accordingly an impairment charge of \$192,343 arose as a result of this review.

**Note 14: Current liabilities - Trade and other payables**

	Consolidated	
	2010 \$	2009 \$
Trade payables (i)	149,650	191,696
Advance deposits	50,000	50,000
Other payables	97,838	23,744
	297,488	265,440

(i) Trade payables are non-interest bearing and are normally settled on 60-90 day terms. Their carrying value approximates their fair value.

**Note 15: Non-current liabilities – Borrowings**

	Consolidated	
	2010 \$	2009 \$
Loan from minority shareholder	-	13,162
	-	13,162

**Note 16: Contributed Equity**

	Consolidated	
	2010 \$	2009 \$
(a) Ordinary shares*	18,194,635	14,544,676
Total consolidated contributed equity	18,194,635	14,544,676

\* Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(b) Movements in ordinary share capital

	Issue Price	No.	\$
Balance as at 1 July 2008		150,461,440	13,794,689
Shares issued in June 2009	\$0.06	12,500,000	750,000
Closing balance		162,961,440	14,544,689
Balance as at 1 July 2009		162,961,440	14,544,689
Shares issued in November 2009	\$0.07	5,000,000	350,000
Shares issued in February 2010	\$0.07	5,000,000	350,000
Shares issued in February 2010	\$0.115	3,600,000	414,000
Shares issued in February 2010	\$0.09	1,511,111	136,000
Shares issued in February 2010	\$0.096	25,000,000	2,400,000
Shares issued in February 2010	\$0.07	200,000	14,000
Transaction costs			(14,054)
Closing balance		203,272,551	18,194,635

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

(c) Share Options

Information relating to options, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in note 26.

**Note 17: Reserves and accumulated losses**

	Consolidated	
	2010 \$	2009 \$
<b>(a) Reserves</b>		
Foreign Currency Translation Reserve (Note 17(a) (i))	(38,577)	(27,861)
Share Based Payment Reserve (Note 17(a) (ii))	820,715	803,603
	782,138	775,742
(i) Movements		
Foreign Currency Translation Reserve		
Opening balance	(27,861)	(33,296)
Currency translation differences arising during the year	(10,716)	5,435
	(38,577)	(27,861)
(ii) Movement – Share Based Payment Reserve		
Opening balance	803,603	897,765
Grant of employee options	17,112	82,463
Cancellation of employee options	-	(176,625)
Closing balance	820,715	803,603
(iii) Nature and purpose of reserves		
Foreign Currency Translation Reserve		
Exchange differences arising on translation of the investments in foreign controlled companies are taken to the foreign currency translation reserve. The reserve is recognised in the statement of comprehensive income when the net investment is disposed of.		
Share Based Payment Reserve		
The Share Based Payment Reserve is used to recognise the fair value of options issued but not exercised (Note 26(c))		
<b>(b) Accumulated Losses</b>		
Balance as at 1 July	(14,522,143)	(12,517,551)
Net loss for the year	(1,002,886)	(2,004,592)
Balance as at 30 June	(15,525,029)	(14,522,143)

**Note 18: Key Management Personnel disclosures**

(a) Compensation of Key Management Personnel

	Consolidated	
	2010 \$	2009 \$
Short-term employee benefits	316,614	413,515
Termination benefits	-	-
Share based payments	31,112	59,143
Post employment benefits	18,633	16,131
	366,359	488,789

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

(b) Options Holdings of Key Management Personnel

	Balance 1.7.09	Granted as Remuneration	Options Exercised	Options Expired	Balance 30.6.10	Total Vested 30.6.10	Total Exercisable 30.6.10	Total Unexercisable 30.6.10
<b>30 June 2010</b>								
P J Leach	-	-	-	-	-	-	-	-
P G Burns	1,500,000	-	-	-	1,500,000	1,500,000	1,500,000	-
S E Abishegam	2,500,000	-	-	-	2,500,000	2,500,000	2,500,000	-
P Bodycoat	-	-	-	-	-	-	-	-
C Bolger	-	-	-	-	-	-	-	-
	4,000,000	-	-	-	4,000,000	4,000,000	4,000,000	-
	Balance 1.7.08	Granted as Remuneration	Options Exercised	Options Expired	Balance 30.6.09	Total Vested 30.6.09	Total Exercisable 30.6.09	Total Unexercisable 30.6.09
<b>30 June 2009</b>								
P J Leach	-	-	-	-	-	-	-	-
P G Burns	1,500,000	-	-	-	1,500,000	1,200,000	1,200,000	300,000
S E Abishegam	2,500,000	-	-	-	2,500,000	2,000,000	2,000,000	500,000
	4,000,000	-	-	-	4,000,000	3,200,000	3,200,000	800,000

(c) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the audited Remuneration Report in the Directors Report.

(d) Shareholdings of Key Management Personnel

30 June 2010	Balance 1 July 2008	Received as Remuneration	Allotted	Net Purchased/ (Sold)	Balance 30 June 2010
<b>Director</b>					
P J Leach	16,007,501	-	-	-	16,007,501
P G Burns	1,250,395	-	-	-	1,250,395
S E Abishegam	1,293,816	-	-	-	1,293,816
Peter Bodycoat	-	-	-	1,640,540	1,640,540
C Bolger	-	-	-	-	-
	18,551,712	-	-	1,640,540	20,192,252

30 June 2009	Balance 1 July 2008	Received as Remuneration	Allotted	Net Purchased/ (Sold)	Balance 30 June 2009
<b>Director</b>					
P J Leach	16,507,501	-	-	(500,000)	16,007,501
P G Burns	1,250,395	-	-	-	1,250,395
S E Abishegam	1,293,816	-	-	-	1,293,816
	19,051,712	-	-	(500,000)	18,551,712

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

(e) Other transactions with Key Management Personnel

*Other Transactions with Key Management Personnel and their related entities:*

Transactions between Key Management Personnel and their related entities are on commercial terms no more favourable than those available to other parties unless otherwise stated.

	Consolidated	
	2010 \$	2009 \$
(i) Management fees and reimbursements paid to Azimuth Shipping Corporation, a related Company of S E Abishegam.	255,886	236,480
(ii) Consulting fees paid to Jarq Holdings Pty Ltd, a related Company of P Leach	113,415	-
(iii) Consulting fees and rent paid to Acute Management Services, a related entity of P Bodycoat	60,000	-
<b>(f) Amounts outstanding at balance date</b>		
Aggregate amounts payable to Key Management Personnel and their Key Management Personnel -related entities at balance date:		
Current liabilities		
Unsecured loans	38,592	-
Non Current liabilities		
Unsecured loans	-	13,162

**Note 19: Remuneration of auditors**

The auditor of Cell Aquaculture Limited is BDO Audit (WA) Pty Ltd.

	Consolidated	
	2010 \$	2009 \$
Audit Services		
Amounts paid or payable to the auditor for:		
- auditing and reviewing the financial statements	42,533	54,362
	42,533	54,362
Other Assurance Services	-	-
Total remuneration for assurance services	42,533	54,362

**Note 20: Contingencies**

Contingent Liabilities

The Directors are not aware of any contingent liabilities as at the date of this report.

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

## Note 21: Related party transactions

### (a) Parent entity

The parent entity within the Group is Cell Aquaculture Ltd. The ultimate parent entity and ultimate controlling entity is Cell Aquaculture Ltd which at 30 June 2010 owns 90% (2009: 90%) of issued ordinary shares of Cell Aqua Malaysia Sdn Bhd and 100% of issued ordinary shares of Cell Aqua Foods Pty Ltd.

### (b) Transactions with related parties

The following table provides the total amount of transactions that were entered into with related parties. All transactions are on commercial terms and no more favourable than those available to other parties unless otherwise stated.

	Consolidated	
	2010 \$	2009 \$
Sale of equipment and services to associated entity	220,581	258,991
(c) Outstanding balances arising from sales of goods and services Current receivables (sales of goods and services) - subsidiaries	-	-

### (d) Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties, and no interest is payable on the loans. Outstanding balances are unsecured and are repayable in cash.

## Note 22: Events occurring after the reporting period

Cell Aqua Foods Pty Ltd subsequently acquired plant and equipment and the registered business name (Providores Kitchen) necessary to carry on food-processing activities. The acquisition was completed on 1 July 2010. The total fair value of plant and equipment acquired was \$36,400 which was equivalent to the total net assets acquired. In addition, it is estimated that approximately \$100,000 will be spent on acquiring additional plant and equipment and on capital improvements of the lease facility. This acquisition had no impact on profit or loss of the consolidated entity for the year ended 30 June 2010.

## Note 23: Reconciliation of loss after income tax to net cash flow from operating activities

	Consolidated	
	2010 \$	2009 \$
Operating loss after income tax	(1,022,654)	(1,992,927)
Loss on sale of non-current assets	-	19,180
Depreciation of non-current assets	12,096	19,664
Amortisation/ Impairment of Intangibles	-	698,332
Share of net losses of associates	-	187,350
Share based payments	31,112	(94,162)
Other	(125,040)	(12,429)
Changes in net assets and liabilities:		
(Increase)/decrease in assets		
- Current receivables	205,651	(132,854)
- Non-current receivables	(581,788)	-
Increase/(decrease) in liabilities		
- Current trade creditors and payables	32,048	(140,342)
- Borrowings	(13,162)	-
Net cash provided by (used in) operating activities	(1,461,737)	(1,448,188)

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

## Note 24: Non-cash investing and financing activities

There is no non-cash investing and financing activities during the financial year ended 30 June 2010.

## Note 25: Loss per Share

Basic loss per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year.

The Company's potential ordinary shares, being its options granted, are not considered dilutive as the conversion of these options would result in a decrease in net loss per share.

The following reflects the income and share data used in the basic loss per share computations:

	Consolidated	
	2010 \$	2009 \$
Loss attributable to ordinary equity holders	1,002,886	2,004,592
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	Number 179,146,280	Number 152,345,002
Basic and diluted loss per share	Cents/share (0.56)	Cents/share (1.31)

## Note 26: Share-based payments

### (a) Options

Options over shares in the Company are granted under the Cell Aquaculture Employee Share Option Plan ('ESOP') which was approved by shareholders on 31 October 2007. The details of the plan are discussed in Remuneration Report section.

### (b) Directors Options

#### Consolidated Entity – 2010

	Current date	Expiry date	Exercise rate	Opening balance	Granted during the year	Exercised during the year	Cancelled during the year	Closing balance	Vested and exercisable at end of the year
	29/11/07	29/11/10	20 cents	5,500,000	-	-	-	5,500,000	5,500,000

#### Consolidated Entity – 2009

	Current date	Expiry date	Exercise rate	Opening balance	Granted during the year	Exercised during the year	Cancelled during the year	Closing balance	Vested and exercisable at end of the year
	29/11/07	29/11/10	20 cents	10,000,000	-	-	(4,500,000)	5,500,000	5,000,000

The weighted average exercise price is 20 cents. The weighted average remaining contractual life of options outstanding at the end of the period was 0.42 years (2009 – 1.42 years).

The fair value of all options granted was 6.28 cents per share (totalling \$628,000), using a Binomial option valuation methodology. This volatility rate was 50% and the risk free interest rate was 6.69%. All options have an expiry date of 29 November 2010 and an exercise price of 20 cents.

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

(c) Employee Options

*Consolidated Entity – 2010*

	Current date	Expiry date	Exercise rate	Opening balance	Granted during the year	Exercised during the year	Cancelled during the year	Closing balance	Vested and exercisable at end of the year
	01/04/08	01/04/11	20 cents	3,050,000	-	-	-	3,050,000	3,050,000

*Consolidated Entity – 2009*

	Current date	Expiry date	Exercise rate	Opening balance	Granted during the year	Exercised during the year	Cancelled during the year	Closing balance	Vested and exercisable at end of the year
	01/04/08	01/04/11	20 cents	3,050,000	-	-	-	3,050,000	2,440,000

Options were granted to PG Burns, the Business Development Manager, prior to his appointment as a Director on 2 April 2008.

The balance of the options was vested on 1 October 2009.

The weighted average exercise price is 20 cents. The weighted average remaining contractual life of options outstanding at the end of the period was 0.75 years (2009 – 1.75 years).

The fair value of all options granted was 5.28 cents per share (totalling \$161,041), using a Binomial option valuation methodology. This volatility rate was 50% and the risk free interest rate was 6.035%. All options have an expiry date of 1 April 2011 and an exercise price of 20 cents.

(d) Expenses/(benefit) arising from share-based payment transactions

Total expenses/(benefit) arising from share-based payment transactions recognised during the period were as follows:

	Consolidated	
	2010 \$	2009 \$
Shares issued – Company Secretary	14,000	-
Cancellation of Directors options	-	(176,625)
Options issued – Directors	17,112	28,783
Options issued - Employees	-	53,680
Net expense/(benefit) included in statement of comprehensive income	31,112	(94,162)



# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

## Note 27: Parent entity information

The following detailed information is related to the parent entity, Cell Aquaculture Ltd, at 30 June 2010. The information presented here has been prepared using consistent accounting policies as discussed in Note 1.

	\$
Current assets	3,181,370
Non-current assets	555,643
<b>Total assets</b>	<b>3,737,013</b>
Current liabilities	156,160
Non-current liabilities	-
<b>Total liabilities</b>	<b>156,160</b>
Contributed equity	18,194,635
Accumulated losses	(15,434,497)
Reserves	820,715
<b>Total equity</b>	<b>3,580,853</b>
Loss for the year	(850,680)
Other comprehensive income for the year	-
<b>Total comprehensive loss for the year</b>	<b>(850,680)</b>

## Note 28: Dividends

No dividends have been declared or paid during the year.



# Shareholder information

AS AT 22 OCTOBER 2010

## 1. Number of Shareholders and Unmarketable Parcels

There were 794 shareholders, including 101 shareholders with an unmarketable parcel valued at less than \$500, and 15 option holders.

## 2. Distribution of Ordinary Shareholdings

	Holders	Units	Percentage
1 - 1,000	10	2,094	0.001%
1,001 - 5,000	126	440,052	0.216%
5,001 - 10,000	154	1,395,906	0.687%
10,001 - 100,000	349	14,475,463	7.121%
> 100,000	155	186,959,037	91.975%
<b>Total</b>	<b>794</b>	<b>203,272,552</b>	<b>100.000%</b>

## 3. Twenty Largest Ordinary Shareholdings

Name	Fully paid shares held	Percentage
1. MR JOHN OAKLEY CLINTON	29,308,148	14.42%
2. LINNAEUS CAPITAL PARTNERS	25,000,000	12.30%
3. JARQ HOLDINGS PTY LTD <P J LEACH FAMILY A/C>	16,007,501	7.87%
4. MR PETER JOSEPH BURNS <PETER BURNS FAMILY S/F A/C>	10,328,335	5.08%
5. MR BRIAN FEATHERBY	7,412,335	3.65%
6. MR WARREN HOY	7,364,167	3.62%
7. GILMORE PTY LTD	5,166,667	2.54%
8. JP MORGAN NOMINEES AUSTRALIA <CASH INCOME A/C>	5,148,816	2.53%
9. NEFCO NOMINEES PTY LTD	5,011,592	2.47%
10. MR DAVID CLARKE & MRS ROBYN CLARKE	4,603,333	2.26%
11. DOUBLE SEVEN LIMITED <CO INCORPORATIONS NO 490713>	3,333,333	1.64%
12. MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LTD	3,289,750	1.62%
13. MR ROSS WILLIAM FORD & MRS RUTH ELIZABETH FORD	3,046,230	1.50%
14. BENJAMIN LIM KEONG HOE	3,000,000	1.48%
15. NELSON & FAMILY PTY LTD <THE PANTON INVESTMENT A/C>	2,829,373	1.39%
16. PHILLIP SECURITIES PTE LTD <CLIENT ACCOUNT>	2,546,221	1.25%
17. ABN AMRO SYDNEY <CUSTODIAN A/C>	1,729,002	0.85%
18. P BODYCOAT PTY LTD <BODYCOAT FAMILY A/C>	1,640,540	0.81%
19. MR ROBERT ROBERTS	1,347,453	0.66%
20. MR PETER GERARD BURNS	1,250,395	0.62%
<b>TOTAL OF TOP 20 SHAREHOLDERS</b>	<b>139,363,191</b>	<b>68.56%</b>

## 4. Substantial Shareholdings (over 5%)

Name	Fully paid shares held	Percentage
1. MR JOHN OAKLEY CLINTON	29,308,148	14.42%
2. LINNAEUS CAPITAL PARTNERS	25,000,000	12.30%
3. JARQ HOLDINGS PTY LTD <P J LEACH FAMILY A/C>	16,007,501	7.87%
4. MR PETER JOSEPH BURNS <PETER BURNS FAMILY S/F A/C>	10,328,335	5.08%

# Shareholder information

AS AT 22 OCTOBER 2010

## 5. Unquoted Equity Securities - Options

All the securities listed below are options to purchase ordinary shares in the Company:

Unlisted Director options expiring 29 November 2010 – 5,500,000 with an exercise price of 20 cents each held as follows –

Suresh Emmanuel Abishegam	2,500,000
Cyber Zone International Limited	2,000,000
Whitefriars Trust	1,000,000

Unlisted options expiring 18 January 2011 – 1,550,000 with an exercise price of 20 cents each held as follows –

Wildcross Nominees Pty Ltd ATF Clinton Equity Trust	438,889
Double Seven Limited	1,111,111

Unlisted options expiring 31 January 2011 – 1,116,667 with an exercise price of 20 cents each are held by 4 option holders. The following option holders hold more than 20% of this class –

Carnethy Evergreen P/L ATF Carnethy Evergreen Fund	333,333
Cape Riviera Pty Ltd ATF Portofino Equity Trust	666,667

Unlisted options issued pursuant to the Employee Share Option Plan expiring 1 April 2011 – 3,050,000 with an exercise price of 20 cents each are held by 6 option holders.

## 6. Restricted Securities

There are 25,000,000 Ordinary shares subject to escrow until 19 February 2011.

## 7. Voting Rights

At a general meeting of the Company shareholders are entitled:

- On a show of hands, each person who is a shareholder or sole proxy has one vote.
- On a poll, each shareholder is entitled to one vote for each fully paid share.



# Corporate Governance

AS AT 22 OCTOBER 2010

In fulfilling its obligations and responsibilities to its various stakeholders, the Board is a strong advocate of corporate governance.

This statement outlines the principal corporate governance procedures of Cell Aquaculture Limited (“Company or Cell”) during the year ended 30 June 2010 in terms of the ASX Corporate Governance Council’s (the Council’s) “Corporate Governance Principles and Recommendations” (the Recommendations) published in August 2007.

The Board of Directors (“Board”) supports a system of corporate governance to ensure that the management of the Company is conducted to maximise shareholder wealth in a proper and ethical manner.

## **Roles of the Board and Management**

The Board is responsible for the overall operation and stewardship of the Company. In particular, it is responsible for charting the direction, strategies and financial objectives for Cell and monitoring the implementation of those policies, strategies and financial objectives. It is committed to protecting and enhancing shareholder value and conducting Cell’s business ethically and in accordance with the highest standards of corporate governance.

The Board has a Charter which establishes those matters which are reserved for the Board and describes the functions and responsibilities in a manner which is consistent with ASX Principle 1.

Responsibility for management of the Company’s business was delegated to the Executive Chairman, who is accountable to the Board. Given the current stage of the Company’s development the Board believes this is the most effective and cost efficient approach to managing the Company. The key responsibilities of the Board include to:

- Appoint and review the performance of the Executive Chairman;
- Develop with management and approve strategy, planning, development programs and major capital expenditure;
- Arrange for effective budgeting and financial supervision;
- Ensure that appropriate audit arrangements are in place;
- Ensure that effective and appropriate reporting systems in place will, in particular, assure the Board that proper financial, operational, compliance and risk management controls function adequately;
- Report to shareholders;

The Board is also responsible for setting the strategic direction of the Company, establishing goals for management and monitoring the achievement of those goals. The Executive Chairman is responsible to the Board for the day to day management of the Company.

Consistent with ASX Principle 1, a copy of the Board Charter has been posted to the corporate governance section of the Company’s website.

## **Board Structure**

The composition of the Board shall be determined in accordance with the following principles and guidelines:

- The Board shall comprise at least 3 Directors, increasing where additional expertise is considered desirable in certain areas.
- Directors should bring characteristics which allow a mix of qualifications, skills and experience both nationally and internationally.

The Board recognises that it is desirable to have a majority of non-executive directors on the Board and this was the case until March 2008, at which time the Board was restructured to reflect the Company’s strategy and direction. From April 2008 the Board comprised two executive directors and one non-executive director. From February 2010 the Board comprised three executive directors and one non-executive director. The Board believes this structure provides a balance of experience and expertise and is cost effective for this stage of the Company’s development.

The terms and conditions of the appointment and retirement of Directors will be set out in a letter of appointment which covers remuneration, expectations, terms, the procedures for dealing with conflicts of interest and the availability of independent professional advice.

The performance of all Directors will be reviewed by the Chairman each year.

## **Director Independence**

It is considered that there is currently not a majority of Independent Directors. The Chairman, Mr P Leach, is not an Independent Director. Furthermore Mr Leach currently performs the Chief Executive Officer function in the Company. This represents a departure from Recommendations 2.1, 2.2, and 2.3 of ASX Principle 2. The current structure is, however, considered adequate given the size and nature of the Company’s operations, and is also cost-effective.

Directors are expected to bring independent views and judgement to the Board’s deliberations.

In considering whether a director is independent, the Board has had regard to the independence criteria in ASX Principle 2 and other facts, information and circumstances that the Board considers relevant.

## **Meetings of the Board**

The Board meets regularly (six times during the period under review) to consider the business of the Company, its financial performance and other operational issues.

## **Remuneration Arrangements**

The Company's remuneration policy is set out in the Remuneration Report section of the Directors' Report.

The Board has not formed a remuneration committee as it considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of a remuneration committee. The Board as a whole is responsible for the remuneration arrangements for Directors and the Executive Chairman.

The Board reviews the remuneration and policies applicable to Non-Executive and Executive Directors and the Executive Chairman on an annual basis. Remuneration levels are competitively set to attract the most qualified and experienced directors and senior executives. Where necessary the Board obtains independent advice on the appropriateness of remuneration packages.

The structure and disclosure of the Company's remuneration policies for directors and senior executives are generally consistent with ASX Principle 8.

## **Retirement and Re-election**

The Constitution of the Company requires one third of the directors, other than a Managing Director, to retire from office at each annual general meeting. Directors who have been appointed by the Board are required to retire from office at the next annual general meeting and are not taken into account in determining the number of directors to retire at that annual general meeting. Directors cannot hold office for a period in excess of three years or later than the third annual general meeting following their appointment without submitting themselves for re-election. Retiring directors are eligible for re-election by shareholders. Re-appointment of directors retiring by rotation or filling a casual vacancy is not automatic.

When a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisers may be used to assist in such a process. The Board will then appoint the most suitable candidate who must stand for election at the next annual general meeting of shareholders.

## **Nomination and Appointment of New Directors**

At this point the Board has not established a nomination committee and has decided to retain the responsibility of appointing and recommending candidates for new directors. This position is considered appropriate for the Company's current stage of development.

Recommendations of candidates for new directors are made by the Directors, or external advisers, for consideration by the Board as a whole.

## **Review of Performance**

The Board reviews its performance and composition on an annual basis to ensure that it has the appropriate mix of expertise and experience, consistent with ASX principle 2.

## **Board Access to Information**

All Directors have unrestricted access to all employees of the group and, subject to the law, access to all company records and information held by group employees and external advisers. The Board receives regular detailed financial and operational reports from senior management to enable it to carry out its duties.

Consistent with ASX Principle 2, each Director may, with the prior written approval of the Chairman which may not be unreasonably withheld, obtain independent professional advice to assist the Director in the proper exercise of powers and discharge of duties as a director or as a member of a Board Committee. The Company will reimburse the Director for the reasonable expense of obtaining that advice.

## **Board Committees**

The Board, where appropriate, may establish a number of committees to assist in carrying out its responsibilities in an effective and efficient manner.

The Board, however, considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

The Board has also established a protocol for the management of the Company including a system of internal controls, a business risk management process and the establishment of appropriate ethical standards.

The full Board currently holds meetings at such times as may be necessary to address any general or specific matters as required.

If the Company's activities increase in size, scope and nature, the appointment of separate or special committees will be reviewed by the Board and implemented if appropriate.

Therefore the Company does not comply with ASX Principles 2, 4 and 8 as it does not have formal nomination, audit or remuneration committees.

## **Audit**

The Board has not established an audit committee as it considers that the Company is not of a size, nor are its financial affairs of such complexity

to justify the formation of an audit committee. The Board as a whole undertakes the selection and proper application of accounting policies, the identification and management of risk and the review of the operation of the internal control systems.

## **Role of Auditor**

The Company's policy is to appoint an external auditor who clearly demonstrates quality and independence. The performance of the external auditor is reviewed annually and if deemed appropriate, having regard to the assessment of performance, existing value and costs, applications for tender of external audit services may be requested.

The Company's practice is to invite the auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

As part of the Company's commitment to safeguarding integrity in financial reporting, Cell Aquaculture has implemented procedures and policies to monitor the independence and competence of its external auditors. The auditor's independence declaration is included in this Annual Report.

## **Integrity of Financial Reporting**

The Executive Director and Finance Director report in writing to the Board that:

- the consolidated financial statements of the Company and its controlled entities for the full year present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards;
- the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

There is further commentary on financial risk management at Note 2 to the financial statements.

For the Financial Report for the year ended 30 June 2010 it is confirmed that the Board has received assurance that the *Corporation Act 2001* section 295A declarations are founded on a sound system of risk management and internal control.

## **Business Risks**

Consistent with ASX Principle 7, the Company is committed to the identification, monitoring and management of risks associated with its business activities and has embedded in its management and reporting systems a number of risk management controls.

The Board is responsible for the oversight of the Company's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management within the Company with the Executive Chairman having ultimate responsibility to the Board for the risk management and the control framework.

Areas of significant business risk to the Company are highlighted in Board meetings and any business plans and operating reports presented to the Board.

The Board monitors and receives advice on areas of operational and financial risk, and considers strategies for appropriate risk management arrangements.

Arrangements put in place by the Board to monitor risk management involve regular reporting to the Board in respect of operations and the financial position of the Company and include actual to budget comparatives and variance explanations.

The Company's approach to risk management is based on the identification, assessment, monitoring and management of material risks that the Board and management believe that the Company may encounter. Once the risks have been identified, the risks are then classified in terms of their severity, the probability of occurring and the potential impact or damage they may have if they do occur. Once the risks have been identified the Company can then decide on whether to avoid, manage, insure or transfer these risks.

Specific areas of risk have been identified and are regularly considered at Board meetings including sovereign risk, foreign currency fluctuations, performance of activities, human resources, the environment, statutory compliance and continuous disclosure obligations.

## **Share Trading**

All employees and Directors of the Company are prohibited from trading in the Company's shares or other securities if they are in possession of "inside information". Subject to this condition, and in light of the ASX's continuous disclosure requirements, trading can occur at any time with the exception of the period of ten days prior to the publication of financial results and the one day following such publication.

In addition, in order to trade, Directors of the Company must advise the Company Secretary of their intention to trade and must also have been advised by the Company Secretary that there is no known reason to preclude them trading in the Company's shares or other securities.

A copy of the policy has been posted to the corporate governance section of the Company's website.

# Corporate governance

## **Continuous Disclosure**

The Company understands and respects that timely disclosure of price sensitive information is central to the efficient operation of the Australian Securities Exchange's securities market. The Board is cognizant of the need to prevent selective or inadvertent disclosure and exercise caution with investor and analysts briefings, media communications, commenting on expected earnings, communications black-out periods and review of briefings and communications.

The Company Secretary, in conjunction with the Executive Director, has responsibility for overseeing and coordinating disclosure of information to the Australian Securities Exchange. The Company Secretary also liaises with all the Board members in relation to continuous disclosure matters. The Executive Chairman is responsible for overseeing and coordinating disclosure of information to analysts, brokers and shareholders.

## **Ethical Standards**

All Directors, executives and employees are charged with the responsibility to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. In this regard the Company has implemented a Code of Conduct which is on the Company's website.

## **Communications with Shareholders**

The Board aims to ensure that shareholders are kept informed of all major developments affecting Cell. Information is communicated to shareholders through the distribution of annual reports, newsletters and by presentation to shareholders at the Annual General Meeting which they are encouraged to attend.

In addition, all reports, including quarterly reports and releases made by the Company throughout the year with respect to its activities are distributed widely via the Australian Securities Exchange and placed on the Company's website [www.cellaqua.com](http://www.cellaqua.com).

Shareholders and interested parties may subscribe to receive the latest announcements issued by the Company by visiting the Company's website and entering their details.





# <Cell>

AQUACULTURE LTD

