



6 May 2008

The Manager  
ASX Limited  
Level 8 Exchange Plaza  
2 The Esplanade  
PERTH WA 6000

ATTENTION: Ms Jill Hewitt

Dear Jill,

Re: **CELL AQUACULTURE LTD CASHFLOW POSITION**

We respond to your letter dated 1 May 2008, addressing your concerns regarding the cash and working capital position of Cell Aquaculture Ltd (**CAQ** or **Company**) as follows:

1. As advised in the current Appendix 4C the Company has refocussed its strategy to concentrate on its Malaysian government joint venture opportunities. The essence of this strategy is that CAQ will receive income from the sale of plant and equipment and technical know-how to the joint ventures, together with retaining an interest in the future cashflows to be generated from the sale of produce when the Aquaculture facilities are fully operational.

During the quarter ended 31 March 2008 there were a number of expenses incurred in order to amend the business strategy to focus on these opportunities, together with one-off costs as follows:

- Costs incurred to finalise the Stage 1 Terengganu production and 'showcase' facility to a high specification during the quarter.
- As outlined in the Appendix 4C, completion of a number of comprehensive 'investment ready' feasibility and planning studies, to map out the proposed development and expansion of all major Malaysian government projects. Feasibility and planning studies have been compiled on the Terengganu expansion (a twelve fold increase on current production), on the large-scale Sarawak government project and also on both major hatchery operations. Completion of these studies has required a great deal of resources and use of consultants. These studies represent an extraordinary expense not anticipated in future quarters.
- Development costs of complete customised enterprise-wide production software to prepare for rapid Malaysian expansion.
- Termination payments made to US and UK based directors in order to focus on the Malaysian strategy.
- Part settlement of US legal dispute in order to focus on Malaysian opportunities.



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The new board has implemented the following procedures to reduce future expenditure:

- The Company has commenced relocation and part sale of its Hamilton Hill based production facilities. The sale of equipment and stock is being negotiated with a local party. This process is now well advanced and expected to be completed by the end of May 2008. Formal notification has also been given to terminate the Company's lease on land and buildings at this site, which will be relocated to smaller less expensive premises. This will bring cash into the Company and significantly reduce on-going quarterly expenditure.
  - Following the resignation of US and UK based directors, the Company has cut back on directors' salaries, expenses and travel.
  - Given the completion and successful commissioning of the Stage 1 Terengganu production facility, the Company is now in a position to invoice the remaining balance for the establishment of the facility.
2. The Company is in the process of securing Malaysian government funding for the advancement of its projects. A comprehensive financing proposal has been submitted by CAQ's joint venture company, TRG Cell Sdn Bhd, to the Malaysian Ministry of Finance (MOF) to obtain funding of RM50 million (approx AU\$17 million) to expand the Terengganu project. A further funding facility for the Sarawak project is expected to be lodged in the coming months for an additional RM30+ million.

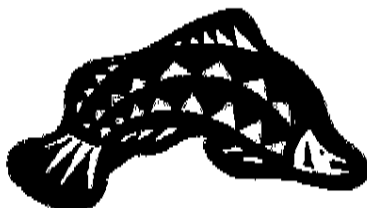
It is anticipated that the Terengganu funding facility will be in place within the coming months. Once the proceeds of this fund become available to the joint venture company, it will then purchase all equipment from CAQ, effectively seeing the bulk of the funding channelled back to CAQ as revenue.

In the meantime, the Company will continue to incur negative operating cashflows until the outlined funding facilities are in place. In order to ensure adequate funds in the interim, the Company is well advanced in negotiations with a local stockbroking firm to undertake a capital raising.

3. The Company's actual revenues and expenses have varied slightly to the anticipated revenues due to a number of unforeseen circumstances outside the Company's control.

An outline of these unforeseen circumstances is as follows:

- During the quarter, the Malaysian federal elections were announced and held. This caused delays to the funding approvals of the Company's projects – given that they are government linked. Despite a number of shifts within the various cabinets, the new ministers are now on-track and supportive of the projects with minimal further delays anticipated.
- Funding applications have been made to the federal agriculture bank – Bank Pertanian Malaysia. The bank is in the process of a major rebranding and restructuring program and will become known as the Malaysian Agro Bank. This restructuring process has also caused delays to the funding application. Two of CAQ's directors recently met with the General Manager of the Agro Bank and have now been assured there will be minimal further interruption to the financing process.



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- The melt-down of international finance markets over past months has reduced investment and funding sentiment and therefore proposed capital raising initiatives had to be amended.
- 4. There are no items outlined in Paragraph 3 above that require separate disclosure. With the exception of the impact of the tightening equity markets, which we believe does not require separate disclosure, there are no items that require disclosure under Listing Rule 3.1. All items are timing in nature and there has been no adverse effect on long term prospects for the Company.
- 5. The Company's ability to reach its objectives in the short term is dependent on its ability to raise the equity funding referred to above. It is confident funding will be available within 60 days. This, combined with reduced administration costs and anticipated cashflows from the Terengganu Joint Venture company, will provide the capital required to fund the Company through the medium to long term.
- 6. The Directors believe that the Company has at all times complied with Listing Rule 3.1. It will continue to announce any developments as required.
- 7. There are no further matters to disclose with regards to Listing Rule 12.2.

Yours sincerely,



Ian Gregory  
Company Secretary



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1 May 2008

Mr I Gregory  
Company Secretary  
Cell Aquaculture Limited  
66 Bennett Avenue  
HAMILTON HILL WA 6163

Facsimile: 9336 7111

Dear Ian

**Cell Aquaculture Limited (the "Company")**

I refer to the Company's Quarterly Report for entities admitted on the basis of commitments in the form of Appendix 4C for the period ended 31 March 2008, released to ASX Limited ("ASX") on 30 April 2008 (the "Appendix 4C").

ASX notes that the Company has reported the following.

1. Receipts from customers of \$282,000
2. Net negative operating cash flows for the quarter of \$742,000.
3. Cash at end of quarter of \$596,000.

In light of the information contained in the Appendix 5B, please respond to each of the following questions.

1. It is possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the quarter indicated by the Appendix 4C, the Company may not have sufficient cash to fund its activities. Is this the case, or are there other factors that should be taken into account in assessing the Company's position?
2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Appendix 4C for the quarter and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?
3. To what extent have the Company's actual revenues and expenses in the quarter, as reported in the Appendix 4C, matched the Company's anticipated revenues and expenses for that reporting period?

4. If the Company's actual revenues and expenses are not substantially in accordance with the Company's anticipated revenues and expenses, when did the Company become aware that its revenues and expenses would not substantially match the anticipated revenues and expenses? You may wish to outline any circumstances that may have had an effect on the Company's revenues and expenses.
5. What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives?
6. Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?
7. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

#### **Listing rule 3.1**

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

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

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

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

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

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, not later than **5:00 p.m. W.S.T. on Monday 5 May 2008**.

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

Should you have any queries, please contact me.

Yours sincerely,



Jill Hewitt  
**Adviser, Issuers (Perth)**