



CEIP

AQUACULTURE

ANNUAL

REPORT08



contents



Chairman's report	2
Directors' Report	6
Directors' Declaration	16
Independent Auditor's Declaration	17
Independent Audit Report	18
Income Statement	20
Balance Sheet	21
Statement of Changes in Equity	22
Cash Flow Statement	23
Notes to the Financial Statements	24
Shareholder Information	56
Corporate Governance	58



chairman's report



Dear Shareholder,

On behalf of the Board of Directors and management of Cell Aquaculture Limited (CAQ), it is my pleasure to present a review of your Company's activities for the financial year ended 30th June 2008. The past year has been an extremely busy and dynamic period for CAQ.

Given the outstanding potential of developing joint venture opportunities with the Malaysian government, CAQ has made a strong shift over the past year to focus on this objective by developing the appropriate relationships at both State and Federal levels and establishing a strong and credible reputation for the company in Malaysia. This has been achieved and a number of joint venture opportunities are now under development.

Revenue of \$1,567,104 was achieved for the year, representing predominantly the completion of the first stage production facility in Terengganu, Malaysia. The company expects increases in revenue in the coming year as its Malaysian government joint ventures develop.

Following is a review of key developments/milestones achieved by CAQ during the year:

Restructuring of Australian based Operations

In order to increase its Malaysian focus, during the year the company rationalised its Perth based production facilities and relocated its head office from Hamilton Hill to Osborne Park. This has significantly reduced CAQ's Australian overheads allowing a greater focus on the Malaysian opportunities.

CAQ has now also opened corporate offices in Kuala Lumpur, Malaysia.

Hatchery Development

The company continues to operate its Barramundi hatchery joint venture out of James Cook University, Townsville, Queensland. This facility has been successfully breeding and supplying a constant supply of premium quality Barramundi fingerlings to the company's Malaysian facilities.

A strong relationship has now been developed with the Malaysian Federal Marine Research Centre and progression of the first stage premium multi-species hatchery within the marine centre is to commence shortly. This is an exciting and lucrative opportunity for the company with planned development of a range Grouper and other high order exotic fish species for future production.



A comprehensive feasibility study and federal funding application was also completed and lodged during the period to develop one of the largest multi-species hatcheries in the South East Asian region. This facility will be located on CAQ's current joint venture production site in Malaysia.

Strong hatchery development is viewed by the company as its 'engine room' for future expansion and a strong emphasis has been placed on hatchery development as an integral part of the company's future growth strategy.

Completion of 'High-Spec' Showcase Production Facility

The first 2,500m² Terengganu based Barramundi facility was successfully commissioned during the year and is now fully stocked. The facility has been built to a high specification to act as a premium 'showcase' facility within the region.

An official opening ceremony was held in February 2008 to mark the commencement of production from the first Terengganu facility.

Completion of the first facility represents a significant milestone for the company and demonstrates the viability of the expansion program. Completion of the first facility in a new region is the most challenging task with only replication now required to meet the expansion targets.

Large Scale Production Expansion in Terengganu State

During the period, comprehensive feasibility, financial modelling and 'investment ready' planning was completed for expansion with the Terengganu State government. Completion of the feasibility has resulted in finalising suitable grow-out site selections and preparation of a comprehensive expansion program, incorporating system designs and resourcing required to achieve the expansion objectives. Development expansion is due commence in the coming year.

Other Production Expansion Opportunities

During the year, a Memorandum of Understanding (MOU) was signed with the investment arm of the Sarawak state government,



ASSAR Group. A comprehensive feasibility study and site selection has now been completed, with a view to transition the project from MOU to formal contract stage. CAQ expects this opportunity will transpire into a substantial production joint venture in the near future.

Following the successful establishment of the first stage of the Terengganu venture, the company has recently been approached by a number of other governments in the region with a view to replicating the project. CAQ is seriously assessing a number of these opportunities at present and will keep shareholders and the market informed of further developments as they transpire.

Fish Marketing/Value Adding & Off-take Agreements

CAQ has instigated discussions with a number of large international seafood distributors based in the region. The company plans to finalise off-take agreements for its produce in the near future and is also currently evaluating a number of processing and value-adding options.

Outlook

The business and ecological fundamentals which drive closed system, re-circulating fish farming versus depletion of wild fish supplies, continue to grow stronger daily.

Significant foundation work has now been carried out to develop the joint venture opportunities with the Malaysian government and the company is now well poised for future growth as these ventures and new opportunities scale up to full commercial production.

On behalf of the Board, I wish to thank all our management and staff for their tireless dedication and commitment to CAQ and also to our shareholders for their ongoing support of the company, as we look forward to an exciting year ahead.

Perryman James Leach
Chairman
Cell Aquaculture Ltd

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 2008.

Directors

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

- Perryman James Leach
- Suresh Emmanuel Abishegam
- Peter Gerard Burns (Appointed 2 April 2008)
- Peter Joseph Burns (Resigned 30 November 2007)
- Paul Edward Alexander Hopper (Resigned 7 March 2008)
- Glyne Michael Tonge (Resigned 27 March 2008)

Suresh E Abishegam (age 47)
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 two 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 exciting, large-scale venture.

Capt Abishegam has not held directorships in any listed companies during the past three years.

Perryman J Leach (age 67)
Chairman non-independent, non-executive director
M.I.E. Aust.

Perry Leach, the creator of the Eco-Cell™ Recirculating Seafood Production System, is a Civil Engineer, project manager and builder. He has extensive experience in the intensive farming of pigs and poultry through the food chain to abattoirs, small goods processing, chiller and freezer works and pollution control. Perry 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 32)
Executive Director – Cell Aquaculture Ltd

Peter has been involved with Cell Aquaculture Ltd for the past 8 years and has played a key role in the international development of the company, especially it's Malaysian based operations. He is currently an Executive Director of Cell's Malaysian subsidiary company, Cell-Aqua Malaysia Sdn Bhd and also an Executive Director of Cell's joint venture company with the Terengganu state government, TRG Cell Sdn Bhd. Mr Burns holds a bachelor of business degree with a double major in management and marketing.

Mr Burns has not held directorships 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 2008 is:

	Financial Year 2008 \$	Financial Year 2007 \$
Revenue from continuing operations	1,567,104	1,103,234
Net Income/(Loss) for the year	(4,050,190)	(4,710,575)

Review of Operations

The past year has been an extremely busy and dynamic period for Cell Aquaculture Ltd (“Cell” or “the company”)

Given the outstanding potential of developing vertically integrated joint venture opportunities with the Malaysian government Cell has made a strong shift over the past year to focus solely on this objective by developing the appropriate relationships at both State and Federal government levels and establishing a strong and credible reputation for the company in Malaysia. This has now been achieved and a number of joint venture opportunities are under development.

Revenue of \$1,567,104 was achieved for the year ended 30 June 2008 representing predominantly the completion of the first stage production facility in Terengganu, Malaysia. The company expects revenue to increase in the coming year as its Malaysian government joint ventures develop to commercial scale production.

In line with the push into Malaysia, following is a review of FY 2008:

Restructuring of Australian based Operations and Other Operations

In order to increase its Malaysian focus, during the year the company rationalised its Perth based production facilities and relocated its head office from Hamilton Hill to Osborne Park. This has significantly reduced the company’s Australian overheads allowing a greater focus on the Malaysian opportunities.

During the year the company also disposed of its interests in its aquaculture facilities in USA and Holland and now has the clear objective to develop its joint venture interests with the Malaysian government. Cell has also developed corporate offices in Kuala Lumpur, Malaysia.

Hatchery Development

The company continues to operate its current Barramundi hatchery operation out of James Cook University, Townsville, Queensland. This facility has been successfully breeding and supplying a constant supply of premium quality Barramundi fingerlings to the company’s Malaysian production facilities.

A strong relationship has now been developed with the Malaysian Federal Marine Research Centre and progression of the first stage premium multi-species hatchery within the marine centre commenced during the period. This is an exciting opportunity for the company with planned development of a range of Grouper and other high order exotic fish species for future production.

A comprehensive feasibility study and federal funding application was also completed and lodged during the period to develop one of the largest multi-species hatcheries in the South East Asian region. This facility will be located on Cell’s current joint venture production site in Terengganu, Malaysia.

Strong hatchery development is viewed by the company as its ‘engine room’ for future expansion and a strong emphasis has been placed on hatchery development as an integral part of the company’s aggressive growth strategy.

Completion of ‘High-Spec’ Showcase Production Facility

The first 2,500m² Terengganu based Barramundi facility was successfully commissioned during the year and is now fully operational. The facility has been built to a high specification to act as a premium ‘showcase’ facility within the region.

Completion of the first production facility represents a significant milestone for the company. Completion of the first facility in a new region is a challenging task, however all local supply relationships have now been firmly developed, allowing for quicker and efficient future expansion.

Large Scale Production Expansion in Terengganu State

During the period, comprehensive feasibility, financial modelling and ‘investment ready’ planning was completed for expansion with the Terengganu State government.

Completion of the feasibility has resulted in finalising suitable grow-out site selections and preparation of a comprehensive expansion program, incorporating system designs and resourcing required to achieve the expansion objectives. Development expansion will commence in the coming year.

Other Production Expansion Opportunities

During the year, a Memorandum of Understanding (MOU) was signed with the investment arm of the Sarawak state government, ASSAR Group. A comprehensive feasibility study and site selection has now been completed to develop initial target production of 700+ tonnes per annum. The company expects this will transpire into a substantial production joint venture in the near future.

Following the successful establishment of the first stage of the Terengganu venture, Cell is now being approached by a range of further government and multi-national groups in the region, with a view to replicating the project. Cell is assessing a number of these opportunities and will keep the market informed of further developments.

Fish Marketing/Value Adding & Off-take Agreements

Cell has recently instigated discussions with a number of large international seafood distributors based in the region. The company plans to finalise off-take agreements for its produce in the near future and is also currently evaluating a number of processing and value-adding options.

Future Developments

The Group will continue to focus on the establishment of its joint venture facilities in Malaysia.

Further likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report, as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

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.



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 2008, and the numbers of meetings attended by each director were:

	Directors Meetings		Audit Committee Meetings		Remuneration - Committee Meetings	
	A	B	A	B	A	B
PJ Leach	10	10	*	*	1	1
PJ Burns	4	4	*	*	*	*
P A Hopper	7	7	1	1	*	*
S E Abishegam	7	10	*	*	1	1
G Tonge	6	7	*	*	*	*
P G Burns	3	3	*	*	1	1

Notes

A Number of meetings attended.

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

* Not a member of the committee

** Both the audit committee and remuneration committees were disbanded in April 2008. These functions are now undertaken by the full board of Directors.

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
22 January 2007	29 December 2008	\$0.25	916,250
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
			12,132,917

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	16,507,501	-
P G Burns	1,250,395	1,500,000
S E Abishegam	1,293,816	2,500,000

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*. There were no executives other than Directors and Company Secretary of the Company during the financial year.

(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 Directors; 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 director and performance of the group.

The Board of Directors, is 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 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 Company does not offer any variable remuneration incentive plans or bonus schemes to Executive Directors 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 2004	30 June 2005	30 June 2006	30 June 2007	30 June 2008
Revenue	97,575	70,747	983,559	1,103,234	1,567,104
Net loss	(872,542)	(704,349)	(348,829)	(4,710,575)	(4,050,190)
Share price	Unlisted	Unlisted	22 cents	18.5 cents	12.5 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 Non-Executive Chairman fees are determined based on competitive roles in the external market.

The current base remuneration was last reviewed in April 2008. The Chairman currently receives a fixed fee for his services as a Director.

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, the Chairman and 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 (Non Executive) * |
| Peter Joseph Burns | Director (Non Executive) – resigned 30 November 2007 |
| Paul Edward Alexander Hopper | Chairman (Executive) – resigned 7 March 2008 |
| Glyn Michael Tonge | Director (Non Executive) – resigned 27 March 2008 |
| Suresh Abishegam | Director (Non Executive) |
| Peter Gerard Burns | Director (Executive) – appointed 2 April 2008 |
- (ii) Executives
- | | |
|--------------------|--|
| Peter Gerard Burns | Business Development Manager, prior to being appointed as a Director on 2 April 2008 |
|--------------------|--|

* Mr P J Leach was a Director (Non Executive) for the period 1 July 2007 to 7 March 2008.

Details of the remuneration of the key management personnel of the Group is set out below:

Year ended 30 June 2008	Short-Term		Post employment		Share-Based Payments		Total	Remuneration consisting of options %
	Salary & Fees	Consulting	Termination payments	Super annuation	Options	Shares		
Directors								
PJ Leach	-	116,754	-	-	-	-	116,754	-
PJ Burns	13,333	-	-	-	-	-	13,333	-
PA Hopper	141,642	-	78,346	-	243,350	-	463,338	52.5
SE Abishegam	43,148	-	-	-	121,675	-	164,823	73.8
G Tonge	26,632	-	13,333	-	121,675	-	161,640	75.2
Other key management personnel								
PG Burns *	138,025	-	-	11,042	46,200	-	195,267	23.6
	362,780	116,754	91,679	11,042	532,900	-	1,115,155	47.8

*P G Burns was appointed a Director on 2 April 2008. Before his appointment he was the Company's Business Development Manager. Amounts shown above include all Mr Burns' remuneration during the reporting period.



Year ended 30 June 2007	Short-Term		Post employment	Share-Based Payments		Total
	Salary & Fees	Consulting	Superannuation	Options	Shares	
Directors						
RIS Sewell	29,166	-	2,625	-	-	31,791
GNL Wilton	309,029	-	26,636	-	-	335,665
PJ Leach	29,305	-	2,637	-	-	31,942
PJ Burns	27,083	-	2,437	-	-	29,520
DR Thomas	16,666	-	1,500	-	-	18,166
R de Nys	27,083	-	2,437	-	-	29,520
PA Hopper	-	-	-	-	-	-
SE Abishegam	-	-	-	-	-	-
G Tonge	-	-	-	-	-	-
Other key management personnel						
PG Burns	117,000	-	9,450	-	-	126,450
QH Leach	57,732	-	4,638	-	-	62,370
	613,064	-	52,360	-	-	665,424

(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 are formalised in a letter agreement. The major provisions relating to remuneration are set out below.

Peter G Burns, Executive Director

- Term of agreement – no specified term.
- Base fee of \$180,000 pa as at 30 June 2008, 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.

On 7 March 2008 Paul Hopper, the executive chairman, resigned and his service agreement was terminated.

Termination benefits

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.

(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.

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 (2007: Nil).

	No. granted	Vested 29/11/07	Vested 29/05/08	Balance unvested 30/06/08
P A Hopper	5,000,000	2,000,000	1,000,000*	2,000,000*
G M Tonge	2,500,000	1,000,000	500,000*	1,000,000*
S E Abishegam	2,500,000	1,000,000	500,000	1,000,000
	10,000,000	4,000,000	2,000,000	4,000,000

*In September 2008 4,500,000 options issued to PA Hopper and GM Tonge were cancelled. The balance of unvested options will be vested proportionately on the following dates:

29 November 2008	500,000
29 November 2009	500,000

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.

(ii) Other Key Management Personnel Options

On 1 April 2008, 3,050,000 options were granted to employees of the parent entity, of which 1,500,000 were granted to P G Burns, as follows:

	No. granted	Vested 01/04/08	No. cancelled	Balance unvested 30/06/08
P G Burns	1,500,000	600,000	-	900,000

The balance of the options will be vested proportionately on the following dates:

1 October 2008	300,000
1 April 2009	300,000
1 October 2009	300,000
	<u>900,000</u>

The fair value of options granted to Mr Burns was 5.28 cents per share (totalling \$79,200), using a Binomial option valuation methodology. This volatility rate was 50% and the risk free interest rate was 6.035%. The options have an expiry date of 1 April 2011 and an exercise price of 20 cents.

(iii) For each grant of options to key management personnel included above, the percentage of the available grant that was vested, and the financial year, is set out below. The options vest as set out above. Pursuant to a resolution in September 2008 options that are unvested at the date of resignation of the Director will be cancelled. A total of 4,500,000 options issued to Directors were cancelled pursuant to this resolution in September 2008. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

	Year granted	Total Value at grant date	Vested %	Financial years in which options may vest	Minimum total value of grant yet to vest	Maximum total value of grant yet to vest
P G Burns	2008	79,200	40	30/06/09	-	30,360
				30/06/10	-	2,640
P E A Hopper	2008	314,000	60	30/06/09	-	-
				30/06/10	-	-
S E Abishegam	2008	157,000	60	30/06/09	-	28,783
				30/06/10	-	6,541
G M Tonge	2008	157,000	60	30/06/09	-	-
				30/06/10	-	-
		707,200			-	58,324

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 21 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 Kendalls Audit and Assurance (WA) Pty Ltd, for audit and non-audit services provided during the year are set out in note 21 to the financial statements.

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 9th day of September, 2008.





FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Director's declaration

The Directors of the Company declare that:

1. The financial statements, comprising the income statement, balance sheet, cash flow statement, 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 2008 and of the performance for the year ended on that date of the Company and 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. The remuneration disclosures included on pages 6 to 10 of the Director's Report (as part of the Remuneration Report) for the year ended 30 June 2008, comply with Section 300A of the Corporations Act 2001.
4. 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 Leach, 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 9th day of September, 2008.



BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
128 Hay St
Subiaco WA 6008
PO Box 700 West Perth WA 6872
Phone 61 8 9380 8400
Fax 61 8 9380 8499
aa.perth@bdo.com.au
www.bdo.com.au

ABN 79 112 284 787

9th September 2008

The Directors
Cell Aquaculture Limited
Suite 1
34 Hasler Road
OSBORNE PARK WA 6916

Dear Sirs

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 2008, 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 year.

Peter Toll
Director

BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
Perth, Western Australia



BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
128 Hay St
Subiaco WA 6008
PO Box 700 West Perth WA 6872
Phone 61 8 9380 8400
Fax 61 8 9380 8499
aa.perth@bdo.com.au
www.bdo.com.au

ABN 79 112 284 787

INDEPENDENT AUDITOR'S REPORT

To the members of Cell Aquaculture Limited

We have audited the accompanying financial report of Cell Aquaculture Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement 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, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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*.

Basis for Qualified Auditor's Opinion

30 June 2007

Subsequent to the year ended 30 June 2007, a controlled entity located in the United States of America ceased operations and the Group was in the process of evaluating the future position of the entity.

Due to the uncertainties arising from the ceasing of the operations in the United States of America, the audit of the controlled entity was not completed.

Accordingly, we were unable to perform sufficient audit procedures in relation to the controlled entity's financial position and performance for the year ended 30 June 2007.

Should the audit have been completed, it may have resulted in the recognition of assets or liabilities that may materially impact on the financial position and performance of the consolidated entity for the year ended 30 June 2007.



BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
128 Hay St
Subiaco WA 6008
PO Box 700 West Perth WA 6872
Phone 61 8 9380 8400
Fax 61 8 9380 8499
aa.perth@bdo.com.au
www.bdo.com.au

ABN 79 112 284 787

30 June 2008

The controlled entity was disposed of in March 2008. The financial impact has been disclosed in note 25 to the financial statements.

The records of the company were not available for audit for the period up to disposal.

Accordingly, we have been unable to perform sufficient audit procedures in relation to the effect of the disposal of the controlled entity on the financial performance of the consolidated entity for the year ended 30 June 2008.

Should the audit have been completed, it may have resulted in the recognition of assets or liabilities that may materially impact the financial performance for the year ended 30 June 2008 of the consolidated entity.

Qualified Audit Opinion

- (a) In our opinion, except for the existence of the matter as described in the preceding paragraph's and the effect of such adjustments (if any), 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 company's and consolidated entity's financial position as at 30 June 2008 and of their 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.

Material uncertainty regarding continuation as a going concern

Without qualification to the audit opinion expressed above, attention is drawn to the following matter. As a result of the matters detailed in Note 2 (ac), there is material uncertainty whether the Company and its controlled entities will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report of the directors' report for the year ended 30 June 2008. 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 Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

BDO Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls

Peter Toll
Director

Perth, Western Australia
Dated this 9th day of September 2008

Income statement

FOR THE YEAR ENDED 30 JUNE 2008

	NOTE	Consolidated		Parent	
		2008 \$	2007 \$	2008 \$	2007 \$
Revenue from continuing operations	3(a)	1,567,104	1,103,234	683,190	1,355,049
Loss on disposal of plant and equipment		(179,951)	-	(179,951)	-
Raw materials and consumables used		(1,082,672)	(640,307)	(489,847)	(911,791)
Changes in inventories of produce and raw materials		(131,756)	138,184	(131,756)	138,184
Legal settlement	18(c)(i)	(160,472)	-	(160,472)	-
Marketing expenses		(80,321)	(286,403)	(80,321)	(286,403)
Communication expenses		(24,227)	(42,731)	(24,227)	(42,731)
Consultancy expenses		(305,334)	(20,942)	(134,944)	(76,146)
Employee benefits expense		(939,325)	(938,130)	(898,467)	(938,130)
Insurance expenses		(70,617)	(59,043)	(70,617)	(59,043)
Occupancy Costs		(208,189)	(138,198)	(208,189)	(138,198)
Professional Costs		(321,256)	(215,785)	(320,219)	(215,785)
Travel Costs		(176,825)	(134,175)	(147,966)	(134,175)
Depreciation and amortisation expense	3	(648,545)	(560,878)	(648,545)	(560,878)
Finance costs	3	(39,377)	-	(39,377)	-
Impairment charge on loans receivable	7	(702,285)	(870,667)	(907,004)	(1,426,628)
Impairment charge on plant & equipment	12(c)	(76,783)	-	-	-
Impairment on investment in controlled entity		-	-	-	(1,080,929)
Reversal of impairment charge	7	10,000	250,000	10,000	250,000
Other expenses		(173,256)	(65,950)	(161,048)	(65,997)
Share based payments	26	(584,015)	-	(584,015)	-
Share of net losses of associates using the equity method	10(c)	(75,900)	(116,572)	-	(116,572)
Loss from continuing operations before Income Tax Expense/ Benefit		(4,404,002)	(2,598,363)	(4,570,558)	(4,310,173)
Income tax benefit	4	315,621	256,572	315,621	256,572
Net loss after income tax from continuing operations		(4,088,381)	(2,341,791)	(4,254,937)	(4,053,601)
Profit / (Loss) on discontinued operations	25	38,191	(2,368,784)	-	-
Loss for the year		(4,050,190)	(4,710,575)	(4,254,937)	(4,053,601)
Loss is attributable to:					
Equity holders of Cell Aquaculture Ltd		(4,036,690)	(4,226,511)	(4,254,937)	(4,053,601)
Minority interest		(13,500)	(484,064)	-	-
		(4,050,190)	(4,710,575)	(4,254,937)	(4,053,601)
Basic (loss) per share	5	(3.09)	(3.51)		
Diluted (loss) per share		(3.09)	(3.51)		

The accompanying notes form part of these financial statements.

Balance sheet

FOR THE YEAR ENDED 30 JUNE 2008

	NOTE	Consolidated		Parent	
		2008 \$	2007 \$	2008 \$	2007 \$
CURRENT ASSETS					
Cash and cash equivalents	6	1,257,864	425,863	1,181,105	290,101
Trade and other receivables	7	232,379	415,933	251,656	400,923
Inventories	8	90,000	221,756	90,000	221,756
		1,580,243	1,063,552	1,522,761	912,780
Assets of disposal group classified as held for sale	26	-	142,814	-	-
TOTAL CURRENT ASSETS		1,580,243	1,206,366	1,522,761	912,780
NON CURRENT ASSETS					
Receivables	7	-	493,598	164,375	493,598
Other financial assets	9	-	-	17,000	17,000
Investments accounted for using the equity method	10	163,464	255,973	-	-
Property, plant and equipment	11	103,547	486,037	103,547	486,037
Intangible assets	12	698,332	1,079,601	698,332	1,079,601
TOTAL NON CURRENT ASSETS		965,343	2,315,209	983,254	2,076,236
TOTAL ASSETS		2,545,586	3,521,575	2,506,015	2,989,016
CURRENT LIABILITIES					
Trade and other payables	13	387,779	645,255	360,554	265,744
Borrowings	14	15,909	530,130	15,909	530,130
		403,688	1,175,385	376,463	795,874
Liabilities directly associated with assets of a disposal group classified as held for sale	25	-	287,585	-	-
TOTAL CURRENT LIABILITIES		403,688	1,462,970	376,463	795,874
NON CURRENT LIABILITIES					
Borrowings	14	11,969	16,391	-	16,391
TOTAL NON CURRENT LIABILITIES		11,969	16,391	-	16,391
TOTAL LIABILITIES		415,657	1,479,361	376,463	812,265
NET ASSETS		2,129,929	2,042,214	2,129,552	2,176,751
EQUITY					
Contributed equity	15	13,794,676	10,200,339	13,794,676	10,200,339
Accumulated losses	16 (b)	(12,517,551)	(8,480,861)	(12,562,889)	(8,307,951)
Reserves	16 (a)	864,469	320,901	897,765	284,363
Parent entity interests		2,141,594	2,040,379	2,129,552	2,176,751
Minority interests		(11,665)	1,835	-	-
TOTAL EQUITY		2,129,929	2,042,214	2,129,552	2,176,751

The accompanying notes form part of these financial statements.

Statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2008

Parent	Share Capital	Accumulated losses	Share Based Payment Reserve	Foreign Currency Translation Reserve	Total
Balance at 1.7.2006	9,543,839	(4,254,350)	313,750	(29,387)	5,573,852
Shares Issued during the year	656,500	-	-	-	656,500
Exchange difference on translation of foreign operations	-	-	-	-	-
Net income/(expense) recognised directly in equity.	-	-	-	-	-
Loss attributable to members	-	(4,053,601)	-	-	(4,053,601)
Total recognised income and expense for the year	-	(4,053,601)	-	-	(4,053,601)
Balance at 30.06.2007	10,200,339	(8,307,951)	313,750	(29,387)	(2,176,751)
Balance at 1.7.2007	10,200,339	(8,307,951)	313,750	(29,387)	(2,176,751)
Shares Issued during the year	3,594,337	-	-	-	3,594,337
Amount transferred on disposal of foreign investment	-	-	-	29,387	29,387
Share based payments	-	-	584,015	-	584,015
Exchange difference on translation of foreign operations	-	-	-	-	-
Net income/(expense) recognised directly in equity.	-	-	-	-	-
Loss attributable to members	-	(4,254,938)	-	-	(4,254,938)
Total recognised income and expense for the year	-	(4,254,938)	-	-	(4,254,938)
Balance at 30.06.2008	13,794,676	(12,562,889)	897,765	-	2,129,552

Consolidated	Share Capital	Accumulated losses	Share Based Payment Reserve	Foreign Currency Translation Reserve	Total	Minority Interest	Total
Balance at 1.7.2006	9,543,839	(4,254,350)	313,750	(29,387)	5,573,852	-	5,573,852
Shares Issued during the year	656,500	-	-	-	656,500	-	656,500
Exchange difference on translation of foreign operations	-	-	-	36,538	36,538	-	36,538
Net income/(expense) recognised directly in equity.	-	-	-	36,538	36,538	-	36,538
Loss attributable to members	-	(4,226,511)	-	-	(4,226,511)	(484,064)	(4,710,575)
Total recognised income and expense for the year	-	(4,226,511)	-	36,538	(4,189,973)	(484,064)	(4,674,037)
Acquisition of controlled entity	-	-	-	-	-	485,899	485,899
Balance at 30.06.2007	10,200,339	(8,480,861)	313,750	7,151	2,040,379	1,835	2,042,214
Balance at 1.7.2007	10,200,339	(8,480,861)	313,750	7,151	2,040,379	1,835	2,042,214
Shares Issued during the year	3,594,337	-	-	-	3,594,337	-	3,594,337
Amount transferred on disposal of foreign investment	-	-	-	(7,632)	(7,632)	-	(7,632)
Share based payments	-	-	584,015	-	584,015	-	584,015
Exchange difference on translation of foreign operations	-	-	-	(32,815)	(32,815)	-	(32,815)
Net income/(expense) recognised directly in equity.	-	-	-	(32,815)	(32,815)	-	(32,815)
Loss attributable to members	-	(4,036,690)	-	-	(4,036,690)	(13,500)	(4,050,190)
Total recognised income and expense for the year	-	(4,036,690)	-	(32,815)	(4,069,505)	(13,500)	(4,083,005)
Acquisition of controlled entity	-	-	-	-	-	-	-
Balance at 30.06.2008	13,794,676	(12,517,551)	897,765	(33,296)	2,141,594	(11,665)	2,129,929

Cash flow statement

FOR THE YEAR ENDED 30 JUNE 2008

NOTE	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts from customers	1,188,162	1,325,760	495,477	805,279
Grant received	78,735	88,378	78,735	88,378
Interest received	20,892	66,105	20,892	66,105
Borrowing costs	(39,377)	(13,604)	(39,377)	-
Payments to suppliers and employees	(3,693,603)	(3,691,551)	(2,587,269)	(2,807,494)
Income tax refund	315,621	256,573	315,621	256,573
Net Cash Provided by (Used in) Operating Activities	6(c) (2,129,570)	(1,968,339)	(1,715,921)	(1,591,159)
CASH FLOW FROM INVESTING ACTIVITIES				
Net cash acquired following acquisition of control of subsidiary	24(b) -	193,084	-	-
Payments for Research & Development	(132,728)	(311,990)	(132,728)	(311,990)
Purchase of Property, Plant and Equipment	(8,793)	(471,290)	(8,793)	(39,536)
Proceeds from Sale of Property, Plant and Equipment	2,500	-	2,500	-
Loan repaid by other Entities	260,000	-	260,000	-
Loans to Associated Entities	(208,687)	(503,716)	(208,687)	(503,717)
Investments in Controlled Entities	-	-	-	(689,158)
Loans to Controlled Entities	-	-	(369,094)	(359,349)
Investments in Associated Entities	-	(255,973)	-	-
Net Cash Provided by (Used in) Investing Activities	(87,708)	(1,349,885)	(456,802)	(1,903,750)
CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from Share Issues	3,394,337	656,500	3,394,337	656,500
Loan from other entities	11,968	525,000	-	525,000
Repayment of loans - unsecured	(325,000)	-	(325,000)	-
Repayment of notes payable	-	(37,951)	-	-
Repayment - Lease Liabilities	(5,610)	(1,835)	(5,610)	(1,835)
Net Cash Provided by (Used in) Financing Activities	3,075,695	1,141,714	3,063,727	1,179,665
Net increase/(decrease) in cash held	858,417	(2,176,510)	891,004	(2,315,244)
Effects of exchange rate changes	(26,416)	(2,972)	-	-
Cash and cash equivalents at beginning of the financial year	425,863	2,605,345	290,101	2,605,345
Cash and cash equivalents at the end of the financial year	6(a) 1,257,864	425,863	1,181,105	290,101

The accompanying notes form part of these financial statements.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

Note 1: Corporate Information

The financial report of Cell Aquaculture Limited (the Company) for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 9th September 2008.

Cell Aquaculture Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Company are development, commercialisation and marketing of technology relating to aquaculture farming.

Note 2: 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 Board and Urgent Issues Group Interpretations.

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.

(b) Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(c) Principles of Consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Cell Aquaculture Limited ("company" or "parent entity") as at 30 June 2008 and the results of all subsidiaries for the year then ended. Cell Aquaculture Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals

to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

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

(d) 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.

(e) 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 income statement 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 Income Statement in the year of receipt.

(f) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

(g) 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.

(i) Company as a lessee

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

(ii) Company as a lessor

Leases in which the Group retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income.

(h) Cash and cash equivalents

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

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(i) 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.

(j) 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.

(k) 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.

Derivative instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

Fair value

Fair value is determined based on current bid prices for all quoted investments. 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 income statement.

(l) Investment in 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 balance sheet 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 income statement reflects the Company's share of the results of operations 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 recognised income and expense.

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

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

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.

(m) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(n) 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 balance sheet.

Cash flows are included in the Cash Flow Statement 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.

(o) 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 Income Statement. 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.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

The depreciation amount of fixed assets included buildings and capitalised leased assets, but excluding freehold, is depreciated on a straight line bases over their useful lives to the company commencing from the time the asset is held ready for use.

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%

(p) 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.

(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.

Where a grant is received or receivable in relation to development costs which have been capitalised, the grant shall be deducted from the carrying amount.

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

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 Income Statement upon receipt.

(iii) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(q) 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.

(r) 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.

(s) 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.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

(t) 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 the income statement 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.

(u) Employee leave 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 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.

(v) 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.

(w) 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.

(x) 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 income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(ii) Associated companies

The results and financial position of all the associated 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 balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement 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 as separate component of equity.

When equity accounting, 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 income statement, 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 2008

(y) 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 marked 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.

(z) Segment Reporting

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.

(aa) Business Combinations

The purchase 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. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred

or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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

(ab) 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.

(ac) Going Concern

The financial report has been prepared on the going concern basis. The group's ability to continue as a going concern is dependent upon the group successfully raising further working capital.

As at the date of this report the directors are confident of securing further equity capital. Furthermore, the Directors of TRG Cell Sdn Bhd, the entity that is in the process of establishing the Malaysian facilities, are currently negotiating a funding arrangement which will provide working capital to the group to establish the facilities.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

(ad) New accounting standards and interpretations

Certain new accounting standards have been published that are not mandatory for 30 June 2008 reporting periods. The Group has not applied any of the following in preparing this financial report:

Affected Standard	Nature of Change to Accounting Policy	Application *
AASB 8: Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8	No impact on accounting policy or amounts recognised in the financial statements, but will require change to disclosures in relation to 'management approach' of segment reporting	1 January 2009
AASB 123 : Borrowing Costs	No impact on financial statements as no borrowing costs incurred by the Group to date	1 January 2009
AASB 101: Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101	Introduces a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements.	1 January 2009
AASB 3 : Business Combinations	As there is no requirement to retrospectively restate comparative amounts for business combinations undertaken before this date, there is unlikely to be any impact on the financial statements when this revised standard is first adopted.	1 July 2009
AASB 127 : Consolidated and Separate Financial Statements	As there is no requirement to retrospectively restate the effect of these revisions, there is unlikely to be any impact on the financial statements when this revised standard is first adopted. Cell Aqua Malaysia Sdn Bhd (CAM) is incurring losses. To the extent that CAM incurs losses for the financial year ending 30 June 2010, such losses will be attributed to the non-controlling interest. No adjustment will be made to comparatives for losses not previously attributed to the non-controlling interest.	1 July 2009

* Applicable to reporting periods commencing on or after the given date.

(ae) 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.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
Note 3: Revenue and Expenses				
(a) Revenue from continuing operations				
- Sale of produce and goods	1,467,477	848,751	583,563	1,100,566
- Consulting fees	-	100,000	-	100,000
- Interest received	20,892	66,105	20,892	66,105
- Other – Export Market Development Grant	78,735	88,378	78,735	88,378
Total revenue	1,567,104	1,103,234	683,190	1,355,049
(b) Expenses				
Cost of Sales	1,214,428	502,123	621,603	773,607
Depreciation of non-current assets				
Buildings	81,917	82,714	81,917	82,714
Plant and equipment	52,632	68,164	52,632	68,164
Total depreciation	134,549	150,878	134,549	150,878
Amortisation of non-current assets				
Development costs	447,996	344,000	447,997	344,000
Intellectual property / licence	66,000	66,000	66,000	66,000
	513,996	410,000	513,997	410,000
Finance costs				
Interest paid	39,377	-	39,377	-
Rental expense on operating lease – minimum lease payments	179,587	186,174	179,587	186,174
Foreign exchange losses	-	-	29,387	-
Note 4: Income Tax				
(a) Income tax benefit				
Current tax benefit	-	-	-	-
Previous year tax benefit not previously brought to account(Refer Note 4(e))	315,621	256,572	315,621	256,572
	315,621	256,572	315,621	256,572



Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

(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		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
Loss from continuing operations before Income Tax	(4,404,002)	(2,598,363)	(4,570,558)	(4,310,173)
Profit from discontinuing operations before income tax	38,191	(2,368,784)	-	-
	(4,365,181)	(4,967,147)	(4,570,558)	(4,310,173)
Income tax benefit at 30%	(1,309,543)	(1,490,144)	(1,371,168)	(1,293,052)
Permanent Differences:				
Impairment Loss – Goodwill	-	62,837	-	-
Non-deductible expenses – Other	18,119	904	58,744	904
Non-deductible expenses – Legal	36,238	38,948	36,238	38,948
	(1,255,186)	(1,387,455)	(1,276,186)	(1,253,200)
Movements in unrecognised temporary differences	386,181	356,470	407,181	847,537
Tax effect of current year tax losses for which no deferred tax asset has been recognised	869,005	1,030,985	869,005	405,663
R & D Cash Rebate Claimed (see note (e))	(315,621)	(256,572)	(315,621)	(256,572)
Income tax benefit	(315,621)	(256,572)	(315,621)	(256,572)
(c) The franking account balance at year end was \$nil (2007: \$nil).				
(d) Unrecognised temporary differences				
Deferred Tax Assets (at 30%)				
<i>On income tax account</i>				
Carry forward tax losses	1,529,921	744,308	1,529,921	744,308
Carry forward tax losses - overseas	-	625,322	-	-
Carry forward losses – associated companies	-	22,945	21,000	22,945
Capital losses	937,330	387,523	937,330	978,449
Other	50,505	30,809	50,505	30,809
	2,517,756	1,810,907	2,538,756	1,776,511
Deferred Tax Liabilities (at 30%)				
Capitalised intangible assets and development costs which have been claimed for tax purposes	110,500	131,283	110,500	131,283
Net deferred tax assets	2,407,256	1,679,624	2,428,256	1,645,228

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 2008 the Company applied for and received a rebate from the Australian Taxation Office of \$315,621 (2006 - \$256,572) representing the tax value of research and development costs for the year ended 30 June 2007. This amount is shown as an income tax benefit in the Income Statement for the year ended 30 June 2008. The Company intends claiming the same rebate in respect of expenditure for the year ended 30 June 2008. The rebate applied for is estimated at \$140,000. If this is successful, the refund will be shown as an income tax benefit for the year ended 30 June 2009.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

Note 5: Earnings per Share

Basic earnings per share amounts are calculated by dividing net profit 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 earnings per share computations:

	Consolidated	
	2008 \$	2007 \$
Loss attributable to ordinary equity holders	3,856,690	4,226,511
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	Number 130,562,717	Number 120,362,353
Basic and diluted loss per share	Cents/share 2.95	Cents/share 3.51

Note 6: 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 balance sheet, as follows:

	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
Current Assets				
Cash at bank and in hand	1,257,864	425,863	1,181,105	290,101
Net Cash	1,257,864	425,863	1,181,105	290,101

(b) Interest Rate Risk Exposure

The groups and the parent entity's exposure to interest rate risk is discussed in note 18.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

(c) Reconciliation of Operating Loss After Income Tax to Net Cash Flows From Operating Activities

	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
Operating loss after income tax	(4,050,190)	(4,710,575)	(4,254,938)	(4,053,601)
Loss on sale of non-current assets	177,451	-	177,451	-
Depreciation of non-current assets	134,549	283,634	134,549	150,883
Loss on write-down of non-current assets	-	212,476	-	-
Amortisation of Intangibles	513,996	410,000	513,996	410,000
Impairment loss on investment in subsidiary	-	-	-	1,080,929
Impairment loss on loans receivable	702,285	870,667	907,004	1,426,628
Reversal of Impairment Charge	(10,000)	(250,000)	(10,000)	(250,000)
Impairment loss on plant & equipment	76,783	-	76,783	-
Share of net losses of associates	75,900	116,571	-	116,571
Share based payments	584,015	-	584,015	-
Profit/loss on discontinued operation *	38,191	959,509	-	-
Increase/(decrease) in foreign currency reserve	29,387	-	29,387	-
Amounts due from sale of equipment to associates and subsidiaries, converted to receivables and investments	-	(92,540)	-	(289,153)
Other	4,894	-	-	-
Changes in net assets and liabilities:				
<i>(Increase)/decrease in assets</i>				
- Current receivables	(246,895)	(140,775)	(100,733)	(128,570)
- Stock on hand	131,756	131,756	(138,184)	-
<i>Increase/(decrease) in liabilities</i>				
- Current trade creditors and payables	68,286	49,936	99,900	19,994
- Advance deposits	(354,887)	429,511	-	50,000
- Provisions	(5,091)	(5,091)	13,344	-
Net cash provided by (used in) operating activities	(2,129,570)	(1,968,339)	(1,715,921)	(1,591,159)
* These relate to non cash items as part of discontinued operations.				
(a) Non-Cash Financing and Investing Activities				
i) Unsecured loan converted to issued capital	200,000	-	200,000	-
ii) Amount due from sale of equipment to associates converted to investment in associate	-	-	-	-
iii) Amount due from sale of equipment to associates converted to non current receivable	-	92,540	-	92,540
iv) Amount due from sale of equipment to controlled entities converted to non current receivable	-	-	-	196,613

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

Note 7: Trade and Other Receivables

	Consolidated		Parent	
	2007 \$	2006 \$	2007 \$	2006 \$
CURRENT				
Trade receivables	179,558	126,868	200,431	118,926
Other receivables	52,821	39,065	51,225	31,997
Loan – other entity	-	500,000	-	500,000
Less – provision for impairment on loan	-	(250,000)	-	(250,000)
	232,379	415,933	251,656	400,923
NON-CURRENT				
Loan – Controlled Entity	-	-	234,375	555,957
Less – provision for impairment on loan	-	-	(70,000)	(555,957)
Loan – Associated Entity	-	1,535,343	-	1,535,343
Less provision for impairment on loan	-	(1,041,745)	-	(1,041,745)
	-	493,598	164,375	493,598

(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

(i) Current

As at 30 June 2007 a loan to other entity with a nominal value of \$500,000 was impaired. The amount of the provision was \$250,000. The receivable was a loan to an unrelated entity that was unable to repay the full amount of the debt. A balance of \$260,000 was recovered in year ended 30 June 2008, resulting in an impairment reversal of \$10,000. The receivable was outstanding greater than 12 months.

(ii) Non-Current

As at 30 June 2007 non-current receivables of the parent entity were impaired. These represent amounts advanced to Delta Aquaculture Services, LLC (a subsidiary) and Barramundi Farming Company BV (an associate) that were unable to be recovered due to ongoing losses within those entities, which led to their disposal in year ended 30 June 2008. These receivables were outstanding greater than 12 months.

	Opening balance 01/07/06	Charge for the 2006/07 year	Balance 30/06/07	Charge for the 2007/08 year	Written Off	Balance 30/06/08
Parent Entity						
Current receivables	500,000	(250,000)	250,000	(10,000)	240,000	-
Loan to associates	171,078	870,667	1,041,745	772,285	(1,744,030)	70,000
Loan to subsidiary	-	555,957	555,957	134,719	(690,676)	-
Consolidated						
Current receivables	500,000	(250,000)	250,000	(10,000)	240,000	-
Loans – associates	171,078	870,667	1,041,745	702,285	(1,744,030)	-

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

(d) Receivables Past due but not impaired

(i) Parent

As at balance date, there were receivables totalling \$175,891 for the parent entity that were past due but not impaired. An amount of \$11,282 relates to customers for whom there is some history of default but have been fully recovered. The balance relates to receivables from a subsidiary.

(ii) Group

As at balance date, there were receivables totalling \$11,282 that were past due but not impaired.

(e) Foreign exchange risk

Information about the group's and the parent entity's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note 18.

(f) 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 8: Inventories

	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
Produce on hand – at cost	-	40,516	-	40,516
Work in progress – at cost	-	126,000	-	126,000
Raw materials and stores – at cost	90,000	55,240	90,000	55,240
	90,000	221,756	90,000	221,756
Note 9: Other Financial Assets				
Investments in subsidiaries – at cost	-	-	17,000	1,097,929
Less provision for impairment	-	-	-	(1,080,929)
	-	-	17,000	17,000

The consolidated financial statements incorporate the assets, liabilities, and results of the following subsidiaries:

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding		Carrying amount	
			2008 %	2007 %	2008 \$	2007 \$
Delta Aquaculture Services, LLC	USA	Ordinary	0.0 *	65.82	-	-
Cell Aqua Malaysia Sdn Bhd	Malaysia	Ordinary	90.0	90.0	17,000	17,000
					17,000	17,000

* The interest in Delta Aquaculture Services, LLC was disposed in March 2008 for no consideration.

Note 10: Investments Accounted for using the Equity Method

	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
Interests in associated entities	163,464	255,973	-	-

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

(a) Interests are held in the following associated entities

Name	Principal Activities	Country of Incorporation	Shares	Ownership Interest		Carrying amount of Investment	
				2008	2007	2008 \$	2007 \$
Cell Aquaculture Netherlands Holding BV	Aquaculture	The Netherlands	Ordinary	0%	50%	-	-
Barramundi Farming Company BV	Aquaculture	The Netherlands	Ordinary	0%**	50%**	-	-
Ecocell Aquasystems Europe B.V.	Aquaculture	The Netherlands	Ordinary	0%**	50%**	-	-
TRG Cell Sdn Bhd	Aquaculture	Malaysia	Ordinary	30%***	30%***	163,464	255,973
						163,464	255,973

** Note that Barramundi Farming Company BV and Ecocell Aquasystems Europe BV are wholly owned subsidiaries of Cell Aquaculture Netherlands Holding BV. The interest in Cell Aquaculture Holdings BV was disposed during the year for no consideration.

*** Shares in TRG Cell Sdn Bhd are owned by Cell Aqua Malaysia Sdn Bhd, a subsidiary of Cell Aquaculture Limited – see note 9.

	Delta Aquaculture Services \$	Cell Aquaculture Netherlands \$	TRG Cell Sdn Bhd	Total \$
Carrying amount at 1 July 2006	525,341	-	-	525,341
Amount transferred on consolidation	(408,769)	-	-	(408,769)
Investments during the year 255,973	-	-	-	255,973
Share of loss after income tax	(116,572)	-	-	(116,572)
Carrying amount at 30 June 2007	-	-	255,973	255,973
(c) Movements during the year ended 30 June 2008				
Carrying amount at 1 July 2007	-	-	255,973	255,973
Foreign currency adjustment	-	-	(16,609)	(16,609)
Investments during the year	-	-	-	-
Share of loss after income tax	-	-	(75,900)	(75,900)
Carrying amount at 30 June 2008	-	-	163,464	163,464
* Delta Aquaculture Services, LLC was an associate on 30 June 2006. It became a subsidiary on 8 Sept 2006.				
(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				

(e) Summarised presentation of aggregate Assets Liabilities and performance of Associates

2008	Ownership interest %	Assets \$	Liabilities	Revenues	Profit / (Loss)
Cell Aquaculture Netherlands Holding BV	-	-	-	-	(702,285)
TRG Cell Sdn Bhd	30	579,689	394,393	160	(75,900)
		579,689	394,393	160	(778,185)
2007					
Delta Aquaculture Services LLC *	-	-	-	1,873	(233,144)
Cell Aquaculture Netherlands Holding BV	50	944,821	1,986,567	-	(850,779)
TRG Cell Sdn Bhd	30	1,752,857	899,615	-	-
		2,697,678	2,886,182	1,873	(1,083,923)

* The loss after income tax for Delta Aquaculture Services LLC represents the loss for the period until consolidation on 8 September 2006.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

Note 11: Property, Plant and Equipment

	Consolidated		Parent			
	Buildings \$	Plant and equipment \$	Total \$	Buildings \$	Plant and equipment \$	Total \$
Year ended 30 June 2008						
Opening net book value	154,369	331,668	486,037	154,369	331,668	486,037
Acquisition of subsidiary	-	-	-	-	-	-
Additions	-	8,793	8,793	-	8,793	8,793
Exchange differences – sale proceeds	-	(2,500)	(2,500)	-	(2,500)	(2,500)
Loss on disposal	-	(177,451)	(177,451)	-	(177,451)	(177,451)
Impairment Charge (see note 12 (c))	(72,452)	(4,331)	(76,783)	(72,452)	(4,331)	(76,783)
Depreciation charge for the year	(81,917)	(52,632)	(134,549)	(81,917)	(52,632)	(134,549)
Closing net book value	-	103,547	103,547	-	103,547	103,547
At 1 July 2007						
Cost or fair value	371,699	579,073	950,772	371,699	579,073	950,772
Accumulated depreciation and impairment	(217,330)	(247,405)	(464,735)	(217,330)	(247,405)	(464,735)
Net book value	154,369	331,668	486,037	154,369	331,668	486,037
At 30 June 2008						
Cost or fair value	371,699	331,819	763,518	371,699	331,819	763,518
Accumulated depreciation and impairment	(371,699)	(228,272)	(599,971)	(371,699)	(228,272)	(599,971)
Net book value	-	103,547	103,547	-	103,547	103,547
Year ended 30 June 2007						
Opening net book value	237,083	360,300	597,383	237,083	360,300	597,383
Acquisition of subsidiary	-	-	-	-	-	-
Additions	-	39,532	39,532	-	39,532	39,532
Exchange differences	-	-	-	-	-	-
Loss on disposal	-	-	-	-	-	-
Impairment Charge (see note 12 (b))	-	-	-	-	-	-
Depreciation charge for the year	(82,714)	(68,164)	(150,878)	(82,714)	(68,164)	(150,878)
Closing net book value	154,369	331,668	486,037	154,369	331,668	486,037
At 30 June 2007						
Cost or fair value	371,699	579,073	950,772	371,699	579,073	950,772
Accumulated depreciation and impairment	(217,330)	(247,405)	(464,735)	(217,330)	(247,405)	(464,735)
Net book value	154,369	331,668	486,037	154,369	331,668	486,037

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

Note 12: Intangible Assets

	Consolidated				Parent			
	Intellectual property / licenses	Development Costs *	Goodwill ***	Total	Intellectual property / licenses	Development Costs *	Total	Total
	\$	\$	\$	\$	\$	\$	\$	\$
At 1 July 2007								
Cost (gross net book value)	330,000	1,343,851	209,457	1,883,308	330,000	1,343,851	1,673,851	
Accumulated amortisation and impairment	(250,250)	(344,000)	(209,457)	(803,707)	(250,250)	(344,000)	(594,250)	
Net book value	79,750	999,851	-	1,079,601	79,750	999,851	1,079,601	
Year ended 30 June 2008								
Opening net book value	79,750	999,851	-	1,079,601	79,750	999,851	1,079,601	
Additions – acquisitions ***	-	-	-	-	-	-	-	
Additions – internal development	-	132,727	-	132,727	-	132,727	132,727	
Impairment Charge	-	-	-	-	-	-	-	
Amortisation **	(66,000)	(447,996)	-	(513,996)	(66,000)	(447,996)	(513,996)	
Closing book value	13,750	684,582	-	698,332	13,750	684,582	698,332	
At 30 June 2008								
Cost (gross net book value)	330,000	1,476,578	-	1,806,578	330,000	1,476,578	1,806,578	
Accumulated amortisation and impairment	(316,250)	(791,996)	-	(1,108,246)	(316,250)	(791,996)	(1,108,246)	
Net book value	13,750	684,582	-	698,332	13,750	684,582	698,332	
At 1 July 2006								
Cost (gross net book value)	330,000	1,031,861	-	1,361,861	330,000	1,031,861	1,361,861	
Accumulated amortisation and impairment	(184,250)	-	-	(184,250)	(184,250)	-	(184,250)	
Net book value	145,750	1,031,861	-	1,177,611	145,750	1,031,861	1,177,611	
Year ended 30 June 2007								
Opening net book value	145,750	1,031,861	-	1,177,611	145,750	1,031,861	1,177,611	
Additions – acquisitions ***	-	-	209,457	209,457	-	-	-	
Additions – internal development	-	311,990	-	311,990	-	311,990	311,990	
Impairment Charge	-	-	(209,457)	(209,457)	-	-	-	
Amortisation **	(66,000)	(344,000)	-	(410,000)	(66,000)	(344,000)	(410,000)	
Closing book value	79,750	999,851	-	1,079,601	79,750	999,851	1,079,601	
At 30 June 2007								
Cost (gross net book value)	330,000	1,343,851	209,457	1,883,308	330,000	1,343,851	1,673,851	
Accumulated amortisation and impairment	(250,250)	(344,000)	(209,457)	(803,707)	(250,250)	(344,000)	(594,250)	
Net book value	79,750	999,851	-	1,079,601	79,750	999,851	1,079,601	

* Capitalised development costs is an internally generated intangible asset.

** Amortisation of \$513,996 (2007 - \$410,000) is included in depreciation and amortisation expense in the income statement

*** Goodwill of \$209,457 arose upon the acquisition of control of Delta Aquaculture Services, LLC. The subsidiary was disposed of during the year ended 30 June 2008.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

(a) Impairment tests for intangible assets

The intangible costs carried forward relate to the acquisition and development of the Company's "Hatch to Dispatch" aquaculture systems. The recoverable amount of development costs and intellectual property/licences is determined based on value-in-use calculations. These calculations use cashflow projections based on financial budgets approved by management covering a three-year period. The discount rate applied to the cashflow projection is 10.0%. Income forecasts are estimated based on anticipated sales levels.

(b) Impairment Charge – Year ended 30 June 2007

The impairment charge arose in respect of goodwill arising on the acquisition of further interests in Delta Aquaculture Services LLC which, for the year ended 30 June 2007, was in the process of establishing aquacultural facilities in Centreville, USA. In September 2007 the company decided to cease operations in Mississippi. As a result goodwill of \$209,457 arising on the acquisition was written off and property, plant and equipment was written down to estimated salvageable value at 30 June 2007, resulting in an impairment charge on plant and equipment of \$750,052.

(c) Impairment Charge on Plant and Equipment – Year Ended 30 June 2008

The impairment charge arose in respect of buildings and leasehold improvements located at the parent entity's former administration offices and R&D facilities in Hamilton Hill, Western Australia. The parent entity closed its R&D facilities there and relocated its administration office in June 2008. As a result, plant and equipment was written down to estimated salvageable value at 30 June 2008, resulting in an impairment charge of \$76,783.

Note 13: Trade and Other Payables (Current)

	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
Trade payables (i)	303,821	176,695	276,596	176,695
Advance deposits	50,000	429,511	50,000	50,000
Other payables	33,958	39,049	33,958	39,049
	387,779	645,255	360,554	265,744

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

Note 14: Borrowings

Note	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
CURRENT				
Loans – Unsecured (Note (a))	-	525,000	-	525,000
Lease liability	15,909	5,130	15,909	5,130
	15,909	530,130	15,909	530,130
NON-CURRENT				
Loan from minority shareholder	11,969	-	-	-
Lease liability	-	16,391	-	16,391
	11,969	16,391	-	16,391

(a) Unsecured Loans

	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
Loan from key management personnel (refer note 22(e))	-	150,000	-	150,000
Other	-	375,000	-	375,000
	-	525,000	-	525,000

These loans were used to assist with working capital requirements. An average interest rate of 15% was payable on the loans.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

Note 15: Contributed Equity

	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
Ordinary shares	13,794,676	10,200,339	13,794,676	10,200,339
	13,794,676	10,200,339	13,794,676	10,200,339

(a) Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(b) Movements during the period.

	Issue Price	No.	\$
Balance as at 1 July 2006		118,716,606	9,543,839
Shares issued in December 2006	\$0.20	3,282,500	656,500
Closing balance at 30 June 2007		121,999,106	10,200,339
Balance as at 1 July 2007		121,999,106	10,200,339
Shares issued for share issue expenses	\$0.15	500,000	75,000
Unsecured loans converted to shares – November 2007	\$0.15	1,333,333	200,000
Shares issued in October 2007	\$0.15	3,750,001	562,500
Shares issued in November 2007	\$0.15	1,545,667	231,850
Shares issued in January 2008	\$0.15	4,650,000	697,500
Shares issued in February 2008	\$0.15	4,683,333	702,500
Shares issued in June 2008	\$0.10	12,000,000	1,200,000
Transaction costs	-	-	(75,013)
Closing balance		150,461,440	13,794,676

(c) Share Options

- (i) In July 2005 the Company issued 3,000,000 options exercisable at 35 cents on or before 20 July 2008 to the non-executive directors of the Company. These options expired on 20 July 2008, none were exercised.
- (ii) In December 2006 the company issued 916,250 options as free attaching options as part of issue of 3,282,500 shares in December 2006. The options are exercisable on or before 29 December 2008 as a price of \$0.25 per share.
- (iii) On 29 November 2007, 10,000,000 options were granted to Directors of the Company. Details of the options are contained in Note 26 (b). As detailed in Note 20, 4,500,000 options were cancelled in September 2008.
- (iv) On 1 April 2008, 3,050,000 options were granted to employees of the Company. Details of the options are contained in Note 26 (c).
- (v) The Company issued free options attaching to share issues as follows:

Issue Date	Number	Expiry Date	Exercise Price
24 January 2008	1,550,000	18 January 2011	\$0.20
28 February 2008	1,116,667	31 January 2011	\$0.20

No options have been exercised to the date of this report.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

Note 16: Reserves and Accumulated Losses

	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
(a) Reserves				
Foreign Currency Translation Reserve (Note 16(a) (i))	(33,296)	7,151	-	(29,387)
Share Based Payment Reserve	897,765	313,750	897,765	313,750
	864,469	320,901	897,765	284,363
(i) Movements – Foreign Currency Translation Reserve				
Opening balance	7,151	(29,387)	(29,387)	(29,387)
Amount transferred on disposal of investment	(7,632)	-	29,387	-
Currency translation differences arising during the year	(32,815)	36,538	-	-
	(33,296)	7,151	-	(29,387)
(ii) Nature and purpose of reserves				
<i>Foreign Currency Translation Reserve</i>				
Exchange differences arising on translation of the investments in associated companies are taken to the foreign currency translation reserve. The reserve is recognised in the Income Statement when the net investment is disposed of.				
<i>Share Based Payment Reserve</i>				
The Share Based Payment Reserve is used to recognise the fair value of options issued but not exercised (Note 26(c))				
(b) Accumulated Losses				
Balance as at 1 July	(8,480,861)	(4,254,350)	(8,307,951)	(4,254,350)
Net loss for the year	(4,036,690)	(4,226,511)	(4,254,938)	(4,053,601)
Balance as at 30 June	(12,517,551)	(8,480,861)	(12,562,889)	(8,307,951)

Note 17: Financial Risk Management and Policies

The Group's activities expose it to a variety of financial risks: (including interest rate risk and price 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 commensurate with the evolution and growth of the Company.

The Group and the Company hold the following financial instruments:

	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
Financial assets				
Cash and cash equivalents	1,257,865	425,863	1,181,105	290,101
Trade and other receivables	232,399	415,933	251,656	400,923
Loans – Associates / subsidiaries	-	493,598	164,375	493,598
	1,490,264	1,335,394	1,597,136	1,184,622
Financial liabilities				
Trade and other payables	387,779	645,255	360,554	265,744
Borrowings	27,878	546,521	15,909	546,521
	415,657	1,191,776	376,463	812,265

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

The Group's principal financial instruments comprise cash and short-term deposits. The Group does not have any borrowings, other than a motor vehicle lease, and unsecured loans at 30 June 2007 which were repaid in year ended 30 June 2008.

The main purpose of these financial instruments is to fund the Group's operations.

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 Australian dollars. Therefore its exposure to foreign exchange risk arising from currency exposures is limited.

(ii) Price risk

The Group is not exposed to equity securities price risk and holds no equity investments. The Group is not exposed to any material price risks.

(iii) 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 Company does not consider this to be material to the Group and have therefore not undertaken any further analysis of risk exposure. The group has no borrowings except finance leases. Interest rates on the finance lease are fixed. Interest rate risk is disclosed in the maturity analysis table in Note (c).

(b) Credit risk

The Group does not have any significant concentrations of 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 parent entity, the majority of receivables are from subsidiaries. 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.

The maximum exposure to credit risk at reporting date is the carrying amount of the financial assets as summarised at the start of Note 17. 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		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
Trade receivables - counterparties without external credit rating -				
Existing customers with defaults in past that have been fully recovered	168,276	126,868	24,539	118,926
New customers (less than 6 months)	-	-	-	-
	168,276	126,868	24,539	118,926
Cash and cash equivalents				
AA S&P rating	1,257,865	425,863	1,181,105	290,101

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

(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 does not have significant interest-bearing assets and 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	Weighted average effective interest rate %
Year ended 30 June 2008					
Financial Assets:					
Cash	1,257,865	-	-	1,257,865	3.85
Receivables	232,399	-	-	232,399	0
	1,490,264	-	-	1,490,264	
Financial Liabilities:					
Trade payables and Advance deposits	387,779	-	-	387,779	0
Lease liability	15,909	-	-	15,909	11.6
Other loans	11,969	-	-	11,969	0
	415,657	-	-	415,657	
Year ended 30 June 2007					
Financial Assets:					
Cash	425,863	-	-	425,863	3.0
Receivables	415,933	-	-	415,933	0
Loans - Associates	-	-	493,598	493,598	0
	841,796	-	493,598	1,335,394	
Financial Liabilities:					
Trade payables and Advance deposits	645,255	-	-	645,255	0
Lease liability	5,130	16,391	-	21,521	11.6
Other loans	525,000	-	-	525,000	13.2
	1,175,385	16,391	-	1,191,776	

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

Parent

	<1 year	1 - 5 Years	Over 5 Years	Total	Weighted average effective interest rate %
Year ended 30 June 2008					
Financial Assets:					
Cash	1,181,105	-	-	1,181,105	3.85
Receivables	251,656	-	-	251,656	0
Loan – Subsidiary	-	-	164,375	164,375	0
	1,432,761	-	164,375	1,597,136	
Financial Liabilities:					
Trade payables and Advance deposits	360,554	-	-	360,554	0
Lease liability	15,909	-	-	15,909	11.6
	376,463	-	-	376,463	
Year ended 30 June 2007					
Financial Assets:					
Cash	290,101	-	-	290,101	3.0
Receivables	400,923	-	-	400,923	0
Loans - Associates	-	-	493,598	493,598	0
	691,023	-	493,598	1,184,622	
Financial Liabilities:					
Trade payables and Advance deposits	265,744	-	-	265,744	0
Lease liability	5,130	16,391	-	21,521	11.6
Other loans	525,000	-	-	525,000	13.2
	795,874	16,391	-	812,265	

(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 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'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 2008, the Group's strategy, which was unchanged from 2007, 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.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

Note 18: Commitments and Contingencies

(a) Finance Lease Commitments

	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
Future minimum payments under Finance Lease contracts are as follows:				
Payable				
- Not later than 12 months	18,168	7,359	18,168	7,359
- Between 12 months and 5 years	-	17,656	-	17,656
Minimum payments	18,168	25,015	18,168	25,015
Less future finance charges	(2,259)	(3,494)	(2,259)	(3,494)
	15,909	21,521	15,909	21,521

(b) Operating Lease Commitments

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
Within one year	54,167	133,715	54,167	133,715
After one year but not more than five years	-	18,333	-	18,333
	54,167	152,048	54,167	152,048

(c) Contingent Liabilities

(i) As at 30 June 2007

A claim for unspecified damages was lodged during the year ended 30 June 2007 against Cell Aquaculture Ltd by the minority shareholders of Delta Aquaculture Services LLC, a subsidiary, in relation to alleged breaches of contracts, duties and undertakings. The company, following the closure of the US operations, negotiated the settlement of this claim for a payment of approximately \$160,000.

(ii) As at 30 June 2008

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 2008

Note 19: Related Party Disclosures

(a) Consolidated group

The parent entity within the group is Cell Aquaculture Ltd. Interests in subsidiaries are set out in Note 9.

(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		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
Sale of equipment and services to associated entity	1,398,149	534,514	-	534,514
Sale of equipment and services to subsidiary	-	-	514,535	239,466
<i>(c) Loans to / from related parties</i>				
Loans to subsidiaries				
Beginning of year	-	-	555,957	-
Amounts advanced – expenses	-	-	369,094	359,344
Amounts advanced – sale of goods	-	-	-	196,613
Closing balance	-	-	925,051	555,957
Provision for impairment	-	-	(760,676)	(555,957)
Carrying value	-	-	164,375	-
Loans to associates				
Beginning of year	493,598	939,087	493,598	939,087
Amounts advanced	208,687	512,616	208,687	521,616
Amounts advanced – sale of goods	-	92,561	-	92,561
Other	-	(8,921)	-	(17,921)
Closing balance	702,285	1,535,343	702,285	1,535,343
Provision for impairment	(702,285)	(1,041,745)	(702,285)	(1,041,745)
Carrying value	-	493,598	-	493,598

(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 20: Events After the Balance Date

As detailed in Note 26 a total of 10,000,000 options were issued to Directors in November 2007, of which options vested on various dates. In March 2008 two of the Directors, Mr PA Hopper and Mr GM Tonge resigned. In September 2008 the Company resolved to formally cancel the balance of options to them that were unvested as at the date of their resignation, being a total of 3,000,000 of the unvested options issued to Mr PA Hopper and 1,500,000 to Mr GM Tonge.

There are no other matters or circumstances that have arisen since 30 June 2008 that have or may significantly affect the operations, results, or state of affairs of the consolidated entity in future financial periods.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

Note 21: Auditor's Remuneration

The auditor of Cell Aquaculture Limited is BDO Kendalls Audit & Assurance (WA) Pty Ltd, formerly Horwath Audit (WA) Pty Ltd.

	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
Audit Services				
Amounts received or due and receivable by the auditor for:				
- auditing and reviewing the financial report	89,891	54,872	89,891	54,872
	89,891	54,872	89,891	54,872
Other Assurance Services	-	-	-	-
Total remuneration for assurance services	89,891	54,872	89,891	54,872

Note 22: Key Management Personnel

(a) Compensation of Key Management Personnel

	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
Short-term employee benefits	479,534	613,064	436,386	613,064
Termination benefits	91,679	-	91,679	-
Share based payments	532,900	-	532,900	-
Post employment benefits	11,042	52,360	11,042	52,360
	1,115,155	665,424	1,072,007	665,424

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

(b) Options Holdings of Key Management Personnel

	Balance 1.7.06	Granted as Remuneration	Options Exercised	Options Expired	Balance 30.6.08	Total Vested 30.6.07	Total Exercisable 30.6.08	Total Unexercisable 30.6.08
30 June 2008								
P J Leach	-	-	-	-	-	-	-	-
P J Burns	1,000,000	-	-	-	1,000,000	1,000,000*	1,000,000*	-
P G Burns	-	1,500,000	-	-	1,500,000	600,000	600,000	900,000
P E A Hopper	-	5,000,000	-	-	5,000,000	3,000,000*	3,000,000	2,000,000
G M Tonge	-	2,500,000	-	-	2,500,000	1,500,000*	1,500,000	1,000,000
S E Abishegam	-	2,500,000	-	-	2,500,000	1,500,000	1,500,000	1,000,000
	1,000,000	11,500,000	-	-	12,500,000	7,600,000	7,600,000	4,900,000
	Balance 1.7.05	Granted as Remuneration	Options Exercised	Options Expired	Balance 30.6.07	Total Vested 30.6.07	Total Exercisable 30.6.07	Total Unexercisable 30.6.07
30 June 2007								
P J Leach	-	-	-	-	-	-	-	-
P J Burns	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000	-
D R Thomas	1,000,000	-	-	-	1,000,000*	1,000,000	1,000,000	-
R I S Sewell	-	-	-	-	-*	-	-	-
R de Nys	-	-	-	-	-*	-	-	-
G N L Wilton	-	-	-	-	-*	-	-	-
P E A Hopper	-	-	-	-	-	-	-	-
G M Tonge	-	-	-	-	-	-	-	-
S E Abishegam	-	-	-	-	-	-	-	-
Other Key Management Personnel								
P G Burns	-	-	-	-	-	-	-	-
Q H Leach	-	-	-	-	-*	-	-	-
	2,000,000	-	-	-	2,000,000	2,000,000	2,000,000	-

* Represents balance held at date of resignation

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

(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 Remuneration Report in the Directors Report.

(d) Shareholdings of Key Management Personnel

30 June 2008	Balance 1 July 2007	Received as Remuneration	Allotted	Balance held at Appointment	Net Purchased/ (Sold)	Balance 30 June 2008
Director						
P J Leach	17,070,001	-	-	-	(562,500)	16,507,501
P J Burns	9,176,668	-	666,667	-	-	9,843,335*
P G Burns	2,198,450	-	-	-	(948,055)	1,250,395
G N L Wilton	-	-	-	-	-	-
R I S Sewell	-	-	-	-	-	-
R de Nys	-	-	-	-	-	-
P E A Hopper	-	-	-	-	-	-*
G M Tonge	-	-	-	-	-	-*
S E Abishegam	1,293,816	-	-	-	-	1,293,816
	29,738,935	-	666,667	-	(1,510,555)	28,895,047

* Represents balance held at date of resignation

30 June 2007	Balance 1 July 2006	Received as Remuneration	Balance held at Appointment	Net Purchased/ (Sold)	Balance 30 June 2007
Director					
P J Leach	17,070,001	-	-	-	17,070,001
P J Burns	9,176,668	-	-	-	9,176,668
D R Thomas	1,480,000	-	-	-	1,480,000 *
G N L Wilton	-	-	-	-	- *
R I S Sewell	10,000	-	-	-	10,000 *
R de Nys	-	-	-	-	- *
P E A Hopper	-	-	-	-	-
G M Tonge	-	-	-	-	-
S E Abishegam	-	-	1,093,816	-	1,093,816
Other Key Management Personnel					
P G Burns	2,198,450	-	-	-	2,198,450
Q H Leach	500,000	-	-	-	500,000 *
	30,435,119	-	1,093,816	-	31,528,935

* Represents balance held at date of resignation

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

(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		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
(i) In June 2007 an amount of \$100,000 was loaned to the company by Mr PJ Burns to assist with working capital. Interest of \$2,000 was payable on the loan.	2,000	-	2,000	-
(ii) In June 2007 an amount of \$50,000 was loaned to the Company by Mr P G Burns to assist with working capital. Interest of \$1,000 was paid.	1,000	-	1,000	-
(iii) Management fees paid to Azimuth Shipping Corporation, a related Company of S E Abishegam.	204,960	-	-	-
(f) Amounts outstanding at balance date Aggregate amounts payable to key management personnel and their key management personnel -related entities at balance date:				
Current liabilities				
Unsecured loans	-	150,000	-	150,000
Non Current liabilities				
Unsecured loans	11,969	-	-	-

Note 23: Segment Reporting

(a) Geographical Segments

(i) Year ended 30 June 2008

	Australia	USA	Netherlands	Malaysia	Eliminations	Total
Revenue						
- External sales	148,063	-	-	1,398,149	-	1,546,212
- Other segments	514,235	-	-	-	(514,235)	-
Total sales revenue	662,298	-	-	1,398,149	(514,235)	1,546,212
Unallocated revenue						20,892
Total revenue from continuing operations						1,567,104
Result						
Segment result	-	-	(702,285)	(38,162)	-	(740,447)
Unallocated expenses net of unallocated revenue						(3,663,555)
Loss before income tax						(4,404,002)
Income tax expense/ benefit						315,621
Loss after income tax						(4,088,381)
Assets						
Segment assets (including carrying value of investments and loans to associates)	393,978	-	-	462,285	(165,438)	690,825
Unallocated assets						1,854,762
Total assets						2,545,587

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

	Australia	USA	Netherlands	Malaysia	Eliminations	Total
Liabilities						
Segment liabilities	376,463	-	-	180,425	(165,438)	391,450
Unallocated liabilities						24,207
Total liabilities						415,657
Other Segment Information						
Investments in associates	-	-	-	163,464	-	163,464
Share of net losses of associates	-	-	-	(75,900)	-	(75,900)
Depreciation and amortisation expense	(648,545)	-	-	-	-	(648,545)
Impairment charge on property, plant & equipment	(76,784)	-	-	-	-	(76,784)
Impairment charge on goodwill	-	-	-	-	-	-
Impairment charge on loans to associates	-	-	(702,285)	-	-	(702,285)

(ii) Year ended 30 June 2007

	Australia	USA (discontinued operation)	Netherlands	Malaysia	Eliminations	Total
Revenue						
- External sales	514,373	208,377	-	-	-	722,750
- Other segments	774,571	-	-	-	(251,815)	522,756
Total sales revenue	1,288,944	208,377	-	-	(251,815)	1,245,506
Unallocated revenue						66,105
Total revenue from ordinary activities						1,311,611
Result						
Segment result	-	(2,410,436)	(870,667)	-	-	(3,281,103)
Unallocated expenses net of unallocated revenue						(1,686,044)
Loss before income tax						(4,967,147)
Income tax expense/ benefit						256,572
Loss after income tax						(4,710,575)
Assets						
Segment assets (including carrying value of investments and loans to associates)	753,112	175,326	534,720	397,865	-	1,861,023
Unallocated assets						1,660,552
Total assets						3,521,575

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

	Australia	USA	Netherlands	Malaysia	Eliminations	Total
Liabilities						
Segment liabilities	287,265	843,547	-	379,510	(555,961)	954,361
Unallocated liabilities						525,000
Total liabilities						1,479,361
Other Segment Information						
Investments in associates	-	-	-	255,973	-	255,973
Share of net losses of associates	-	116,572	-	-	-	116,572
Depreciation and amortisation expense	560,878	132,756	-	-	-	693,634
Impairment charge on property, plant & equipment	-	750,052	-	-	-	750,052
Impairment charge on goodwill	-	209,457	-	-	-	209,457
Impairment charge on loans to associates	-	-	870,667	-	-	870,667

(b) Business Segments

The company operates predominantly in one business segment, being the Aquacultural industry.

Note 24: Business Combination – Year ended 30 June 2007

(a) Summary of acquisition

On 8 September 2006 the parent equity acquired control of the issued share capital of Delta Aquaculture Services, LLC, a company incorporated in Nevada USA, when it acquired management rights to the company and a further interest of 5.88%, for a consideration of \$192,686. At 30 June 2006 the parent entity owned 50% of the issued capital of Delta at a cost of \$766,137. During the period ended 30 June 2007, the parent entity increased its ownership interest in Delta to 65.8%.

The acquired business contributed revenues of \$208,377 and a net loss of \$2,156,864 to the Group for the period from 8 September 2006 to 30 June 2007.

As at the date of acquisition of control, Delta had net assets of \$923,276. Goodwill of \$141,058 arose from the acquisition of control, and a further \$68,399 arose on the acquisition of further interests in Delta during the period.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

Purchase consideration

Purchase consideration

Cash Paid	192,686
Fair value of net identifiable assets	51,628
Goodwill	<u>141,058</u>

(b) Purchase consideration

	2007
	\$
Outflow of cash to acquire control of subsidiary, net of cash acquired	
Cash consideration	192,686
Less: Balances acquired	
Cash	385,770
Net inflow of cash	<u>193,084</u>

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

(c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition of the additional 5.88% on 8 September 2006 to obtain control of the subsidiary are as follows:

	Acquiree's carrying amount at 8 Sep 2006 \$	Fair value at 8 Sep 2006 \$
Cash	385,770	385,770
Trade receivables	3,433	3,433
Inventories	18,137	18,137
Plant and equipment	878,326	878,326
Deferred tax asset	-	-
Intangible assets: trademarks	-	-
Trade payables	(171,481)	(171,481)
Notes payable	(190,275)	(190,275)
Provision for employee benefits	(634)	(634)
Deferred tax liability	-	-
Retirement benefit obligations	-	-
Net assets	923,276	923,276
Minority interests		871,648
Net identifiable assets acquired		51,628

(d) Disposal

In March 2008 the parent entity entered into a settlement agreement to dispose of its interest in Delta Aquaculture Services, LLC for no consideration.

Note 25: Discontinued Operation

In September 2007 the company resolved to cease its operations in Mississippi, USA carried on by a subsidiary Delta Services, LLC. The parent entity disposed of its shareholding in Delta Aquaculture Services, LLC in March 2008.

The contribution of this subsidiary to the results of the consolidated entity for year ending 30 June 2007 and period from 1 July 2007 until disposal of the interest is summarised as follows –

	Year ended 30 June 2008	Year ended 30 June 2007
Revenue	-	208,377
Expenses	(26,109)	(2,577,161)
Loss for the period	(26,109)	(2,368,784)
Gain on disposal of subsidiary (representing net deficiency of assets)	-	-
Consideration	-	-
Carrying amount of net assets sold	(64,300)	-
Net gain	(64,300)	-
Profit/(Loss) from discontinued operations	38,191	(2,368,784)

The carrying amounts of assets and liabilities as at the date of the disposal and 30 June 2007 are as follows:

	31 March 2008	30 June 2007
Total Assets	135,211	142,814
Total Liabilities	199,511	287,585
Net Asset Deficiency	(64,300)	(144,771)
Net Cash (outflow) from operating activities	(135,658)	(394,529)
Net Cash (outflow) from financing activities	-	(237,660)
Net Cash (outflow) from investing activities	-	(37,951)
Net cash used by discontinued operation	(135,658)	(670,140)

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

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 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.

The terms and conditions of each grant of Plan options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date
29 November 2007	Various (refer Note (b))	29 November 2010	20 cents	6.28 cents
1 April 2008	Various (refer Note (c))	1 April 2011	20 cents	5.28 cents

(b) Directors Options

On 29 November 2007, 10,000,000 options were granted to Directors of the Company, following approval at a General Meeting of shareholders on 31 October 2007. Details of the options that were granted as compensation during the reporting period and details of options that were vested during the reporting period are as follows:

	No. granted	Vested 29/11/07	Vested 29/05/08	Balance unvested 30/06/08
P A Hopper	5,000,000	2,000,000	1,000,000*	2,000,000*
G M Tonge	2,500,000	1,000,000	500,000*	1,000,000*
S E Abishegam	2,500,000	1,000,000	500,000	1,000,000
	10,000,000	4,000,000	2,000,000	4,000,000

In September 2008 the Company resolved to formally cancel the balance of options to Directors who have since resigned, that were unvested as at the date of their resignation, being a total of 3,000,000 of the unvested options issued to Mr PA Hopper and 1,500,000 to Mr GM Tonge. The balance of options held by Mr SE Abishegam will be vested on the following dates:

29 November 2008	500,000
29 November 2009	500,000

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.

An amount of \$486,700 was included as an expense in the Income Statement for the period ended 30 June 2008, being the value of options vested to 30 June 2008 and a portion of the 4,000,000 options yet to be vested. An adjustment will be made in the income statement for any options cancelled in the year they are cancelled.

In future periods, the total value of the options per above will be charged as an expense in the Income Statement of the Group.

(c) Employee Options

On 1 April 2008, 3,050,000 options were granted to employees of the parent entity. Details of the options that were granted as compensation during the reporting period and details of the options that were vested during the reporting period are as follows –

	No. granted	Vested 01/04/08	No. cancelled	Balance unvested 30/06/08
P G Burns	1,500,000	600,000	-	900,000
Other Employees	1,550,000	620,000	-	930,000
Total	3,050,000	1,220,000	-	1,830,000

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

Shareholder information

AS AT OCTOBER 2008

1. Number of Shareholders and Unmarketable Parcels

There were 780 shareholders, including 133 shareholders with an unmarketable parcel valued at less than \$500, and 18 option holders.

2. Distribution of Ordinary Shareholdings

	No. of Holders	% of Holders	No. of Shares	% of Shares
1 – 1,000	4	0.51	2,388	0.00
1,001 – 5,000	125	16.02	444,605	0.30
5,001 – 10,000	151	19.36	1,371,269	0.91
10,001 – 100,000	347	44.62	13,529,591	9.00
100,001 and over	152	19.49	135,113,587	89.79
TOTALS	779	100.0	150,461,440	100.00

3. Twenty Largest Ordinary Shareholdings

Name	Fully paid shares held	%
1. MR JOHN OAKLEY CLINTON	20,148,640	13.39
2. JARQ HOLDINGS PTY LTD	16,507,501	10.97
3. MR PETER JOSEPH BURNS	9,988,335	6.64
4. MR BRIAN FEATHERBY	7,762,335	5.16
5. PETUNIA VENTURE CORP	5,000,000	3.32
6. ALLIANCE MAP (M) SDN BHD	5,000,000	3.32
7. CAPE RIVIERA PTY LTD <PORTOFINO EQUITY A/C>	4,100,000	2.72
8. DOUBLE SEVEN LIMITED <CO INCORPORATIONS NO 490713>	3,333,333	2.22
9. MR ROSS WILLIAM FORD & MRS RUTH ELIZABETH FORD	2,978,259	1.98
10. BOWOOD PTY LTD	2,181,333	1.45
11. MR MICHAEL MANFORD	2,000,000	1.33
12. W HOY PTY LTD	1,735,000	1.15
13. BT PORTFOLIO SERVICES LIMITED <CLINTON TRADING A/C>	1,500,734	1.00
14. PACIFIC 2000 FOUNDATION	1,500,000	1.00
15. ANZ NOMINEES LIMITED <CASH INCOME ACCOUNT>	1,374,167	0.91
16. MR DAVID RICHARD THOMAS <DAVID R THOMAS S/F A/C>	1,330,000	0.88
17. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,293,816	0.86
18. MRS AVRIL BURCH <FAME A/C>	1,213,070	0.81
19. MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	1,119,750	0.74
20. FIRST MANHATTAN SECURITIES PTY LTD	1,041,000	0.69
TOTAL OF TOP 20 SHAREHOLDERS	91,107,273	60.55

4. Substantial Shareholdings (over 5%)

Name	Fully paid shares held	%
MR JOHN CLINTON	20,148,640	13.39
JARQ HOLDINGS PTY LTD	16,507,501	10.97
MR PETER JOSEPH BURNS	9,988,335	6.64
MR BRIAN FEATHERBY	7,762,335	5.16

Shareholder information

AS AT OCTOBER 2008

5. Unquoted Equity Securities - Options

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

Unlisted options expiring 29 December 2008 – 916,250 with an exercise price of 25 cents each are held by 3 option holders. The following option holder holds more than 20% of this class –

Wildcross Nominees Pty Ltd ATF Clinton Equity Trust 716,250

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 1,333,333 fully paid ordinary shares subject to voluntary escrow until 12 February 2009.

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.



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 2008 in terms of the ASX Corporate Governance Council's (the Council's) "Principles of Good Corporate Governance and Best Practice Recommendations" (the Recommendations) published in March 2003.

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. 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.

CORPORATE GOVERNANCE STATEMENT

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 at least six times a year to consider the business of the Company, its financial performance and other operational issues.

With the approval of the Chairman, any directors can seek independent advice, at Cell's expense.

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

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.

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.

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 8.

The structure and disclosure of the Company's remuneration policies for directors and senior executives are generally consistent with ASX Principle 9 and are set out in the Directors' Report.

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, 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.

During the year ended 30 June 2008, the Company had in existence two Standing Board Committees, being the remuneration committee and the audit committee. Following the restructure of the Board in April 2008, the committees were disbanded. The functions of these committees are now carried out by the full Board.

. Therefore the Company does not comply with ASX Principles 4 and 8.1. DDue to the Company's size and structure at present it is not considered necessary to have formal Binel audit or remuneration committees.

Although the Company does not comply with ASX Principles 4 and 8.1.

CORPORATE GOVERNANCE STATEMENT

Audit

As part of the Company's commitment to safeguarding integrity in financial reporting, the Company has implemented procedures and policies to monitor the independence and competence of the Company's external auditors.

Consistent with ASX Principle 6, the Auditor attends and is available to answer questions at, the Company's annual general meetings.

Business Risks

Consistent with ASX Principle 7, the Company is committed to the identification, monitoring and management of risks associated with its business activities.

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

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.

Corporate governance

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.







<Cell>

AQUACULTURE