

CLEANSING STATEMENT – 31 January 2011

Cell Aquaculture Limited

(ABN 86 091 687 740)

This Cleansing Statement is issued under section 708A(12C)(e) of the Corporations Act (as inserted by ASIC Class Order 10/322) to enable Shares in the capital of Cell Aquaculture Limited (**Company**) to be issued on conversion of a convertible note to be issued by the Company to be on-sold to retail investors.

1. INTRODUCTION

1.1 Background to the Cleansing Statement

On 27 January 2011, the Company and La Jolla Cove Investors, Inc. (**La Jolla**) entered into the Funding Agreement pursuant to which the Company agreed to issue, and La Jolla agreed to acquire 3 convertible notes (**Notes**), each with an issue price (or face value) of US\$2,000,000 (**Issue Price**), totalling US\$6,000,000.

This Cleansing Statement relates to the issue of the first Note.

Pursuant to ASIC Class Order 10/322 (**Class Order**), the Company gives notice that today, 31 January 2011, the Company will issue the first Note to La Jolla under the Funding Agreement.

1.2 Contents of this Cleansing Statement

This Cleansing Statement sets out the following:

- (a) in relation to the Notes:
 - (i) the effect of the offer of the Notes and the Shares on the Company; and
 - (ii) a summary of the rights and liabilities attaching to the Notes; and
- (b) information that:
 - (i) has been excluded from a continuous disclosure notice in accordance with the ASX Listing Rules;
 - (ii) is information that investors and their professional advisors would reasonably require for the purpose of making an informed assessment of:
 - (A) the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; and
 - (B) the rights and liabilities attached to the Notes,
- (c) other additional information including consent relating to the Company's status as a disclosing entity and where documents may be obtained.

1.3 No offer or invitation

No offer or invitation is made pursuant to this Cleansing Statement for any person to subscribe for or apply to acquire any Notes or Shares.

1.4 Offer of the Notes

In relation to the offer of the Notes the following general information is provided:

- (a) **(Issue of Notes):** Under the Funding Agreement, the Company and La Jolla have agreed that the issue of the Notes will be sequential. In each case, the obligation of La Jolla to subscribe for, and the Company to issue, a Note will arise following the satisfaction of agreed conditions. At the date of this Cleansing Statement, the Company has satisfied each of the relevant conditions (which are summarised in section 1.4(b)) capable of satisfaction for the issue of the first Note (**Conditions**) and La Jolla will subscribe for, and the Company will issue, the first Note to La Jolla on the date of, or the day following, the date of this Cleansing Statement (**Issue Date**).
- (b) **(Conditions precedent to the Note Issue):** Under the Funding Agreement, the Company and La Jolla have agreed that, on the satisfaction of agreed conditions, the Company will issue the first Note to La Jolla. The Conditions which are required to be satisfied include:
 - (i) the lodgement of this Cleansing Statement with ASX (provided the Company is able to issue this Cleansing Statement); and
 - (ii) obtaining all consents, approvals, or confirmations from governmental authorities (including but not limited to the ASX) and third persons necessary for the execution, delivery and performance of the Funding Agreement and the transactions contemplated in those documents including, where necessary:
 - (A) any approvals under section 611 item 7 of the Corporations Act and ASX Listing Rule 7.1; and
 - (B) any approval by the Foreign Investment Review Board under the *Australian Foreign Acquisitions and Takeovers Act 1975* (Cth),

required for the issuance of the first Note and any conversion of the first Note by La Jolla.

- (c) **(Purpose of Notes):** The purpose of the offer of the first Note (**Offer**) is to raise US\$2,000,000. The proceeds the first Note will be primarily used to accelerate the development of the Company's Thailand based production facilities, further development of the Company's food processing business and markets, and advancement of its other overseas projects.
- (d) **(La Jolla):** La Jolla is a US based private investment company. It considers itself a leader in financing small cap publicly listed companies and seeks to partner with businesses looking for capital and strategic advice to expand their current operations. La Jolla's expertise lies in creating flexible financial structures which enable a company to grow without impacting working capital needs. Once La Jolla has made an investment, it seeks to add value to the company in which it has

invested by providing financial resources, strategic advice and mergers and acquisitions expertise and implementation services.

- (e) **(Payment of the Issue Price)**: The payment of the Issue Price of the first Note will be made by La Jolla in instalments, in the following manner:
- (i) on the issue date of the first Note, La Jolla will pay to the Company US\$150,000 (**Initial Payment**); and
 - (ii) commencing in the month following the Issue Date, La Jolla will pay to the Company, on a date in that month and each subsequent month as selected by La Jolla, an amount of not less than US\$150,000 (or such lesser amount that equals the remaining amount of the Issue Price to be paid by La Jolla on the Note) (**Monthly Payment**).
- (f) **(Adjustment of Monthly Payment)**: After 270 days following the Closing Date:
- (i) La Jolla may elect, by written notice given to the Company prior to a payment date, to reduce the Monthly Payments to US\$75,000 if the Volume Weighted Average Price for the 30 days prior to the election is \$0.15 or less per Share;
 - (ii) the Company may elect, by written notice given to La Jolla prior to a payment date, to increase the Monthly Payments to US\$250,000, if the Volume Weighted Average Price for the 30 days prior to the election is greater than \$0.15 per Share;

In the event that an election is made under 1.4(f)(i) or 1.4(f)(ii) above, and the other party does not want the price increased or reduced, as the case may be, the parties agree to negotiate in good faith to determine the appropriate Monthly Payment going forward. If the parties cannot agree after negotiating in good faith, the Monthly Payment will remain at US\$150,000 per month.

The 270 day review period is only applicable to the first Note.

The Investor may determine in its absolute discretion, the amount, if any, in excess of the Monthly Payment to be transferred to the Company at each Payment Date.

- (g) **(Conditions precedent to the making of Monthly Payments in respect of the Note)**: The obligation on La Jolla to make a Monthly Payment in respect of the Note is subject to the satisfaction of certain conditions on or before the time the Monthly Payment is to be made. These conditions are essentially the same as the conditions that must be satisfied prior to the Note Issue, save and except that there is no condition regarding the lodgement of a cleansing statement similar to the condition referred to in section 1.4(b).

2. EFFECT OF THE OFFER OF THE FIRST NOTE ON THE COMPANY

2.1 Effect on balance sheet

Assuming the first Note is fully drawn down and not converted, then the asset position of the Company will increase by US\$2,000,000 and the liability position will also increase by US\$2,000,000.

2.2 Effect on capital structure

The capital structure of the Company would be affected by successive conversions of the first Note by La Jolla, resulting in additional shares in the Company being issued. As the conversions take place and shares are issued, the liability position of the Company will decrease accordingly. The effect on the capital structure of the Company will depend on the share price at the time of conversion and will be calculated in accordance with section 3(j) of this Cleansing Statement. The capital structure of the Company will be adjusted by the number of new shares calculated and issued, based on the Conversion Price at the time.

The effect of the Offer on the capital structure of the Company, in three different scenarios, is set out below.

Share Price at Date of Conversion	Number of Shares on Issue Prior to Conversion	Number of Shares Issued Upon Conversion	Number of Shares on Issue Following Conversion
AU\$0.13	203,272,551	19,230,769	222,503,320 ¹
AU\$0.20	203,272,551	12,500,000	215,772,551 ¹
AU\$0.30	203,272,551	8,333,333	211,605,884 ¹

1. Assuming full conversion of the first Note and no additional securities are issued by the Company, other than Shares issued upon conversion of the Notes. It is assumed that the share price has remained constant for the 21 days prior to conversion.
2. It is assumed that one US dollar is equal to one AU dollar at the time of conversion.

3. RIGHTS AND LIABILITIES ATTACHING TO THE NOTE

A summary of the key terms and conditions of the Note is set out below:

- (a) **(Issuer):** Cell Aquaculture Limited (ABN 86 091 687 740).
- (b) **(Issue Price):** US\$2,000,000
- (c) **(Maturity Date):** The maturity date of the Note is the date which is 4 years after the date that is 5 business days following the date on which the Funding Agreement was executed.
- (d) **(Form and denomination):** The Note will be in registered form, in the denomination of US\$2,000,000.
- (e) **(Issue Date):** the first Note will be issued today, 31 January 2011.
- (f) **(Interest):** Interest is payable on the then outstanding principal amount of the Note (**Principal Amount**) at the rate of 4.75% per annum in arrears on a quarterly basis commencing on 31 March, 30 June, 30 September and 31 December, and on the Maturity Date. Payment of interest shall be in cash, or at the election of the Company, in Ordinary Shares of the Company valued at the then applicable Conversion Price, calculated in accordance with section 3 (j) of this Cleansing Statement.
- (g) **(Non-Payment):** The Notes contain a default provision covering failure to pay principal or interest in respect of the Notes.

- (h) **(Events of Default):** The Notes contains customary events of default which will permit acceleration of the Notes.
- (i) **(Conversion):** La Jolla may convert the Note, either in whole or in part, by the delivery to the Company of a Conversion Notice. The delivery of a Conversion Notice will constitute a contract between La Jolla and the Company, whereby La Jolla will be deemed to have subscribed for the number of new Shares which it will be entitled to receive on conversion of the Note pursuant to the Conversion Notice.
- (j) **(Conversion Price):** The number of new Shares into which the Note may be converted is equal to the Principal Amount that is to be converted (as specified in the Conversion Notice) divided by the Conversion Price. The Conversion Price is equal to the lesser of:
 - (i) AU\$0.30 (as adjusted for any stock splits, stock dividends, combinations, subdivisions, recapitalisations or the like); and
 - (ii) 80% of the average of the 3 lowest Volume Weighted Average Prices during the 21 trading days prior to Investor's election to convert.

Note: The Conversion Price for the Second Note is equal to the lesser of AU\$0.60 (as adjusted for any stock splits, stock dividends, combinations, subdivisions, recapitalisations or the like) and 3 j(ii). The Conversion Price for the Third Note is equal to the lesser of AU\$0.90 (as adjusted for any stock splits, stock dividends, combinations, subdivisions, recapitalisations or the like) and 3 j(ii).
- (k) **(Control Limitation):** The Funding Agreement includes a Control Limitation which restricts La Jolla from holding any more than 19.99% of CAQ's share capital on issue. The agreement also restricts La Jolla from 'short selling' the Company's ordinary shares, whilst any note is outstanding.
- (l) **(Fundamental Corporate Change):** If an event of Fundamental Corporate Change occurs, the Conversion Price and the number of Shares deliverable upon conversion of the Note, or part thereof, are subject to adjustment.
- (m) **(No Fees):** La Jolla will not charge any fees for the implementation of the Funding Agreement, or for any ongoing strategic advisory services.
- (n) **(Governing Law):** The Funding Agreement will be governed by the laws of the State of California.
- (o) **(ASX Listing):** The Note will not be quoted on ASX or any other securities exchange. Under the Funding Agreement, the Company is required to apply to ASX for quotation of any new Shares issued on the conversion of the Note within 2 trading days of the issue of those new Shares.

4. NO FURTHER INFORMATION TO DISCLOSE

Aside from this Cleansing Statement and documents previously lodged by the Company with the ASX pursuant to its continuous obligations, there is no additional information that:

- (a) has been excluded from a continuous disclosure notice in accordance with the Listing Rules; and
- (b) is information that investors and their professional advisers would reasonably require for the purpose of making an informed assessment of:
 - (i) the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; and
 - (ii) the rights and liabilities attaching to the Notes or Shares to be issued on conversion of the Notes.

5. ADDITIONAL INFORMATION

5.1 The Company is a Disclosing Entity

The Company is a "disclosing entity" under the Corporations Act and, accordingly, is subject to regular reporting and disclosure obligations under both the Corporations Act and the ASX Listing Rules.

These obligations require the Company to notify ASX of information about specific events and matters as they arise. In particular, the Company has an obligation under ASX Listing Rule 3.1 and section 674 of the Corporations Act (subject to certain limited exceptions) to notify ASX immediately once it is or becomes aware of information concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Shares.

ASX maintains files containing publicly available information for all listed companies. The Company's file is available for inspection at ASX during normal office hours.

The announcements are also available through the Company's website: <http://www.cellaqua.com>.

The Company is also required to prepare and lodge with ASIC yearly and half-yearly financial statements accompanied by a Directors' statement and report, and an audit report or review. Copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an ASIC office.

5.2 Consents

The issue of this Cleansing Statement has been approved by the Directors of the Company. Each Director has consented to the issue of this Cleansing Statement, and has not withdrawn that consent.

5.3 No Responsibility

Neither ASX nor the ASIC take responsibility for the contents of this Cleansing Statement.

GLOSSARY

\$ means Australian dollars or US dollars, as specified in this document.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited (ACN 008 624 691).

ASX Listing Rules means the Listing Rules of the ASX.

Class Order means ASIC Class Order 10/322.

Cleansing Statement means this cleansing statement.

Company means Cell Aquaculture Limited (ABN 86 091 687 740).

Constitution means the constitution of the Company as at the date of this Cleansing Statement.

Conversion Price has the meaning given in section 3(j) of this Cleansing Statement.

Funding Agreement means a convertible note agreement dated 27 January 2011 between the Company and La Jolla.

Corporations Act means the *Corporations Act 2001* (Cth).

Directors means the directors of the Company as at the date of this Cleansing Statement.

Fundamental Corporate Change has the meaning given in clause 8.7(b) of the Funding Agreement.

Issue Date means the date a Note is issued.

Maturity Date means the date which is 4 years after the date that is 5 business days following the date on which the Funding Agreement was executed.

Monthly Payment means the monthly payments to be made by La Jolla towards the payment of the Issue Price in the manner outlined in section 1.4(e) of this Cleansing Statement.

Note means the first convertible note issued under the Funding Agreement.

Option means an option to acquire a Share in the Company.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a shareholder of the Company.