

CELL AQUACULTURE LTD

ABN 86 091 687 740

**Interim Financial Report
for the Half-Year Ended 31 December 2010**

C O N T E N T S

Directors' Report	3 - 4
Independent Auditor's Declaration	5
Independent Auditor's Review	6- 7
Consolidated Statement of Comprehensive Income	8
Consolidated Statement of Financial Position	9
Consolidated Statement of Changes in Equity	10
Consolidated Statement of Cash Flows	11
Notes to the Financial Statements	12- 15
Directors' Declaration	16

Cell Aquaculture Ltd ABN 86 091 687 740
DIRECTORS' REPORT

The Directors of Cell Aquaculture Ltd (Cell) submit herewith the interim financial report of the consolidated entity consisting of Cell Aquaculture Ltd and the entities it controlled at the end of, or during the half-year ended 31 December 2010.

Directors:

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

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

Operating results

The operating loss of the consolidated entity for the six months after providing for income tax amounted to \$835,791.

	Dec 08	Dec 09	Dec 10
Operating Loss	(\$669,093)	(\$402,820)	(\$835,791)

Review of operations

During the half year to December 2010, Cell Aquaculture Limited (ASX: CAQ) has focussed primarily on the following areas:

- Advancement of the Company's commercial-scale production operations in Thailand;
- Further development of CAQ's wholly owned food processing business - Cell Aqua Foods Pty Ltd;
- Advancement of CAQ's Singapore, South African and Malaysian projects; and
- Securing financing to allow the Company to accelerate its key growth objectives.

Thailand Operations

During the half year, CAQ commenced a new commercial production venture and secured an outstanding production site located near Phuket, Thailand. The production site has all necessary infrastructure and services in place, enabling rapid commencement of premium Australian Barramundi production.

The site is located adjacent to an existing Abalone farm, which has a newly constructed but unused production shed and tanks available. The long term leasing arrangement covers the leasing of the existing shed and tanks, as well as additional adjoining vacant land. The project involves the existing shed and tanks being retro-fitted with 'Cell' filtration and components, as well as construction of a purpose-built 'Cell' production facility on the vacant land.

Subsequent to the half year, CAQ has now completed the retro-fit of the existing facility and design and documentation is virtually complete for the development of the new purpose-built 'Cell' facility on the adjoining site. The Company is currently in negotiations with various contractors and suppliers to finalise project costings for the new facility.

All produce from this project will be sold through the Company's recently established, wholly owned subsidiary – Cell Aqua Foods Pty Ltd.

Cell Aqua Foods

During the half year, CAQ continued the development of Cell Aqua Foods Pty Ltd - a fully operational, food processing, value-adding, packaging and marketing division.

CAQ recently completed a rationalisation of Cell Aqua Foods Pty Ltd, enabling it to focus primarily on the development of its Eco-Star™ branded seafood lines.

Via Cell Aqua Foods, the Company is now actively developing markets for its unique range of Premium fresh, smoked and value added Barramundi products – all marketed under the Company's Eco-Star™ brand.

In the month of January, Cell Aqua Foods Pty Ltd reached a virtual break-even point and CAQ is of the view this subsidiary will move towards profitability in subsequent months.

Singapore, South Africa and Malaysian Projects

The Company continued progressing its various projects in Singapore, South Africa and Malaysia during the half year. Further updates will be provided on these projects as they materialise.

Securing of Financing to Accelerate Growth Objectives

Significant time and resources were focussed during the half year on sourcing suitable financing arrangements for the Company to advance its growth objectives. On 27 January 2011, the Company advised that a US\$6 million financing agreement was executed with U.S. based institutional investor, La Jolla Cove Investors, Inc.

With this financing arrangement in place, the management team is now diligently focussed on advancing the Company's growth objectives.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under Section 307C of the Corporations Act 2001 is set out on page 5.

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



Perry Leach
Executive Chairman

Dated at Perth this 28th day of February 2011

28 February 2011

Board of Directors
Cell Aquaculture Ltd
Unit 53, 15 Labourchere
SOUTH PERTH WA 6003


Dear Sirs,

DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE BOARD OF DIRECTORS OF CELL AQUACULTURE LTD

As lead auditor of Cell Aquaculture Ltd for the period ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

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



Phillip Murdoch
Director

BDO

BDO Audit (WA) Pty Ltd
Perth, Western Australia

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF CELL AQUACULTURE LTD****Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Cell Aquaculture Ltd, which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Cell Aquaculture Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Cell Aquaculture Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.



Basis for Qualified Auditor's Conclusion

Attention is drawn to the recoverability of the consolidated entity's trade receivable of \$513,916 owing from TRG Cell as disclosed in Note 3. Negotiations for repayment are currently still in progress however as at the date of our report these have not been finalised and accordingly, we were unable to perform sufficient procedures in relation to the recoverability of this receivable. Due to this limitation of scope, we have not been able to determine if an impairment provision against this trade receivable is necessary or the amount of the effect, if any, that an impairment provision would have on the consolidated statement of financial position and statement of comprehensive income.

Conclusion

Based on our review, which is not an audit, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to satisfy ourselves on the matter referred to in the situation discussed above; we have not become aware of any matter that makes us believe that the half-year financial report of Cell Aquaculture Limited is not in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

BDO Audit WA) Pty Ltd

BDO
A handwritten signature in dark ink, appearing to read 'P. Murdoch'.

Phillip Murdoch
Director

Perth, Western Australia
Dated this 28th day of February 2011

Cell Aquaculture Ltd ABN 86 091 687 740

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

	31.12.2010	31.12.2009
	\$	\$
Revenue from continuing operations	306,062	344,493
Foreign currency gain/ (loss)	-	(64,731)
Raw materials and consumables used	(165,838)	(8,897)
Marketing expenses	(15,819)	(6,000)
Communication expenses	(4,355)	(1,574)
Consultancy expenses	(360,613)	(130,630)
Employee benefits expense	(111,575)	(327,286)
Insurance expenses	(11,610)	(2,956)
Occupancy costs	(51,229)	(81,792)
Professional costs	(169,562)	(63,361)
Travel costs	(34,622)	(17,232)
Depreciation and amortisation expense	(11,759)	(6,395)
R&D expenses	(126,646)	-
Other expenses	(78,225)	(36,459)
Loss from continuing operations before Income Tax		
Expense/ Benefit	(835,791)	(402,820)
Income tax benefit	-	-
Loss for the half-year	(835,791)	(402,820)
Other comprehensive income		
Exchange differences on foreign currency translation	(5,551)	29,046
Total comprehensive income for the half-year	(841,342)	(373,774)
Loss is attributable to:		
Owners of Cell Aquaculture Ltd	(828,375)	(402,820)
Non-controlling interest	(7,416)	-
	(835,791)	(402,820)
Total comprehensive income for the half-year is attributable to		
Owners of Cell Aquaculture Ltd	(833,371)	(373,774)
Non-controlling interest	(7,971)	-
	(841,342)	(373,774)
Basic loss per share	Cents	Cents
	(0.41)	(0.23)

The accompanying notes form part of these financial statements.

Cell Aquaculture Ltd ABN 86 091 687 740

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010**

	Note	31.12.2010 \$	30.06.2010 \$
CURRENT ASSETS			
Cash and cash equivalents		1,615,353	2,656,495
Trade & other receivables		166,963	275,666
Inventories		171,876	90,000
Biological assets		18,969	-
TOTAL CURRENT ASSETS		<u>1,973,161</u>	<u>3,022,161</u>
NON-CURRENT ASSETS			
Receivables	3	517,334	581,788
Property, plant and equipment		265,757	124,325
TOTAL NON-CURRENT ASSETS		<u>783,091</u>	<u>706,113</u>
TOTAL ASSETS		<u>2,756,252</u>	<u>3,728,274</u>
CURRENT LIABILITIES			
Trade & other payables		166,808	297,488
TOTAL CURRENT LIABILITIES		<u>166,808</u>	<u>297,488</u>
TOTAL LIABILITIES		<u>166,808</u>	<u>297,488</u>
NET ASSETS		<u>2,589,444</u>	<u>3,430,786</u>
EQUITY			
Contributed equity		18,194,635	18,194,635
Accumulated losses		(16,353,404)	(15,525,029)
Reserves		777,142	782,138
Parent entity interest		2,618,373	3,451,744
Non-controlling interest		(28,929)	(20,958)
TOTAL EQUITY		<u>2,589,444</u>	<u>3,430,786</u>

The accompanying notes form part of these financial statements.

Cell Aquaculture Ltd ABN 86 091 687 740

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

	Contributed Equity	Accumulated Losses	Share Based Payment Reserve	Foreign Currency Translation Reserve	Total	Non- controlling Interest	Total
Balance at 1.7.2009	14,544,676	(14,522,143)	803,603	(27,861)	798,275	-	798,275
Loss for the year	-	(402,820)	-	-	(402,820)	-	(402,820)
Exchange difference on translation of foreign operations	-	-	-	29,046	29,046	-	29,046
Total comprehensive income for the period	-	(402,820)	-	29,046	(373,774)	-	(373,774)
Transactions with owners in their capacity as owners:							
Issue of shares	379,980	-	-	-	379,980	-	379,980
Balance at 31.12.2009	14,924,656	(14,924,963)	803,603	1,185	804,481	-	804,481
Balance at 1.7.2010	18,194,635	(15,525,029)	820,715	(38,577)	3,451,744	(20,958)	3,430,786
Loss for the year	-	(828,375)	-	-	(828,375)	(7,416)	(835,791)
Exchange difference on translation of foreign operations	-	-	-	(4,996)	(4,996)	(555)	(5,551)
Total comprehensive income for the period	-	(828,375)	-	(4,996)	(833,371)	(7,971)	(841,342)
Transactions with owners in their capacity as owners:							
Issue of shares	-	-	-	-	-	-	-
Balance at 31.12.2010	18,194,635	(16,353,404)	820,715	(43,573)	2,618,373	(28,929)	2,589,444

The accompanying notes form part of these financial statements.

Cell Aquaculture Ltd ABN 86 091 687 740

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

	Note	31.12.2010 \$	31.12.2009 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		432,125	52,023
Interest received		47,093	3,152
Payments to suppliers and employees		(1,367,170)	(665,323)
Net cash outflow from operating activities		(887,952)	(610,148)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for business acquisition – plant and equipment	4	(36,400)	-
Payment for business acquisition – inventories	4	(21,918)	-
Purchase of property, plant and equipment		(94,873)	-
Net cash outflow from investing activities		(153,191)	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Share Issues		-	379,980
Repayment of Other Loan		-	1,500
Net cash inflow from financing activities		-	381,480
Net decrease in cash held		(1,041,143)	(228,668)
Cash and cash equivalents at the beginning of the half-year		2,656,495	450,857
Cash and cash equivalents at the end of the half-year		1,615,352	222,189

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

Note 1: Basis of preparation of half-year financial statements

These general purpose financial statements for the half-year reporting period ended 31 December 2010 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

These interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2010 and any public announcements made by Cell Aquaculture Ltd during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding half-year reporting period, except as follows:

(a) Determination and presentation of operating segments

During the half-year ended 31 December 2010, new operating segments have been added due to expansion of the Company's operations into Thailand and food processing industry.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly head office expenses, income tax assets and liabilities.

(b) 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:

(i) Determination of fair values of consideration paid in business combinations

At the time of acquisition, consideration transferred is required to be measured at the acquisition date fair value. Management considered that the acquisition date fair value is equivalent to the total

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

consideration paid. The fair value associated with the business name has been determined by management to be nil based upon the economic performance of the business.

Note 2: Segment information

(a) Description of Segments

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

The Board of Directors consider the business from both a product and a geographic perspective and has identified four reportable segments. The Board firstly separate the Group's operations into Fish Farming and Food Processing divisions and then divide these two divisions into geographic segments. Fish Farming division consists of Australia, Malaysia and Thailand segments. Food Processing division has operations only in Australia.

The Australian Fish Farming segment incorporates the company's hatchery and fabrication activities. The Malaysian Fish Farming segment incorporates corporate office, Terengganu based facility and any future Malaysian based projects. The Thailand Fish Farming segment is comprised of Phuket based facility and any future Thailand based projects. The Australian Food Processing segment consists of processing, value adding, branding and distribution of produce.

(b) Segment information provided to the chief operating decision maker

In AUD	Fish Farming			Food Processing	Total
Half-year 2010	Australia	Malaysia	Thailand	Australia	
Total segment revenue	40,500	-	-	219,289	259,789
Inter-segment revenue	-	-	-	-	-
External Revenues	40,500	-	-	219,289	259,789
Adjusted EBITDA	(697,488)	(71,988)	(59,561)	(42,088)	(871,125)

In AUD	Fish Farming			Food-processing	Total
Half-year 2009	Australia	Malaysia	Thailand	Australia	
Total segment revenue	328,205	236,869	-	-	565,074
Inter-segment revenue	(220,581)	-	-	-	(220,581)
External Revenues	107,624	236,869	-	-	344,493
Adjusted EBITDA	(236,769)	(101,320)	-	-	(338,089)

Total segment assets					
31-Dec-10	812,445	610,147	65,046	296,983	1,784,621
30-Jun-10	1,180,461	989,227	-	-	2,169,688

Cell Aquaculture Ltd ABN 86 091 687 740

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

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

	2010	2009
Adjusted EBITDA	(871,125)	(338,089)
Intersegment eliminations	-	(58,336)
Interest revenue	47,093	-
Depreciation	(11,759)	(6,395)
Loss before income tax from continuing operations	<u>(835,791)</u>	<u>(402,820)</u>

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

Note 3: Non-current assets - Receivables

	Consolidated	
	31.12.2010	30.06.2010
	\$	\$
Rental bond – Cell Aqua Foods Pty Ltd	3,418	3418
Trade receivables – TRG Cell*	513,916	578,370
	<u>517,334</u>	<u>581,788</u>

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

Note 4: Business combination

On 1 July 2010, through its 100% owned subsidiary, Cell Aqua Foods Pty Ltd, the Company acquired plant and equipment, stocks and the registered business name (Providores Kitchen) to carry on food processing activities.

Details of the purchase consideration and the net assets acquired are as follows:

	\$
Purchase consideration	
Cash paid	58,318
Total purchase consideration	<u>58,318</u>

Cell Aquaculture Ltd ABN 86 091 687 740

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

The assets recognised as a result of the acquisition are as follows:

	Fair Value
	\$
Property, plant and equipment	36,400
Inventories	21,918
Business name	-
Net identifiable assets acquired	<u>58,318</u>

(a) Acquisition-related costs

Acquisition-related costs of \$400 have been included in other expenses in the statement of comprehensive income.

(b) Contingent consideration

There was no contingent consideration arising from acquisition of the food processing business.

(c) Revenue and loss contribution

The acquired business contributed revenues of \$219,289 and net loss of \$45,727 to the group for the period from 1 July 2010 to 31 December 2010. During January 2011, Cell Aqua Foods Pty Ltd is close to a break-even point and is expected to move towards profitability in the coming months.

Note 5: Commitments and contingent liabilities

As at 31 December 2010, the Company had lease commitments of \$17,083 until 6 June 2011 for production facility used by Cell Aqua Foods Pty Ltd.

The Company had no contingent liabilities as at 31 December 2010.

Note 6: Events occurring after balance date

On 27 January 2011, a funding agreement was executed with U.S. based institutional investor, La Jolla Cove Investors, Inc. to provide US\$6 million financing to the Company.

Key terms of the funding facility are as follows:

i. Aggregate funding

The facility comprises of three convertible notes of US\$2 million each, totalling US\$6 million;

ii. Term

Each convertible note will have a repayment term of four years, from the date of initial drawdown; and

iii. Interest

Interest is payable quarterly in arrears at a low fixed rate of 4.75% per annum, on the then outstanding unconverted principal amount. Payment of interest shall be in cash, or at the election of the Company, in Ordinary Shares of Cell Aquaculture Ltd valued at the then applicable conversion price.

Cell Aquaculture Ltd ABN 86 091 687 740
DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements and notes set out on pages 8 to 15 are in accordance with the Corporations Act 2001, including:
 - (a) complying with Accounting Standard AASB 134 *Interim Financial Reporting*, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance, as represented by the results of its operations and its cash flow, for the half-year ended on that date.
2. In the directors' opinion, there are reasonable grounds to believe that Cell Aquaculture Ltd will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Perry Leach
Executive Chairman

Date: 28th February 2011