

CELL AQUACULTURE LTD

ABN 86 091 687 740

Interim Financial Report for the Half-Year Ended 31 December 2011

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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 2011.

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 (resigned 4 May 2012)
Suresh Emmanuel Abishegam
Peter Philip Bodycoat (resigned 4 May 2012)
Noel Patterson (appointed 4 May 2012)

Operating results

The operating loss of the consolidated entity for the six months after providing for income tax amounted \$2,013,406.

	Dec 09	Dec 10	Dec 11
Operating Loss	(\$402,820)	(\$835,791)	(\$2,013,406)

Review of operations

The Group continued to make progress on a number of fronts during the half year ended 31 December 2011 and to the date of this report.

Progress, however, was slowed in the latter half of the period as the Group worked on securing funding to continue its operations.

As a result of the downward share price the Board had no alternative than to seek from shareholders additional funds by way of a "Non-renounceable entitlement issue". This opened on the 5th of December and closed on the 19th December and was unsuccessful.

A trading halt was requested on the 22nd December while an alternative capital raising was investigated.

On the 17th January 2012 an offer was received from a Singapore based investor subject to some 10 due diligence requirements. Over the next two and half months the many conditions requested by the investor were satisfied, which resulted in the placement of 20 million shares at 2 cents each , raising \$400,000 in order for the Group to continue its operations. Further amounts have been pledged by investors.

A restructure of the Board and the Group's administration regime in recent months will enable the Group to reduce its ongoing fixed costs in future periods. Furthermore, a review is currently being undertaken of all operations of the Group in order to assess their efficiency and viability going forward.

In the meantime the Group continues to seek new opportunities, particularly in Malaysia, and expanding its Cell Aqua Foods business in Perth.

Further announcements will be made as decisions on key areas are made.

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 8th day of May, 2012

8 May 2012

The 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 LIMITED**

As lead auditor of Cell Aquaculture Limited for the period ended 31 December 2011, 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 Audit (WA) Pty Ltd
Perth, Western Australia

INDEPENDENT AUDITORS REVIEW REPORT TO THE MEMBERS OF CELL AQUACULTURE LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Cell Aquaculture Limited, which comprises the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 internal 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 half-year 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 2011 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 Limited, 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 Limited, would be in the same terms if given to the directors as at the time of this auditor's report.



Conclusion


Based on our review, which is not an audit, 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 disclosing entity's financial position as at 31 December 2011 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*.

Emphasis of Matter

Without modifying our conclusion, we draw attention to Note 1 in the half-year financial report which indicates that Cell Aquaculture Limited incurred a net loss of \$2,013,406 during the half-year ended 31 December 2011 and, as of that date, the disclosing entity's current liabilities exceeded its current assets by \$773,532. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the disclosing entity's ability to continue as a going concern and therefore, the disclosing entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO Audit (WA) Pty Ltd

BDO


Phillip Murdoch
Director

Perth, Western Australia
Dated this 8th day of May 2012

Cell Aquaculture Ltd ABN 86 091 687 740

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

	Note	31.12.2011	31.12.2010
		\$	\$
Revenue from continuing operations		267,460	306,062
Foreign currency gain		17,942	-
Raw materials and consumables used		(263,728)	(165,838)
Legal expenses		(4,657)	-
Marketing expenses		(3,092)	(15,819)
Communication expenses		(11,731)	(4,355)
Consultancy expenses		(429,638)	(360,613)
Employee benefits expense		(177,400)	(111,575)
Insurance expenses		(12,576)	(11,610)
Occupancy costs		(129,001)	(51,229)
Professional costs		(124,650)	(169,562)
Travel costs		(26,665)	(34,622)
Depreciation and amortisation expense		(22,464)	(11,759)
Finance Costs		(21,312)	-
R&D expenses		(57,000)	(126,646)
Other expenses		(20,076)	(78,225)
Gain on derivative financial instrument	5	297,239	-
Provision for impairment of receivable	3	(344,018)	-
Provision for impairment of buildings	8	(416,000)	-
Default fee	4	(64,706)	-
Interest expense	4	(467,333)	-
Loss from continuing operations before Income Tax Expense/ Benefit		<u>(2,013,406)</u>	<u>(835,791)</u>
Income tax benefit		<u>-</u>	<u>-</u>
Loss for the half-year		<u>(2,013,406)</u>	<u>(835,791)</u>
Other comprehensive income			
Exchange differences on foreign currency translation		<u>(2,369)</u>	<u>(5,551)</u>
Total comprehensive income for the half-year		<u>(2,015,775)</u>	<u>(841,342)</u>
Loss is attributable to:			
Owners of Cell Aquaculture Ltd		(1,802,433)	(828,375)
Non-controlling interest		(210,973)	(7,416)
		<u>(2,013,406)</u>	<u>(835,791)</u>
Total comprehensive income for the half-year is attributable to			
Owners of Cell Aquaculture Ltd		(1,800,633)	(833,371)
Non-controlling interest		(215,142)	(7,971)
		<u>(2,015,775)</u>	<u>(841,342)</u>
Basic loss per share		<u>Cents</u> <u>(0.96)</u>	<u>Cents</u> <u>(0.41)</u>

Cell Aquaculture Ltd ABN 86 091 687 740

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011**

	Note	31.12.2011 \$	30.06.2011 \$
CURRENT ASSETS			
Cash and cash equivalents		219,046	977,893
Trade & other receivables		114,606	157,575
Inventories		166,581	190,707
Biological assets		10,624	92,651
TOTAL CURRENT ASSETS		<u>510,857</u>	<u>1,418,826</u>
NON-CURRENT ASSETS			
Receivables	3	-	500,149
Property, plant and equipment		295,125	462,645
TOTAL NON-CURRENT ASSETS		<u>295,125</u>	<u>962,794</u>
TOTAL ASSETS		<u>805,982</u>	<u>2,381,620</u>
CURRENT LIABILITIES			
Trade & other payables		402,054	319,570
Borrowings	4	634,338	113,686
Derivative financial instrument	5	247,997	615,493
TOTAL CURRENT LIABILITIES		<u>1,284,389</u>	<u>1,048,749</u>
TOTAL LIABILITIES		<u>1,284,389</u>	<u>1,048,749</u>
NET DEFICIENCY OF ASSETS		<u>(478,407)</u>	<u>1,332,871</u>
EQUITY			
Contributed equity	6	18,543,141	18,344,635
Accumulated losses		(19,341,879)	(17,539,446)
Reserves		723,969	772,169
Capital and reserves attributable to the owners of Cell Aquaculture Ltd		(74,769)	1,527,358
Non-controlling interest		(403,638)	(194,487)
TOTAL EQUITY		<u>(478,407)</u>	<u>1,332,871</u>

Cell Aquaculture Ltd ABN 86 091 687 740

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

	Contributed Equity	Accumulated Losses	Share Based Payment Reserve	Foreign Currency Translation Reserve	Total	Non- controlling Interest	Total
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 period	-	(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	-	-	-	-	-	-	-
Non-controlling interests	-	-	-	-	-	-	-
Balance at 31.12.2010	18,194,635	(16,353,404)	820,715	(43,573)	2,618,373	(28,929)	2,589,444
Balance at 1.7.2011	18,344,635	(17,539,446)	820,715	(98,546)	1,527,358	(194,487)	1,332,871
Loss for the period	-	(1,802,433)	-	-	(1,802,433)	(210,973)	(2,013,406)
Exchange difference on translation of foreign operations	-	-	-	1,800	1,800	(4,169)	(2,369)
Total comprehensive income for the period	-	(1,802,433)	-	1,800	(1,800,633)	(215,142)	(2,015,775)
Transactions with owners in their capacity as owners:							
Issue of shares, net of transaction costs	198,506	-	-	-	198,506	-	198,506
Non-controlling interests	-	-	-	-	-	5,991	5,991
Balance at 31.12.2011	18,543,141	(19,341,879)	820,715	(96,746)	(74,769)	(403,638)	(478,407)

Cell Aquaculture Ltd ABN 86 091 687 740

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

	Note	31.12.2011	31.12.2010
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		464,617	432,125
Interest received		1,943	47,093
Payments to suppliers and employees		(1,095,450)	(1,367,170)
Net cash outflow from operating activities		<u>(628,890)</u>	<u>(887,952)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for business acquisition – plant and equipment		-	(36,400)
Payment for business acquisition – inventories		-	(21,918)
Purchase of property, plant and equipment		(270,944)	(94,873)
Net cash outflow from investing activities		<u>(270,944)</u>	<u>(153,191)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Share Issues		-	-
Proceeds from convertible note issues		143,356	-
Net cash inflow from financing activities		<u>143,356</u>	<u>-</u>
Net decrease in cash held		(756,478)	(1,041,143)
Cash and cash equivalents at the beginning of the half-year		977,893	2,656,495
Effects of exchange rate changes on cash and cash equivalents		(2,369)	-
Cash and cash equivalents at the end of the half-year		<u><u>219,046</u></u>	<u><u>1,615,352</u></u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

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

These general purpose financial statements for the half-year reporting period ended 31 December 2011 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 2011 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.

Going Concern

As disclosed in the financial statements, the Group recorded a loss of \$2,013,406 and net cash outflows from operating activities of \$628,890 for the half-year ended 31 December 2011. The Company at balance date had a net current asset deficiency of \$773,532. These financial conditions indicate significant uncertainty whether the Group will 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.

The Directors believe, after taking account of these financial conditions, that the going concern basis of accounting for the Group is appropriate, which has been determined after consideration of the following factors:

- As detailed in Note 9(a), in March 2012 the Company raised \$400,000 in share capital by the issue of 20 million shares at 2 cents each. Further amounts have been pledged by investors.
- The Directors are confident of raising additional equity capital as required.
- Subsequent to reporting, the Group has rationalised its fixed cost structure and reduced operating costs which will reduce further commitments.

Accordingly, the Directors believe that the Company will obtain sufficient cash flows to enable it to continue as a going concern and that it is appropriate to adopt that basis of accounting in the preparation of the financial statements.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the Company does not continue as a going concern.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

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 2011	Australia	Malaysia	Thailand	Australia	
Total segment revenue	-	-	-	265,433	265,433
Inter-segment revenue	-	-	-	-	-
External Revenues	-	-	-	265,433	265,433
Adjusted EBITDA	(678,587)	(325,928)	(254,659)	(61,258)	(1,320,432)

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)

Total segment assets					
31-Dec-11	65,255	231,310	136,446	372,971	805,982
30-Jun-11	656,320	821,979	596,536	306,785	2,381,620

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

Note 2: Segment information (continued)

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

	2011	2010
	\$	\$
Adjusted EBITDA	(1,320,432)	(871,125)
Intersegment eliminations	-	-
Interest revenue	1,943	47,093
Finance costs	(21,653)	-
Gain on derivative financial instruments	297,239	-
Default fee	(64,706)	-
Interest expense	(467,333)	-
Provision for impairment of buildings	(416,000)	-
Depreciation	(22,464)	(11,759)
Loss before income tax from continuing operations	<u>(2,013,406)</u>	<u>(835,791)</u>

The amounts provided to the Board of Directors 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	
	31.12.2011	30.06.2011
	\$	\$
Trade receivables – TRG Cell*	344,018	500,149
Less provision for impairment	<u>(344,018)</u>	<u>-</u>
	<u>-</u>	<u>500,149</u>

* Trade receivables from TRG Cell Sdn Bhd. On 29 September 2011, Cell Aqua Malaysia Sdn Bhd received the first payment of RM 500,000 (\$154,778) from TRG Cell Sdn Bhd. Given delays in receipt of these monies, the Directors have provided for its impairment. The receivables continue to be pursued.

Note 4: Current liabilities - Borrowings

This note provides information about the contractual terms of the Group's interest-bearing borrowings.

(a) Convertible notes

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 by means of convertible notes.

The key terms of the funding facility remain the same as those disclosed in the June 2011 Financial Statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

Note 4: Current liabilities – Borrowings (continued)

(a) Convertible notes (continued)

	Consolidated	
	31.12.2011	30.06.2011
	\$	\$
Carrying amount of liability at beginning of period	113,686	-
Drawdown during period*	24,196	113,686
Conversions during period	(35,583)	-
Default fee **	64,706	-
Interest expense ***	467,333	-
Carrying amount of liability at end of period	<u>634,338</u>	<u>113,686</u>

* The face value of the drawdown for the period was \$143,357.

** The default fee has become payable due to the Group breaching an event of default of the original funding agreement during the period.

*** The interest expense has accrued due to the funding agreement being in a default position. An accelerated effective interest rate has therefore been recognised reflecting the issue of the default notice dated 30 April 2012 as opposed to the original contractual maturity date of 25 January 2015.

Note 5: Convertible note derivative

Pursuant to accounting standards, the option component of the convertible note is classified as liability. The value of the derivative fluctuates with the Company's underlying share price.

Due to the default position of the facility as disclosed in Note 4, the expected expiry date has been accelerated resulting in a gain during the period of \$297,239.

Note 6: Contributed Equity

During the period, convertible notes (as disclosed in Note 4) with a face value of USD236,978 were converted, resulting in 5,631,779 ordinary shares being issued at an average issue price of \$0.05.

Note 7: Commitments and contingent liabilities

As at 31 December 2011, the Company had lease commitments of \$18,409 until 6 June 2012 for production facility used by Cell Aqua Foods Pty Ltd.

Additionally, the Company's subsidiary, C Aquaculture (Thailand) Limited, has entered into land lease agreement for operations. The initial lease term is 3 years commencing on 15 October 2010 and expiring on 14 October 2013.

The amounts of lease payments committed for the remaining 2 years are as follows:

	Amount per year
	\$
2nd year (15 October 2011 – 14 October 2012)	29,832
3rd year (15 October 2012 – 14 October 2013)	29,832

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

Note 7: Commitments and contingent liabilities (continued)

Under the lease agreement, the Company has an option to renew the lease every 3 years. The lease can be extended up to 14 October 2025.

The Company had no contingent liabilities as at 31 December 2011.

Note 8: Significant expenses

	31.12.2011 \$	31.12.2010 \$
Provision for impairment of buildings	<u>416,000</u>	<u>-</u>

The Company is currently evaluating the financial position of its projects.

The carrying value of buildings based in Thailand have therefore been prudently impaired to the extent of \$416,000 pending a decision on the future of this project.

Note 9: Events occurring after balance date

(a) Share issue

In March 2012 the Company raised \$400,000 in share capital by the issue of 20 million shares at 2 cents each.

(b) Subsequent to balance date Peter Burns and Peter Bodycoat resigned as Directors, and Mr Noel Patterson was appointed a Director on 4 May 2012.

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 16 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 2011 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

Dated at Perth this 8th day of May, 2012