

## **CORPORATE GOVERNANCE STATEMENT**

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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 2009 in terms of the ASX Corporate Governance Council's (the Council's) "Corporate Governance Principles and Recommendations" (the Recommendations) published in August 2007.

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.

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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 regularly (five times during the period under review) to consider the business of the Company, its financial performance and other operational issues.

### **Remuneration Arrangements**

The Company's remuneration policy is set out in the Remuneration Report section of the Directors' Report.

The Board has not formed a remuneration committee as it considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of a remuneration committee. The Board as a whole is responsible for the remuneration arrangements for Directors and the Executive Chairman.

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

The structure and disclosure of the Company's remuneration policies for directors and senior executives are generally consistent with ASX Principle 8.

### **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. Re-appointment of directors retiring by rotation or filling a casual vacancy is not automatic.

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.

Recommendations of candidates for new directors are made by the Directors, or external advisers, for consideration by the Board as a whole.

### **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 2.

### **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.

The Board, however, considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

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The Board has also established a protocol for the management of the Company including a system of internal controls, a business risk management process and the establishment of appropriate ethical standards.

The full Board currently holds meetings at such times as may be necessary to address any general or specific matters as required.

If the Company's activities increase in size, scope and nature, the appointment of separate or special committees will be reviewed by the Board and implemented if appropriate.

Therefore the Company does not comply with ASX Principles 2, 4 and 8 as it does not have formal nomination, audit or remuneration committees.

### **Audit**

The Board has not established an audit committee as it considers that the Company is not of a size, nor is its financial affairs of such complexity to justify the formation of an audit committee. The Board as a whole undertakes the selection and proper application of accounting policies, the identification and management of risk and the review of the operation of the internal control systems.

### **Role of Auditor**

The Company's policy is to appoint an external auditor who clearly demonstrates quality and independence. The performance of the external auditor is reviewed annually and if deemed appropriate, having regard to the assessment of performance, existing value and costs, applications for tender of external audit services may be requested.

The Company's practice is to invite the auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

As part of the Company's commitment to safeguarding integrity in financial reporting, Cell Aquaculture has implemented procedures and policies to monitor the independence and competence of its external auditors. The auditor's independence declaration is included in this Annual Report.

### **Integrity of Financial Reporting**

The Executive Director reports in writing to the Board that:

- the consolidated financial statements of the Company and its controlled entities for the full year present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards;
- the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

There is further commentary on financial risk management at Note 17 to the financial statements.

For the Financial Report for the year ended 30 June 2009 it is confirmed that the Board has received assurance that the *Corporation Act 2001* section 295 declarations are founded on a sound system of risk management and internal control.

### **Business Risks**

Consistent with ASX Principle 7, the Company is committed to the identification, monitoring and management of risks associated with its business activities and has embedded in its management and reporting systems a number of risk management controls.

The Board is responsible for the oversight of the Company's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management within the Company with the Executive Chairman having ultimate responsibility to the Board for the risk management and the control framework.

Areas of significant business risk to the Company are highlighted in Board meetings and any business plans and operating reports presented to the Board.

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

Arrangements put in place by the Board to monitor risk management involve regular reporting to the Board in respect of operations and the financial position of the Company and include actual to budget comparatives and variance explanations.

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The Company's approach to risk management is based on the identification, assessment, monitoring and management of material risks that the Board and management believe that the Company may encounter. Once the risks have been identified, the risks are then classified in terms of their severity, the probability of occurring and the potential impact or damage they may have if they do occur. Once the risks have been identified the Company can then decide on whether to avoid, manage, insure or transfer these risks.

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.

### **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.

### **Continuous Disclosure**

The Company understands and respects that timely disclosure of price sensitive information is central to the efficient operation of the Australian Securities Exchange's securities market. The Board is cognizant of the need to prevent selective or inadvertent disclosure and exercise caution with investor and analysts briefings, media communications, commenting on expected earnings, communications black-out periods and review of briefings and communications.

The Company Secretary has responsibility for overseeing and coordinating disclosure of information to the Australian Securities Exchange. The Company Secretary also liaises with all the Board members in relation to continuous disclosure matters. The Executive Chairman is responsible for overseeing and coordinating disclosure of information to analysts, brokers and shareholders.

### **Ethical Standards**

All Directors, executives and employees are charged with the responsibility to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. In this regard the Company has implemented a Code of Conduct which is on the Company's website.

### **Communications with Shareholders**

The Board aims to ensure that shareholders are kept informed of all major developments affecting Cell. Information is communicated to shareholders through the distribution of annual reports, newsletters and by presentation to shareholders at the Annual General Meeting which they are encouraged to attend.

In addition, all reports, including quarterly reports and releases made by the Company throughout the year with respect to its activities are distributed widely via the Australian Securities Exchange and placed on the Company's website [www.cellaqua.com](http://www.cellaqua.com).

Shareholders and interested parties may subscribe to receive the latest announcements issued by the Company by visiting the Company's website and entering their details.