

CELL AQUACULTURE LTD

ABN 86 091 687 740

**Financial Report
for the Financial Year Ended 30 June 2005**

C O N T E N T S

Directors' Report	3-12
Independent Auditor's Declaration	13
Independent Auditor's Report	14-15
Directors' Declaration	16
Statement of Financial Performance	17
Statement of Financial Position	18
Statement of Cash Flows	19
Notes to the Financial Statements	20-39

Cell Aquaculture Ltd ABN 86 091 687 740
DIRECTORS' REPORT

The directors of CELL AQUACULTURE LIMITED submit herewith the annual financial report of the Company for the financial year ended 30 June 2005. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

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

Perryman James Leach
Peter Joseph Burns
David Richard Thomas
Edwin Leith Boyd
Quenton Harold Leach (Appointed alternate director for Perryman Leach on 2 September 2005)
Peter Gerard Burns (Appointed alternate director for Peter J Burns on 29 September 2005)
John Rowe (Resigned 21 September 2004)

Lee Boyd (age 57)

Chairman, independent, non-executive director

B Bus, Dip Mgmt Studies (Mktg), Adv Cert Bus (RE)
CPA, FAICD, ACSA, AFAMI

Appointed a director on 26 March, 2003 and re-elected at the Annual General Meeting held on 21 December, 2004.

Mr Boyd has extensive and broad ranging senior executive, management consulting, corporate and directorial experience gained in a number of industries over the past 35 years. These include the food manufacturing, import/export, franchising, retailing, industrial engineering and resource industry sectors.

He has held senior executive positions with a number of high profile companies including Cadbury Schweppes, George Weston Foods, Metro Industries and Foodland. He has been a director of a number of public and private companies as well as having represented industry as President, or as a Director, on the executive of state and national peak industry bodies.

He maintains CPA status with CPA Australia, is a Fellow of the Australian Institute of Company Directors, an Affiliate of Chartered Secretaries Australia and an Associate Fellow of the Australian Marketing Institute.

Mr Boyd's current professional activities include the provision of corporate advisory and business services to a number of public and private company clients.

He is a member of the Audit Committee and the Remuneration Committee.

Mr Boyd has not held directorships in any listed companies during the past three financial years.

Perryman Leach (age 64)
Managing Director, non-independent, executive director
M.I.E. Aust.

Appointed a director and managing director on 7 March, 2000.

Mr Leach, the creator of the Eco-Cell™ system, obtained an engineering Associateship of The Gordon Institute of Geelong. He transferred to Western Australia in 1970 to assist in the establishment of a national consultancy firm specialising in project feasibility assessments and project management. He obtained his builders' registration licence in 1972.

Mr Leach started the project and construction management company, Co-Struct Pty Ltd, in 1978 and has controlled projects with a total value in excess of \$100 million.

Many of Mr Leach's projects have been in the food chain, including intensive farming through to abattoirs, small goods and processing factories, chiller and freezer works. He has also been involved in the development of pollution control equipment. All of these projects have been successful and have required high levels of innovation and commitment.

Mr Leach became involved in aquaculture in 1997, when he commenced three years of intensive research in the field, with particular emphasis on the development and refinement of recirculating systems. He has travelled to Europe and America to investigate the latest developments in land farming for commercial aquaculture.

Mr Leach has not held directorships in any listed companies during the past three financial years.

Dr. David Richard Thomas (age 59)
Independent, non-executive director
BSc Agric (Hon), Ph.D

Appointed a director on 7 April, 2000 and re-elected at the Annual General Meeting held on 21 December, 2004.

Dr Thomas completed a Bachelor of Agricultural Science with Honours at UWA followed by a Doctorate of Philosophy. He is a Gold Member of the Bread Research Institute and a member of the Australian Institute of Agricultural Science, Australian Grain Institute and the Nutritional Society of Australia. He has also undertaken courses in Human Relations, a post Doctorate Certificate of Management, Strategic Planning, A.I.M. Financial Management, Internal Auditor Training, and Food Safety Auditor Training.

Dr Thomas commenced work in 1967 in the feed industry where his responsibilities included the development and design of a new feed mill. In 1977 he became Grains Manager/Chemist

in control of purchasing raw ingredients for the flour mill and its associated clients.

In 1990 he took on the role of Chief Chemist and Quality Assurance Manager for the mill, laboratory and test bakery. These responsibilities required him to travel overseas and evaluate markets for flour and associated products. In 1998 he managed the implementation of a quality system throughout the company, and obtained AS/NZS ISO 9002: 1994 and HACCP ISO 9002:1994 accreditation. Subsequently he has gained HACCP Certification in some fourteen businesses around Australia. Further, he has reviewed and overseen the implementation of FeedSafe™ in a rapidly expanding feed mill in WA.

Dr Thomas has been instrumental in the development of specific feed diets for the Eco-Cell™ system.

Dr Thomas is Chairman of the Audit Committee.

Dr Thomas has not held directorships in any listed companies during the past three financial years.

Peter J Burns (age 57)
Non-independent, non-executive director
FCMI

Appointed a director on 28 November, 2001 and re-elected at the Annual General Meeting held on 26 March, 2004.

Mr Burns is a Fellow of the Chartered Management Institute (London) and brings to the Company a comprehensive range of local and international sales and marketing expertise.

He migrated from Northern Ireland to Perth in 1987. While in Northern Ireland, he studied City and Guild Levels of Building and worked for two large construction and civil engineering companies as a Senior Project Planner. Later he moved to Dublin where he started his own marketing company, which he ran for the next fourteen years before migrating to Perth.

In 1988 Mr Burns owned and developed a \$12 million forty-four unit luxury apartment development on the beach front at Scarborough, known as "Sandcastles on Scarborough".

In 1992 Mr Burns was the founding member and major shareholder of the Fremantle Brewing Company, which he maintained until 1994.

Since 1994 Mr Burns has concentrated his marketing energies and expertise on real estate and property development and in 2004/2005 handled in excess of \$100 million worth of properties.

He is Chairman of the Remuneration Committee.

Mr Burns has not held directorships in any listed companies during the past three financial years.

Quenton Leach (age 33)

Alternate, non-independent, executive director

Operations Manager

Appointed alternate director for Perryman Leach on 2 September 2005.

Mr Leach joined the Company in the initial stages of development. He has completed appropriate business and aquaculture studies and has had significant input into the final design and operation of the system. His hands-on approach has advanced the Company's operations and the Eco-Cell™ technologies.

Mr Leach has not held directorships in any listed companies during the past three financial years.

Peter G Burns (age 29)

Alternate, non-independent, executive director

B Bus, AIMM, AMAMI

Marketing Manager

Appointed alternate director for Peter J Burns on 29 September 2005.

Mr Burns has a Bachelor of Business degree with a double major in marketing and management. He has held senior management and marketing positions at state and national levels and prior to joining Cell Aquaculture, had his own business which he subsequently sold to a large multi-national company. He brings management, marketing and business development skills to the Company.

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 and the Institute of Chartered Secretaries and Administrators. He is also a fellow of CPA Australia and a member of the Australian Institute of Company Directors. Mr Gregory was appointed in 2005 having previously been engaged in the mining, banking and insurance industries.

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.

Operating Results

The net loss after providing for income tax amounted to \$704,349 (2004 - \$694,737).

Dividends Paid or Recommended

No dividends were paid during the year and no recommendation is made as to dividends.

Review of Operations

During the year ended 30 June 2005, the Company continued its development of its aquaculture system, whilst preparing for listing on the Australian Stock Exchange.

Revenues consisted of grants received totalling \$36,944 and the sale of fish produced at its Research & Development facility at Hamilton Hill totalling \$28,060.

The Hamilton Hill located Eco-Cell™ facility continued to operate primarily as a Research & Development facility, with the majority of product being utilized in test marketing overseas with some product being sold into the local market.

While revenues declined marginally, the Company continued an aggressive stance on cost control management; however, the Company did incur marketing and legal costs associated with several international business developments, expenditure that we are confident will yield new revenue or profits in the coming years.

The major product development emphasis has been on the development and testing of the new three tank Eco-Cell™ together with a revolutionary new nursery package.

In co-operation with James Cook University the Company has continued its long term development and research of:

- a) Golden Perch,
- b) Murray Cod, and
- c) The effects of travel time on the future growth rates of Barramundi fingerlings

The focus of the Company for the next financial year is to pursue the promotion, marketing and establishment of joint venture arrangements, promotion and sale of the Eco-Cell™ systems, and to undertake further research and development of additional species and technologies.

Significant Changes in State of Affairs

The following significant changes occurred during the financial year:

1. During the financial year the Company negotiated four Heads of Agreement to enter into joint ventures to build and operate aquaculture production facilities in the Netherlands, India, and two in the United States of America.

2. In September 2004 the Company made a decision to seek listing on the Australian Stock Exchange and commenced the due diligence process.
- (a) On the 22nd of April 2005 the Company issued a Prospectus which offered 25,000,000 shares at an issue price of 20 cents per share to raise \$5,000,000 and for oversubscriptions of up to 10,000,000 shares at 20 cents each to raise a further \$2,000,000.
 - (b) On the 23rd of May 2005, ASIC issued an interim stop order in relation to the prospectus which was quickly resolved.
 - (c) On the 31st of May 2005 a Supplementary Prospectus was lodged with ASIC and the Directors of Cell Aquaculture resolved to defer the closing date to 30th of June 2005.
 - (d) On the 30th of June 2005 the Board resolved to extend the offer for an additional two weeks closing at 5.00pm on Friday the 15th of July 2005.
 - (e) On the 18th of July the Board resolved that, subject to receipt of approval from ASX for admission to quotation, the Company issue and allot 26,007,000 ordinary shares at an issue price of 20 cents per share to the persons identified as applicants of those shares in the final listing, raising a total of \$5,201,400.
 - (f) Cell Aquaculture Ltd was first quoted on the Australian Stock Exchange on 25th of July 2005.

After Balance Date Events

- (a) Issue of Shares

Pursuant to a prospectus dated 22 April 2005, the Company raised \$5,201,400 under its initial public offering through the issue on 18 July 2005 of 26,007,000 shares at \$0.20 each. The Company commenced trading on the Australian Stock Exchange on 25 July 2005.

- (b) Sale and Leaseback of Land at 66 Bennett Avenue, Hamilton Hill

On 5 August 2005 the company entered into a contract for the sale of land and buildings at 66 Bennett Avenue, Hamilton Hill for \$2,600,000. Settlement is due on 7 November 2005. The transaction was subject to the Company entering into a lease agreement with the purchaser in respect of the land for a period of three years with the option of two further one year extensions. The directors have agreed to execute the lease agreement as outlined above. The book value of these land and buildings at 30 June 2005 is \$1,021,615, therefore resulting in an estimated profit before income tax of \$1,578,385. Future lease commitments in respect of the lease of the property will be approximately \$110,000 per annum net of GST for the initial three year period.

- (c) Options

In July 2005 the Company issued 3,000,000 options exercisable at 35 cents within 3 years of the date of issue to the non-executive directors of the Company.

Cell Aquaculture Ltd ABN 86 091 687 740
DIRECTORS' REPORT

Future Developments

Likely developments in the operations of the Company 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 Company.

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 2005, and the numbers of meetings attended by each director were:

	Directors' Meetings		Remuneration Committee	
	Number Eligible To Attend	Number Attended	Number Eligible To Attend	Number Attended
P J Burns	15	15	1	1
P J Leach	15	15	-	-
D R Thomas	15	13	-	-
J C Rowe – Resigned 21 September 2004	6	5	-	-
E L Boyd	15	13	1	1
Q H Leach (Alternate)	-	-	-	-
P G Burns (Alternate)	-	-	-	-

The audit committee members are Mr. E L Boyd and Mr. D R Thomas. No meetings were held prior to 30 June 2005.

Share Options

There were 14,885,500 share options outstanding at 30 June 2005 exercisable at 35 cents per share on or before 30 June 2005. All these options expired on 30 June 2005, as no options were exercised.

3,500,000 options exercisable at 20 cents on or before 1 March 2008 were issued on 1 March 2005.

No shares have been issued through the exercise of options during or since the end of the previous financial year.

Directors' Shareholdings

As at the date of this report the interests of the directors in the shares of the Company were:

	Number of Ordinary Shares
P J Burns	9,176,668

Cell Aquaculture Ltd ABN 86 091 687 740
DIRECTORS' REPORT

P J Leach	17,070,001
D R Thomas	1,330,000
E L Boyd	Nil
Q H Leach	500,000
P G Burns	2,198,450

Remuneration Report

This report describes the remuneration arrangements for directors and executives of the Company.

One of the committees of the board is the remuneration committee whose role is described in the corporate governance statement in this annual report. In respect of remuneration, the committee:

- makes recommendations to the board in relation to remuneration of non-executive directors,
- establishes, reviews and recommends remuneration terms and the performance of the managing director, and
- reviews and recommends remuneration arrangements for key executives.

The Board of Directors, with the assistance of the Remuneration Committee, 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.

To assist in achieving these objectives, the board considers the nature and amount of executive directors' and officers' emoluments relative to the Company's financial and operational performance.

Executives are those directly accountable and responsible for the operational management and strategic direction of the Company. Other than Mr Perryman Leach, whose remuneration is disclosed below, there were no other executive officers in the Company.

The emoluments for each director are as follows:

2005

	Salary, Fees & Commission	Consultancy	Superannuation Contribution	Total
P J Leach	-	142,964	-	142,964
P J Burns	-	-	-	-
D R Thomas	-	25,866	-	25,866
J C Rowe	5,693	-	512	6,205
E L Boyd	-	30,250	-	30,250
	5,693	199,080	512	205,285

Further details of directors' remuneration are shown in note 5 of the notes to the financial statements.

Service Agreements

Remuneration and other terms of employment for the Managing Director are formalised in a service agreement. Major provisions of this agreement are set out below.

- Term of agreement – 1 year commencing 25 July 2005 with a 1 year option to extend granted to the Company.
- Remuneration is \$150,000 per annum, inclusive of superannuation and other entitlements.
- The Company may terminate the agreement for cause or by giving 1 month's notice to Mr Leach.

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, as set out in note 6 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 Professional Statement F1.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 13.

Details of amounts paid or payable to the auditor, Horwath Audit (WA) P/L, for audit and non-audit services provided during the year are set out in note 6 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:



Perryman James Leach
DIRECTOR

Dated at Perth this 29th day of September 2005.



29 September 2005

The Board of Directors
Cell Aquaculture Ltd
PO Box 251
SOUTH FREMANTLE WA 6162

Horwath Audit (WA) Pty Ltd

ABN 79 112 284 787

Chartered Accountants

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PO Box 700 West Perth WA 6872

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Telephone (08) 9380 8400

Facsimile (08) 9380 8499

AUDITOR'S INDEPENDENCE DECLARATION

This declaration is made in connection with our audit of the financial report of Cell Aquaculture Ltd for the year ended 30 June 2005 and in accordance with the provisions of the Corporations Act 2001.

We declare that, to the best of our knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to this audit;
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to this audit.

Yours faithfully
HORWATH
Audit (WA) Pty Ltd

HORWATH.
Glyn O'Brien

GLYN O'BRIEN
Director

**Independent audit report to members
of Cell Aquaculture Limited****Scope***The financial report and directors' responsibility*

The financial report comprises the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Cell Aquaculture Limited (the company), for the year ended 30 June 2005.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.



Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

In accordance with ASIC Class Order 05/83 we declare that, to the best of our knowledge and belief, the auditor's independence declaration set out on page 13 of the financial report has not changed as at the date of providing this audit opinion.

Audit opinion

In our opinion, the financial report of Cell Aquaculture Ltd is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2005 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

Dated the 29th day of September 2005.

HORWATH
Audit (WA) Pty Ltd

Horwath.
Glyn O'Brien

GLYN O'BRIEN
Director

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 17 to 39 are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the company's financial position as at 30 June 2005 and of its performance, as represented by the results of its operations and its cash flow, for the financial year ended on that date.
2. In the directors' 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. This declaration has been made after receiving the declaration required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30th June 2005.

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



Director

Date: 29th September 2005

Cell Aquaculture Ltd ABN 86 091 687 740

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

	NOTE	2005 \$	2004 \$
Revenue from ordinary activities	2	70,747	97,575
Raw materials and consumables used	3	(18,973)	(4,719)
Marketing expenses		(48,556)	(194,164)
Communication expenses		(13,939)	(17,513)
Consultancy expenses		(150,036)	(13,188)
Consumables		(31,562)	(2,568)
Employee benefits expense		(236,464)	(320,855)
Insurance expenses		(31,256)	(26,896)
Occupancy Costs		(30,721)	(31,737)
Professional Costs		(107,756)	(167,156)
Depreciation and amortisation expense	3	(113,525)	(102,411)
Borrowing costs expense	3	(70,055)	(30,576)
Other expenses from ordinary activities		(83,911)	(58,334)
Profit/(loss)from ordinary activities before Income Tax Expense/ Benefit		(866,007)	(872,542)
Income tax benefit relating to ordinary activities	4	161,658	177,805
Net profit/(loss) from ordinary activities after income tax expense attributed to members of the company		(704,349)	(694,737)
Total changes in equity other than those resulting from transactions with owners as owners		(704,349)	(694,737)
Basic earnings per share	24	Cents Per Share (0.8)	Cents Per Share (1.0)

The accompanying notes form part of these financial statements.

Cell Aquaculture Ltd ABN 86 091 687 740

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005**

	NOTE	2005 \$	2004 \$
CURRENT ASSETS			
Cash assets	7	6,602	110,309
Receivables	8	43,207	53,512
Inventory		26,235	26,235
Other	9	323,219	1,082
TOTAL CURRENT ASSETS		<u>399,263</u>	<u>191,138</u>
NON CURRENT ASSETS			
Receivables	8	2,420	2,420
Property, plant and equipment	10	1,143,590	1,188,496
Intangible assets	11	179,767	212,767
Other	9	1,461,270	971,372
TOTAL NON CURRENT ASSETS		<u>2,787,047</u>	<u>2,375,055</u>
TOTAL ASSETS		<u>3,186,310</u>	<u>2,566,193</u>
CURRENT LIABILITIES			
Payables	12	308,357	310,002
Interest Bearing Liabilities	13	309,266	-
Other	21(c)	-	55,000
TOTAL CURRENT LIABILITIES		<u>617,623</u>	<u>365,002</u>
NON CURRENT LIABILITIES			
Interest bearing liabilities	13	270,448	1,091,147
TOTAL NON CURRENT LIABILITIES		<u>270,448</u>	<u>1,091,147</u>
TOTAL LIABILITIES		<u>888,071</u>	<u>1,456,149</u>
NET ASSETS		<u>2,298,239</u>	<u>1,110,044</u>
EQUITY			
Contributed equity	14	5,199,744	3,307,200
Accumulated losses	15	(2,901,505)	(2,197,156)
TOTAL EQUITY		<u>2,298,239</u>	<u>1,110,044</u>

The accompanying notes form part of these financial statements.

Cell Aquaculture Ltd ABN 86 091 687 740

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005**

	NOTE	2005 \$	2004 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers		26,416	31,681
Grant received		36,944	59,868
Interest received		5,743	5,494
Borrowing costs		(38,805)	(30,576)
Payments to suppliers and employees		(593,038)	(732,688)
Income tax refund		161,658	177,805
Net Cash Provided by (Used in) Operating Activities	21(b)	<u>(401,082)</u>	<u>(488,416)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for Research & Development		(489,898)	(295,832)
Payments for Property, Plant and Equipment		(35,618)	(203,461)
Net Cash Provided by (Used in) Investing Activities		<u>(525,516)</u>	<u>(499,293)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Payments for Prospectus and Shares Issue Costs		(262,637)	-
Proceeds from Share Issues		1,062,100	435,250
Share Issue Costs		(5,806)	(100,000)
Proceeds from Issue of Convertible Note			750,000
Repayment of Bank Loan		(35,377)	(32,894)
Repayment – Aquaculture Technology Agreement		(145,833)	(76,167)
Other loans		-	55,000
Net Cash Provided by (Used in) Financing Activities		<u>612,447</u>	<u>1,031,189</u>
Net increase/(decrease) in cash held		(314,151)	43,480
Cash at beginning of the financial year		110,309	66,829
Cash at the end of the financial year	21(a)	<u>(203,842)</u>	<u>110,309</u>

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

Note 1: Statement of Significant Accounting Policies

The financial report is a general-purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report has 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.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report. The accounting policies have been consistently applied unless otherwise stated.

(a) Income Tax

The company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences, which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income, are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realization of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the company will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law.

(b) Acquisition of Assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus incidental costs to the acquisition.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

(c) 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 proceed of disposal, and is included in operating profit before income tax of the company in the year of disposal. Any realised revaluation increment relating to the disposed asset which is included in the asset revaluation reserve is transferred to the asset realisation reserve.

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.

The depreciation amount of fixed assets included buildings and capitalised lease asset, 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	5 %
Plant and equipment	5 – 40%

(d) Intangibles

Patents, Technology and Licences are valued in the accounts at cost of acquisition and are amortised over the period in which their benefits are expected to be realised.

(e) Research & Development

Costs incurred on research and development projects are deferred to future periods to the extent that they are expected beyond any reasonable doubt to be recoverable. Deferred costs are amortised from the commencement of commercial production of the product to which they relate on a straight-line basis over the period of the expected benefit.

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

Where a grant is received or receivable in relation to research and developments costs which have been charged to profit and loss account during this or a prior financial year, the grant shall be credited to the Statement of Financial Performance.

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 Statement of Financial Performance.

(f) Employee Entitlements

Provision is made for the company's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at their nominal amount. Other employee entitlements payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements.

(g) Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months, net of bank overdrafts.

(h) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Revenue from the rendering of a service is recognized upon the delivery of the service to the customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Cell Aquaculture Ltd ABN 86 091 687 740

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

All revenue is stated net of the amount of goods and services tax (GST).

(i) Comparative Figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

(j) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense as applicable.

Receivables and payables 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 Statement of Financial Position.

(k) Earnings Per Share

Basic earnings per share is determined by dividing the net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends), by the weighted average number of ordinary shares, adjusted for any bonus element.

(l) Inventories

Inventories are measure at the lower of cost and net realisable value.

(m) Going Concern

The Company incurred a loss for the year of \$704,349 (2003: \$694,737). At 30 June 2005 the Company had a deficiency in working capital of \$218,360. As detailed in note 22(a), in July 2005, the Company successfully raised \$5,201,400 and floated on the ASX and as a result the Company is able to meet its debts as and when they fall due.

On this basis, the Directors consider it appropriate that the financial report be prepared on a going concern basis.

Note 2: Revenue

	2005	2004
	\$	\$
Operating activities		
- Sale of produce	28,060	33,250
- Interest received	5,743	4,457
- Other – Export Market Development Grant	36,944	59,868

Cell Aquaculture Ltd ABN 86 091 687 740

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005**

Total revenue	70,747	97,575
Note 3: Loss from Ordinary activities		
Expenses		
Cost of Sales	18,973	4,719
Depreciation of non-current assets		
Land improvements	4,115	4,115
Buildings	24,676	21,547
Plant and equipment	51,734	43,749
Total depreciation	80,525	69,411
Amortisation of non-current assets		
Intellectual property / licence	33,000	33,000
Borrowing costs		
Interest paid	70,055	30,576

Note 4: Income Tax

The prima facie income tax expense on the pre-tax accounting loss reconciles to the income tax benefit in the financial statements as follows:

	2005	2004
	\$	\$
Loss from Ordinary Activities Before Income Tax	866,007	694,737
Income tax benefit at 30%	(259,802)	(208,421)
Permanent Differences:		
Amortisation of intangibles and research & development	9,900	9,900
Non-deductible expenses – Preliminary Costs and Research and Development Expenditure	-	107,927
Non-deductible expenses – Other	22,834	4,569
Non-deductible expenses – Legal	14,102	38,132
Tax losses not brought to account	212,966	47,893
R & D Cash Rebate Claimed (see note)	(161,658)	(177,805)
Income tax benefit attributable to operating loss	(161,658)	(177,805)

The franking account balance at year end was \$nil (2004: \$nil).

During the year ended 30 June 2005 the Company applied for and received a cash rebate from the Australian Taxation Office of \$161,658 (2003 - \$177,805) representing the tax value of research and development costs for the year ended 30 June 2004. This amount is shown as an income tax benefit in the Statement of Financial Performance for the year ended 30 June 2005. The Company intends claiming the same rebate in respect of expenditure for the year ended 30 June 2005. The rebate applied for is estimated at \$160,000. If this is successful, the refund will be shown as an income tax benefit for the year ended 30 June 2006. The directors do not consider there are any other potential future income

Cell Aquaculture Ltd ABN 86 091 687 740

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005**

tax benefits not brought to account at 30 June 2005.

Note 5 (a) : Directors and Executives Remuneration

Names and positions held of directors and specified executives in Office at any time during the year are:

Specified Directors:

▪ P J Leach	Managing Director - Executive
▪ P Burns	Director – Non Executive
▪ D R Thomas	Director – Non Executive
▪ J C Rowe –Resigned 21 September 2004	Director – Executive
▪ E L Boyd	Chairman – Non Executive

Specified Executives:

At the date of this report, the company had no employees fulfilling the role of specified executive officers other than those disclosed at specified directors.

Note 5 (b) : Director’s Remuneration

2005

	Salary, Fees & Commission	Consultancy	Superannuation Contribution	Total
P J Leach	-	142,964	-	142,964
P Burns	-	-	-	-
D R Thomas	-	25,866	-	25,866
J C Rowe	5,693	-	512	6,205
E L Boyd	-	30,250	-	30,250
	5,693	199,080	512	205,285

2004

	Salary, Fees & Commission	Consultancy	Superannuation Contribution	Total
P J Leach	-	-	-	-
P Burns	-	-	-	-
W J Mead	-	-	-	-
D R Thomas	-	-	-	-
Anne Templeman – Jones	132,433	-	11,919	144,352
J C Rowe	36,653	-	3,299	39,952
E L Boyd	-	-	-	-
	169,086	-	15,218	184,304

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

Note 5 (c) : Specified Executives Remuneration

At the date of this report, the company had no employees fulfilling the role of specified executive officers other than those disclosed at specified directors.

Note 5(d) : Options Holdings

Number of Options held by Directors and Executives

Director	Balance 1.7.04	Granted as Remun- eration	Options Exercised	Options Expired	Balance 30.6.05	Total Vested 30.6.05	Total Exercisable 30.6.05	Total Unexercisable 30.6.05
P J Leach	3,935,000	-	-	(3,935,000)	-	-	-	-
P J Burns	2,814,500	-	-	(2,814,500)	-	-	-	-
D R Thomas	449,000	-	-	(449,000)	-	-	-	-
J C Rowe	-	-	-	-	-	-	-	-
E L Boyd	-	-	-	-	-	-	-	-

Note 5(e) : Share Issued on Exercise of Remuneration Options

There were no remuneration options issued during the year.

Note 5(f) : Shareholdings

Director	Balance 1 July 2004	Received as Remuneration	Options Exercised	Net Purchased/ (Sold)	Balance 30 June 2005
P J Leach	17,070,001	-	-	-	17,070,001
P J Burns	9,676,668	-	-	(500,000)	9,176,668
D R Thomas	1,330,000	-	-	-	1,330,000
J C Rowe	-	-	-	-	-
E L Boyd	-	-	-	-	-

Note 5 (g) : Remuneration Practices

The Board policy for determining emoluments is based on the principle of remunerating Directors and senior executives on their ability to add value to the Company (taking into account the Company's strategic plan and operations) whilst also considering market emolument packages for similar positions within the industry and in consultation with external consultants.

The Board appreciates the interrelationship between this policy and Company performance. It acknowledges that it is in the best interests of shareholders to provide challenging but achievable

Cell Aquaculture Ltd ABN 86 091 687 740

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005**

incentives to reward senior executives for reaching the Company's stated goals.

The Board will discuss these issues internally and with candidates prior to engaging additional directors or senior executives in the future.

Note 5 (h) : Service Agreements

Refer Directors' report at page 11 for details of service agreements.

Note 6: Auditor's Remuneration

	2005	2004
	\$	\$
Remuneration of the auditor of the company for:		
- auditing and reviewing the financial report	14,439	9,375
- other services provided by related practice of auditor	10,782	-
	<u>25,221</u>	<u>9,375</u>

Note 7: Cash Assets

Cash at bank	<u>6,602</u>	<u>110,309</u>
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Note 8: Receivables

CURRENT		
Trade debtors	5,521	3,878
Other debtors	37,686	49,634
	<u>43,207</u>	<u>53,512</u>
NON-CURRENT		
Other debtor	2,420	2,420
	<u>2,420</u>	<u>2,420</u>

Note 9: Other Assets

CURRENT		
Prepaid borrowing costs	582	1,082
Prepaid prospectus and share issue costs (Refer Note 22(a))	322,637	-
	<u>323,219</u>	<u>1,082</u>
NON-CURRENT		
Research & Development – at cost (Note 9(a))	<u>1,461,270</u>	<u>971,372</u>
(a) Research and Development		
Movements during the year		
Opening balance	971,372	675,540
Costs incurred during the year	489,898	295,832
Amortisation	-	-
Closing balance	<u>1,461,270</u>	<u>971,372</u>

Cell Aquaculture Ltd ABN 86 091 687 740

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005**

Note 10: Property, Plant and Equipment

	2005	2004
	\$	\$
Land and Buildings		
Freehold Land – at cost	579,610	579,610
	<u>579,610</u>	<u>579,610</u>
Land improvement – at cost	82,300	82,300
Less: Accumulated depreciation	(14,384)	(10,269)
	<u>67,916</u>	<u>72,031</u>
Buildings – at cost	434,992	432,932
Less: Accumulated depreciation	(60,903)	(36,227)
	<u>374,089</u>	<u>396,705</u>
Total Land and Buildings (Refer Note 10(b))	<u>1,021,615</u>	<u>1,048,346</u>
Plant & Equipment		
Plant & equipment – at cost	320,571	287,011
Less: Accumulated depreciation	(198,596)	(148,861)
Total plant & equipment	<u>121,975</u>	<u>138,150</u>
Total property, plant and equipment	<u>1,143,590</u>	<u>1,188,496</u>

(a) Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

	Freehold Land	Land Improvement s	Buildings	Plant & Equipment	Total
Balance at the beginning of year	579,610	72,031	396,705	140,150	1,188,496
Additions	-	-	2,060	33,559	35,619
Disposals	-	-	-	-	-
Depreciation expense	-	4,115	24,676	51,734	80,525
Carrying amount at the end of year	<u>579,610</u>	<u>67,916</u>	<u>374,089</u>	<u>121,975</u>	<u>1,143,590</u>

(b) Freehold Land & Buildings

A directors' valuation of \$1,300,000 was attributable to freehold land and buildings and was undertaken on 30 June 2004. The valuation was based on an assessment of the property's

Cell Aquaculture Ltd ABN 86 091 687 740

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005**

current market value at that time.

Subsequent to 30 June 2005, as detailed in Note 22(b), a contract was entered into for the sale of the freehold land and buildings for \$2,600,000.

Note 11 Intangible Assets

	2005	2004
	\$	\$
Intellectual property / license	330,000	330,000
Less: Accumulated depreciation	(151,250)	(118,250)
	178,750	211,750
Formation expenses	1,017	1,017
	179,767	212,767

Note 12 Payables

CURRENT		
Trade creditors and accruals	308,357	164,169
Loans – Aquaculture Technology Agreement	-	145,833
	308,357	310,002

Note 13 Interest Bearing Liabilities

	NOTE		
CURRENT			
Bank Overdraft	13(a)	210,444	-
Bank Loan	13(a)	35,322	-
Loan – Unsecured	13(c)	63,500	-
		309,266	-
NON-CURRENT			
Convertible Note	13(b)	-	750,000
Bank Loan	13(a)	270,448	341,147
		270,448	1,091,147

(a) The Bank loan and Bank overdraft are secured over land and buildings

(b) Convertible Note

On 29 October 2004 convertible notes on issue were converted to ordinary shares, under the terms of the notes, at 8 cents each. As a result of this conversion, 9,765,625 shares at 8 cents were issued, totalling \$781,250. This represents the liability under the notes of \$750,000, plus interest accrued to the date of conversion of \$31,250.

(c) Unsecured Loan

The unsecured loan was a loan of \$60,000 at 6% p.a. from a Director to pay prospectus and other costs. It was paid in full on 5 September 2005. At 30 June 2005 \$3,500 is accruing as interest.

Cell Aquaculture Ltd ABN 86 091 687 740

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005**

Note 14 Issued Capital – Contributed Entity

	2005	2004
	\$	\$
92,709,606 (2004 – 75,468,619) fully paid ordinary shares	5,199,744	3,307,200

(a) Fully paid ordinary shares participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held.

(b) At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(c) Movements in ordinary share capital

	2005		2004	
	No	\$	No	\$
Opening balance	75,468,619	3,307,200	80,748,619	3,041,950
Convertible notes converted to shares (Note 13(b))	9,765,625	781,250	-	-
Unsecured loans converted to shares	366,667	55,000	-	-
Shares issued at 15 cents each	6,727,332	1,009,100	2,435,000	365,250
Shares cancelled	-	-	(10,110,000)	-
Shares issued to employees	354,700	53,000	1,000,000	-
Shares issued at 8 cents being for share issue costs	-	-	1,375,000	-
Share issue costs	-	(5,806)	-	(100,000)
Cost of capital raising – issue of options	-	(201,250)	-	-
Issue of options (Note 14(d)(ii))	-	201,250	-	-
Other adjustment	26,663	-	20,000	-
Closing balance	92,709,606	5,199,744	75,468,619	3,307,200

(d) Options

(i) At 30 June 2004, there were 14,885,500 share options outstanding, exercisable at 35 cents per share on or before 30 June 2005. All options expired on 30 June 2005, as no options were exercised.

(ii) 3,500,000 options exercisable at 20 cents on or before 1 March 2008 were issued on 1 March 2005.

Cell Aquaculture Ltd ABN 86 091 687 740

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005**

Note 15 Accumulated Losses

	2005	2004
	\$	\$
Accumulated losses at the beginning of the financial year	2,197,156	1,502,419
Net loss attributable to members of the company	<u>704,349</u>	<u>694,737</u>
Accumulated losses at the end of the financial year	<u>2,901,505</u>	<u>2,197,156</u>

Note 16 Capital Commitments

(a) Interests in Joint Ventures

At 30 June 2005 the Company had executed Heads of Agreement to enter into four joint ventures agreements with separate partners in the United States of America (2), The Netherlands (1), and India (1). These Heads of Agreement commit the Company and each prospective joint venture partner to form a separate company for the purposes of operating the land based aquaculture system developed by Cell. The Company and the partner will each hold 50% of the issued capital in the new joint venture company. Each Heads of Agreement stipulates that each party will provide initial funding to be used for the purposes of establishing each new joint venture company. The total initial funding committed by the Company under these Heads of Agreement is \$25,000, and in July 2005 the Company committed a further \$400,000 to progress its joint venture in The Netherlands.

Note 17 Contingent Liabilities

The Company had no contingent liabilities as at 30 June 2005.

Note 18 Segment Information

The economic entity operates predominantly in the aquacultural industry within Australia. Although it has entered into joint venture agreements as detailed in Note 16, that will operate outside Australia, there are no assets or liabilities attributable to these geographical areas at balance date.

Note 19 Related Party Disclosures

	2005	2004
	\$	\$
(a) Directors Loans		
Aggregate amounts payable to directors and their director-related entities at balance date:		
Current liabilities		
Payables	159,803	145,833

(b) Other Transactions with directors and director-related entities:

Transactions between related parties are on

Cell Aquaculture Ltd ABN 86 091 687 740

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005**

commercial terms no more favourable than those available to other parties unless otherwise stated.

	2005	2004
	\$	\$
(i) In year ended 30 June 2001, Insulok Pty Ltd and P J & W J Leach entered into a contract to sell their interests in the Insulok closed Cell Fish Farming Technology, Intellectual Property and Equipment to Cell Aquaculture Ltd for an amount of \$600,000. During the year ended 30 June 2005 amounts of \$145,833 (2004 - \$76,167) were paid pursuant to the contract.		
(ii) Interest was paid to Insulok Pty Ltd on settlement of amounts owed pursuant to the above contract	6,609	-
(iii) Consulting fees and administration fees for facilities paid to Insulok Pty Ltd	-	43,961
(iv) Salary, superannuation and consulting fees paid to Mr Q Leach, son of Mr P J Leach	92,886	-
(v) Salary, superannuation and consulting fees paid to Mr PG Burns, son of Mr PJ Burns	88,339	-
(vi) Shares issued to Mr PG Burns for services rendered	53,000	-
(vii) Interest paid to Mr D Thomas on unsecured loans made by him to the company	3,500	-
(viii) In the year ended 30 June 2004 500,000 ordinary shares each were issued for nil consideration to Mr. PG Burns and Mr. Q Leach for services provided	-	-

Note 20 Financial Instruments

(a) Interest rate risk:

The economic entities exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities,

Cell Aquaculture Ltd ABN 86 091 687 740

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

is as follows:

Financial Year	Average Interest Rate	Variable Interest Rate	Fixed Interest Rate Maturity			Non-Interest Bearing	Total
			Less than 1 Year	1 to 5 Years	More than 5 Years		
2005	%	\$	\$	\$	\$	\$	\$
Financial Assets							
Cash	4.0	6,602	-	-	-	-	6,602
Other receivables		-	-	-	-	43,207	43,207
		6,602	-	-	-	43,207	49,809
Financial Liabilities							
Trade payables		-	-	-	-	308,357	308,357
Loan – Aquaculture Technology Agreement		-	-	-	-	-	-
Convertible note		-	-	-	-	-	-
Other Loan	6.0	-	63,500	-	-	-	63,500
Bank Overdraft	9.4	210,444	-	-	-	-	210,444
Bank Loan	8.5	-	-	-	305,770	-	305,770
		210,444	63,500	-	305,770	308,357	888,071

Financial Year	Average Interest Rate	Variable Interest Rate	Fixed Interest Rate Maturity			Non-Interest Bearing	Total
			Less than 1 Year	1 to 5 Years	More than 5 Years		
2004	%	\$	\$	\$	\$	\$	\$
Financial Assets							
Cash	4.0	110,309	-	-	-	-	110,309
Other receivables		-	-	-	-	53,512	53,512
		110,309	-	-	-	53,512	163,821
Financial Liabilities							
Trade payables		-	-	-	-	164,169	164,169
Loan – Aquaculture Technology		-	-	-	-	145,833	145,833
Convertible notes	7.0	-	-	750,000	-	-	750,000
Other loan		-	-	-	-	55,000	55,000
Bank Loan	8.0	-	-	-	341,147	-	341,147
		-	-	750,000	341,147	365,002	1,456,149

(b) *Credit risk:*

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts, as disclosed in the statement of financial

Cell Aquaculture Ltd ABN 86 091 687 740

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

position and notes to the financial report.

The company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the company.

(c) *Net fair values:*

The net fair values of listed investments have been valued at the quoted market bid price at balance date adjusted for transaction costs expected to be incurred. For other assets and other liabilities net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in a standardised form other than listed investments. Financial assets where the carrying amount exceeds net fair values have not been written down as the company intends to hold these assets to maturity.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to the financial statements.

Note 21 Notes to the Statement of Cash Flows

(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:

	Note	2005 \$	2004 \$
Current Assets			
Cash assets	7	6,602	110,309
		<u>6,602</u>	<u>110,309</u>
Current Liabilities			
Bank overdraft		210,444	-
		<u>210,444</u>	<u>-</u>
Net Cash		<u>(203,842)</u>	<u>110,309</u>

Bank Overdraft

The company has an overdraft facility with National Australia Bank. The limit on the overdraft facility is \$250,000 at 9.4 % interest rate per annum, of which \$210,444 has been used at 30th June 2005.

Cell Aquaculture Ltd ABN 86 091 687 740

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005**

Loan Facility

The company has a loan secured on the land and buildings located on 66 Bennett Avenue, Hamilton Hill of \$305,770 at 30th June 2005. The current rate on the loan facility is 8.5% per annum. The current balance is expected to be paid out in November 2005 when the sale of the land and buildings will be settled.

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

	Note	2005 \$	2004 \$
Operating loss after income tax		(704,349)	(694,737)
Depreciation of non-current assets		80,525	69,411
Amortisation of License		33,000	33,000
Amortisation of borrowing costs		500	582
Finance cost on convertible notes		31,250	-
Increase/(decrease) in tax balances		-	-
Loan written off		-	-
Increase/(decrease) in GST balances		11,948	(10,239)
Changes in net assets and liabilities:			
<i>(Increase)/decrease in assets</i>			
- Current receivables		(1,644)	(1,569)
- Other assets		-	1,037
- Stock on hand		-	4,719
<i>Increase/(decrease) in liabilities</i>			
- Current trade creditors and payables		147,688	109,380
Net cash from operating activities		(401,082)	(488,416)

(c) Non-Cash Financing and Investing Activities

i) Other Payables at 30 June 2004

\$55,000 received in 2004 for shares application was converted to issued shares during the financial year ended 30 June 2005	55,000	-
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ii) Shares issued to an employee

354,700 shares valued at \$53,000 were issued to P. Burns (Jnr) for services provided to the Company	53,000	-
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iii) Convertible note converted to shares

Cell Aquaculture Ltd ABN 86 091 687 740

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

Refer to note 13 (b)	781,250	-
	2005	2004
	\$	\$
iv) Unsecured Loan		
Refer to note 13(c)	63,500	-

Note 22 Events Occurring after Balance Date

(a) Issue of Shares

Pursuant to a prospectus dated 22 April 2005, the Company raised \$5,201,400 under its initial public offering through the issue of 26,007,000 shares at \$0.20 each. The Company commenced trading on the Australian Stock Exchange on 25 July 2005.

Share issue and prospectus costs of \$322,637 incurred to 30 June 2005 are shown in the Statement of Financial Position at 30 June 2005 as other current assets. A further \$311,297 was incurred after balance date, resulting in total share issue costs of \$633,934. The net proceeds from the share issue of \$4,567,466 was credited to contributed equity after balance date.

(b) Sale and Leaseback of Land and Buildings

On 5 August 2005 the company entered into a contract for the sale of land and buildings at 66 Bennett Avenue, Hamilton Hill for \$2,600,000. Settlement is due on 7 November 2005. The transaction was subject to the Company entering into a lease agreement with the purchaser in respect of the land for a period of three years with the option of two further one year extensions. The directors have agreed to execute the lease agreement as outlined above. The book value of these land and buildings at 30 June 2005 is \$1,021,615, therefore resulting in an estimated profit before income tax of \$1,578,385. Future lease commitments in respect of the lease of the property is anticipated to be approximately \$110,000 per annum net of GST for the initial three year period.

(c) Options

In July 2005 the Company issued 3,000,000 options exercisable at 35 cents within 3 years of the date of issue to the non-executive directors of the Company.

The financial effect of the above transactions have not been brought to account in these financial statements.

Note 23 Company Details

The registered office and principal place of business of the Company is:
66 Bennet Avenue
HAMILTON HILL WA 6163

Cell Aquaculture Ltd ABN 86 091 687 740

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

Note 24 Earnings Per Share

	2005	2004
	Cents/share	Cents/share
Basic loss per share	<u>0.8</u>	<u>1.0</u>
	\$	\$
Loss used in calculation	<u>704,349</u>	<u>694,737</u>
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic and deducted earnings per share	<u>87,065,370</u>	<u>71,650,961</u>

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.

Note 25 Impact of Adoption of Australian Equivalents to International Financial Reporting Standards

The company is preparing for and managing the transition to Australian Equivalents of International Financial Reporting Standards (AIFRS) effective for financial reporting periods commencing on or after 1 January 2005. The adoption of AIFRS will be reflected in the company's financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The company's management, with the assistance of external consultants, has assessed the significance of the expected changes and is preparing for their implementation. An AIFRS committee is overseeing and managing the company's transition to AIFRS. The impact of the alternative treatments and elections under AASB 1 "First Time Adoption of Australian Equivalents to International Financial Reporting Standards", has been considered where applicable.

The directors are of the opinion that the key material differences in the company's accounting policies on conversion to AIFRS and the financial effect of these differences where known are as follows. The key differences in the entity's accounting policies that will arise from the adoption of IFRS in future are also included in the notes to the adoption of AIFRS standards.

Users of the financial statements should, however, note that the amounts disclosed could change if interpretation of the AIFRS requirements changes due to the continuing transition work of the directors, possible amendments to AIFRS Standards and Interpretations thereof, and developments in practice relating to the interpretation and application of those Standards and Interpretations.

Cell Aquaculture Ltd ABN 86 091 687 740

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005**

a) Reconciliation of equity as presented under AGAAP to that under AIFRS

	Notes	30 June 05 \$	1 July 04 \$
Total equity under AGAAP			
<i>Adjustments to retained earnings (net of tax)</i>			
Recognition of share-based payment expense	(i)	-	-
Derecognition of capitalised research costs	(ii)	122,497	769,042
Total adjustments to retained earnings		122,497	769,042
<i>Adjustments to other reserves (net of tax)</i>			
reclassification of share-based payment expense	(iii)	201,250	-
Total adjustments to other reserves			
Adjustments to Contributed Equity			
Reclassification of share-based payment expense	(iii)	(201,250)	-
Total equity under AIFRS		<u>122,497</u>	<u>769,042</u>

Notes explaining the impacts of adoption of AIFRS Standards

- (i) In accordance with AASB 2 "Share-based Payment", the company will be required to recognise the fair value of options or other equity instruments granted to employees and consultants as an expense on a time basis over the period from the grant date to the vesting date with a corresponding increase in equity. The current accounting policy does not require an expense to be recognised for employee equity participation schemes and payments.

Upon adoption of AIFRS, there will be no initial adjustment expected to result in a reduction in opening retained 1 July 2004 and 30 June 2005.

However, there is a classification adjustment relating to options issued to consultants for capital raising cost amounting to \$201,250 which was adjusted against contributed equity under AGAAP, under AIFRS this adjustment will be against options reserve until such time the options are exercised at which time the amount would be transferred to contributed equity.

- (ii) In accordance with AASB 138 "Intangible Assets", costs incurred in the research phase of the development of internally generated intangibles will be required to be expensed. AGAAP requires such costs to be capitalised where future recovery of the costs is believed to be beyond reasonable doubt.

Upon adoption of AIFRS, there will be adjustments expected to result in an increase in accumulated losses on 1 July 2004 of \$769,042 and an increase in loss of \$122,497 at 30 June 2005.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

- (iii) In accordance with AASB 136 "Impairment of assets", the recoverable amount of an asset is deemed to be the higher of its fair value less costs to sell and its value in use, being the present value of the future cash flows derived from the assets.

The company's assets were tested for impairment at the date of transition to AIFRS and at each subsequent reporting date. AGAAP did not require such cash flows to be discounted when assessing recoverable amounts.

Upon adoption of AIFRS, there will be no material impact on the entity's financial statements as at 1 July 2004 and 30 June 2005.

- (iv) In accordance with AASB 112 "Income Taxes", deferred tax assets and liabilities will be recognised on the difference between the carrying values of assets and liabilities and their tax base. On this basis revaluations of assets above their historical cost carrying amount would give rise a deferred tax liability. AGAAP does not require recognition of deferred tax provisions in the case of revaluations of assets or for equity accounted investment value gains and losses.

Upon adoption of AIFRS, there will be no material impact on the entity's financial statements as at 1 July 2004 and 30 June 2005.

- (v) In accordance with AASB 116 "Property, Plant and Equipment", the company will be required to make an estimate of the cost of removing leasehold improvements at the end of the lease term, where this is required by the conditions of the lease, and include that cost in the amount of leasehold improvements capitalised upon acquisition. A liability for these costs must be recognised under AASB 137 "Provisions, Contingent Liabilities and Contingent Assets". AGAAP does not require recognition of these costs.

Upon adoption of AIFRS, there will be no material impact on the entity's financial statements as at 1 July 2004 and 30 June 2005.

- (vi) In accordance with AASB 117 "Leases", operating lease rental income or expense must be recognised on a straight line basis over the term of the lease. Where a lease has fixed annual increases, the impact of such increases is spread on a straight line basis over the whole of the lease term. Under AGAAP such increases are recognised in the year of increase and subsequent years.

Upon adoption of AIFRS, there will be no material impact on the entity's financial statements as at 1 July 2004 and 30 June 2005.

- (vii) In accordance with AASB 1 "First-time adoption of Australian Equivalent to International Financial Reporting Standards", management has decided to apply exemption provided in this standard not to apply the requirements of AAS 132 Financial Instruments: Presentation and Disclosures and AASB 139 Financial Instruments: Recognition and Measurement for the financial year ended 30 June 2005. The standard will be applied from 1 July 2005.