



AquaCarotene Limited

ABN 18 074 969 056

Natural Culture®

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REVIEW OF THE YEAR

Managing Directors Report

The transformation of Aquacarotene was completed this year with three transactions being approved by shareholders and/or directors.

1. The first transaction saw shareholders approve the transfer of the leases and licences on the ponds at Karratha held for the production of marine algae to Aurora Biofuels Inc (“Aurora”) of California for the following consideration:
 - Payment of AUD\$2,000,000 upon transfer of the leases
 - Payment of a royalty of 2% of gross revenue for 15 years from full production from the leases transferred to Aurora (there is a lifetime cap of \$18,000,000 on the royalty payments).
 - Under a separate agreement, the Supply Agreement, Aquacarotene will have first right of refusal to provide Aurora with any gravel and general fill it needs for all future construction work on the expansion of the site and any other site within 100 km of Karratha, at going market prices.
2. The second transaction saw the shareholders of Aquacarotene approve a merger with the Queensland based Company Farmacule Bioindustries Pty. Ltd. (“Farmacule”).
3. The third transaction saw Aquacarotene’s Directors approve the sale of the company’s business in growing Dunaliella Salina to Australian Phytoplankton Pty Ltd for \$150,000.

Settlement on the Aurora transaction was finally achieved on August 10th 2010. As this was the last precondition for the Farmacule merger the completion of that transaction was finalised on the 11th August 2010.

The New Aquacarotene

The merger of AquaCarotene and Farmacule has created a leading plant biotechnology company with short, medium and long term revenue growth prospects emanating from a core focus on the production from plants of biofuels and high value commercial proteins.

Farmacule established in 2001 and has held the global exploitation rights from the Queensland University of Technology (QUT) for the patented INPACT® technology together with a number of additional patented technologies applicable to the use of plants as factories for the production of various compounds. Upon the successful merger of AquaCarotene and Farmacule all the patents supporting INPACT® were transferred to the merged company.

The INPACT® technology was specifically developed by a QUT research team led by Farmacule’s CSO Professor James Dale for the purpose of providing a sophisticated proprietary gene switching and amplification technology which increases the expression and yield in selected plants of novel proteins, enzymes and molecules of interest.

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What is INPACT® - INPACT® is:

- A two gene activation and amplification expression technology.
- A platform technology that provides control over transgenic expression of compounds of interest (i.e. no product expression without activation).
- Activation can be controlled and targeted to specific tissues.
 - Activation can be induced by either internal or external “triggers”.
 - Extremely versatile – broad application in a range of plant species.
 - Compatible with a range of traits of interest and enabling technologies.

Utilising its INPACT® system Farmacule is able to introduce the gene for the protein which may or may not be an enzyme into the basic operating machinery of the plant and by activation INPACT® enables the expression of the desired protein to be switched on within the plant and ensures enhanced expression and production (up to 10 fold greater than other systems) within the plant.


The potential advantages of plant based production systems over current animal and animal cell production systems are:

- Cost efficiency in sourcing raw materials i.e. plants versus mammals.
- Reduced risk of transferring infectious agents.
- Increased flexibility and continuity in the supply of products.
- Plants manufacture proteins and enzymes in a similar way to mammals however plants do not require expensive infrastructure or sophisticated purification and processing facilities. Given the high value of many enzymes and proteins (in particular) glasshouse production is often sufficient to meet market requirements.

Under the agreement signed with Farmacule, AquaCarotene issued the following shares to Farmacule shareholders:

- 11,250,000 Fully Paid Ordinary Shares; and
- 3,750,000 Fully Paid A Class Performance Shares that will convert to Ordinary shares on the achievement of the following criteria:
 - The issue of 1,250,000 Ordinary shares in AQL to be issued to Farmacule shareholders if Farmacule successfully demonstrates, through independent verification, that the technical performance of plant derived Vitronectin (>90% purity) is equivalent to a commercial standard within the 6 months of completion; and
 - The issue of 2,500,000 shares in AQL to be issued to Farmacule shareholders if Farmacule successfully Commercializes Vitronectin within 12 months of completion.
 - If the milestones are not achieved in the required timeframes then the Performance shares will be redeemed at \$0.00001 per share.

This will be my last report as Managing Director as I have now stepped down from the role as fore shadowed in the merger arrangements and Mr. David Hudson has been appointed to the role of Chief Executive Officer. David brings to the role as CEO a wealth of appropriate experience and a passion for success. As CEO of Farmacule he has focused on developing and implementing strategies for establishment of the commercial pathway required for delivery of AquaCarotene’s first commercial protein (Vitronectin) to the market during the forthcoming twelve month period. I wish David well in this very important task and duties as CEO of AquaCarotene.



Ken Richards
Executive Director
31 August 2010

**Appendix 4E
Preliminary Final Report**

Name of entity: AquaCarotene Limited
ABN: 18 074 969 056

1. Reporting period (“current period”) 30 June 2010
Previous corresponding period 30 June 2009

2. Results for announcement to the market

				\$'000
Revenue from ordinary activities	down	100%	to	-
Profit (Loss) from ordinary activities after tax attributable to members	Increased	122%	to	(714)
Profit (Loss) for the period attributable to members	Increased from Loss			905
		Amount per share	Franked amount per share	
		cents	cents	
<i>Dividends</i>				
Final		Nil		N/A
Interim		Nil		N/A
Record date for determining entitlements			N/A	

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3. Condensed consolidated Statement of Comprehensive Income

	Current period	Previous corresponding period
	\$'000	\$'000
Revenue	-	26
Cost of sales	-	-
Gross Profit	-	26
Other income	-	-
Depreciation expense	(2)	(2)
Employee benefits expense	(493)	(284)
Directors' fees	(39)	(39)
Office administration	(62)	(99)
Professional fees	(107)	(42)
Share based payments	(4)	(43)
Share registry and statutory fees	(26)	(16)
Other expenses	-	-
Profit (Loss) before financing costs	(733)	(499)
Financing income	24	38
Financing expenses	-	-
Net financing costs	24	38
Profit (Loss) before tax	(709)	(461)
Income tax expense	-	-
Profit (Loss) from discontinued Operations	1,614	(415)
Profit (Loss) for the year	905	(876)
Profit (Loss) attributable to members of the parent	905	(876)

Notes to the condensed consolidated income statement

<i>Revenue</i>		
Sales	-	26
Land development	-	-
Profit on disposal of plant and equipment	-	-
Profit on sale of shares	-	-
Total revenue	-	26

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4. Condensed consolidated Balance Sheet

	Current period	Previous corresponding period
	\$'000	\$'000
CURRENT ASSETS		
Cash and cash equivalents	433	343
Trade and other receivables	2,156	138
Inventories	-	212
Other financial assets	-	1
TOTAL CURRENT ASSETS	2,589	694
NON-CURRENT ASSETS		
Trade and other receivables	20	-
Other financial assets	67	34
Property, plant and equipment	-	216
TOTAL NON-CURRENT ASSETS	87	250
TOTAL ASSETS	2,676	944
CURRENT LIABILITIES		
Trade and other payables	166	49
Interest-bearing liabilities	-	21
Provisions	130	10
TOTAL CURRENT LIABILITIES	296	80
NON-CURRENT LIABILITIES		
Interest-bearing liabilities	-	57
TOTAL NON-CURRENT LIABILITIES	-	57
TOTAL LIABILITIES	296	137
NET ASSETS / (EXCESS OF LIABILITIES OVER ASSETS)	2,380	807
EQUITY		
Issued capital	30,534	29,854
Other reserves	103	115
Accumulated losses	(28,257)	(29,162)
TOTAL (DEFICIENCY)/EQUITY	2,380	807

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5. Condensed consolidated Cash Flow Statement

	Current period	Previous corresponding period
	\$'000	\$'000
Net cash flows from operating activities		
Receipts from customers	(52)	133
Payments to suppliers & employees	(613)	(987)
Interest received	24	38
Interest paid	(9)	(7)
Net cash used in operating activities	<u>(650)</u>	<u>(823)</u>
Cash flows from investing activities		
Payments for plant & equipment	-	(104)
Proceeds from disposal of assets	138	-
Proceeds from disposal of investments	-	-
Net cash used in investing activities	<u>138</u>	<u>(104)</u>
Cash flows from financing activities		
Net proceeds from share issues	671	420
Repayment of interest-bearing liabilities	(69)	(18)
Net cash provided by financing activities	<u>602</u>	<u>402</u>
Net increase in cash and cash equivalents	90	(525)
Cash and cash equivalents at the beginning of the year	<u>343</u>	<u>868</u>
Cash and cash equivalents at the end of the year	<u>433</u>	<u>343</u>

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6. Dividends

Amount per security

		Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend
		Cents	Cents	Cents
Final dividend:	Current year	Nil	N/A	N/A
	Previous year	Nil	N/A	N/A
Interim dividend:	Current year	Nil	N/A	N/A
	Previous year	Nil	N/A	N/A

Total dividends on all securities for the year

	Current year \$'000	Previous year \$'000
Ordinary securities	-	-

7. Dividend reinvestment plans

The ⁺dividend or distribution plans shown below are in operation.

N/A

The last date(s) for receipt of election notices for the ⁺dividend or distribution plans

N/A

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8. Retained Earnings

	Current year	Previous year
	\$'000	\$'000
Accumulated Losses at the beginning of the financial period	(29,162)	(28,286)
Net Profit (Loss) attributable to members	905	(876)
Unrealised gains	-	-
Accumulated losses at end of financial	(28,257)	(29,162)

9. Net Tangible Assets

Net tangible asset backing per ordinary share	15.2 cents	6.1 cents
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10. Details of entities over which control has been gained or lost

Control gained over entities

N/A

Control lost over entities

N/A

11. Details of Associates and Joint Venture Entities

Name of entity

N/A

12. Going Concern Note / Significant Information

This financial report has been prepared on a going concern basis.

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13. Any other significant information

Details of any other significant information needed by an investor to make an informed assessment of the entity's financial performance and position.

Acquisition of Farmacule BioIndustries Pty Ltd was settled on 11 August 2010 (refer ASX Announcement dated 11 August 2010).

14. Results for the period

Earnings per security

	Current year	Previous year
	cents	cents
Basic Profit (Loss) earnings per share	6.52	(7.04)
Diluted earnings per share (if materially different)	6.52	(7.04)
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic EPS	14,037,001	12,442,010

15. This report is based on Financial Statements which are in the process of being audited; it is not anticipated that the Audit Opinion will be qualified.

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