AQUACAROTENE LIMITED
AND CONTROLLED ENTITIES

ABN 18 074 969 056

ANNUAL REPORT

2010

CONTENTS

AQUACAROTENE

COMPANY DETAILS

Board of Directors:	Melvyn Bridges Kenneth Richards Michael Finney Charles Wilson
Company Secretary:	Stephen Denaro
Chief Executive Officer:	David Hudson
Chief Scientific Officer:	Professor James Dale
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AQUACAROTENE

REPORT FROM THE CHAIRMAN

Your Directors have great confidence in the future of your Company, despite the extreme conditions and difficulties encountered within the financial positions experienced in Australia and worldwide during these recent years. These comments have previously been expressed in our 2009 Annual Report.

Since the appointment of the three new Directors in 2007, it was determined that the Company did not have a viable business future in its current form, notwithstanding their efforts and those of some former Directors, since the inception of AquaCarotene Limited as an ASX listed public company in 1999. The Karratha based pond farm for growth of the Dunaliella Salina algae had been initially established as a pilot project with provisions planned for a major expansion. This would have achieved the necessary economies of scale to substantially reduce production costs, primarily due to the reduction in labour together with the more efficient utilization of the production plant. Without firm guaranteed sales contracts for the future purchase of the dried Dunaliella Salina product, the Company had never been in a reasonable financial position to raise the necessary capital from financial institutions or otherwise, to allow construction of the expanded project and gain the required production efficiencies.

With the Directors having made the decision that the current business model was no longer viable, efforts were made to change the business. The future of our Company has since been encapsulated by:

- The transfers / sales of AquaCarotene's Karratha based pond farm assets to Aurora Biofuels Inc. of California.
- The sale of our Dunaliella Salina growing business and remaining stock to Australian Phytoplankton Pty. Ltd.
- The merger of the Company with Farmacule BioIndustries Pty. Ltd.

These transactions are reported in detail within the following Managing Director's Report by Ken Richards, who has been primarily responsible for the detailed research, investigation, due diligence, analysis and drive to seek out the opportunities and bring them to finality. For his conscientious and comprehensive efforts, together with his commitment, we sincerely thank Ken.

We now believe that our Company has a potentially brilliant future in a complementary field of business to that previously undertaken and one that will ultimately be of great benefit to shareholders.

Charles Wilson
Director and former Chairman
28 September 2010

AQUACAROTENE

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 the11th August 2010.

The “New” AquaCarotene

The merger of AquaCarotene and Farmacule has created a leading plant biotechnology Group 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 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 Group.

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.

Managing Directors Report (continued)

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 in particular proteins, 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.

Managing Directors Report (continued)

This will be my last report as Managing Director as I have now stepped down from the role as foreshadowed in the merger arrangements and Mr. David Hudson has been appointed to the role of Chief Executive Officer. David will bring to the role of 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
28 September 2010

CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2010

ASX BEST PRACTICE RECOMMENDATIONS

The Group is committed to protecting and enhancing shareholder value and adopting best practice governance policies and practices.
This corporate governance statement outlines the main corporate governance practices that were in place throughout the year which comply with the Australian Stock Exchange Corporate Governance Council recommendations.

The ASX Listing Rules require companies to include in their annual report a statement disclosing the extent to which they have complied with the ASX Best Practice Recommendations in the reporting period.

These recommendations are guidelines designed to produce an outcome that is effective and of high quality and integrity. If a company considers that a recommendation is inappropriate having regard to its particular circumstances, the company has the flexibility not to adopt it. Where the company's corporate governance practices depart from the recommendations, the board has offered full disclosure of the nature of, and the reason for, the adoption of its own practice.

Principle 1 – Lay solid foundations for management and oversight

Role of the Board

The Board and the Group operate within a statutory framework, principally the Corporations Act and the Constitution of the Company. Subject to this statutory framework the Board has the authority and the responsibility to perform the functions, determine the policies and control the affairs of the Group.

The Board must ensure that the Group acts in accordance with prudent principles and satisfies shareholders consistent with maximising the Group's long term value.

The primary responsibilities of the Board are set out in a written policy and include:

- the establishment of the long term goals of the Group and strategic plans to achieve those goals;
- monitoring the implementation of those policies and strategies and the achievement of these goals;
- monitoring compliance with control and accountability systems, regulatory requirements and ethical standards
- the review of management accounts and reports to monitor the progress of the Group;
- the review and approval of the annual and half-year financial reports;
- the review and adoption of budgets for the financial performance of the Group and monitoring the results on a regular basis to assess performance;
- reporting to shareholders and the investment community on the performance and state of the Group;
- appointing and monitoring senior management;
- all remuneration, development and succession issues; and
- ensuring that the Group has implemented adequate systems of risk management and internal control together with appropriate monitoring of compliance activities.

Principle 2 - Structure the board to add value

Board composition

The Directors' report contains details of the directors' skill, experience and education. The Board seeks to establish a Board that consists of directors with an appropriate range of experience, skill, knowledge and vision to enable it to operate the Group's business with excellence. To maintain this, the Group's policy is that executive directors should serve at least 3 years and at the completion of the initial 3 years, the position of the director is reviewed.

At 30 June 2010, the Board comprised one executive director and two non-executive directors. Currently, the Board comprises four non-executive directors. Details of the directors are set out in the Directors' Report.

Nomination Committee.

The functions of the nomination committee are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Group's Board, the Board does not consider it appropriate to appoint a nomination committee. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Group's circumstances.

Independence of directors

In considering the independence of directors, the Board refers to the criteria for independence as recommended by *Recommendation 2.1* in ASX Best Practice Recommendations and other facts, information and circumstances that the Board considers relevant.

The Board has reviewed the position and association of each of the four directors in office at the date of this report and considers that three of the directors are independent.

The Board considers that Mr Bridges meets the criteria in Principle 2.

The Board considers that Mr Finney meets the criteria in Principle 2.

The Board considers that Mr Wilson meets the criteria in Principle 2. He has no material business or contractual relationship with the Company, other than as a director and major shareholder, and no conflict of interest which could interfere with the exercise of independent judgement. Accordingly, he is considered to be independent and meets the requirements of *Recommendation 2.2.*

The Board considers that Mr Richards does not meet the criteria in Principle 2. He has a material business or contractual relationship with the Group, as a director, major shareholder and employee. Accordingly, he is considered to be non- independent.

In accordance with *Recommendation 2.3*, since 11 August 2010 the role of the chairperson is fulfilled by Mr Bridges and the effective role of Chief Executive Officer is fulfilled by Mr Hudson.

Retirement and re-election of directors

The Constitution of the Company requires one third of directors, other than the 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. Retiring directors are eligible for re-election by shareholders.

Independent professional advice

With the prior approval of the Chairperson, each director has the right to seek independent legal and other professional advice at the Group's expense concerning any aspect of the Group's operations or undertakings in order to fulfil their duties and responsibilities as directors.

Principle 3 – Promote ethical and responsible decision making

In pursuit of the highest ethical standards, the Group has adopted a Code of Conduct which establishes the standards of behaviour required of directors and employees in the conduct of the Group's affairs.

The Code of Conduct is based on respect for the law, and acting accordingly, dealing with conflicts of interest appropriately, using the Group's assets responsibly and in the best interests of the Group, acting with integrity, being fair and honest in dealings, treating other people with dignity and being responsible for actions and accountable for the consequences.

The Board has adopted a policy in relation to dealings in the securities of the Company which applies to all directors and employees. Under the policy, directors and employees are prohibited from short term or "active" trading in the Company's securities and are prohibited from dealing in the Company's securities whilst in possession of price sensitive information until it has been released to the market. The Group's Chairperson must also be notified of any proposed transaction.

The Group has a Code of Conduct to guide directors, the chief executive officer, the chief financial officer and any other key executives in

1) the practices necessary to maintain confidence in the Group's integrity and
2) the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Group has made available a summary of its Code of Conduct and trading policy in this statement, but has not otherwise made this information publicly available.

Principle 4 - Safeguard integrity in financial reporting

It is the board's responsibility to ensure that an effective internal control framework exists within the entity. Procedures have been established at the Board and executive management levels that are designed to safeguard the assets and interests of the Group, and to ensure the reliability and integrity of reporting.

These include accounting, financial reporting and internal control policies and procedures which include

- appropriate follow-up of significant audit findings and risk areas identified;
- review the scope of the external audit to align it with Board requirements; and
- conduct a detailed review of published accounts.

The Group does not have an audit committee as the Board considers it appropriate to meet as part of the meeting of the full board due to the size of its board. Meetings are held throughout the year between the Directors and Financial Controller on audit committee matters and with the Group's external auditors to discuss ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

Mr Charles Wilson former Chairman and Mr Ken Richards former Managing Director have stated in writing to the Board that the Group's financial reports present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with relevant accounting standards.

Principle 5 - Make timely and balanced disclosure

The Group has in place a continuous disclosure policy which aims to ensure timely compliance with the Group's continuous disclosure obligations under the Corporations Act 2001 (Cth) and ASX Listing Rules and ensure officers and employees of the Group understand these obligations.

The procedure adopted by the Group is essentially that any information which may need to be disclosed must be brought to the attention of the Chairperson, who in consultation with the Board (where practicable) and any other appropriate personnel, will consider the information and whether disclosure is required and prepare an appropriate announcement.

At least once in every 12 month period, the Board will review the Group's compliance with this continuous disclosure policy and update it from time to time, if necessary.

Principle 6 – Respect the rights of shareholders

The Group has a positive strategy to communicate with shareholders and actively promote shareholder involvement in the Group. It aims to continue to increase and improve information available to shareholders on its website. All Company announcements, presentations to analysts and other significant briefings are posted on the Group's website after release to the Australian Stock Exchange. The Board aims to ensure that shareholders are kept informed of all major developments of the Group.

Information is communicated to shareholders as follows:

- as the Company is a disclosing entity, regular announcements are made to the Australian Stock Exchange in accordance with the Group's continuous disclosure policy, including quarterly cash flow reports, half-year audit reviewed accounts, year end audited accounts and an annual report;

- the Board ensures the annual report includes relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments;

- shareholders are advised in writing of key issues affecting the Group by effective use of the Group's share registry;

- any proposed major changes in the Group's affairs are submitted to a vote of shareholders, as required by the Corporations Act 2001;

- the Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification of the Group's strategies and goals. All shareholders who are unable to attend these meetings are encouraged to communicate or ask questions by writing to the Group; and

- the external auditor is requested to attend the annual general meetings to answer any questions concerning the audit and the content of the auditor's report.

The Board reviews this policy and compliance on an ongoing basis.

Principle 7 – Recognise and manage risk

The Group maintains policies and practices designed to identify and manage significant business risks, including:

- regular financial reporting and appropriate budgeting ;

- procedures and controls to manage financial exposures and operational risks;

- the Group's business plan;

- corporate strategy guidelines and procedures to review and approve the Group's strategic plans; and

- insurance and risk management programmes which are reviewed by the Board.

The Board reviews these systems and the effectiveness of their implementation annually and considers the management of risk at its meetings. The Board may consult with the Group's external auditors on external risk matters or other appropriately qualified external consultants on risk generally, as required.

The Board receives regular reports about the financial condition and operating results of the Group.

The Executive Director and Chief Financial Officer annually provide a formal statement to the Board that in all material respects and to the best of their knowledge and belief:

- the Group's financial reports present a true and fair view of the Group's financial condition and operational results and are in accordance with relevant accounting standards; and

- the Group's risk management and internal control systems are sound, appropriate and operating efficiently and effectively.

The Executive Director and the Chief Financial Officer have stated to the board that to the best of their knowledge and belief the integrity of financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

The Group has provided relevant information in this Statement upon recognising and managing risk, but has not otherwise made a description of its risk management policy and internal compliance and control system publicly available.

Principle 8 – Remunerate fairly and responsibly

Details of the Group's remuneration policies form part of the "Remuneration Report" in the Directors' Report.

The functions of a remuneration committee are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Group's circumstances.

Non-executive directors will be remunerated by directors' fees payable in cash and are not provided with retirement benefits (except in exceptional circumstances). Non-executive directors may receive equity based performance incentives. Executive directors may be remunerated by both fixed remuneration and equity performance based remuneration and no termination payments will be agreed other than a reasonable period of notice of termination as detailed in the executive's employment contract.

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2010

The directors of AquaCarotene Limited submit the annual financial report for the financial year ended 30 June 2010.

In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

The names and particulars of the directors of the Company during or since the end of the financial year are:

Charles Wilson Director and former Chairman – Appointed 21 May 2007

Having originally qualified in Civil Engineering, (University of New Zealand) Mr. Wilson has had some 40 years of experience in senior project and construction management roles primarily associated with major building and development projects. During his career with a major Australian listed construction / development company, he was based in Canberra, Townsville, Darwin, Sydney and since 1974 in Perth, Western Australia.

Kenneth Richards Director – Appointed 31 August 2007

Mr Richards has in excess of 25 years experience as a Managing Director in various listed and unlisted companies across a range of industries and holds a Bachelor of Commerce and Master of Business Administration degrees from the University of WA. He is a fellow of the Australian Institute of Company Directors and an Associate of the Financial Services Institute of Australasia.

Melvyn Bridges Director and Chairman – Appointed 11 August 2010

Mel Bridges has worked in the Pharmaceutical, Medical and Biotech industries for over thirty years. A Fellow of the Australian Institute of Company Directors, Mel has founded and successfully managed a number of successful diagnostics, biotech and medical device businesses, including ASX listed companies. Mel is currently Chairman of a number of listed and unlisted companies including, ASX listed drug development company, Alchemia Limited. Mel is also the founder and non-executive director of the medical device group, ImpediMed Limited.

Michael Finney non-executive Director – Appointed 11 August 2010

Michael is the Chief Executive Officer of Qutbluebox Pty Ltd, the technology transfer and commercialisation company for the Queensland University of Technology. He has extensive industry and academic experience in research management, technology transfer and investment management across the physical and life sciences sectors. He is also a Fellow of the Australian Institute of Company Directors.

Allan Omacini Director - Appointed 21 May 2007 – resigned 11 August 2010

Mr. Omacini has over 28 years of diverse experience in operational roles in the oil industry and in addition has been actively involved in the management of property development projects and the real estate industry for many years.

COMPANY SECRETARY

Stephen Denaro Appointed 31 May 2010

Stephen had extensive experience in mergers and acquisitions, business valuations, accountancy services, and income tax compliance gained from positions as Company Secretary and Chief Financial Officer of various public companies, and with major chartered accountancy firms in Australia and the United Kingdom. He provides Company Secretarial services for a number of start up technology companies. Stephen has a Bachelor of Business in Accountancy and is a member of the Institute of Chartered Accountants in Australia, and the Australian Institute of Company Directors.

Susan Leach Appointed 9 September 2007 – resigned 31 May 2010

Mrs Leach has a Bachelor of Accounting Science (Honours) Degree and is a member of both the Institute of Chartered Accountants and Chartered Secretaries Australia. Susan has over 20 years experience in accounting and secretarial matters including the last four years in positions with listed public companies.

CHIEF EXECUTIVE OFFICER

David Hudson Chief Executive Officer – Appointed 11 August 2010

David has previously worked for Monsanto Australia for 23 years, having been intimately involved in the commercialization of Australia's first agricultural biotechnology products GM cotton and GM canola. Since leaving Monsanto in 2005 David has consulted with a number of local and international public and private sector organizations in the agbiotech industry. During the last three years as CEO of Farmacule BioIndustries David 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.

CHIEF SCIENTIFIC OFFICER

D/Prof. James Dale Chief Scientific Officer – Appointed 11 August 2010

Distinguished Professor James Dale is a world-renowned plant biotechnologist with more than 25 years in the biotechnology research and development sector. As the Chief Scientific Officer for the company, James is personally leading a team of plant biotechnologists and researchers to develop existing and new applications of Farmacule's core INPACT technology.

D/Prof. Dale is Director of the Centre for Tropical Crops and Biocommodities at Queensland University of Technology (QUT) which incorporates the Syngenta Centre for Sugarcane Biofuels Development, Sugar Research and Innovation (SRI) and Tropical Crops Biotechnology. The CTCB now consists of around 50 researchers as well as postgraduate students.

D/Prof Dale has been involved in biotechnology research for more than 25 years with specific interests in molecular farming for high value proteins in tobacco and bioethanol from sugarcane, the development of disease resistance in genetically modified bananas, papaya and sugarcane and the biofortification of bananas. His research team has developed a range of biotechnology methods and products for expressing transgenes in plants. He has also led research and development programs in the international arena most of which have been based in South East Asia and more recently in Africa.

DIRECTORSHIPS OF OTHER LISTED COMPANIES

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of Directorship
Charles Wilson	Nil	
Kenneth Richards	Olea Australis Limited	29 June 2007 to date
Melvyn Bridges	ImpediMed Limited	27 Sept 1999 to date
	Arana Therpeutics	11 Dec 2002 – 1 Nov 2007
	Alchemia Limited	11 Sept 2003 to date
	Benitec Limited	12 Oct 2007 to date
	Incitive Limited	1 Nov 2007 to 1 June 2010
	Genera Biosystems Limited	11 Dec 2008 to date
	Tissue Therapies Limited	13 March 2009 to date
	Campbell Brothers Limited	29 Sept 2009 to date
Michael Finney	Nil	

PRINCIPAL ACTIVITIES

The principal activities of the Group during the financial year were to further the project for the growth, harvesting, refinement, promotion and sale of natural marine algae related materials.

The Group has continued to sell soil and general fill from its Karratha mining leases.

During the financial year the following transactions were approved:

1. Shareholders approved the transfer of the leases and licences on the ponds at Karratha held for the production of marine algae to Aurora Biofuels Inc of California for:
    a. Payment of AUD$2,000,000 upon transfer of the leases
    b. 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).
    c. 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. Shareholders of AquaCarotene approved a merger with the Queensland based company Farmacule BioIndustries Pty Ltd.

3. AquaCarotene's Directors approved the sale of the Group's business in growing Dunaliella Salina to Australian Phytoplankton Pty Ltd for $150,000.

Full details of these transactions are included in the Managing Director's report.

OPERATING RESULTS

The net profit of the economic entity after providing for income tax amounted to $904,640 (2009: loss of $876,100), after taking into account profit from discontinued operations of $1,613,382 (2009: loss of $415,570).

DIVIDENDS

Since the end of the previous financial year no dividends have been paid or declared by the Group, and the directors of the Group recommend that no dividend be provided for the year ended 30 June 2010.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of the court to bring on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings. The Group was not a party to any such proceedings during the year.

SHARE OPTIONS

(a) On 4 April 2006, 300,000 unlisted options were issued pursuant to the Employee Share Option Plan. These shares were issued to Professor Marc Cohen in respect of his services as consultant to the Group. They were issued with an expiry date of 28 February 2011 at the following exercise prices following consolidation:

Exercise price	Vesting date
100,000 options at $1.00	4 April 2006
100,000 options at $1.40	4 April 2006
100,000 options at $1.80	4 April 2006

At the date of this report, all 300,000 options remained unexercised.

Options were consolidated on a 1:20 basis on 9 June 2010.

The value of these Options at grant date was $29,800 and this amount was expensed to the income statement during the 2006 financial year.

(b) On 16 April 2007, 150,000 unlisted employee Options were granted to the Operations Manager Karratha with an expiry date of 31 March 2012 and vest in 3 tranches with the exercise prices following consolidation and vesting dates:

Exercise price	**Vesting date**
50,000 options at $0.40	16 April 2007
50,000 options at $0.80	31 March 2008
50,000 options at $1.20	31 March 2009

The value of these Options at the date of the directors' resolution was $26,800, which was expensed to the income statement during 2008 and 2009 financial years. (2009: $1,302)

Options were consolidated on a 1:20 basis on 9 June 2010.

At the date of this report, all 150,000 Options remain unexercised.

(c) On 21 November 2008, 450,000 unlisted employee options were granted to Mr Ken Richards with an expiry date of 21 November 2012 and vest in 3 tranches with the exercise prices following consolidation and vesting dates:

Exercise price	**Vesting date**
150,000 options at $0.40	21 Nov 2008
150,000 options at $0.80	21 Nov 2008
150,000 options at $1.20	21 Nov 2009

The value of these options at the date of the directors' resolution was $46,483, of which $4,590 was expensed to the income statement during the 2010 year. (2009: $41,893)

Options were consolidated on a 1:20 basis on 9 June 2010.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Group or any related body corporate or in the interest issue of any other registered scheme.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were significant changes in the state of affairs of the Group during the financial year and these are described elsewhere in this report (see principal activities and Managing Directors Report).

EVENTS SUBSEQUENT TO BALANCE DATE

On the 10 August 2010 the sale to Aurora Biofuels Inc was finalised and the purchase price of $2,000,000 was released from a legal trust account to AquaCarotene's accounts.

The release of the $2,000,000 from the Aurora sale was the last condition precedent for the merger of AquaCarotene Ltd and Farmacule BioIndustries Pty Ltd that was approved by shareholders on the 31 May 2010. Completion for this merger took place on the 11 August 2010. The consequences of the merger: issue of shares to Farmacule shareholders, changes in management, changes in Directors and the changes in business operations have been detailed elsewhere in this report.

There are no other matters, other than those detailed above, that have arisen since 30 June 2010 and the date of this report which significantly affected the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

FUTURE DEVELOPMENTS

The Group has at 11 August 2010 merged with Farmacule BioIndustries and as such will be pursuing the development of the INPACT® technology as outlined in the Notice of Meeting for the General meeting held on 31 May 2010. Farmacule's strategy is to invest in the commercial research and development and "pathways to market" for targeted plant produced compounds which generate consumer benefits and value to participants along the supply chain where Farmacule's technologies are applied for the production and commercial exploitation of medical research, industrial and therapeutic compounds. The Farmacule strategy encompasses:

1. Investment in the development and commercial application of Farmacule's current and future product portfolio including the following Technologies sourced from the Queensland University of Technology;
    - 1.1. INPACT®;
    - 1.2. Anti apoptosis technology;
    - 1.3. Ligno-cellulosic fractionation technology; and
    - 1.4. Other technologies e.g. promoters and gene sequences.

2. Licensing of Farmacule technology and additional intellectual property (IP) with research collaborators and business partners in markets of interest, including:
    - 2.1. Biofuels from cellulose derived from sugar cane and other crops to Syngenta Crop Protection AG; and
    - 2.2. Plant made industrial and therapeutic proteins.
3. Investment in infrastructure for enhanced supply chain value capture opportunities, including:
    - 3.1. Licensing and marketing of sugar derived ethanol from sugar cane in Australia/New Zealand & Pacific Islands; and
    - 3.2. Growing, processing and first stage purification of proteins in tobacco and sugar cane.
4. Expansion of Farmacule's product and intellectual property portfolio through:
    - 4.1. licensing technology from third parties;
    - 4.2. technology research and development collaboration agreements with third parties; and
    - 4.3. merger and/or acquisition with or by third parties.

ENVIRONMENTAL ISSUES

The Group is not aware of any adverse environmental issues with any of its operations.

DIRECTORS’ SHAREHOLDINGS

The directors of the Group hold the following interests, directly and indirectly, in shares and options in the Company as at the date of this report:

Director	A Class Performance Shares	Number of ordinary shares	Number of options over ordinary shares
Charles Wilson	-	2,341,286	-
Kenneth Richards	-	2,700,000	450,000
Melvyn Bridges	35,886	107,657	-
Michael Finney*	3,786,593	1,262,198	-

Options were consolidated on a 1:20 basis on 9 June 2010.

*Shares held by Qutbluebox Pty Ltd (as Trustee); Michael is the Qutblubox’s chief executive officer.

DIRECTORS’ MEETINGS

During the financial year there were 8 meetings of directors, including circulating resolutions, pursuant to the Company’s Constitution. The attendance of the directors at these meetings was:

	Meetings of Directors	
Directors	**Held**	**Attended**
Charles Wilson	8	8
Allan Omacini	8	8
Kenneth Richards	8	8

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

The Group's policy for determining the nature and amount of compensation of key management personnel of the Group is on a case by case basis based on the achievements of the Group in obtaining its short term and long term goals.

Details of the nature and amount of each element of the compensation of each key management personnel of the Group during the financial year are shown below:

Employment Details of Member of Key Management Personnel and Other Executives

On 31 May 2007, the Group appointed Richards Lyon Strategic Management Pty Ltd (RLSM) to undertake professional management consulting services as would be expected from a Managing Director of the Group. These services were provided by RLSM through its principal Mr. Ken Richards. The contract also provides for other ancillary services on normal commercial terms. The contract was for an initial period of 6 months. The contract was not renewed and Mr. Ken Richards was employed directly by the Group from 1 January 2008 until 1 May 2009, when a new contract was entered into with RLSM. This was due to the downturn in the business and the reduction in the numbers of hours to be applied to the role.

The terms of the contract are:

- Total remuneration of $261,600 pa
- Bonus of up to 50% of Total remuneration for achieving agreed targets
- Bonus of 50% of total remuneration for a "sale" event
- The Managing Director must devote at least 60% of normal business hours to the duties of Managing Director of AquaCarotene
- Provision of long term incentive by way of options
- Termination can be by either party giving 6 months written notice. (under the terms of the agreement with Farmacule BioIndustries Pty Ltd Mr Richards gave his 6 months notice on the 11th of August 2010)

There are no other service agreement with Directors other than that which has been disclosed above.

Remuneration Details for the Year Ended 30 June 2010

The following table of benefits and payments details, in respect to the financial year and the prior financial year, the components of remuneration for each member of key management personnel of the consolidation group.

		Primary benefits				*Post-employment benefits*	*Share-based payments*		
		Salary	**Performance related Cash Bonus**	**Fees**	**Super contri-butions**	**Termination benefits**	**Options**	**Total**	**% of total remuneration that consists of Options**
		$	**$**	**$**	**$**	**$**	**$**	**$**	
R C Wilson (*Appointed 21 May 2007*) *Non-executive chairman*	**2010**	**-**	**-**	**12,000**	**1,080**	-	**-**	**13,080**	**-**
	2009	-	-	2,000	11,080	-		13,080	-
A Omacini (*Appointed 21 May 2007 – resigned 11 August 2010*) *Non-executive director*	**2010**	**-**	**-**	**12,000**	**1,080**	-	**-**	**13,080**	**-**
	2009	-	-	12,000	1,080	-		13,080	-
K L Richards (*Appointed 31 August 2007*) *Executive director*	**2010**	**196,200**	**260,800**	**12,000**	**18,738**	-	**4,590**	**492,328**	**1%**
	2009	231,080	-	12,000	22,777	-	41,893	307,750	14%
T Leach *Operations Manager, Karratha (Appointed 15 May 2006 – resigned 18 January 2010)*	**2010**	**20,746**	**-**	-	**762**	-	**-**	**21,508**	**-**
	2009	91,666	-	-	8,250	-	1,301	101,217	1%
Totals	**2010**	**216,946**	**260,800**	**36,000**	**21,660**	**-**	**4,590**	**539,996**	**1%**
	2009	322,746	-	26,000	43,187	-	43,194	435,127	10%

Cash Bonuses were payable to Mr Kenneth Richards under the terms of his executive agreement due to the sales transactions with Aurora Biofuels and Australian Phytoplankton Pty Ltd which constituted the sale of the Group's main undertakings, being the business of growing, processing and marketing Dunaliella Salina for the production of algae. In addition to the sale event a second bonus event occurred due to the Merger with Farmacule BioIndustries Pty Ltd which was approved by Shareholders at a general meeting on 31 May 2010.

Other transactions with directors or director-related entities are disclosed in Note 24 of the financial statements.

Superannuation at the statutory rate form part of the remuneration paid to directors, but no retirement benefits are paid.

REMUNERATION REPORT (continued)

Option holdings

The movement during the reporting period in the number of options over ordinary shares in the Company held, directly, indirectly or beneficially, by each key management personnel, including their personally related entities, is as follows:

	Balance at beginning of year	Granted as remun-eration	Options exercised	Net change other	Balance at end of year	Total	Exer-cisable	Not exer-cisable
2010								
R C Wilson	-	-	-	-	-	-	-	-
A Omacini	-	-	-	-	-	-	-	-
K L Richards	450,000	-	-	-	450,000	450,000	450,000	-
T Leach	150,000	-	-	-	150,000	150,000	150,000	-
Total	**600,000**	**-**	**-**	**-**	**600,000**	**600,000**	**600,000**	**-**
2009								
R C Wilson	500,000	-	500,000	-	-	-	-	-
A Omacini	250,000	-	250,000	-	-	-	-	-
K L Richards	750,000	450,000	750,000	-	450,000	450,000	300,000	150,000
T Leach	150,000	-	-	-	150,000	150,000	150,000	-
Total	**1,650,000**	**450,000**	**1,500,000**	**-**	**600,000**	**600,000**	**450,000**	**150,000**

INDEMNIFICATION OF OFFICERS

During the year, the Group entered into indemnity and access deeds with each of the directors to insure against all liabilities that may arise from their position as directors of the Group.

AUDITORS' INDEPENDENCE DECLARATION

The auditor's independence declaration is included following this Directors' Report and forms part of the Directors' Report.

NON-AUDIT SERVICES

The directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. Details of the amounts paid to the auditor for audit and non-audit services provided during the year are set out below:

	Group	
	2010	**2009**
	$	**$**
Audit and review of financial reports	29,870	23,900
Other services	-	-
	29,870	23,900

DIRECTORS' AUTHORISATION

This report is made in accordance with a resolution of the Board of Directors and is signed by authority for on behalf of the Directors.

Charles Wilson
Director & former Chairman

Perth, Western Australia
28 September 2010

WHK Horwath

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Aquacarotene Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

WHK HORWATH PERTH AUDIT PARTNERSHIP

SEAN MCGURK
Partner

Dated this 28th day of September 2010

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A WHK Group firm

AQUACAROTENE LIMITED
AND CONTROLLED ENTITIES
ABN 18 074 969 056

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Notes	2010 $	2009 $
Revenue	2	-	26,105
Cost of sales		-	-
Gross Profit / (Loss)		-	26,105
Depreciation expense	3	(1,609)	(1,811)
Employee benefits expense	3	(493,136)	(283,831)
Directors' fees		(39,240)	(39,240)
Office administration		(61,475)	(98,533)
Professional fees		(107,157)	(41,644)
Share based payments		(4,590)	(43,194)
Share registry and statutory fees		(25,985)	(16,455)
(Loss)/profit before financing costs		(733,192)	(498,603)
Financing income	4	24,450	38,073
(Loss)/profit before tax		(708,742)	(460,530)
Income tax expense	5	-	-
(Loss)/profit for the year from continuing operations		(708,742)	(460,530)
Profit / (Loss) from discontinued Operations	6	1,613,382	(415,570)
Profit for the year		904,640	(876,100)
Other comprehensive income		-	-
Total comprehensive income for the year		904,640	(876,100)
Earnings Per Share			
From Continuing and Discontinued Operations			
Basic and diluted loss per share (cents)	9	6.44	(7.04)
From Continuing Operations			
Basic and diluted loss per share (cents)	9	(5.05)	(3.70)
From Discontinuing Operations			
Basic and diluted loss per share (cents)	9	11.49	(3.34)

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements.

AQUACAROTENE LIMITED
AND CONTROLLED ENTITIES
ABN 18 074 969 056

BALANCE SHEET
AS AT 30 JUNE 2010

	Notes	2010 $	2009 $
CURRENT ASSETS			
Cash and cash equivalents	21(a)	432,980	342,768
Trade and other receivables	12	2,156,225	138,657
Inventories	11	-	212,132
Other financial assets	13	100	455
TOTAL CURRENT ASSETS		2,589,305	694,012
NON-CURRENT ASSETS			
Trade and other receivables	12	20,000	-
Other financial assets	13	66,329	33,953
Property, plant and equipment	14	158	215,721
TOTAL NON-CURRENT ASSETS		86,487	249,674
TOTAL ASSETS		2,675,792	943,686
CURRENT LIABILITIES			
Trade and other payables	15	165,420	49,436
Interest-bearing liabilities	16	-	20,823
Provisions	17	130,800	9,891
TOTAL CURRENT LIABILITIES		296,220	80,150
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	16	-	56,695
TOTAL NON-CURRENT LIABILITIES		-	56,695
TOTAL LIABILITIES		296,220	136,845
NET ASSETS		2,379,572	806,841
EQUITY			
Issued capital	18	30,533,897	29,854,256
Reserves	19	103,083	114,633
Accumulated losses	20	(28,257,408)	(29,162,048)
TOTAL EQUITY		2,379,572	806,841

The balance sheet is to be read in conjunction with the notes to the financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Attributable to equity holders of the parent			
	Issued capital $	**Accumulated losses $**	**Other reserves $**	**TOTAL $**
ECONOMIC ENTITY				
At 1 July 2009	29,854,256	(29,162,048)	114,633	806,841
Profit/(loss) for the period	-	904,640	-	904,640
Shares issued	663,501	-	-	663,501
Cost of share-based payment	-	-	4,590	4,590
Transfer relating to options expired	16,140	-	(16,140)	-
At 30 June 2010	30,533,897	(28,257,408)	103,083	2,379,572
At 1 July 2008	29,272,299	(28,285,948)	233,396	1,219,747
Profit/(loss) for the period	-	(876,100)	-	(876,100)
Shares issued	420,000	-	-	420,000
Cost of share-based payment	-	-	43,194	43,194
Transfer relating to options exercised	161,957	-	(161,957)	-
At 30 June 2009	29,854,256	(29,162,048)	114,633	806,841

The statement of changes in equity is to be read in conjunction with the notes to the financial statements.

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Notes	2010 $	2009 $
Net cash flows from operating activities			
Receipts from customers		187,495	133,270
Payments to suppliers & employees		(687,874)	(987,129)
Interest received		4,607	38,073
Interest paid		(8,985)	(7,116)
Net cash used in operating activities	21(b)	(504,757)	(822,902)
Cash flows from investing activities			
Payments for plant & equipment		-	(103,885)
Net cash provided by (used in) investing activities		-	(103,885)
Cash flows from financing activities			
Net proceeds from share issues		663,501	420,000
Repayment of interest-bearing liabilities		(68,532)	(18,650)
Net cash provided by financing activities		594,969	401,350
Net (decrease)/increase in cash and cash equivalents		90,212	(525,437)
Cash and cash equivalents at the beginning of the financial year		342,768	868,205
Cash and cash equivalents at the end of the financial year	21(a)	432,980	342,768

The statement of cash flows is to be read in conjunction with the notes to the financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

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

Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

The consolidated financial statements of AquaCarotene Limited as at the year ended 30 June 2010 comprises the company and its subsidiaries (together referred to as the 'Group' or 'Economic Entity'). AquaCarotene Limited is a listed public company, incorporated and domiciled in Australia

The separate financial statements of the parent entity, AquaCarotene Ltd, have not been presented within this financial report as permitted by amendments made to Corporations Act 2001 effective as at 30 June 2010.

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by AquaCarotene Limited at the end of the reporting period. A controlled entity is any entity over which AquaCarotene Limited has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of Consolidation (continued)

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 27 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand; cash in banks, term deposit and investments in money market instruments, net of any outstanding bank overdrafts.

(c) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the Australian Tax Office ("ATO"). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(d) Impairment of assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment of assets (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the statement of comprehensive income immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of impairment loss is recognised in the statement of comprehensive income immediately.

(e) Taxation

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for the

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Taxation (continued)

Current and a prior period is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when then asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company / Group intends to settle its current tax assets and liabilities on a net basis.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Receivables

Trade and other receivables are recorded at amounts due less any allowance for doubtful debts.

(g) Payables

Trade and other payables are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

(h) Financial assets

Financial Instruments

Initial recognition and measurement
Finance assets and financial liabilities are recognised when the entity becomes a party to the contractual provision of the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either purchase or sale of the assets.

Financial instruments are initially measure at fair value plus transactions costs.

Classification and subsequent measurement
Financial instruments are subsequently measure at either or fair value amortised costs using the effective interest rate method or cost. *Fair value* represents the amount for which an asset could be exchange or a liability settled, between knowledgeable, willing parties.

(i) *loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable that are not quoted in an active market and are subsequently measured at amortised cost.

(ii) *Financial liabilities*
Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Impairment
at each reporting date, the entity assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the statement of comprehensive income.

Derecognition
Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharges, cancelled or expired.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Provisions

Provisions are recognised when the Group has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

An onerous contract is considered to exist where the consolidated entity has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

(k) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit or loss attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

(l) Revenue recognition

Revenue from the sale of goods is recognised when the Group entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Property, plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight line basis so as to write off the net costs or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or the estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual report period.

The following depreciation rates are used in the calculation of depreciation:

- Leasehold improvements 20%
- Plant and equipment 20%
- Equipment under finance lease 20%

(n) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Company as lessee
Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the consolidated entity's general policy on finance costs.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, bonuses, annual leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

(p) Share based payments

The group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a binomial pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(q) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct labour and variable and fixed overheads.

(r) Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key estimates

i. *Impairment*
The Group assesses impairment at each reporting date by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

ii. *Provision for impairment of Receivables*
Included in trade receivables at the end of the reporting period is a receivable amount of $11,880 arising from a sale of beta carotene which has been provided for as there is uncertainty as to whether the amount will be recovered.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Adoption of New and Revised Accounting Policies

During the current year the Group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of AquaCarotene Limited.

AASB 8: Operating Segments
In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. As a result, some of the required operating segment disclosures have changed. Below is an overview of the key changes and the impact on the Group's financial statements.

Measurement impact
Identification and measurement of segments — AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments. The 'management approach' requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance. Under AASB 114, segments were identified by business and geographical areas.

The adoption of the 'management approach' to segment reporting has resulted in the identification of reportable segments largely consistent with the prior year.

Under AASB 8, operating segments are determined based on management reports using the 'management approach', whereas under AASB 114 financial results of such segments were recognised and measured in accordance with Australian Accounting Standards. This has not resulted in a significant change from the prior year. The Group results are viewed as the only segment, as this is how they are reviewed by the chief operating decision maker.

Disclosure impact
AASB 8 requires a number of additional quantitative and qualitative disclosures, not previously required under AASB 114, where such information is utilised by the chief operating decision maker. This information is now disclosed as part of the financial statements.

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Adoption of New and Revised Accounting Policies (continued)

AASB 101: Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Group's financial statements.

Disclosure impact

Terminology changes — the revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity — the revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income — the revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Group's financial statements now contain a statement of comprehensive income.

Other comprehensive income — The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standards for Application in Future Periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

- ASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

  These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements.

  The changes made to accounting requirements include:

  — simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;

  — simplifying the requirements for embedded derivatives;

  — removing the tainting rules associated with held-to-maturity assets;

  — removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;

  — allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and

  — reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:

    a. the objective of the entity's business model for managing the financial assets; and

    b. the characteristics of the contractual cash flows.

- AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

- This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.

- AASB 2009–4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

  These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- AASB 2009–8: Amendments to Australian Accounting Standards — Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

  These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.

- AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

  These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Group.

- AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

  This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.

- AASB 2009–13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

  This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Group.

- AASB 2009–14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

  This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

- AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

  This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

The Group does not anticipate the early adoption of any of the above Australian Accounting Standards.

2. REVENUE

	2010 $	2009 $
Revenue		
Sales – soil and general fill	-	26,105
	-	26,105

3. EXPENSES

	2010 $	2009 $
Depreciation expense		
Depreciation of property, plant and equipment	(1,609)	(1,811)
Employee benefits expense		
Salaries and wages	15,292	20,093
Workers' compensation costs	1,010	4,843
Superannuation	1,376	23,505
Managing Directors Costs	475,458	235,390
	493,136	283,831

4. NET FINANCING INCOME

Interest income	24,450	38,073
Net financing costs	24,450	38,073

5. INCOME TAX

(a) A reconciliation between income tax expense and the product of accounting profit/(loss) income tax multiplied by the Group's applicable income tax rate as follows:

Profit / (loss) before income tax	904,640	(876,100)
Income tax rate follows 30% (2009: 30%)	271,392	(262,830)
Expenditure not allowable for income tax purposes	18,330	4,524
Unrecognised / (recognised) tax losses	(289,722)	258,306
Income tax expense reported in the income statement	-	-

(b) At 30 June 2010, the Group has carry forward tax losses of approximately $9 million not brought to account (2009 - $9.9 million), available to offset against future taxable income. The deferred tax asset which may be derived from these tax losses, has not been carried forward as an asset in the balance sheet and will only be obtained if:

(i) the Group derives assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss to be realised;

(ii) the Group continues to comply with the conditions for deductibility imposed by law; and

(iii) no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the losses.

(c) Deferred income tax

	Group	
	2010	**2009**
	$	**$**
Deferred tax assets		
- Provisions	3,835	13,587
- Share capital costs	(2,986)	-
- Tax losses	2,720,091	2,993,200
Total deferred tax assets	2,720,940	3,006,787

The consolidated entity has not recognised the deferred income tax and deferred tax assets in the financial statements as it is not probable that sufficient taxable amounts will be available in future periods in which to be offset.

6. DISCONTINUED OPERATIONS

On the 1 June 2010 the Group completed the sale of its business of growing, processing and marketing Dunaliella Salina algae for the production of beta carotene to Australian Phytoplankton Pty Ltd for proceeds of $150,000, the assets sold included all stock, intellectual property and goodwill associated with the Dunaliella Salina Algae Business.

On the 26 February 2010 shareholders approved the transfer of the leases and licences on the ponds at Karratha held for the production of Marine Algae which included plant and equipment to Californian company Aurora Biofuels.

Financial information relating to the discontinued operation to the date of disposal is set out below.

The financial performance of the discontinued operation to the date of sale which is included in the profit / (loss) from discontinued operations per the statement of comprehensive income is as follows:

	2010	2009
Revenue	148,990	5,738
Cost of Sales	(332,668)	(343,901)
Gross profit	(183,678)	(338,163)
Other Income		
Profit on Aurora sale	1,861,895	-
Profit on sale of Intangible Assets at nil carrying value	20,000	-
Expenses		
Depreciation	75,850	70,291
Interest expense	8,985	7,116
Profit / (loss) before Income Tax	1,613,382	(415,570)
Income Tax expense	-	-
Profit (Loss) attributable to the Discontinued operations	1,613,382	(415,570)

6. DISCONTINUED OPERATIONS cont.

The net cash flows of the discontinuing operations which have been incorporated into the statement of cash flows are as follows:

	2010	2009
Net Cash inflow / (outflow) from operating activities	(196,858)	196,858
Net cash flow from investing activities	-	(103,885)
Net cash (outflow) / inflow from Financing activities	(68,533)	(18,650)
Net cash increase in cash generated by the discontinuing operation	(265,391)	74,323

7. AUDITORS' REMUNERATION

Audit and review of financial reports	29,870	23,900
	29,870	23,900

8. INTERESTS OF KEY MANAGEMENT PERSONNEL

a. **Names and positions held of key management personnel in office at any time during the financial year are:**

Key Management Person	Position
Charles Wilson	Chairman
Allan Omacini	Non-executive director
Kenneth Richards	Managing Director
Terrence Leach	Operations Manager

Refer to the Remuneration Report contained in the Director's Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2010.

b. **Options Holdings**

Number of Options held by Key Management Personnel during the financial year is as follows

30 June 2010	Balance 1.7.2009	Granted as Compen-sation	Options Exercised	Net Change Other	Balance 30.6.2010
Charles Wilson	-	-	-	-	-
Allan Omacini	-	-	-	-	-
Kenneth Richards	450,000	-	-	-	450,000
Terrence Leach (resigned on 18 January 2010)	150,000	-	-	(150,000)	-
Total	600,000	-	-	(150,000)	450,000

Net change other relating to Terrence Leach is due to his resignation during the year, as at the date of resignation his holding was 150,000, these options expire on 12 March 2012.

30 June 2009	Balance 1.7.2008	Granted as Compen-sation	Options Exercised	Net Change Other	Options expired	Balance 30.6.2009
Charles Wilson	500,000		(500,000)		-	-
Allan Omacini	250,000	-	(250,000)		-	-
Kenneth Richards	750,000	450,000	(750,000)		-	450,000
Terrence Leach (resigned on 18 January 2010)	150,000	-	-		-	150,000
	1,650,000	450,000	(1,500,000)			600,000

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

8. INTERESTS OF KEY MANAGEMENT PERSONNEL cont.

30 June 2010	Balance 30.6.2010	Total Vested 30.6.2010	Total Exer-cisable 30.6.2010	Total Unexer-cisable 30.6.2010
Charles Wilson	-	-	-	-
Allan Omacini	-	-	-	-
Kenneth Richards	450,000	450,000	450,000	-
Terrence Leach	150,000	150,000	150,000	-
Total	600,000	600,000	600,000	-

30 June 2009	Balance 30.6.2009	Total Vested 30.6.2009	Total Exer-cisable 30.6.2009	Total Unexer-cisable 30.6.2009
Charles Wilson	-	-	-	-
Allan Omacini	-	-	-	-
Kenneth Richards	450,000	300,000	300,000	150,000
Terrence Leach	150,000	150,000	150,000	-
Total	600,000	450,000	450,000	150,000

b. **Share Holdings**

The Number of ordinary shares in AquaCarotene Limited held by each Director of the Group during the financial year is as follows

30 June 2010	Balance 1.7.2009	Granted as Compen-sation	Issued on exercise of Options	Net Change Other	Balance 30.6.2010
Charles Wilson	1,560,857	-	-	780,429	2,341,286
Allan Omacini	1,282,230	-	-	150,001	1,432,231
Kenneth Richards	1,600,000	-	-	1,100,000	2,700,000
Total	4,443,087	-	-	2,030,430	6,473,517

8. INTERESTS OF KEY MANAGEMENT PERSONNEL cont.

30 June 2009	Balance 1.7.2008	Granted as Compen-sation	Issued on exercise of Options	Net Change Other	Balance 30.6.2009
Charles Wilson	1,060,857	-	500,000	-	1,560,857
Allan Omacini	1,132,230	-	250,000	(100,000)	1,282,230
Kenneth Richards	750,000	-	750,000	100,000	1,600,000
Total	2,943,087	-	1,500,000	-	4,443,087

9. EARNINGS PER SHARE

	Note	Group 2010 $	Group 2009 $
(Loss)/profit for the year		904,640	(876,100)
		Number	**Number**
Weighted average number of ordinary shares for basic earnings per share		280,740,018	248,840,201
Reconstructed Value 1:20		**14,037,001**	**12,442,010**

On 31 May 2010 Shareholders approved a consolidation of capital on a 1:20 basis i.e. 1 Ordinary share for every 20 Ordinary shares held. The consolidation was completed on 9 June 2010.

(a) Reconciliation of Earnings to Net Profit/ (Loss)	**904,640**	(876,100)
Profit/ (Loss) used in the calculation of basic EPS	**904,640**	(876,100)
Profit/ (Loss) used in the calculation of dilutive EPS	**904,640**	(876,100)
Profit/ (Loss) from continuing operations	**(708,742)**	(460,530)
Profit/ (Loss) from discontinuing operations	**1,613,382**	(415,570)
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic and dilutive EPS	**Number**	Number
	14,037,001	12,422,010

Calculation of dilutive EPS

As at 30 June 2010 there are 900,000 unlisted options on issue which were not included in the calculation of diluted earnings per share due to being anti-dilutive as the exercise price exceeded the average market price of ordinary shares during the period.

Since 30 June 2010 the entity has issued the following shares which have significantly changed the number of shares on issue subsequent to reporting date, 11,250,000 Ordinary shares and 3,750,000 A Class performance shares as consideration for the acquisition of Farmacule BioIndustries Pty Ltd.

10. SEGMENT INFORMATION

Products and services within each business segment

The Group has identified its operating segments based on the internal report that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is organised into two major operating divisions – supply of soil and general fill and natural betacarotene. During the year the Group discontinued its natural betacarotene division (for details refer to Note 6). As a result of the discontinuation of the Groups natural betacarotene division the results as presented in the statement of comprehensive income are consistent with the entities operating segments. In regards to segmental liabilities with the exception of Trade and other receivables totalling $2,151,424 all remaining assets and liabilities relate to the continuing operations of supply of soil and general fill.

Basis of accounting for purposes of reporting by operating segments:

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of the economic value of the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.
Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

Comparative information

This is the first reporting period in which AASB 8: Operating Segments has been adopted. Comparative information has been stated to conform to the requirements on the Standard.

11. INVENTORIES

	2010	2009
Dry Marine Algae	-	212,132

12. TRADE AND OTHER RECEIVABLES

	2010 $	2009 $
Current		
Trade and other receivables	2,142,226	164,381
Provision for impairment	(11,880)	(35,400)
GST receivables	14,617	9,676
Prepayments	1,308	-
Accrued Interest Received	9,954	-
	2,156,225	138,657

Non-current	2010 $	2009 $
Trade receivables	20,000	-

Impaired receivables
Trade and other receivables are assessed for recoverability based on the underlying terms of the sale contract. A provision for impairment is recognised when there is objective evidence that that individual trade or other receivable is impaired. As at 30th June 2010 only one current trade receivable was impaired and has been provided for in full.

	2010 $	2009 $
The ageing trade and other receivables is as follows:		
1 to 3 months	2,150,346	30,833
3 to 6 months	-	-
Over 6 months	11,880	133,548
	2,162,226	164,381

Movement in the Provision for impairment of receivables is set out below

	2010 $	2009 $
At 1 July	**35,400**	45,400
Unused amount reversed	(23,520)	(10,000)
Provision	11,880	-
	11,880	35,400

13. OTHER FINANCIAL ASSETS

	2010 $	2009 $
Current		
Investment in joint venture	100	50
Other	-	405
	100	455

The joint venture has not traded during the year.

Non Current		
Term deposit held as security	66,329	33,953

2 term deposits are held by the ANZ Bank as security for a performance bond to the Department of Mineral Resources.

14. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are included in the accounts, at cost, on the following basis:

	2010 $	2009 $
Non-current		
Plant and equipment		
Cost	709	445,040
Accumulated depreciation	(551)	(229,319)
	158	215,721
Total property, plant and equipment	158	215,721

14. PROPERTY, PLANT AND EQUIPMENT cont.

Reconciliation of property, plant and equipment

	2010 $	2009 $
Plant and equipment		
Opening written down value	215,721	183,938
Additions	-	103,885
Disposals	(138,104)	-
Depreciation	(77,459)	(72,102)
Closing written down value	158	215,721
Total property, plant and equipment	158	215,721

15. TRADE AND OTHER PAYABLES

	2010 $	2009 $
Current		
Trade payables	17,182	18,400
Accruals	143,400	26,696
Other payables	4,838	4,340
	165,420	49,436

16. INTEREST-BEARING LIABILITIES

	Notes	2010 $	2009 $
Current			
Corporate credit card		-	2,163
Lease liability	(i)	-	18,660
Total		-	20,823
Non-current			
Lease liability	(i)	-	56,695
Total		-	56,695

(i) The lease liability is secured over the assets subject to the lease

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010**

17. PROVISIONS

	2010 $	2009 $
Current		
Bonus entitlement	130,800	-
Employee entitlements	-	9,891
	130,800	9,891

A provision of $130,800 has been recognised by the group relating to bonus for the Managing Director, Ken Richards, payable under the terms of his Executive Service Agreement for the merger with Farmacule BioIndustries Pty Ltd which was approved at a shareholders meeting on 31 May 2010.

	Number	Number
Employees at year end	1	4

18. ISSUED CAPITAL

	ECONOMIC ENTITY	
	2010 $	2009 $
Issued share capital		
15,705,687 (2009: 13,335,846) ordinary shares, fully paid	30,533,897	29,854,256
	Number	**Number**
Movements in share capital		
Balance at beginning of financial year	266,716,913	236,716,913
Non-renounceable rights issue	47,392,900	-
Shortfall from rights issue	-	-
Shares issued to Managing Director		15,000,000
Shares issued to Chairman		10,000,000
Shares issued to director		5,000,000
Balance at end of financial year	314,109,813	266,716,913
1:20 Reconstruction – 09/06/10	**15,705,687**	**13,335,846**

On 31 May 2010 Shareholders approved a consolidation of capital on a 1:20 basis i.e. 1 Ordinary share for every 20 Ordinary shares held. The consolidation was completed on 9 June 2010.

18. ISSUED CAPITAL cont.

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Group, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

Options over ordinary shares	**2010 Number**	**2009 Number**
On issue at beginning of year	900,000	2,400,000
Issued during the year	-	450,000
Exercised during the year	-	(1,500,000)
Expired during the year	-	(450,000)
Outstanding at end of year	900,000	900,000

On 31 May 2010 Shareholders approved a consolidation of capital on a 1:20 basis i.e. 1 Ordinary share for every 20 Ordinary shares held and 1 Options for every 20 Options held. The consolidation was completed on 9 June 2010, and for comparative purposes the 2009 balances have been consolidated on the same basis.

Refer to the Directors' Report and Note 22 for details.

Capital Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The group' capital comprises ordinary share capital supported by financial assets. There are no externally imposed capital requirements.

Management effectively manages the group's capital by assessing the group's financial assets and adjusting its capital structure in response to changes in these risks and in the market. These responses include repayment of debt.

	2010 $	2009 $

19. OTHER RESERVES

Employee equity-settled benefits reserve	103,083	114,633

Movements:

Employee equity-settled benefits reserve		
Balance at beginning of the financial year	114,633	233,396
Transfer to equity	(16,140)	(161,957)
Cost of share-based payment	4,590	43,194
Balance at end of the financial year	103,083	114,633
Unrealised gains reserve		
Balance at beginning of the financial year	-	-
Transfer to accumulated losses	-	-
Balance at end of the financial year	-	-

This reserve records the value of equity benefits provided to employees and directors as part of their remuneration.
Refer to Note 22 for further details of these plans.

20. ACCUMULATED LOSSES

Opening balance at the beginning of the financial year	(29,162,048)	(28,285,948)
Net (loss)/profit for the year	904,640	(876,100)
Unrealised gains	-	-
Closing balance at the end of the financial year	(28,257,408)	(29,162,048)

21. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and term deposits, net of outstanding bank overdrafts.

Cash and cash equivalents at the end of the year as shown in the cash flow statement is reconciled to the related item in the balance sheet as follows:

	Notes	2010 $	2009 $
Cash at bank		432,980	342,768
		432,980	342,768

(b) Reconciliation of net (loss)/profit for the period to cash flows provided by operating activities

	2010 $	2009 $
Net Profit / (loss) for the period	904,640	(876,100)
Non-cash flow in (loss)/profit		
Depreciation	77,459	72,102
Profit on Aurora sale	(1,861,895)	
Employee equity-settled benefits	4,590	43,194
Profit on sale of intangible assets	(20,000)	-
Changes in assets and liabilities		
(Increase) in trade and other receivables	(25,845)	102,165
(Increase) in trade and other assets	(355)	-
Decrease in inventories	212,132	(109,124)
Increase in trade and other payables	246,784	(28,171)
Increase/(decrease) in provisions	(9,891)	(26,230)
(Increase) in other financial asset	(32,376)	(738)
Net cash (used in) operating activities	(504,757)	(822,902)

22. SHARE BASED PAYMENT PLANS

Employee Share Option Plan

On 29 November 2005, shareholders approved the implementation of an Employee Share Option Plan. The Board in its absolute discretion may determine that an eligible person may participate in the Plan.

Eligible persons include the following:

- an eligible employee, who is a person in full or part time employment of the Group and includes an executive director;
- the spouse of an eligible employee;
- the body corporate in which an eligible employee holds and beneficially owns not less than 50% of the issued voting share capital;
- a trustee of a trust in which an eligible employee is a beneficiary or object; or
- the trustee of a superannuation fund of which an eligible employee is a member.

On 4 April 2006, 300,000 unlisted options were granted pursuant to the Employee Share Option Plan. These shares were issued to Professor Mark Cohen in respect of his services as a consultant to the Group.

The Options have been granted on the following terms and conditions.

Number	Exercise Price	Expiry Date	Vesting Date
100,000	$1.00	28 February 2011	4 April 2006
100,000	$1.40	28 February 2011	4 April 2006
100,000	$1.80	28 February 2011	4 April 2006

The fair value of the equity-settled share options is estimated at the date of grant using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted (see directors report).

The following information has been used as the inputs in the pricing model:

Expected volatility	50%	50%	50%
Risk-free interest rate	5.41%	5.41%	5.41%
Life of option	4.9 years	4.9 years	4.9 years
Exercise price	$1.00	$1.40	$1.80

Based on these inputs, the options were valued at a total of $29,800 at the date of grant. This amount has been fully expensed to the statement of comprehensive income in prior years.

All options remain unexercised at 30 June 2010.

22. SHARE BASED PAYMENT PLANS cont.

Employee Share Option Plan cont.

On 16 April 2007, 150,000 unlisted options were granted to Terry Leach pursuant to the Employee Share Option Plan on the following terms and conditions:

Number	Exercise Price	Expiry Date	Vesting Date	Fair value at grant date
50,000	$0.40	31 March 2012	16 April 2007	$13,700
50,000	$0.80	31 March 2012	31 March 2008	$9,700
50,000	$1.20	31 March 2012	31 March 2009	$3,400

The fair value of the equity-settled share options is estimated at the date of grant using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted.

The following information has been used as the inputs in the pricing model:

Expected volatility	116%	116%	116%
Risk-free interest rate	6.00%	6.00%	6.00%
Life of option	3.0 years	2.0 years	1.0 years
Exercise price	$0.40	$0.80	$1.20

Based on these inputs, the options were valued at a total of $26,800 at the date of grant, of which $0 has been expensed to the income statement in share based payments in this financial year. (2009: $1,302)

All options remain unexercised at 30 June 2010.

On 21 November 2008, 450,000 unlisted employee options were granted to Mr Ken Richards with an expiry date of 21 November 2012. 300,000 options with a vesting date of 21 November 2008 and 150,000 with a vesting date of 21 November 2009.

The fair value of the equity-settled share options is estimated at the date of grant using the Binomial option pricing model taking into account the terms and conditions upon which the options were granted.

The following information has been used as the inputs in the pricing model.

Expected volatility	100%
Risk-free interest rate	6.25%
Life of option	4 years
Exercise price	$0.40, $0.80 and $1.20

Due to the nature of the operations of the Group being reasonably consistent over a number of years, historic volatility has been used as a predictor of future volatility.

22. SHARE BASED PAYMENT PLANS cont.

Employee Share Option Plan cont.

The value of these options at the date of the directors' resolution was $46,483, of which $4,590 which was expensed to the statement of comprehensive income (2009: $41,893).

No consideration was payable by Mr Richards in respect of the grant of these options.

The following table illustrates the number and weighted average exercise prices ("WAEP") of movements in share options issued during the year:

	Number of options 2010	WAEP $ 2010	Number of options 2009	WAEP $ 2009
Outstanding at the beginning of the year	900,000	1.00	2,400,000	0.74
Granted during the year	-	-	450,000	0.80
Expired during the year	-	-	(450,000)	1.80
Exercised during the year	-	-	(1,500,000)	0.28
Outstanding at the end of the year	900,000	1.00	900,000	1.00

The weighted average remaining contractual life of the options outstanding at year end was 1.71 years.

The outstanding balance post consolidation as at 30 June 2010 is represented by:

Expiry date of 28 February 2011

- 100,000 with an exercise price of $1.00, fully vested
- 100,000 options with an exercise price of $1.40, fully vested
- 100,000 options with an exercise price of $1.80, fully vested

Expiry date of 31 March 2012

- 50,000 with an exercise price of $0.40, fully vested
- 50,000 with an exercise price of $0.80, fully vested
- 50,000 with an exercise price of $1.20, fully vested

Expiry date of 21 November 2012

- 150,000 with an exercise price of $0.40, fully vested
- 150,000 with an exercise price of $0.80, fully vested
- 150,000 with an exercise price of $1.20, fully vested

23. EVENTS SUBSEQUENT TO BALANCE DATE

On the 10 August 2010 the Sale to Aurora Biofuels Inc was finalised and the purchase price of $2,000,000 was released from a legal trust account to AquaCarotene's accounts.

The release of the $2,000,000 from the Aurora sale was the last condition precedent for the merger of AquaCarotene Ltd and Farmacule BioIndustries Pty Ltd that was approved by shareholders on the 31 May 2010. Completion for this merger took place on the 11 August 2010. The consequences of the merger: issue of shares to Farmacule shareholders, changes in management, changes in Directors and the changes in business operations have been detailed elsewhere in this report. The financial effect of this transaction has not been brought to account in the 2010 financial statements, the Board of Directors are in the process of determining the financial impact.

There are no other matters, other than those detailed above, that have arisen since 30 June 2010 and the date of this report which significantly affected the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years

24. RELATED PARTY TRANSACTIONS

Refer to the Remuneration Report contained in the Director's Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2010.

Other transactions with key management personnel

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

On 31 May 2007, the Group appointed Richards Lyon Strategic Management Pty Ltd (RLSM) to undertake professional management consulting services as would be expected from a Managing Director of the Group. These services were provided by RLSM through its principal Mr. Ken Richards. The contract also provides for other ancillary services on normal commercial terms. The contract was for an initial period of 6 months. The contract was not renewed and Mr. Ken Richards was employed directly by the Group from 1 January 2008 until 1 May 2009, when a new contract was entered into with RLSM. This was due to the downturn in the business and the reduction in the numbers of hours to be applied to the role. Payments made are included in the Remuneration report of the Directors' report. The Group paid Richards Lyon Strategic management (a company associated with Mr Ken Richards) a fee for the use of office space from 1 January 2008. This amounted to $13,800 (2009: $13,800). As at 30 June 2010 the balance owing to RLSM was $261,600 in relation to bonus accruals and provision amounts as disclosed in the directors reports.

25. CONTINGENT LIABILITIES

Two term deposits are currently being held by the ANZ Bank as security for a performance bond to the Department of Mineral Resources, the amount currently being held is $66,329.

26. FINANCIAL INSTRUMENTS

(a) Derivative financial instruments

The Group does not currently employ any derivative financial instruments. The Directors have adopted a policy for sales contracts to be quoted in Australian dollars ($A) in order to shift the foreign exchange risk from the Group to the consumer. The Directors will review this policy from time to time.

(b) Capital Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The group' capital comprises ordinary share capital supported by financial assets. There are no externally imposed capital requirements.

Management effectively manages the group's capital by assessing the group's financial assets and adjusting its capital structure in response to changes in these risks and in the market. These responses include repayment of debt and distributions to shareholders.

(c) Financial Risk Management Policies

The group's financial instruments consist mainly of deposits with banks, local money market instruments, accounts receivable and payable and leases.

The main purpose of non-derivative financial instruments is to raise finance for group operations.

i. Treasury Risk Management

The Board of directors meet on a regular basis to analyse financial risk exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

ii. **Financial Risk Exposures and Management**

The main risks the group is exposed to through its financial instruments are liquidity risk and credit risk.

Liquidity risk

The Group manages liquidity risk by monitoring forecast cash flows. Liquidity risk arises from the possibility that the Group might encounter difficult in settling its debtors of otherwise meetings its obligations related to financial liabilities.

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, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

Collateral has been given in the form of a guarantee from Mr Ian Tracton and Mr Zack Bobrov and Interclinical Laboratories Pty Ltd in respect of Australian Phytoplankton Pty Limited, who owe AquaCarotene Ltd an amount of $140,000 included in trade receivables at 30 June 2010. Should Australian Phytoplankton Pty Limited be unable to pay the outstanding debt within the agreed terms, this amount will be settled by the guarantors.

There are no other material amounts of collateral held as security at balance date.

Credit risk is managed and reviewed regularly by the Board of Directors. It arises from exposures to customers and deposits with financial institutions.
The Board of Directors monitors credit risk by actively assessing the rating quality and liquidity of counter parties:

- all potential customers are assessed for credit worthiness taking into account their size, market position and financial standing

Interest Rate Risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a change in interest rate will affect future cash flows. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash investments. Surplus funds are invested in secure term deposits and are managed by the directors and monitored on a regular basis.

26. FINANCIAL INSTRUMENTS cont.

(c) Financial Risk Management Policies

	Fixed Interest Rate Maturing			
	Weighted Average Effective Interest Rate		Floating Interest Rate	
	2010 %	2009 %	2010 $	2009 $
Financial Assets:				
Cash and cash equivalents	2.84%	3.11	432,980	342,768
Term deposit held as security			66,329	33,953
Receivables	-	-	2,176,225	138,657
Total Financial Assets			2,675,534	515,378
Financial Liabilities:				
Corporate credit card - Karratha	-	19.24	-	2,163
Trade payables and accruals	-	-	165,420	49,436
Lease liabilities	-	8.80	-	75,355
Provisions for employee entitlements			130,800	9,891
Total Financial Liabilities			296,220	136,845

Financial Instruments Maturity Analysis

As the Group has no significant interest-bearing assets other than cash at bank, the Group's income and operating cash flows are not materially exposed to changes in market interest rates. Cash flows from financial assets are expected to be realised as disclosed below, financial liabilities due for payment are also expected to be settled within 1 year. Financial assets and financial liabilities are neither past due nor impaired with the exception of amounts disclosed in Note 12.

	Within 1 Year		1 to 5 years	
	2010 $	2009 $	2010 $	2009 $
Financial Assets:				
Cash and cash equivalents	432,980	342,768	-	-
Term deposit held as security	66,329	33,953	-	-
Receivables	2,156,225	138,657	20,000	-
Total Financial Assets	2,655,534	515,378	20,000	-
Financial Liabilities:				
Corporate credit card - Karratha	-	2,163	-	-
Trade payables and accruals	165,420	49,436	-	-
Provisions for employee entitlements	130,800	9,891	-	-
Lease liabilities	-	18,660	-	56,695
Total Financial Liabilities	296,220	80,150	-	56,695

26. FINANCIAL INSTRUMENTS cont.

(c) Financial Risk Management Policies

Trade payables and provisions are expected to be paid as followed:

	2010	2009
	$	$
Less than 6 months	296,220	80,150
6 months to 1 year	-	-
1 - 5 years	-	-
Over 5 years	-	-
	296,220	80,150

iii. **Net Fair Values**

The net fair values of:

— Term receivables, government and fixed interest securities and bonds are determined by discounting the cash flows, at the market interest rates of similar securities, to their present value.

— Other assets and other liabilities approximate their carrying value.

Aggregate net fair values and carrying amounts of financial assets and financial liabilities are materially in line with carrying values as disclosed in the statement of financial position.

27. ASSOCIATED COMPANIES

Interest is held in the following Controlled Entity:

Name	**Principal Activities**	**Country of Incorpor-ation**	**Shares**	**Ownership Interest**		**Carry amount of investment**	
				2010 %	**2009 %**	**2010 $000**	**2009 $000**
Unlisted:							
AQL Mining Pty Ltd (Incorporated 16 October 2009)	Principal activities are mining of gravel and general fill.	Australia	Ord	100	-	100	-

28. PARENT ENTITY DISCLOSURES

Financial Position

	2010 $	**2009 $**
Assets		
Current assets	2,589,305	694,012
Non-current assets	86,487	249,674
Total assets	2,675,792	943,686
Liabilities		
Current liabilities	296,220	80,150
Non-current liabilities	-	56,695
Total liabilities	296,220	136,845
Equity		
Issued capital	30,533,897	29,854,256
Reserves	103,083	114,633
Retained earnings	(28,257,408)	(29,162,048)
Total equity	2,379,572	806,841

Financial Performance

Comprehensive Income / (Loss) for the year	904,640	(876,100)

DIRECTORS' DECLARATION

The Directors of the AquaCarotene Limited declare that:

1. The financial statements and notes, as set out on pages 26 to 64, are in accordance with the Corporations Act 2001:

   (a) comply with Accounting Standards, and the Corporations Regulations 2001; and

   (b) give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the economic entity.

2. In the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

3. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2010.

4. The financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and

5. The remuneration disclosures that are contained in the Remuneration Report in the Directors Report comply with Australian Accounting Standards AASB 124 Related Party Disclosures the Corporations Act 2001 and the Corporations Regulations 2001.

This declaration is made in accordance with a resolution of the Board of Directors and is signed by authority for and on behalf of the Directors by:

CHARLES WILSON
Director & Former Chairman

Perth,
Western Australia
Dated: 28 September 2010

WHK Horwath

INDEPENDENT AUDIT REPORT TO MEMBERS OF AQUACAROTENE LIMITED

We have audited the accompanying financial report of Aquacarotene Limited (the company), which comprises the balance sheet as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001*.* This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

In our opinion, the financial report of Aquacarotene Limited is in accordance with the Corporations Act 2001 including:

a) i. giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

ii. complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001.

b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Member Horwath International
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A WHK Group firm

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 21 to 23 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Aquacarotene Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

WHK HORWATH PERTH AUDIT PARTNERSHIP

SEAN MCGURK
Partner

Perth, WA

Dated this 28th day of September 2010

AUSTRALIAN SECURITIES EXCHANGE INFORMATION

SHAREHOLDER INFORMATION

1. Distribution of shareholders at 24 September 2010:

			Number of Ordinary Holders	Number of A Class Holders
Number of holders			956	55
Distribution is:				
1	-	1,000	396	1
1,001	-	5,000	285	14
5,001	-	10,000	86	5
10,001	-	100,000	153	28
100,001	and	Over	36	7
			956	55

2. Voting rights

There are no restrictions on voting rights attached to the ordinary shares on issue. On a show of hands, every member present in person shall have one vote and upon a poll, every member present in person or by proxy shall have one vote for every share held. A Class holders have no voting rights.

3. Substantial shareholders

The number of shares held by substantial shareholders is set out below:

Shareholder	Number of Ordinary Shares
Qutbluebox Pty Ltd (as trustee)	3,786,593
Russell Charles Wilson	2,341,286
Kenneth Lionel Richards	2,700,000

4. Options

Unlisted 28 February 2011 Options
100,000 options held by 1 holder and are exercisable at $1.00.
100,000 options held by 1 holder and are exercisable at $1.40.
100,000 options held by 1 holder and are exercisable at $1.80.

Unlisted 31 March 2012 Options
50,000 options held by 1 holder and are exercisable at 40 cents.
50,000 options held by 1 holder and are exercisable at 80 cents.
50,000 options held by 1 holder and are exercisable at $1.20.

Unlisted 21 November 2012 Options
150,000 options held by 1 holder and are exercisable at 40 cents.
150,000 options held by 1 holder and are exercisable at 80 cents.
150,000 options held by 1 holder and are exercisable at $1.20 cents.

The option holders do not have any voting rights.

AUSTRALIAN SECURITIES EXCHANGE INFORMATION

SHAREHOLDER INFORMATION cont.

5. Registers of securities of securities are held at the following addresses

Security Transfer Registrars Pty Ltd,
770 Canning Highway
Applecross, Western Australia 6953

6. Quotation

Shares in AquaCarotene Limited are listed on Australian Stock Exchange Limited.
Code: AQL

7. Twenty Largest holdings of fully paid Ordinary Shares and A Class Shares post consolidation as at 24 September 2010:

	Name	Number of Ordinary Shares	% of Issued Ordinary Shares	Number of A Class Shares	% of Issued A Class Shares
1.	Qutbluebox Pty Ltd (as trustee)	3,786,593	14.05	1,262,198	33.66
2.	Mr Russell Charles Wilson	2,341,286	8.69		
3.	Growth Capital (WA) Pty Ltd	2,250,000	8.35		
4.	Mesoamerica Sugar Corporation	1,250,334	4.64	416,777	11.11
5.	Prof. James Langham Dale	1,238,501	4.59	412,834	11.01
6.	Mr Allan John Omacini (as trustee)	947,858	3.52		
7.	Tyson Resources Pty Ltd	582,129	2.16		
8.	Mr Michael Robert Beech & Ms Robin Lynn Beech	500,000	1.85		
9.	Keliri Pty Ltd (as trustee)	450,000	1.67		
10.	Mrs Lynn Andrea McMullan	424,708	1.58		
11.	Orbit Capital Pty Ltd	376,946	1.40	125,649	3.35
12.	Mr David Hudson (as trustee)	348,974	1.29	116,325	3.10
13.	JML Trustee Company Ltd	343,290	1.27	114,430	3.05
14.	teQstart Pty Ltd	325,116	1.21	108,372	2.89
15.	Ms Mindi Watson	300,000	1.11		
16.	Mr Allan John Omacini	289,953	1.08		
17.	Stanley Holdings Pty Ltd	281,250	1.04		
18.	Kesli Chemicals Pty Ltd (as trustee)	278,839	1.03		
19.	Dr Douglas Kenneth Becker	273,774	1.02	91,258	2.43
20.	Dr Benjamin Dugdale	273,774	1.02	91,258	2.43
		16,863,325	62.57	2,739,101	73.03