



ACN 064 755 237

**TO: COMPANY ANNOUNCEMENTS OFFICE
AUSTRALIAN SECURITIES EXCHANGE**

DATE: 13th June 2007

LODGEMENT OF OFFER INFORMATION STATEMENT

Further to earlier announcements regarding the proposed Entitlements Issue of Shares in Aquenox Limited and Options to acquire Shares in the capital of Aquenox Limited being made to Cardia shareholders and Cardia Optionholders, we advise that the Offer Information Statement to be issued in relation to those issues has been lodged with ASIC.

The Copy of Offer Information Statement is attached.

JOHN WILSON
Company Secretary

CARDIA TECHNOLOGIES LTD

REGISTERED OFFICE

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THIS DOCUMENT IS IMPORTANT

AQUENOX LIMITED

(ABN 61 091 286 672)

OFFER INFORMATION STATEMENT

FOR AN ENTITLEMENTS OFFER TO MEMBERS OF, AND OPTIONHOLDERS IN, CARDIA TECHNOLOGIES LIMITED ("CARDIA") ON THE BASIS:

- THAT EACH MEMBER WILL BE ENTITLED TO APPLY FOR ONE ORDINARY NEW SHARE IN AQUENOX LIMITED ("AQUENOX" or "THE COMPANY") AT AN ISSUE PRICE OF \$0.01 (1 CENT) FOR EVERY 3 SHARES IN CARDIA HELD AT THE RECORD DATE TO DETERMINE ENTITLEMENTS TO THE ISSUE;
- THAT EACH OPTIONHOLDER WILL BE ENTITLED TO APPLY FOR ONE OPTION TO ACQUIRE AN ORDINARY SHARE IN AQUENOX WITH EACH OPTION BEING GRANTED AT AN ISSUE PRICE OF \$0.001 (1/10TH OF 1 CENT) ON THE BASIS THAT OPTIONHOLDERS WILL BE ENTITLED TO APPLY FOR ONE OPTION TO ACQUIRE AN ORDINARY SHARE IN AQUENOX FOR EVERY 3 OPTIONS TO ACQUIRE AN ORDINARY SHARE IN CARDIA HELD AT THE RECORD DATE TO DETERMINE ENTITLEMENTS TO THE ISSUE.

SECURITIES NOT SUBSCRIBED FOR UNDER THE ENTITLEMENTS OFFER WILL BE TAKEN UP BY THE UNDERWRITER PURSUANT TO THE UNDERWRITING AGREEMENT

THE ISSUE IS UNDERWRITTEN BY TRAYBURN PTY LTD (A COMPANY ASSOCIATED WITH MR PATRICK VOLPE: A DIRECTOR OF CARDIA)

ANY INVESTMENT IN THE COMPANY'S SECURITIES SHOULD BE CONSIDERED SPECULATIVE

This Offer Information Statement (OIS) is an important document and should be read in its entirety. If after reading this OIS you have any questions about the securities being offered for subscription under the OIS then you should consult your professional advisor.

CORPORATE DIRECTORY

DIRECTORS

Patrick John Volpe (Executive Chairman)
Joseph Tigani (Chief Executive Officer)
Robin Gerald Armstrong (Non-Executive Director)

COMPANY SECRETARY

John Howden Wilson

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SHARE REGISTRY

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TABLE OF CONTENTS

SECTION	PAGE
CORPORATE DIRECTORY.....	1
TABLE OF CONTENTS.....	1
THE CHAIRMAN'S INVITATION.....	1
INTRODUCTION AND SUMMARY.....	2
IMPORTANT INFORMATION.....	3
AQUENOX: AIMS AND STRATEGIES.....	5
AQUENOX: ACTIVITIES.....	9
AQUENOX: MANAGEMENT.....	12
OFFER AND KEY DATES.....	14
BUSINESS AND INVESTMENT RISKS.....	20
GENERAL MATTERS.....	24
AQUENOX FINANCIAL STATEMENTS.....	31

FORWARD LOOKING STATEMENTS

Various statements in this OIS constitute statements relating to intentions, future acts and events. Such statements are generally classified as forward looking statements and involve known and unknown risks, uncertainties and other important factors that could cause those future acts, events and circumstances to differ from the way or manner in which they are expressly or implicitly portrayed herein.

STATUS OF OFFER INFORMATION STATEMENT

An OIS under Section 715 of the Corporations Act 2001 is not a prospectus. It has a lower level of disclosure requirements than a prospectus and investors should obtain professional investment advice before accepting any offer or invitation to subscribe for shares contained herein.

SUITABILITY OF INVESTMENT: RISK FACTORS

Before deciding to invest in Aquenox potential Investors should read the entire OIS, and in particular any technical information and the risk factors that could affect the future operations and activities of the Company. They should carefully consider these factors in the light of their personal circumstances (including matters related to their financial capacity and position, taxation affairs and their investment and risk profile) and seek professional advice from their accountant, stockbroker, lawyer or other professional advisor before deciding to invest in any securities the subject of this OIS. They should understand that investment in any startup company in the area of technology is both speculative and subject to a wide range of risks and that, unless the Company establishes successful commercial operations, they may lose the entire value of their investment.

SECTION 1

THE CHAIRMAN'S INVITATION

13 June 2007

Dear Investor –

Aquenox has a clearly defined and specific set of goals as set out in this Offer Information Statement. Members of Cardia should read this OIS in detail before making any decision as to whether they should invest.

One factor that they should take into account is that Aquenox will be an unlisted public company in the immediate and foreseeable future and no assurance can be given that the securities of Aquenox will be admitted to the official list of any stock exchange.

The Offer is being made by way of a non-renounceable offer to existing members and optionholders in Cardia Technologies Limited ("Cardia") as at the record date to determine entitlements to the issue.

To the extent that members elect not to take up their entitlements under the Issue, the securities on offer will be taken up by the underwriter which is associated with Mr. Pat Volpe, a Director of the Company. The terms of the Underwriting Agreement are set out in full in clause 3.1(a) in Section 9. The underwriting is unconditional.

The Directors invite you to subscribe for Shares or Options pursuant to the Offer depending on whether you are a Cardia shareholder or Cardia optionholder. However, before you make your investment decision I ask you to read this OIS carefully and in its entirety and seek financial or professional advice if required.

Yours faithfully


Patrick J Volpe
Chairman

SECTION 2

INTRODUCTION AND SUMMARY

THE ISSUE AND THE PURPOSE OF THE ISSUE

Offer to Cardia Members

The Offer to Cardia Members is an entitlements issue on the basis that, save in respect of overseas shareholders who will be treated as referred to herein, each Cardia Member will be entitled to apply for one ordinary Share at an Issue Price of \$0.01 for every 3 Cardia Shares held at the Record Date to determine Entitlements. Fractional entitlements to Shares will be rounded down to the nearest whole Share.

Offer to Cardia Optionholders

The Offer to Cardia Optionholders is an entitlements issue on the basis that, save in respect of overseas Optionholders who will be treated as referred to herein, each Cardia Optionholder will be entitled to apply for one Option to acquire one (1) ordinary Share for every three (3) Cardia Options held at the Record Date to determine Entitlements. The Issue Price of the Options is \$0.001 (1/10th of a cent) for each Option. The Options are exercisable at an exercise price of \$0.20 per Option up to the expiry date which is 5 pm AEST on the 31 December 2015. Fractional entitlements to Options will be rounded down to the nearest whole Option.

TIMETABLE

The Issue will open on Friday, 29 June 2007 ("Opening Date") and will close at 5.00 pm AEST on Tuesday, 17 July 2007, or at such other date as the Directors may determine. The Directors expressly reserve the right to extend the Closing Date.

Notwithstanding that the Issue will open on Friday, 29 June 2007, any applications received during the exposure period will be dealt with in accordance with s.724 of the Corporations Act 2001 ("the Act"). Such applications received prior to the expiration of the exposure period will not be processed until after the expiry of the exposure period. No preference will be conferred on applications received during the exposure period and all applications received during the exposure period will be treated as if they were simultaneously received immediately after the expiry of the exposure period.

ACCEPTANCES

Acceptances of Securities offered pursuant to this OIS must be made on the Entitlement and Acceptance Form which will accompany this OIS, as specified in this OIS.

RIGHTS ATTACHING TO THE SHARES

The Shares will rank equally with the Company's existing shares. Details of the rights attaching to the Shares are set out in more detail in Section 9.

UNDERWRITING

This Issue is underwritten by Trayburn Pty Ltd accompany associated with Mr. Pat Volpe, a director of the Company) on the terms set out in clause 3.1(a) in Section 9. Pursuant to the Underwriting Agreement commission of 5% of the amount of the Issue will be payable to the underwriter. That commission may be taken in Shares in Aquenox on the same terms as the Issue. Growthtech International Pty Ltd, a pooled development fund in which Mr Volpe and interests associated with him hold 30% of the capital, has agreed to sub-underwrite the Issue to the extent permitted under the Pooled Development Funds Act 1992 (as amended) and subject to any approvals which may be required to be obtained from the PDF Registration Board as established under that Act. No sub-underwriting agreement has as yet been signed.

SECTION 3

IMPORTANT INFORMATION

IMPORTANT DATES

Announcement of Issue	Tuesday, 12 June 2007
Date of OIS: date of issue of OIS	Wednesday, 13 June 2007
Cardia Shares and Options trade ex-entitlement on ASX	Monday, 25 June 2007
Record Date to determine Cardia security holders' entitlements to the Issue (Opening Date)	Friday, 29 June 2007
Despatch of Offer to Cardia Members and Cardia Optionholders	Tuesday, 3 July 2007
Closing Date – Latest date for acceptance and payment in full	Tuesday, 17 July 2007
Allotment of Shares and Options	Monday, 23 July 2007
Despatch of Certificates	Tuesday, 24 July 2007

These dates are indicative only. The Company reserves the right to extend the Closing Date of the Offer, in which case the allotment date will change accordingly.

ALLOTMENT OF SECURITIES

No securities will be issued or allotted on the basis of this OIS later than 13 months after the date of this OIS. A copy of this OIS was lodged with the Australian Securities and Investments Commission ("ASIC") on Wednesday, 13 June 2007. ASIC takes no responsibility for the contents of this OIS.

NO LISTING FOR SECURITIES THE SUBJECT OF THE ISSUE

No application will be made for the Listing of any securities offered under this OIS on any Stock Exchange in the immediate future. Aquenox has no present intention to apply for listing of the securities offered by this OIS. However as previously announced by Cardia, it is the intention that Aquenox will, in due course, make application for admission to the Official List of ASX but to do so it will need to comply with the requirements of the Listing Rules of ASX. Aquenox will not be compliant with the Listing Rules of ASX on completion of the Issue. Applicants should not apply for securities in Aquenox on the basis that those securities will, at any time, become listed on any stock exchange as there is no guarantee or assurance that they will or that Aquenox will, at any time be in a position to make any such application or to comply with the listing rules of any stock exchange.

To become admitted to the Official List of ASX, Aquenox will be required to lodge a prospectus and to satisfy the requirements of Chapters 1 and 2 of the Listing Rules of ASX which are available from the ASX website www.asx.com.au. A brief summary of those requirements is set out below for the information of Applicants.

- The Company must issue a prospectus which must be lodged with ASIC. **Listing Rule 1.1 Condition 3**
- The Company must have spread. The spread requirements are either 500 members holding ordinary shares with a market value East's of at least \$2,000 (excluding restricted securities) or 400 members holding shares with a market value of at least \$2,000 with persons who are not related parties of the entity holding not less than 25% of the total number of ordinary shares on issue excluding from the calculation all shares which are classified as "restricted securities". Any vendors will hold restricted securities. **(Listing Rule 1.1 Condition 7)**
- The Company must either satisfy the profit test in Listing Rule 1.2 or the assets test in Listing Rule 1.3. **(Listing Rule 1.1 Condition 8)**

3. **The profit test in Listing Rule 1.2 requires** that the entity must be a going concern and that its business activity at the date it was admitted must be the same as it was during the last three financial years.
 4. **The assets test in Listing Rule 1.3 requires** that at the time of admission (reinstatement) the Company must have net tangible assets of at least \$2,000,000 after deducting the costs of fundraising or it must have a market capitalisation of at least \$10,000,000. Less than half of the Company's total tangible assets must be in cash or in a form readily convertible to cash or, alternatively, if more than half of the entity's total tangible assets are cash or are in a form readily convertible to cash, the entity must have commitments consistent with its business objectives to spend at least half its cash and assets in a form convertible to cash. Those business objectives must be clearly stated and include an expenditure program in the listing document. Finally, the entity must state that it has sufficient working capital to carry out its stated objectives and the entity's working capital must be at least \$1,500,000 or, if it is not, it would be at least that amount if the entity's budgeted revenue for the first full financial year that ends after listing was included in working capital. The Company must give ASX audited accounts for the past three full financial years (or from incorporation if the entity has been incorporated for less than 3 years) and if the last financial year for which accounts are available has ended more than eight months before the application for reinstatement is made they must be accompanied by audited accounts or audit review accounts for not less than the last half-year from the end of the previous financial year with the audit report or the audit review report. Additionally, there must be a pro forma audit reviewed balance sheet.
- If the Company acquires business operations which do not enable it to satisfy the profit test and ASX imposes escrow restrictions then the Company must comply with the restrictions in Chapter 9 of the Listing Rules and provide ASX with copies of completed restriction agreements prior to reinstatement of quotation. (**Listing Rule 1.1 Condition 9**)
 - As a matter of formality, the entity must enter into formal agreements with ASX and lodge various applications for listing of shares etc.

INFORMATION

No person is authorized to give any information or to make any representation in connection with the Offer of Shares described in this OIS which is not contained in this OIS. Any information or representation not so contained may not be relied upon as having been authorized by Aquenox in connection with this Offer.

EXPOSURE PERIOD

In accordance with Chapter 6D of the Act this OIS is subject to an Exposure Period of seven days from the date of lodgement with ASIC. This period may be extended by ASIC for a further period of up to seven days. The purpose of the Exposure Period is to enable this OIS to be examined by market participants prior to the raising of funds. If this OIS is found to be deficient, applications received during the Exposure Period will be dealt with in accordance with section 724 of the Act. Applications received prior to the expiration of the exposure period will not be processed until after the expiry of the exposure period. No preference will be conferred on applications received during the exposure period and all applications received during the exposure period will be treated as if they were simultaneously received immediately after the expiry of the exposure period.

ELECTRONIC OIS

This OIS will be issued in paper form and as an Electronic OIS, which may be viewed online at the Company's website www.cardia.com.au The Offer is available to persons receiving an electronic version of this OIS in Australia. The Act prohibits any person from passing the Application Form on to another person, unless it is attached to, or accompanied by, a complete and unaltered version of this OIS together with a complete and unaltered copy of any supplementary OIS, if any, which may be issued by the Company. During the Offer period any person may obtain a hard copy of this OIS by contacting the Company by telephone on (03) 9813-3228 (or by email at patv@cardia.com.au)

SECTION 4

AQUENOX: AIMS AND STRATEGIES

Water is now very much on the public agenda, with the current drought gripping most of the Australian continent.

Water is likely to be a major issue in the 2007 Federal Election.

Virtually on a daily basis, we are seeing headlines such as:

"Report Warns of Skyrocketing Water Prices" 'AM' 5th June 06 which projects ten-fold increases in water prices across Australia.

"Goulburn consider recycling as water supplies dwindle" 'AM' 31 May 06, detailing that Goulburn may have no option but to opt for recycled water for drinking.

"Our Precious Water...A Special Report on Victoria's Water Crisis", Herald-Sun 23 Dec '06, including article by world renowned scientist David Suzuki who "explains why we must do more to protect our resources of water ... *the sacred liquid*"

"Water torture...guzzlers facing stinging fees..." Herald-Sun 28th Jan 07. This report essentially highlights that water prices will steeply increase for both "water guzzling" domestic and industrial heavy users of water and supply caps introduced for industry, such that when the supply cap is reached, that user will need to find alternate supply sources or *recycle*.

"States split on plan to recycle" The Australian 29th Jan '07, highlighting concern about using recycled sewage water for drinking. Significantly, Vic, NSW and SA committing against use of recycling sewage water for drinking. More significantly, the Victorian Government's belief that "recycling water for industry use and freeing up what is freshwater for drinking is a much better way to go" Justin Madden, 'AM' 29th Jan '07.

Both the Australian Prime Minister and Leader of the Opposition are making all-out efforts to seize the position as the most committed to resolving our water crisis.

Water shortage is so critical that water restrictions are pitting neighbour against neighbour to spot people who are wasting water.

Whilst opinions differ on when the drought will break, there appears to be agreement that action needs to be taken to preserve water resources over the long term.

Estimates vary as to how many years of above-average rainfall will be required to return Dams to "safe" levels from their current record lows e.g. Brisbane – 24%, Sydney – 30%, Melbourne 38%.

With much of Australia on tough water restrictions, such as Melbourne Stage 3A, South East Queensland at Stage 5 restrictions, Sydney Stage 3, Geelong and Regional Victoria at Stage 4, the need for water conservation measures will be a constant issue to be addressed by politicians, regulators and the community as a whole into the future.

Water conservation will be a long term issue rather than a short term phenomenon.

Various options have been mooted to conserve potable water supply: including building additional dams, building large scale desalination plants; recycling of treated sewage to provide drinking quality water and drilling for bore water. Each of these solutions have their own pros and cons, such as extent of power supply required for treatment of highly concentrated salt sludges, through to the emotive issue of "drinking recycled sewage water", and the effect which extensive bore hole drilling for water may have on the water table. Of the various options presented, the most acceptable solutions appear to be Waste Water Recycling, Rain Harvesting and Bore Water sourcing.

With water becoming an important public issue and with Federal and State Governments preparing and introducing tough measures and stressing the need for water recycling Aquenox is strongly

positioned to provide solutions which are environmentally sustainable, economically sound and appealing to the community as a whole.

Aquinox has developed its integrated water reclamation/recycling systems and its tubular metal micro filter membranes which will enable it to aggressively compete in the Membrane Technology marketplace.

Aquinox's differentiation in the marketplace is that it provides Water Treatment Solutions rather than single-technology solutions such as, for example, filtration systems. Water Treatment is more than just filtration.

Aquinox provides a total solution to provide both standard products and more complex product solutions designed to meet specific client or industry requirements.

Aquinox's vision is to become a recognized international company that provides:

- Wastewater Treatment Systems & Solutions;
- Water Re-Use and Recycling Applications;
- Water Reclamation Systems (Precious and commodity materials).

Aquinox is developing as a diverse water technology company which aims to take advantage of the vast and broad ranging opportunities presented by industry.

Aquinox's Overall Strategy is to:

- Centralize Product/Application Development in Australia
- Establish supporting detailed research and manufacturing facilities in China for international markets.
- Continuously develop new and innovative solutions in response to emerging market opportunities
- Establish strategic global locations for manufacturing and distribution
- Seek and acquire complementary technologies
- Seek suitable acquisitions to complement its growth strategies
- Work closely with key players in target industries (Mining, Minerals Processing, Chemical Processing, Carwash, Food & Beverage, Municipal Waterways etc.)
- Strategically expand its Australian & Chinese operations
- Establish Sales and Technical Operations in Europe and North America
- Build a strong global network of *Sales* and *Service* Representatives
- Foster creativity and innovation in its staff

Following completion of the capital raising proposed by this OIS, Aquinox's immediate operational action plan is to carry out an aggressive national sales and market campaign including direct marketing to industry groups such as Australian Institute for Mining, Australian Carwash Association, the International Carwash Association, Victorian Waste Management Association and other likely organisations with capacity to promote its products.

In presenting its products and expanding operations in local markets Aquinox will:

- focus on the hardest hit drought regions of Australia which potentially represent significant opportunities for product sales;
- seek mass media exposure including TV footage at installed sites;
- produce a comprehensive product portfolio brochure;
- complete development of a comprehensive website reflecting Aquenox's professional capacity and skills, its broad product range and the application capability of that product range;
- reinforce ties with suppliers of complementary technologies.

Applicants should note that the Board considers that the present drought, the political climate relating to climate change and water regulation, the national state of dams and limited water supply, the tough regulatory measures imposed on water usage and the social stigma associated with breach of those regulations, increasing public awareness of the fact that water is precious and government commitment to providing solutions for water shortage all indicate a prime opportunity for the immediate and continued long-term growth for Aquenox.

In implementing an international strategy Aquenox's immediate focus will be on developing its business in China and thereafter in Europe and North America.

Aquenox has been establishing and consolidating its relationships in China through an office in Shenzhen and personal rapport with management of such major industrial organisations such as Sinopec (through Jiangnan Petroleum Machinery Plant, "JPMP"), Petrochina (through CNCP Shanghai Trading Co Ltd) and ZE Engineering, (the parent company of ZTE Corporation).

Aquenox is currently working at finalizing manufacturing, sales and distribution alliances with these companies, including a Technology Franchise Agreement with JPMP; market assessment & entry plans for the carwash industry with Petrochina and general technical sales & representation through ZE, (Parent company of ZTE).

In North America and Europe, Aquenox's aim is to access these markets through the establishment of agencies distributing products and providing technical services.

To enhance its international capacity Aquenox will:

- undertake marketing of the Aquenox brand to potential strategic international investors and alliance partners;
- pursue strategic alliances with the aim of establishing a global agent / distribution network.

Market Assessment

According to figures issued by the World Bank and The Environmental Benchmarker & Strategist 'Annual Water Issue' 2005, the global Water Industry is estimated to be valued at between US\$400 and US\$500 billion.

These estimates have been further segmented as follows:

Municipal Water and Wastewater	US\$400 Billion
Industrial Water	US\$100 Billion

According to a Report by Deutsche Bank Environment Technology Team, the required investment for the Water Provision and Waste Water Treatment is 600 billion Euro with 44 billion Euro actually spent in '97 and 80 billion Euro expenditure forecast for 2005.

Such is the critical nature of water supply and conservation of this resource that we have seen recent announcements by the Singapore Government committing to becoming a regional hub for the water

technology industry by allocation of US\$300m to attracting water technology companies to Singapore, from where the massive China market can also be serviced. Indeed, the Chinese Central Government has committed to spending US\$175 billion between 2006 and 2010 to clean up its air and water pollution. It has been widely published that over 90% of that country's rivers are heavily polluted, most likely due to industrial discharge: hence the Chinese Government's stance in tackling the issue.

At present, the industrialised nations of the world are enjoying tremendous growth mostly due to the demand from China. However, as has been stated by such works as *"Sustainable Development and the accumulation of capital: reconciling the irreconcilable"*, it is suggested that ecologically irresponsible growth policies can hinder further industrial development through undermining the necessary environmental conditions of production itself.

The kind of development pursued in the already industrialised world had raised living standards at too high a cost in terms of resource use and pollution. In other words, economic sustainability is very much related to a country's environmental sustainability. Hence, it has been recognized by economic giants such as China that investment in protecting its environment, especially water, is as high a priority as economic development itself.

A report by the State Environment Protection Authority (SEPA) 24th July 06, quotes the Vice Premier Zeng Pelyan as stating *"The environment prices we have paid for rapid economic growth are too high"*. The report also refers to eight major provincial and regional governments having signed a *"liability letter"* with SEPA *"vowing to reduce water pollution"*. The SEPA Report coincides with the Chinese Government's announcement of the US\$175 billion investment as referred to above.

Generally, it has been recognised that a key driver for demand of environmental protection products and services is largely dependent on the level of regulation. As will be seen as a recurring theme, we are in times of intense regulation which are expected to remain tight for the foreseeable future.

That situation presents a prime opportunity for continued and sustained growth for Aquenox.

SECTION 5

AQUENOX: ACTIVITIES

In analysing the marketplace Aquenox's strategy is to operate in four distinctive business sectors and has identified six distinct revenue streams.

The four business sectors are:

- **Mining and Heavy Industry:** Mining and heavy industry require complex systems which are custom engineered systems and solutions based on Aquenox's core and complementary technologies. These systems are developed to meet client specific needs on a one-off basis. In mining they focus on systems developed to remove contaminants and pollutants including metals such as copper, lead, zinc, uranium and other minerals from waste water used in mining. In industrial applications they focus on removing pollutants generally including industrial chemicals, salts and biological contaminants.
- **General Industry:** General industry requires systems which are custom built and specific similar to those required for mining and heavy industry but, generally on a smaller scale.
- **Commercial:** Commercial operations require systems utilising Aquenox's standard core technology. Commercial systems include systems designed for industries such as the carwash industry, the transport industry (for washdown of machinery) in industrial laundromats, and for recycling water supplied to commercial and residential buildings. This usage focuses on recycling commercial grey water.
- **Domestic:** The domestic market requires products using Aquenox standard core technology available for sale "off-the-shelf" to supply the mass domestic residential market both in Australia and internationally. This usage focuses on recycling domestic grey water.

Each of these sectors requires the provision of:

- consulting services to advise on client needs and requirements
- aftermarket support and field technical services.

The six revenue streams which Aquenox accesses or intends to access are:

- selling systems;
- leasing systems on either short or long term lease or on a rental basis;
- installation and operation of systems on a Toll Treating basis;
- supplying systems to prospective purchasers on a "Build Own Operate" basis;
- provision of consulting and technical services to existing and prospective clients;
- provision of after market support.

The concept of "Build Own Operate" means where Aquenox enters into an agreement with an end-user customer to build, own and operate a water treatment plant on the end-user's site charging the end-user a fee per litre of water treated. It is very similar to Toll Treating but on a more permanent basis.

Given the varying nature and specific requirements of each business sector, Aquenox is deploying a flexible "go-to-market" model to accommodate the respective market requirements.

Aquenox is applying the following go-to-market models by each sector.

Mining and Heavy Industry

Aquenox's preferred approach is either:

- direct sales where Aquenox deals direct with the end user; or
- establishment of strategic alliances / partnerships with major contractors to industry and selling and distributing products through those alliances or partnerships. The advantage of this approach is that it enables Aquenox's products to achieve greater market penetration because of the relationship of those major contractors with end users: effectively short-cutting the "relationship building phase" with prospective clients.

At present, Aquenox is in negotiation with a significant contractor to the mining, oil & gas and heavy industry site rehabilitation markets and has established an on-site water treatment plant for a major oil & gas producer.

Provision of consultancy services in this market sector has the potential to provide significant revenue as the size and nature of proposed water treatment plants required in the sector is complex and need to be custom built.

The parameters for the establishment of these plants depend on the water usage needs, the nature of the waste products and the planned usage of the recycled water. The planning process requires exhaustive studies, site audits and the integration of the plant with facilities provided by other groups involved in the establishment of any overall treatment facility.

General Industry

While Aquenox would prefer to sell on a direct sale basis it is also prepared to establish strategic alliances and partnerships to promote sales to industry.

Commercial Grey Water

In this sector Aquenox targets such industries as the carwash industry and the transport industry generally where washdown facilities for vehicles or other equipment is necessary. Aquenox also targets other prolific water users such as industrial Laundromats.

Aquenox's systems can also be installed in commercial buildings (either at construction or subsequently) to treat grey water generated by tenants. From a commercial point of view any organisation which creates grey water including retail operations is a target for the installation of a standard Aquenox system.

The nature of Aquenox's product for this sector lends itself to being mass-produced, either locally or offshore, and distributed through Agents / Distributors both nationally and internationally.

Aquenox is also in negotiations with a global leader in the manufacturing of transport wash systems with a view to incorporate the Aquenox Water Reclaim System into its product offering to its current target markets. Furthermore, the arrangements being negotiated also has a specific agenda to develop a new system and general solution for a number of key global commercial markets and is expected to involve cross-investment in Cardia/Aquenox. These negotiations are on-going.

Locally, Aquenox, intends to pursue a nationally recognized leader in the provisioning of carwash systems with a view to enter into an Agency / Distribution arrangement for the distribution of the Aquenox reclaim system with new carwash systems and for retrofitting to existing operators.

Domestic Grey Water

In the domestic grey water market which is focussed on the residential property sector, Aquenox is developing a system suitable for installation in any standard dwelling.

Aquenox's favoured method of targeting this market would be through establishing distribution with national and international networks of retail plumbing or trade supplies chains, whilst directly targeting

master builders and developers, building designers and architects to have the product specified in new residential estates and building developments.

Product Portfolio, Consulting & Solutions Services

Product Portfolio

The Aquenox Core Product Portfolio comprises the following family of systems:

“CT” Series:	Mining & Heavy Industry
“AQ-EP” Series:	General Industry
“AQ-ETG” Series:	Commercial Grey Water / Wastewater Industry (recently released to market)
“AquaDome” Series:	Domestic Grey Water Industry

The Aquenox Product family has been stabilized with Aquenox providing the products set out in the four series referred to above.

Aquenox product application in the treatment of domestic, commercial and industrial grey water is considered as being potentially significant with the capacity to capture significant market share due to the capacity for the relevant product's inherent sanitization properties which destroy harmful bacteria in addition to its capacity to remove pollutants and contaminants generally.

Patents

During the year, Aquenox maintained its patent portfolio, the details of which are included in the following table.

PATENT PORTFOLIO

Country	Title	Property Type	Case Status
Australia	Electrocoagulation System	Patent	Application filed
China	Electrocoagulation System	Patent	Exam requested
USA	Electrocoagulation System	Patent	Application filed
Australia	Contaminant Removal Apparatus and Installation Method	Patent	Application filed
Australia	Cyanide Removal Process	Patent	Application filed
Europe	Contaminant Removal Apparatus and Installation Method	Patent	Application filed
USA	Contaminant Removal Apparatus and Installation Method	Patent	Application filed
Australia	Control of Micro-Organisms or Impurities Which Infest Water Bodies	Patent	Prov refiled
Australia	Wastewater Purification Method	Patent	Application filed
China	Wastewater Purification Method	Patent	Exam requested
Europe	Wastewater Purification Method	Patent	Application filed
New Zealand	Wastewater Purification Method	Patent	Application filed
USA	Wastewater Purification Method	Patent	Application filed
Australia	Water Ionization Process	Patent	Prov refiled
Australia	Aquenox	Trade Mark	Registered
Australia	Waterpower	Trade Mark	Registered
PCT	Demountable Electrode Housing	Patent	PCT - Demand for IPE filed
PCT	Wastewater Treatment Plant	Patent	Application filed

SECTION 6

AQUENOX: MANAGEMENT

Aquenox is managed by its Directors. Their details are as follows:

Patrick John Volpe (Chairman)

Mr Volpe holds a Bachelor of Business degree and a Post Graduate diploma in Taxation.

Mr Volpe is the current Chairman of Cardia Technologies Ltd ("Cardia"), A-Cap Resources Ltd ("A-Cap") and BioGlobal Limited (an unlisted public company in which Cardia is a major shareholder). In the past 18 months he has been responsible for Cardia Technologies Ltd's asset divestment strategy and has been the driver leading to the listing of A-Cap and Dia-B Tech Limited.

He has worked extensively in the stockbroking industry specialising in corporate restructuring, business acquisitions, investment advising and capital raisings. He has held management and financial positions with National Australia Bank, Pacific Dunlop Limited and Ansett Transport Industries Limited. His experience covers many industries including mining, media, transport and services, manufacturing, banking and taxation.

Mr Volpe is also a director of and holds securities in Cardia as disclosed in clause 3.7 in Section 9. The Company owes moneys to Cardia on a convertible note as disclosed in clause 3.1(b) of Section 9 and those moneys will convert into shares at the issue price under any IPO in the event that the Company should list on any stock exchange.

Mr Volpe is a Director of and shareholder in Trayburn Pty Ltd: the underwriter of the Issue on the terms set out in Section 9.

Joseph Tigani (Chief Executive Officer)

Joseph Tigani (TMIE Aust) is a registered engineering technologist with Engineers Australia. He is also a member of Engineers Australia's Environmental Engineering Society and Process Controls Society. He has a background of over twenty-four years industry experience including 19 years in Process Control / Water Treatment and 5 years in IT& T. He has previously held various senior management positions ranging from Project Manager, Sales Manager through to Regional Manager Australia / New Zealand with Dresser Industries, Honeywell and Dresser associated companies. Joseph Tigani has worked on many of the largest resources projects undertaken in Australia including manufacture and supply of specialized equipment to onshore Gas Liquefaction Plants, Offshore Oil & Gas Platforms, Refineries, Petrochemical, Power and Pulp & Paper Plants. Joseph Tigani is currently undertaking a Masters Degree in Technology at Deakin University in Victoria.

Robin Gerald Armstrong

Robin Armstrong was appointed as a Director of Aquenox on 8th February 2007.

Mr Armstrong is head of Corporate Department of Findlay & Co, Stockbrokers responsible for provision of client advice in corporate structuring, listings and capital raisings. As at the date of this OIS, Mr Armstrong does not own any shares in the capital of Findlay & Co Stockbrokers Ltd ("Findlays") which is the parent entity of Findlay & Co Stockbrokers (Underwriters) Pty Ltd.

Robin is a Director of both Findlays and Findlay & Co Stockbrokers (Underwriters) Pty Ltd. He is also the head of Findlays Corporate Department and provides corporate advice to its clients in listings and capital raisings.

From 1981 to 1983, Mr Armstrong was a shareholder and principal of Sydney Commodity Services Pty Ltd, a Full Associate Member of the Sydney Futures Exchange (SFE). Mr Armstrong had overall responsibility for the organisation and provided advisory and dealing services to wholesale and retail clients in futures contracts and options on futures contracts (covering local and international markets).

The types of futures and options contracts included share market indices, government bonds, bank bills and currencies.

In 1983 Sydney Commodity Services Pty Ltd was acquired by Global Futures Pty Ltd and Mr Armstrong remained in the capacity as Managing Director until 1985. Mr Armstrong assisted the company to become a Full Participant of the SFE and he actively provided financial services in the products listed above to both wholesale and retail clients.

From 1986 to 1987, Mr Armstrong was a Local Participant trading on the Floor of the SFE.

From 1997 to date, Mr Armstrong has been employed by Findlays.

Mr Armstrong's special responsibilities as a Director of Aquenox are focussed on fund raising and introducing new business opportunities to the Company.

Mr Armstrong holds securities in the Company as disclosed in clause 3.7 in Section 9 and is also a director of and shareholder in Cardia Technologies Ltd, to which entity Aquenox owes moneys on a convertible note as disclosed in Section Eight and which is to convert to shares at the issue price under any IPO on the listing of the Company on any stock exchange.

SECTION 7

OFFER AND KEY DATES

GENERAL

Before making a decision to invest or subscribe for securities each Applicant should read this OIS in full, having particular regard to risk factors, their own investment parameters and, as necessary, seek independent professional advice from appropriate advisers. An investment in the Company should be considered as a speculative investment.

NON-RENOUNCEABLE ENTITLEMENTS OFFER

Offer to Cardia Members

By this OIS Aquenox offers each person who was registered as a member of Cardia on the Record Date, other than any overseas Shareholder who will be treated as referred to below, a non-renounceable entitlement to subscribe for one (1) new Share for every three (3) Cardia Shares held on the Record Date to determine entitlements to the Issue at an issue price of \$0.01 (1 cent) per new Share. Fractional entitlements to Shares will be rounded down to the next whole Share.

A Personalised Application Form which sets out each member's entitlement to Shares will accompany this OIS. See below.

Offer to Cardia Optionholders

By this OIS the Company offers each person who was registered as an Optionholder of Cardia on the Record Date, other than any overseas Optionholder who will be treated as referred to below, a non-renounceable entitlement to subscribe for one (1) Option to acquire an ordinary Share for every 3 Cardia Options held at the Record Date to determine Entitlements.

The Issue Price of the Aquenox Options under the proposed Aquenox Options Issue will be \$0.001 (1/10th of a cent) for each Option. The Options will be exercisable at an exercise price of \$0.20 per Option up to the expiry date which is 5 pm AEST on the 31st December 2015. Fractional entitlements to Options will be rounded down to the nearest whole Option.

The terms and conditions of the Options to be granted are as follows:

(a) **Exercise price**

Each Option entitles the holder to subscribe for 1 fully paid ordinary share in Aquenox Limited (the Company) at a subscription price of \$0.20 per share.

(b) **Manner of exercise**

The options are exercisable at any time on or prior to 5:00pm (AEST) on 31 December 2015 by completing an option exercise form and delivering it to the Company's Share Registry together with payment for the number of Shares in respect of which the Options are exercised and the option holding statement for those Options.

(c) **Transferability of options**

Subject to the Corporations Act 2001 and the Company's constitution, the options are freely transferable.

(d) **Ranking and quotation of shares**

All Shares issued upon exercise of Options will rank equally in all respects with the Company's then existing fully paid ordinary shares. If at the time of exercise, shares in the capital of the Company are listed for quotation on any stock exchange, then forthwith after

the issue of Shares upon exercise of Options, the Company will apply to that stock exchange for those Shares to be admitted to quotation.

(e) **Participation rights**

Holders of options may only participate in a new issue of securities to holders of ordinary shares in the Company if an Option has been exercised and a Share(s) issued in respect of that Option before the record date for determining entitlements to the new issue. The Company must give holders of Options at least 6 business days' notice of the record date for determining entitlements to that new issue in like manner as would be required under the Listing Rules of Australian Stock Exchange Limited (ASX) if the Company had been, at the date of the proposed new issue, admitted to the Official List of ASX.

(f) **No change to option terms**

There will be no change to the exercise price of an Option or the number of Shares over which an option is exercisable in the event of the Company making a pro rata issue of Shares or other securities to holders of ordinary shares in the Company (other than a bonus issue).

(g) **Reorganisation of capital**

In the event of any re-organisation (including reconstruction, consolidation, subdivision, reduction or return of capital) of the issued capital of the Company, all of the Options will be reorganised as would have been required by the ASX Listing Rules if the Company had, at that time been admitted to the Official List of ASX, but in all other respects the terms of exercise will remain

PERSONALISED APPLICATION FORMS

Accompanying this OIS are one or more Personalised Application Forms that set out the appropriate member's or option holder's entitlement to Shares or Options.

OPENING AND CLOSING OF THE OFFER

The Issue will open on Friday, 29 June 2007 ("Opening Date") and will close at 5.00 pm AEST on Tuesday, 17 July 2007 ("Closing Date"), or at such other date as the Directors may determine. Applications received during the exposure period will be dealt with in accordance with s.724 of the Act. Such applications received prior to the expiration of the exposure period will not be processed until after the expiry of the exposure period. No preference will be conferred on applications received during the exposure period and all applications received during the exposure period will be treated as if they were simultaneously received immediately after the expiry of the exposure period.

The Directors reserve the right to extend the Closing Date without prior warning.

OVERSEAS SECURITY HOLDERS

This OIS does not constitute an offer in any jurisdiction outside of Australia and New Zealand or to any person to whom it would not be lawful to issue this OIS.

In accordance with the Listing Rules of ASX, and having regard to:

- the small number of persons entitled to receive the Offer resident outside Australia and New Zealand;
- the number and value of Shares (or Options) that such persons resident outside Australia and New Zealand would be offered; and
- the cost of complying with the legal requirements and the requirements of regulatory authorities in places other than Australia and New Zealand;

the Directors of the Company consider that it is unreasonable to make an offer to such persons and accordingly the Company will send each person otherwise entitled to receive the offer, but to whom the Offer will not be made, details of the Issue and advice that the Company will not offer Shares or Options to that person.

Nominees applying for Shares (or Options) on behalf of overseas residents are responsible for ensuring that such an application does not breach any regulation applicable to any such overseas resident.

Lodgement of Application Forms accompanied by the relevant Application Moneys will be taken by the Company to constitute a representation from the Applicant that no breaches of any such regulations have occurred. Applicants, who are nominees, or persons proposing to act as nominees, should seek independent advice as to how they should proceed.

PAYMENT FOR SHARES AND/OR OPTIONS

The Application Moneys for the Shares and/or Options the subject of the Issue are payable in full on application. Cheques must be made out in Australian currency.

Cheques in Australian currency forwarded to the Company in Australia must be made payable to "Aquenox Share Account" and crossed "Not Negotiable".

ALLOTMENT

The Directors will proceed to allotment of the Securities offered pursuant to this OIS as soon as possible after the Closing Date.

In accordance with the provisions of the Corporations Act 2001, all Application Moneys shall, pending allotment and issue of the Securities pursuant to this Issue, be held by the Company in trust in a bank account established solely for the purpose of depositing Application Moneys received. Any interest earned on those moneys shall be to the Company's account. Certificates in relation to Securities issued and allotted pursuant to the Issue will be despatched on or about Tuesday, 24 July 2007.

No securities will be allotted or issued on the basis of this OIS later than 13 months after the date of this OIS.

TRADING IN SECURITIES

Applicants should note that Securities issued pursuant to the Issue will not be able to be traded or otherwise disposed of other than in compliance with the provisions of the Act.

Applicants should realise that there is a limited market for the Securities and that whilst the on sale of the Securities does not require disclosure within the meaning of s.707 of the Act by virtue of the operation of s.707 (2), (3) or (5), the capacity of Applicants to on sell the Securities is limited because there is no formal market on which they can be traded. Such a market will only exist if and when Aquenox becomes admitted to the Official List of a Stock Exchange. This is one of the primary risks involved in acquiring Securities pursuant to the Issue but Applicants may elect to ignore that risk because of the low Issue Price of the Securities. However, and notwithstanding that the value or purchase price of Securities may not be high, the limited liquidity referred to will exist.

TAXATION, STAMP DUTY AND TAX FILE NUMBERS

Applicants should seek their own independent advice in relation to taxation matters generally and as to the operation of taxation laws in Australia and taxation and stamp duty laws in New Zealand. The Company is unable to give advice on taxation matters generally, as each Applicant's position will relate to their own specific circumstances. Applicants should satisfy themselves of possible taxation consequences of purchases and sales of securities by consulting their own professional tax advisers. It is not necessary for Applicants to quote their tax file number.

MINIMUM SUBSCRIPTION

There is no minimum subscription for the Issue.

UNDERWRITING AND COMMISSION

The Offer is unconditionally underwritten on the terms set out in clause 3.1(a) in Section 9.

COSTS AND EXPENSES OF THE ISSUE

Costs and expenses of the Issue are estimated to be as set out below.

Costs of the Issue (exclusive of GST)	Amount \$
Printing	5,000
Share Registry, postage and sundry	12,000
Legal *	7,500
Accounting	8,000
Total	32,500

* Plus 750,000 ordinary shares at 1 cent each

Capital Structure

The capital structure set out below is based on the capital structure of Cardia as at 31 May 2007. It assumes that the Issue is fully subscribed, and assumes that no Options in Cardia are exercised to enable participation in the Issue between 31 May 2007 and the Record Date to determine entitlements to the issue. It should however be noted that the capital structure of Cardia will change to the extent that Cardia Option holders exercise options to participate in the share issue being made by Aquenox under this OIS. However, based on the above assumptions, the capital structure of the Company after the completion of the Issue would be as follows:

CAPITAL STRUCTURE ON COMPLETION OF THE ISSUE	
Amount to be raised approximately	\$961,742
Offer Price per Share	\$0.01
Offer Price per Option	\$0.001
Number of Existing Shares	1
Total number of Existing Options on issue	0
Number of Shares being offered under this OIS (approximately):	89,366,210
Number of Options being offered under this OIS (approximately):	68,080,276
Total number of Shares immediately after allotment of Shares under the Issue (assuming full subscription) (approximately):	90,116,211
Total number of Options immediately after grant of Options under the Issue (assuming full subscription) (approximately):	68,080,276

PURPOSE OF THE ISSUE AND USE OF FUNDS RAISED

The funds raised by the Issue will be used, after payment of costs of the Issue, for the following purposes:

- To operate R&D, design, manufacturing & laboratory testing and process development of water treatment and recycling systems in Australia and China.
- To fund sales & marketing activities of the company's water treatment solutions.
- Provide funds to meet administrative and corporate overheads generally.

Details of the amounts estimated as being applied for each of the above purposes are set out in the table below.

Use of Funds: Assuming Full Subscription	Amount \$
Costs of the Issue (excluding underwriting fees)	32,500
Underwriting Fees (If Cash)	48,087
Operating Expenses	547,650
Management & Marketing	167,450
Directors' Fees	81,750
Additional Working Capital	84,305
Total	961,742

Actual use of funds may differ from budgeted use of funds based on the outcomes from operations, which may vary from present expectations, and any requirement to obtain various regulatory and other approvals relating to the sale of products within Australia or otherwise.

EFFECT OF THE ISSUE ON THE COMPANY

The principal effects of the Issue on the Company will be that:

- the Company will raise approximately \$961,742 (less the costs of the Issue) which will be applied for the purposes set out under purpose of the issue and use of funds raised.
- the capital of the Company will be that set out under capital structure.

The effect of the Issue on the Statement of Financial Position of the Company is set out below. The Pro-forma Statement of Financial Position is based on the Company's management accounts as at 30 April 2007. The Pro-forma statement is based on the same assumptions on which the projected capital structure of Aquenox on completion of the Issue is based and further assumes that the costs of the Issue have been paid and that the net proceeds of the Issue have been received as cash.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Audited 31/12/2006	Unaudited Management 30/04/2007	Proforma
	\$	\$	\$
Current Assets			
Cash and cash equivalents	57,637	20,536	901,691
Trade and other receivables	82,668	77,992	77,992
Inventories	179,633	192,164	192,164
Total Current Assets	319,938	290,692	1,171,847
Non-Current Assets			
Plant and equipment	44,146	38,868	38,868
Total Non-Current Assets	44,146	38,868	38,868
Total Assets	364,084	329,560	1,210,715
Liabilities			
Trade and other payables	4,602,460	4,899,542	4,877,042
Total Current Liabilities	4,602,460	4,899,542	4,877,042
Total Liabilities	4,602,460	4,899,542	4,877,042
Net Assets	(4,238,376)	(4,569,982)	(3,666,327)
Equity			
Issued Capital	2	2	901,164
Cost of Capital	-	(22,500)	(88,087)
Reserves	(39,079)	(39,756)	28,324
Accumulated losses	(4,199,299)	(4,507,728)	(4,507,728)
Total Equity	(4,238,376)	(4,569,982)	(3,666,327)

RIGHTS & LIABILITIES ATTACHING TO SHARES

The rights and liabilities attaching to Shares are detailed in Clause 1 in Section 9.

TAXATION AND TAX FILE NUMBERS

Applicants should seek their own independent advice in relation to taxation matters generally.

The Company is unable to give advice on any taxation matter as each applicant's position will relate to their own specific circumstances. Applicants should satisfy themselves of the possible taxation consequences of purchases and sales of securities of the Company by consulting with their own professional tax advisers.

It is not necessary for Applicants to quote their tax file number.

ENQUIRIES REGARDING THE ISSUE

If Applicants have any queries about terms of the Issue or of any offer pursuant thereto in which you are entitled to participate, or, generally, how to apply for Shares you may contact the Company as set out below or otherwise you should contact your stockbroker, accountant, lawyer or other financial advisor.

Mr John Wilson
Company Secretary
Aquenox Limited
Telephone: 61 3 9813 3228
Facsimile: 61 3 9813 2668

The Company is unable to advise you on the suitability or otherwise of an investment in the Company, and for such advice you must contact your own independent professional advisers.

ACTION BY APPLICANTS

Accompanying this OIS are Personalised Application Forms for use by Applicants in applying for Securities pursuant to the Offer.

Each Personalised Application Form provides detailed instructions as to how applications for Shares and Options should be made. Applications for Shares or Options will only be accepted on these forms.

As the Issue is made on a non-renouncable basis, Personalised Application Forms which accompany this OIS are not able to be used by any person other than the named Cardia Member or Cardia Optionholder in respect of whom they are issued.

Duly completed Personalised Application Forms, together with applicable subscription moneys, should be lodged at the Company's Share Registry at the address set out below and in the Personalised Application Form on or before the Closing Date.

Computershare Investor Services Pty Ltd
Level 19
CPA Building
307 Queen Street
BRISBANE QLD 4000i

Cheque details – make your cheque or bank draft payable to “Aquinox Share Subscription Account”

SECTION 8

BUSINESS AND INVESTMENT RISKS

The business operations of the Company are subject to risks, which may impact adversely on its future performance. These risks may adversely affect the value of the relevant entity's assets and this may affect the value of any shares in the Company. The primary risk to which the members of the Company are subject is that the Company presently has and is raising limited funds pursuant to this OIS. In the event that the Company's present programs are unsuccessful the Company could be regarded as having a limited future with potentially serious and possibly adverse consequences for its investors, being dependent on actions taken by its Directors. Other risks associated with investment in the Company include:

- Limited historical data of performance of various systems creating uncertainty in relation to future warranty claims;
- Time-to-market schedule for new products may be impacted by extent of prototype field acceptance testing for regulatory approval;
- Custom designed processes for large scale industrial and mining applications require consistency of highly skilled technical staff and project team. Skills shortage during expansion phase can adversely effect progress and development of the company.

Share Market Risks. Potential investors should recognise that the prices of shares fall as well as rise. Many factors affect the price of shares including local and international stock markets, movements in interest rates, economic and political conditions and variable investor and consumer sentiment. These risks as to market value are more pronounced where there is an extremely limited market for a company's securities such as at present where they are not listed on any stock exchange or stock market and where there is limited facilities for security holders to trade securities and no market mechanism to value securities. In a situation where a security is listed a stock market will attribute value to a security according to the overall perception of investors. That is not the case where a security is unlisted.

Investment Risks Generally. Risks of a general nature relating to investment in shares and securities generally and especially where the company in which the investment is made has a small market capitalisation. Again these risks are exacerbated where a security is unlisted such as in the present circumstance. The ability of an investor to realise his investment will depend on either the securities being listed on a stock market at some time in the future, on a takeover being made for the securities or on the holder being able to strike a private bargain with a proposing purchaser to whom any such securities are offered for sale. The attractiveness of an investment in an unlisted security will depend on any prospective buyer being able to form a view as to the value of that security which, in the absence of a more formal trading facility such as a stock market, will generally be more difficult than if the security were listed.

Risks Related to Investment in Technology. Investment in technology companies is generally subject to a **higher** level of risk than investment in other industries. In the present case Aquenox is not profitable and is raising limited funds which will mean that it will require to raise additional funds within a comparatively short period of time if it is to continue operations. While the Directors are confident that Aquenox will be able to raise additional funds no assurance can be given as to the terms on which any future fund raising may proceed.

Fiscal Risks. These involve the imposition of additional taxes, imposts and other charges by government from time to time relating to revenue or cash flow. Industry profitability can be affected by changes in tax policies, the interpretation and application thereof.

Currency Exchange and Other Risks. Revenue and expenditure in overseas jurisdictions are subject to the risk of fluctuations of international currency exchange markets. Foreign taxes, limitation on repatriation of earnings, compliance with foreign accounting and business laws, and cultural differences,

carry a certain amount of risk. Fluctuations in exchange rates may adversely affect the Company. A substantive portion of Aquenox's activities are carried out through or in China and in addition to currency exchange risks there is an element of sovereign risk although this is probably lower now than it would have been in the past.

Macro Economic and Political Factors. Apart from exchange risks there are a wide range of other macro economic and political factors beyond the control of the Company which will affect the Company's operations including the consequences of terrorist and other activities which themselves impact adversely on the global economy, demand for and supply of commodities and share market conditions and share prices generally.

Management Competency. The future success of the Company will be primarily dependent on the competency of the operators of the Company's various projects and on each operator's capacity to manage day-to-day operations. To the extent that the Company has entered into distribution and marketing arrangements with third parties, the performance of the Company will be dependent in part upon the competency of those parties to manage their operations so as to maximise sales of the Company's products. If they fail to do so then the Company's future growth will be limited. The Company's future growth will also be dependent upon engagement of management capable of managing and expanding its operations beyond the present projects.

Contract Risks Generally. The Company will operate partially through a series of contractual relationships with third parties generally and sub-contractors. All contracts carry risks associated with the performance by the parties thereto of their obligations both as to financial performance and technical capacity and as to the time frames in which operations are carried out and in relation to the quality of work performed.

Litigation. Neither the Company nor any of its subsidiaries are involved in litigation and the Directors are not aware of any basis on which any litigation against the Company or any of its subsidiaries may arise.

Regulatory Risks. Operations by the Company may require approvals from regulatory authorities which may not be forthcoming or which may not be able to be obtained on terms acceptable to the Company. These regulatory requirements will include regulatory requirements within Australia and within China or any other jurisdiction within which the Company wishes to sell or distribute its products. While the Company has no reason to believe that all requisite approvals will not be forthcoming and whilst the Company's obligations for expenditure will be predicated on any requisite approvals being obtained Applicants should be aware that the Company cannot guarantee that any requisite approvals will be obtained. A failure to obtain any approvals would mean that the ability of the Company to develop or operate any project, or possibly acquire any project, may be limited or restricted either in part or absolutely.

Environmental Matters. The Company's products are used in the treatment of water and are irretrievably interlinked with the regulation of environmental issues and regulations controlling the purity and quality of water in a wide range of applications. The level and extent of environmental regulation and control of water usage and purity will have a significant impact on the Company's operations. If regulatory standards are imposed which the Company's products are unable to meet or satisfy then demand for the Company's products will be adversely impacted. Alternatively if the Company's products are able to readily satisfy applicable and future regulatory requirements of this nature then the market for the Company's products will presumably expand; provided that they are technologically superior to other products servicing the same markets and are priced competitively.

Insurance. The Company's operations will expose it to risks and hazards flowing from the manufacture and use of its products. In accordance with customary industry practices the Company intends that it will maintain insurance against product liability claims and other appropriate risks which are readily insurable against. Not all risks will be able to be insured against. The availability of insurance and the rates at which insurance may be available will determine which losses are insured against and in what amount. The occurrence of any significant event which is not fully insured against may or could seriously harm the Company, its operations and adversely impact on its future financial condition.

Risk as to Technical Capacity: The Company carries out its development work using appropriately chosen scientific research organisations. As such it is subject to the risk that staff in those organisations may have greater or lesser technical capacity than needed to achieve the results sought to be obtained from any development program. No development program is thus under the sole control of the Company. If, for any reason, incompetent staff in any such organisation carried out research then the results sought to be obtained may not be obtained or results apparently obtained may be inaccurate as a result of flawed research or development.

Intellectual Property and Proprietary Rights: The Company regards the content of certain of its technology as proprietary and relies primarily on a combination of copyright, patent and trade secrecy laws and employee and third party non-disclosure agreements to protect its rights. Those steps may, however, not be adequate to fully protect those rights. No assurances can be given that employees and/or third parties will not breach non-disclosure agreements or infringe or misappropriate the Company's rights. Further, no assurance can be given that others will not challenge the ownership or validity of those proprietary rights either by attacking the Company or Patent holders from whom the Company has acquired licences. In addition, effective copyright and patent protection may be unavailable or limited in certain countries.

Litigation may be necessary from time to time to enforce and protect the Company's rights. Such litigation, however, can be costly and could have adverse effects on its activities, business, operating results and financial position. Likewise, a failure to succeed in protecting any such rights may equally have a materially adverse flow on effect on the Company's activities, business, operating results and financial position.

It is possible that other parties may assert intellectual property infringement, unfair competition or like claims against the Company under copyright, trade secret, patent or other laws. While the Company is not aware of any claims of this nature in relation to any of the intellectual property rights in which it has interests, such claims, if made, may harm, directly and indirectly, the Company's business. If the Company is forced to defend against claims of intellectual property infringement, whether they are with or without merit or are determined in the Company's favour, the Company might face costly litigation and diversion of management's attention. As a result of such disputes, the Company may have to develop non-infringing technology or enter into royalty or licensing agreements. Such agreements, if necessary, may be unavailable on terms acceptable to the Company, or at all. If there is a successful claim of intellectual property infringement or unfair competition against the Company and it is unable to develop non-infringing technology or license the infringed or similar technology or content on a timely basis, it could harm the Company's business, operations and financial condition.

Technological Development: The Company's future success will depend in no small part on the Company's abilities to develop products that are able to compete in a global market place.

Competition: The Company's current and potential future competitors include companies with significantly greater resources than the Company. These competitors may develop products that are more effective and or cheaper than those being sold and developed by the Company, and as a consequence the Company's products may become obsolete or uncompetitive, resulting in adverse effects on revenue, margins and profitability.

Product Development: There are many risks inherent in the development of products. The Company cannot guarantee that any research and/or development work being undertaken, or hereafter to be undertaken, will result in the successful development of future products, or even if they do, that those products will be marketed or commercially successful. No guarantee can be given that the Company will be able to effectively market its existing products on a sufficiently broad basis to ensure profitability and commercial success for the Company.

Effect of Economic Cycles: Economies move and operate in a cyclical manner which may have positive or adverse effects on markets, willingness of investors to invest and, consequently, on the capacity of any company to finance its activities or to market products. If the Company requires to raise funds or commercialise any products at a time when market conditions are depressed then this may have an adverse effect on the Company's ability to achieve these objectives. A failure to achieve those objectives as necessary may result in loss and damage both to the Company and to its members as a result of diminution in the value of their securities.

Product Development Time Frame: The time frame to develop products and to obtain all regulatory approvals in relation thereto may have a significant impact on the Company's operations.

Risk as to profitability: The ability of the Company to pay dividends will depend on it generating revenue and then deriving sufficient after-tax profits to be able to do so. At present the Company generates no revenue, it is not presently profitable and it may not at any time be so.

No Valuation: No formal or informal valuation has been completed of the intellectual property or assets of the Company. The Company makes no representation as to the value of its intellectual property or as to the value of intellectual property licensed by it from independent third parties. Applicants and their advisers should make their own assessments as to these matters after having regard to all of the matters contained in this OIS.

Limited History. The Company's future prospects must be considered in light of the difficulties commonly encountered in the early stages of a Company's development, particularly those companies involved in technology and the development and marketing of products relying on emerging technologies.

These risks are not necessarily exhaustive and Applicants should realise that the Company is subject to a wide range of risks many of which may not be foreseeable.

SECTION 9

GENERAL MATTERS

Set out in this Section are details of additional information which is provided for information of Applicants generally and in accordance with the requirements of the Act. Applicants for Shares should note that while the summary set out below includes information relating to partly-paid shares, all of the Shares the subject of the Issue are fully-paid ordinary shares.

1. RIGHTS AND LIABILITIES ATTACHING TO SHARES IN THE COMPANY

A summary of the more significant rights attaching to the Company's shares is set out below. This summary is not exhaustive nor does it constitute a definite statement of the rights and liabilities of the Company's members. To obtain such a statement, Applicants should seek independent legal advice.

Transfer

Rule 7 of the constitution governs the power of the Company to forfeit shares. In particular Rule 7.4 provides power for the Board to refuse to register transfers on securities where it is permitted to do so under the Listing Rules or the ASTC Settlement Rules or SCH Business Rules. Rule 7.4 is set out below.

7.4 Board may refuse to register

7.4.1 The Directors may decline to register any transfer of securities (other than a Market Transfer) where:

- 7.4.1.1 the Listing Rules or ASTC Settlement Rules permit the Company to do so;
- or
- 7.4.1.2 the Listing rules or SCH Business Rules require the Company to do so.

7.2.2 If in the exercise of their rights under Rule 7.4.1 the Directors refuse to register a transfer of a security, they must give written notice in accordance with the Listing Rules of the refusal to the transferee and the broker lodging the transfer (if any). Failure to give such notice will not invalidate the decision of the Directors.

7.2.3 Notwithstanding any other provisions contained in this Constitution, the Company may not prevent, delay or interfere with the registration of a Market Transfer where to do so would be contrary to the provisions of any of the Listing Rules or the ASTC Settlement Rules.

Dividends

Rule 16.6 of the constitution entitles the Company to deduct all monies payable by a member to the Company from any dividends declared by the Company. This includes call or instalments. The Company will not be profitable in the foreseeable future and there is no prospect of dividends being paid during the period prior to the date on which all instalments on any partly paid shares will be required to be paid in full. Rule 16.6 is as follows:

16.6 Deduction from Dividends

The Directors may deduct from any dividend payable to a Member all sums of money (if any) presently payable by that Member to the Company on account of calls or otherwise in relation to shares in the Company.

Liens

Rule 4 of the constitution sets out the circumstances in which the Company has a lien on shares. Insofar as relevant Rule 4.1 provides in relation to partly paid shares as follows:

4.1 Lien on share

- 4.1.1 The Company has a first and paramount lien on every share (other than a fully paid share or a share issued under an employee incentive scheme) for all money (whether presently payable or not) called or payable at a fixed time in respect of that share and such lien extends to all dividends, rights and other distributions from time to time declared paid or made in respect of that share. Such lien extends to cover reasonable interest (not exceeding 10% per annum) and expenses incurred because such monies are not paid.
- 4.1.2 The Company also has a first and paramount lien on all shares (other than fully paid shares) registered in the name of a Member for all money presently payable by that Member to the Company and all money which the Company may be called on by law to pay in respect of the shares of that Member.

Other relevant Provisions of the Constitution

The provisions of the constitution other than as set out above and which are relevant to an investment in the Company are generally summarised below.

Ranking: The Shares will be ordinary shares and will rank equally in all respects with the existing ordinary shares in the Company.

Reports and Notices: Members are entitled to receive all notices, reports, accounts and other documents required to be furnished to members under the Constitution of the Company and the Act.

General Meetings: Members are entitled to be present in person, or by proxy, attorney or representative to speak and to vote at general meetings of the Company. Members may requisition general meetings in accordance with the Act and the Constitution of the Company.

Voting: At a general meeting of the Company every ordinary member present in person, or by proxy, attorney or representative shall on a show of hands have one vote and upon a poll every member present in person or by proxy, attorney or representative has one vote for every share held. A qualification to the above is that where a person is present at a meeting as proxy or representative for more than one member then on a show of hands that person shall have only one vote and not one vote for each person represented by him. A member who holds a share that is not fully paid shall be entitled to a fraction of a vote equal to the proportion that the amount paid-up bears to the total issue price of the Share. See above generally.

Dividends: The Directors may declare and authorise the distribution, from the profits of the Company, of dividends to be distributed to members according to their rights and interests. For the rights of holders of partly paid shares to dividends see above generally.

Reduction of Capital: The Company may only reduce its capital in such manner as may be permitted by the provisions of the Act from time to time.

Borrowing and Lending Powers: The Company may borrow and lend in such manner as may be permitted by the provisions of the Act from time to time.

Winding Up: Members will be entitled in a winding up to share in any surplus assets of the Company in proportion to the shares held by them respectively, less any amount which remains unpaid on their shares at the time of distribution.

Transfer of Shares: Subject to the Constitution of the Company and the Act the shares will be freely transferable. There are restrictions on the transfer of partly paid shares where a call has been made and remains unpaid. See above generally.

Future Increases in Capital: The allotment and issue of shares is under the control of the Directors of the Company. Subject to restrictions on the allotment of shares to Directors or their

Associates contained in the Constitution of the Company and the Act, the Directors may allot or otherwise dispose of shares on such terms and conditions as they see fit.

Variation of Rights: The rights, privileges and restrictions attaching to ordinary shares can be altered with the approval of a resolution passed at a separate general meeting of the holders of ordinary shares by a three-quarters majority of those holders who, being entitled to do so, vote at that meeting or with the written consent of the holders of at least three-quarters of the ordinary shares on issue, within two months of that general meeting.

Directors: The Constitution of the Company contains provisions relating to the rotation of Directors (other than a duly appointed managing director and alternate directors).

2. SHAREHOLDER INFORMATION

The sole shareholder in the capital of the Company at present is Cardia.

3. ADDITIONAL INFORMATION

3.1 Material Agreements

Aquenox has entered into the following agreements which are material to its operations.

(a) Underwriting Agreement with Trayburn Pty Ltd.

By an underwriting agreement made between the Company and Trayburn Pty Ltd (Trayburn), Trayburn has underwritten the Issue for an underwriting fee equal to 5% of the underwritten amount, being the entire proceeds of the Issue.

The underwriter may by notice in writing to Aquenox elect that the underwriting commission payable on completion of the Issue shall be paid either wholly or partly in cash or wholly or partly by way of issue of additional shares in the capital of Aquenox at the Issue Price (\$0.01 per Share) with each share being credited as fully paid or by any combination of cash or shares which they may elect. Trayburn may make any such election as it may determine in its absolute discretion.

For the purpose of clarity it is recorded that if the underwriter elects to be paid wholly in cash the total amount payable would be approximately \$48,087 and that, if it elects to take payment of the underwriting commission in additional shares, it will be entitled to be issued and allotted approximately 4,808,712 shares each credited as fully paid. It is further recorded that in this circumstance the capital of Aquenox post completion of the Issue would approximate 94,924,923 shares each of which would be credited as fully paid together with 68,080,276 options exercisable at \$0.20 (20 cents).

The obligations of Trayburn pursuant to the Underwriting Agreement are only conditional upon Aquenox issuing this OIS and making the Issue in accordance with the provisions hereof.

Trayburn reserves the right to appoint sub-underwriters to the Issue on such terms and conditions as they shall think fit.

(b) Convertible Debt Deed

Aquenox is indebted to Cardia as at the date hereof in the amount of \$5,141,639 and will continue to incur liability to Cardia for monies to be advanced by Cardia to Aquenox until such time as Aquenox has completed the capital raising pursuant to this OIS. Under the Convertible Note Deed Cardia will continue to fund the Company until the Issue has been completed and the full amount of the Issue raised.

The present indebtedness and any further funds advanced is herein called "the Debt"

It is the intention of Aquenox to list on a stock exchange in due course. The terms of the Deed provide that the Debt will be convertible into ordinary shares in the capital

of Aquenox on Aquenox becoming admitted to the official list of ASX Limited ("ASX") or any other Stock Exchange with the conversion into ordinary shares to be made at the IPO issue price. The Deed provides that if Aquenox has not been admitted to the Official List of any stock exchange within two years from the closing date under the OIS then the Debt shall be converted into shares in the capital of Aquenox at a value to be determined by an independent valuer to be appointed by the parties.

The Deed provides that if Aquenox shall become subject to external administration pursuant to the provisions of the Corporations Act 2001 (other than to the purpose of reconstructing its capital or entering into a merger with any other entity) then, the obligation of Cardia to accept shares in satisfaction of the Debt shall cease.

The Debt is interest free and unsecured.

The Deed gives Aquenox the option to repay the Debt on Aquenox becoming admitted to the Official List of any stock exchange but provides that if Aquenox seeks to do so, Cardia can require the Debt to be converted.

Finally the ability of Cardia to receive Shares is subject to compliance with the provisions of the Act and the Listing Rules of ASX and if the capital of Aquenox is reconstructed subsequent to Aquenox being admitted to the Official List of ASX, then number of Shares into which the Debt shall be converted shall be reconstructed in the manner required for any convertible security pursuant to the Listing Rules.

3.2 Corporate Governance

The Directors are responsible for the strategic direction of the Company, the identification and implementation of corporate policies and goals and monitoring of the business and affairs of the Company on behalf of its members.

Given that the Company is small, with limited activities and limited resources and has a board of three directors, it has not established a series of committees to address specific areas of corporate governance such as risk management, strategic review and operations and remuneration. These issues will be dealt with by the board acting as a committee in relation to the various areas or issues required to be considered with any interested directors abstaining or being absent as required either by the Act or as necessary to avoid conflict or possible breach of their fiduciary duties.

3.3 Dividend Policy

The Company will not pay dividends in the foreseeable future.

3.4 Consents

Bentleys MRI has given and not withdrawn their written consent to be named herein as auditor of the Company in the form and context in which they are so named.

In addition, they have given and not withdrawn their written consent to the despatch of this OIS with their audit report in relation to the financial statements of the Company and its controlled entities for the period ended 31 December 2006 being contained herein in the form and context of which it is contained herein and to references to their audit report and to them as auditor all being included herein either expressly or by inference, in the form and context in which references to such audit report are so included.

Bentleys MRI has had no involvement in the preparation of this OIS other than the inclusion of their audit report such references to them and their audit report and has not given any professional or other advice in respect of any other part of this OIS. Bentleys MRI do not accept any liability to any person in respect of any false or misleading statement in, or omission from, any other part of this OIS.

Computershare Investor Services Pty Ltd has given and not withdrawn its written consent to be named herein as the share registry to the Company in the form and context in which it is so named. In addition, Computershare Investor Services Pty Ltd has given and

not withdrawn its written consent to the despatch of this OIS. Computershare Investor Services Pty Ltd has had no involvement in the preparation of this OIS and has not given any professional or other advice in respect of any other part of this OIS. Computershare Investor Services Pty Ltd does not accept any liability to any person in respect of any false or misleading statement in, or omission from, any part of this OIS.

3.5 **Interests of Directors, Advisers and Named Persons**

Except as otherwise set out herein, no Director, expert or professional adviser named herein now has or during the last two years has had any interest in the promotion of the Company, or any property proposed to be acquired by the Company in connection with its formation or promotion or the Offer. Further, no sums have been paid or agreed to be paid to a Director, expert or professional adviser in cash or shares or otherwise by any person (in the case of a Director) either to induce him to become, or to qualify him as, a Director or otherwise for services rendered by him in connection with the promotion or formation of the Company or the Offer or (in the case of an expert or professional adviser) for services rendered by the expert or professional adviser in connection with the promotion or formation of the Company or the Offer save and except that Bentleys MRI are the auditor of the Company and have received payment of fees of \$21,450 (inclusive of GST) for the audit of the holding Company Cardia and its Controlled entities including Aquenox for the period ended 30 June 2005, \$23,100 (inclusive of GST) for the period ended 30 June 2006 and will be entitled to be paid additional fees of \$7,500.00 in relation to the audit of the financial statements of Aquenox for the 12 month period ended the 31 December 2006 as contained herein.

All such payments made in the period have been paid or are payable in cash.

3.6 **Directors' Other Interests**

In addition to the above:

- (a) the Directors and the Company Secretary are entitled to be remunerated as set out below.
- (b) the Directors and the Company Secretary hold Cardia Shares and/or Cardia Options as set out herein and are entitled to apply for Shares and/or Options in like manner as any other Cardia Member or Cardia Optionholder.

3.7 **Directors' and Officers' Holdings of Cardia Shares and Cardia Options**

The names of each of the Directors and Officers of the Company and the number, description and amount of securities in the capital of Cardia presently held by each of them or on their behalf or in which they have or will have a relevant or beneficial interest are set out above.

Director/Officer	Ordinary Shares	Options to acquire Ordinary Shares exercisable at \$0.20
Patrick John Volpe	28,284,399	27,312,791
Joseph Tigani	514,000	262,000
Robin Gerald Armstrong	9,450,000	1,791,626
John Howden Wilson	950,019	892,686

No Director or officer presently holds any Shares or Options in the capital of Aquenox. They will however have entitlements to participate in the Issue by virtue of their share and optionholdings in Cardia. Also, interests associated with Mr Volpe, a director, are underwriting the Issue on the terms set out in clause 3.1(a) above.

3.8 Directors' and Officers' Fees, Remuneration and other entitlements

The Directors are to be remunerated at the initial rates and amounts set out in the table below.

Director/Officer	Fees/Salary \$	Superannuation \$	Other \$	Total \$
Patrick John Volpe	35,000	3,150	-	38,150
Joseph Tigani	125,000	11,250	-	136,250
Robin Gerald Armstrong	20,000	1,800	-	21,800
TOTAL	180,000	16,200	-	196,200

4. DEFINITIONS

Certain expressions are used throughout this OIS that are not defined in the various independent experts' reports. Unless otherwise stated or unless inconsistent or repugnant with the context in which the expression is used, each of the following expressions have the meaning set out below:

"\$" means references to dollar amounts in Australian currency.

"Act" means the Corporations Act 2001 as in force within Australia.

"ASIC" means Australian Securities and Investments Commission.

"Associates" has the meaning given to that term in the Act.

"Business Day" means, generally, those days other than a Saturday, Sunday, New Year's Day, Australia Day, Good Friday, Easter Monday, Anzac Day, Christmas Day, Boxing Day and any other day which NSX shall declare and publish as not a Business Day.

"Company" or "Aquenox" means Aquenox Limited (ABN 61 091 286 672).

"Directors" or "Board" means the Directors of the Company.

"Issue" means the issue of Shares and Options pursuant to this OIS.

"Listing Rules" means the Official Listing Rules of ASX.

"ASX" means the ASX Limited.

"Official List" means the Official List of ASX.

"Options" means options to acquire ordinary shares in the capital of the Company offered for subscription pursuant to this Offer.

"OIS" means this OIS as modified or varied by any supplementary OIS made by the Company and lodged with ASIC from time to time.

"Shares" means ordinary shares offered for subscription pursuant to this Offer.

5. DIRECTORS' RESPONSIBILITY STATEMENT

Each Director of the Company consents to the lodgement of this OIS with ASIC, and has not withdrawn that consent prior to this OIS being lodged. This OIS is prepared on the basis that:

- (a) certain matters may be reasonably expected to be known to professional advisers of the kind with whom applicants may reasonably be expected to consult; and
- (b) information is known to Applicants or their professional advisers by virtue of any Acts or laws of any State or Territory of Australia or the Commonwealth of Australia.

This OIS is dated 13 June 2007.

Signed on behalf of Aquenox Limited


Patrick John Volpe
Chairman

SECTION 10

AQUENOX FINANCIAL STATEMENTS

Aquenox Limited and Controlled Entities
ACN 091 286 672

Audited Financial Statements

For the 12 Month Financial Period Ended 31 December 2006

AQUENOX LIMITED
(FORMALLY AQUENOX PTY LTD)
AND ITS CONTROLLED ENTITIES

FINANCIAL REPORT FOR
12 MONTHS TO 31ST DECEMBER 2006

CONTENTS

	PAGE
CORPORATE DIRECTORY	2
CHAIRMAN'S REPORT	3
DIRECTORS' REPORT	4
AUDITOR'S INDEPENDENCE DECLARATION	12
CORPORATE GOVERNANCE STATEMENT	13
FINANCIAL REPORT	
INCOME STATEMENT	16
BALANCE SHEET	17
STATEMENT OF CHANGES IN EQUITY	18
CASH FLOW STATEMENT	20
NOTES TO THE FINANCIAL STATEMENTS	21
DIRECTORS' DECLARATION	40
INDEPENDENT AUDIT REPORT TO THE MEMBERS	41

CORPORATE DIRECTORY

Directors: Patrick John Volpe
Giuseppe Joseph Tigani (Chief Executive Officer)
Robin Gerald Armstrong (Appointed 8 Feb 2007)

Company Secretary: John Howden Wilson

Registered Office: Suite 5.10, Level 5
737 Burwood Road
HAWTHORN
VICTORIA 3122
Telephone (03) 9813 3228
Facsimile (03) 9813 2668
Email: cardia@bigpond.com

Share Registry: Computershare Investor Services Pty Limited
Level 19, CPA Building
307 Queen Street
BRISBANE QLD 4000
Telephone (07) 3237 2100
Facsimile (07) 3229 9860

Banker: National Australia Bank
110 Church Street
RICHMOND VIC 3121

Auditor: Bentleys MRI
Level 7, 114 William Street
MELBOURNE VIC 3000

Lawyers: Menzies and Partners
Level 9, 356 Collins Street
MELBOURNE VIC 3000

CHAIRMAN'S REPORT

Dear Shareholder,

I have much pleasure in presenting a Financial Report of Aquenox Limited ("Aquinox" or the "Company") for the 12 months period to 31 December 2006.

The Report which includes financial information previously released in the 2006 Annual Report and the the Half- Year Report to 31 December 2006 of Cardia Technologies Ltd ("Cardia"), the parent Company of Aquinox, has been specially prepared and audited for inclusion in the Aquinox Offer Information Statement for an entitlements offer to members of shares and options to the members of, and optionholders in Cardia.

During the first half of the year one of China's largest petroleum companies, Petrochina, agreed to the installation of the Company's commercial recycling system in Shanghai for a trial period of 3 months. Following successful completion of the trial and satisfaction with the technology, Petrochina requested that Aquinox to design for them a specific, cost-effective carwash water recycling system. Discussions are continuing.

In May, Cardia announced its intention to seek an ASX Listing for Aquinox, thereby enabling it to accelerate the development and commercialisation of its water treatment technology.

At the same time Cardia announced that Aquinox was planning to raise funds in its own right for the first time by issuing shares and options on an entitlements basis to Cardia shareholders and optionholders. This intermediate funding is expected to raise close to \$900,000 to assist in the cost of preparing the Aquinox IPO documentation and for additional working capital purposes.

During the second half of the year, Aquinox focussed on developing a more compact and competitively-priced Commercial Greywater System. Known as the Aquinox 'ETG', market response has been positive with the first units having been despatched.

The technology footprint of the 'ETG' was identified as being suitable for downscaling so as to develop a domestic grey water treatment system. The domestic system is still in its developmental stage with the first prototype expected to be ready for EPA / Dept Human Services trials during first 2007.

Aquinox has also continued to focus on industrial applications and is working with a number of major clients across a range of industries including Mining, Chemical and Food & Beverage, requiring large & complex customised solutions.

In China, the Company continues to pursue marketing opportunities through its relationships with Sinopec, Petrochina and ZTE. Through the Shenzhen office, the Company has focussed on researching the sourcing of components and materials for its new Commercial and Domestic Grey Water Systems.

During the period, the growing water shortages in Australia have however led to a greater focus on the local market.

In addition to its own product development, Aquinox has sought complementary agency lines so as to broaden the water treatment solutions it is able to offer in the market place. Heightened activity in this area of business development is anticipated in 2007."

With the world wide effects of global warming and the number of drought restricted areas increasing, interest in the Aquinox water treatment technology continues to grow leading to Cardia's plans to recapitalise Aquinox to enable it to continue to fine tune its recycling systems and fast track its marketing and sales opportunities.

PAT VOLPE

Executive Chairman

4 June 2007

DIRECTORS' REPORT

The Directors present their report on the consolidated entity consisting of Aquenox and the entities it controlled ("the Group") at the end of, or during, the year ended 31 December 2006.

DIRECTORS

The following persons were Directors of Aquenox during the whole of the year and up to the date of this report:

Patrick John Volpe (Executive Chairman)
 Guiseppe Joseph Tigani (Chief Executive Officer)
 Robin Gerald Armstrong (Appointed 8 Feb 2007)

COMPANY SECRETARY

The Company Secretary is John Howden Wilson B.Com, CPA who was appointed to the position in 2003. Mr Wilson is also Company Secretary of the parent company Cardia Technologies Ltd and listed company, A-Cap Resources Ltd, and has held similar positions with other listed companies over the past 12 years. Prior to that he worked in accounting and banking positions for many years.

PRINCIPAL ACTIVITIES

During the year the principal activities of the consolidated entity continued to be water treatment and recycling.

OPERATING RESULTS

The consolidated loss for the year of Aquenox was:

	2006	2005
	\$	\$
Operating loss after income tax	(689,896)	(856,517)

DIVIDENDS

The Directors do not recommend the payment of a dividend and no dividends have been paid or declared since the Company's incorporation.

REVIEW OF OPERATIONS

During the past year, the consolidated entity concentrated on the water treatment business by consolidating relationships in the market place, promotion and on-going market research.

Product Portfolio, Consulting & Solutions Services

As a result of its market research and in response to market expectations, Aquenox has now expanded its product portfolio to cater to a wider range of water recycle and reuse applications. i.e. Aquenox's portfolio now includes Reverse Osmosis ("RO"), De Ionization and Ultra / Micro filtration Systems. This expanded portfolio allows Aquenox to provide a broader portfolio and application base, and to branch out into Consulting and Solutions services

REVIEW OF OPERATIONS (CONTINUED)

Aquenox's acceptance as a solutions provider is reflected in the number of major proposals outstanding for large and strategically significant applications for such industries as Mining, for the removal of Copper, Nickel and Uranium, Mine Transport & Drilling Equipment Washdown, Food & Beverage, Oil & Gas, Electroplating and Timber Treatment, and other industrial and municipal applications.

Whilst new products have been incorporated, the existing technology has been further refined to enhance its effectiveness and competitiveness in the marketplace. This product refinement has mainly been driven by the need to meet specific costing and performance requirements for one of China's major oil and gas producers and retailers Petrochina resulting from the demonstration program completed in Shanghai in March 2006.

Grey water & Sanitization

In refining the existing technology, there was a strong focus on developing a complete, universal water reclaim system. The first target global market for this universal product will be the carwash industry, for which international agents and distributors will be sought.

A particularly exciting development for the new universal unit is its potential application in the treatment of domestic, commercial and industrial grey water due to its inherent sanitization properties which destroy harmful bacteria.

Patents

During the year, Aquenox maintained its patent portfolio, the details of which are included in the following table.

PATENT PORTFOLIO

Country	Title	Property Type	Case Status
Australia	Electrocoagulation System	Patent	Application filed
China	Electrocoagulation System	Patent	Exam requested
USA	Electrocoagulation System	Patent	Application filed
Australia	Contaminant Removal Apparatus and Installation Method	Patent	Application filed
Australia	Cyanide Removal Process	Patent	Application filed
Europe	Contaminant Removal Apparatus and Installation Method	Patent	Application filed
USA	Contaminant Removal Apparatus and Installation Method	Patent	Application filed
Australia	Control of Micro-Organisms or Impurities Which Infest Water Bodies	Patent	Prov refiled
Australia	Wastewater Purification Method	Patent	Application filed
China	Wastewater Purification Method	Patent	Exam requested
Europe	Wastewater Purification Method	Patent	Application filed
New Zealand	Wastewater Purification Method	Patent	Application filed
USA	Wastewater Purification Method	Patent	Application filed
Australia	Water Ionization Process	Patent	Prov refiled
Australia	Aquenox	Trade Mark	Registered
Australia	Waterpower	Trade Mark	Registered
Australia	Control of Micro-Organisms or Impurities Which Infest Water Bodies	Patent	Prov refiled
PCT	Demountable Electrode Housing	Patent	PCT - Demand for IPE filed
PCT	Wastewater Treatment Plant	Patent	Application filed

REVIEW OF OPERATIONS (CONTINUED)**FINANCIAL POSITION**

The net assets of the consolidated entity have decreased by \$674,655 from 31st December 2005 to (\$4,238,376) as at 31 December 2006. This decrease has largely resulted from the ongoing development and operating costs.

The directors believe that the group has sufficient funds to conduct its current operations based on the forthcoming fully underwritten entitlement issue to Cardia share and optionholders and the support of Cardia until such time as the company has completed the capital raising pursuant to the entitlement issue.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the consolidated entity during the period were as follows:

On 20th October 2005 Aquenox announced that following the completion of a Joint Venture Framework in September 2004 with a subsidiary of the Chinese Sinopec Group and the resultant successful due diligence process, the parties have executed a Technology Franchisee Agreement.

The new Agreement provides the Chinese Company with the rights to the Aquenox patented water treatment technology in the oil industry and associated facilities in China whilst at the same time enabling Aquenox to retain 100% of its patented water treatment technology and to operate in other Chinese industries and globally.

On 4th January 2006 Aquenox announced the completion of a successful trial of its carwash water recycling system at a Petrochina service station in Shanghai and that as a consequence Petrochina had agreed to the installation of Aquenox's new and advanced commercial recycling system on the same site.

On 26 June 2006 Aquenox announced that following the successful trialling of Aquenox's new commercial recycling system at Petrochina's Shanghai car wash, Petrochina has requested Aquenox to design a specific, cost-effective car wash system for the China market to handle between 500-1000 carwashes per day.

Petrochina will assist in marketing the new system not only through its own network, but through the Shanghai Car Wash Industry Association and the Water Authority of the Shanghai Provincial Government.

AFTER BALANCE DATE EVENTS

Other than the matters discussed below, there has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company to affect the operations of the consolidated entity, the results of these operations or the state of affairs of the consolidated entity in subsequent years.

Conversion to public company status

In preparation for its application for ASX Listing the Company converted to public company status on 9th February 2007.

Appointment of Auditors

Following its conversion to a public company the company appointed Bentley MRI as its Auditors on 9th March 2007.

FUTURE DEVELOPMENTS

In 2007 Aquenox will continue to develop its Chinese connections with Petrochina and Sinopec and to market its technology and systems to commercial organisations worldwide.

ENVIRONMENTAL ISSUES

The Company's operations are not subject to any significant environmental regulation under the law of the Commonwealth or the States.

INFORMATION ON DIRECTORS

Patrick John Volpe <i>B.Bus(Acc), P.G.(Tax), CPA</i>	Experience:	Executive Chairman for 7 years Background in mining, media, transport, manufacturing, banking and stockbroking with a particular emphasis on corporate restructuring, business acquisitions, investment advising and capital raisings.
	Age:	49
	Special Responsibilities:	Corporate finance and investment, Acquisitions and mergers.
	Interest in Shares & Options:	NIL All the shares on issue are held by Cardia Technologies Ltd. There are no options on issue.
	Directorships held in other Listed Entities:	Is currently also a Director of Cardia Technologies Ltd, A-Cap Resources Ltd, and other than Dia-B Tech Ltd (resigned March 2007), has not held any other directorships of listed entities over the last 3 years.
Robin Gerald Armstrong	Experience:	Appointed 8 February 2007. Head of Corporate Department of Findlay & Co, Stockbrokers responsible for provision of client advice in corporate structuring, listings and capital raising.
	Age:	52
	Special Responsibilities:	Fund Raising, Sourcing and Assessing corporate investment opportunities
	Interest in Shares & Options:	NIL All the shares on issue are held by Cardia Technologies Ltd. There are no options on issue.
	Directorships held in other Listed Entities:	Is currently also a Director of Cardia Technologies Ltd, but has not held any other directorships of listed entities over the last 3 years.
Guiseppe Joseph Tigani	Experience:	Appointed 31 January 2005 Background in Process Control /Water Treatment and IT&T with Dresser Industries and Honeywell.
	Age:	46
	Special Responsibilities:	Chief Executive Officer
	Interest in Shares & Options:	NIL All the shares on issue are held by Cardia Technologies Ltd There are no options on issue.
	Directorships held in Other Listed Entities	Does not currently hold any directorships of listed entities and has not done so over the last 3 years.

DIRECTORS' MEETINGS

The number of Directors' meetings and the number of meetings attended by each of the Directors of Aquenox during the year ended 31 December 2006 were:

Director	Number eligible to attend	Number attended
P J Volpe	1	1
G.J. Tigani	1	1

As a wholly owned subsidiary of Cardia Technologies Ltd, the Company is managed by its Directors and the Directors of Cardia and has not established any committees to deal with specific issues which are dealt with by the Board acting as a Committee.

REMUNERATION REPORT

Performance-based Remuneration

Only one executive in the Group, Mr Giuseppe Joseph Tigani, the Chief Executive Officer of Aquenox Pty Ltd, has a performance-based component in his remuneration package based on sales of Aquenox water treatment systems.

The commission rate on sales is as follows:

- 2% on sales over \$1 million per annum and up to \$1.5 million per annum.
- 1.5% on sales over \$1.5 million per annum and up to \$2 million per annum.
- 1% on sales of \$2 million per annum.

No commission was paid in the year to 31 December 2006.

Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration

Details of the nature and amount of each major element of the remuneration of each Director of the Company for the year ended 31 December 2006 are:-

Name	Short term Benefits	Post Employment	Total
	Salary and Fees	Superannuation	
	\$	\$	\$
P.J. Volpe	20,048	1,575	21,623
G.J. Tigani	12,548	900	13,448

REMUNERATION REPORT (CONTINUED)

The executives of the Group during the year to 31 December 2006 were Joseph Tigani and John Wilson.

Details of the nature & amount of each major element of the remuneration of these executives are:-

Name	Short term Benefits	Post Employment	Total
	Salary and Fees	Superannuation	
	\$	\$	\$
Joseph. Tigani	105,000	9,450	119,450
John. Wilson	-	-	-

Mr Wilson was paid by Cardia Technologies Ltd.

Performance Income as a Proportion of Total Remuneration

No performance based remuneration was paid during the year.

Employment Contracts of Directors and Senior Executives

The employment conditions of the Chief Executive Officer of the Company, Mr Giuseppe Joseph Tigani, are formalised in a contract of employment.

No other formalised contracts of employment have been entered into by the Company.

The terms of Mr Tigani's contract which commenced on 5 November 2003 are:

1. Base Salary of \$90,000 per annum reviewed annually.
2. Motor Vehicle Allowance of \$15,000 per annum.
3. Superannuation at the Standard Rate of the Superannuation Guarantee Levy, and based on the Base Salary and Motor Vehicle Allowance.
4. Sales Commission as set out earlier under Performance-based Remuneration.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OF OFFICERS

The Company has agreed to indemnify all the current Directors and Officers of the Company and of its controlled entities against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors and Officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The Company agrees to meet the full amount of any such liabilities, including costs and expenses.

The Company has not paid or agreed to pay a premium to insure the Directors' and Officers against liabilities incurred in their respective capacities during the year but is currently pursuing quotes for such cover

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

NON-AUDIT SERVICES

The Company did not employ its auditor on assignments additional to their statutory audit duties.

AUDITOR'S INDEPENDENCE DECLARATION

The lead Auditor's Independence Declaration for the year ended 31 December 2006 has been received and can be found on page 12.

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



P J Volpe

Director

Dated this 4th day of June 2007

Hawthorn, Victoria

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**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF AQUENOX LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2006 there have been:

- a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

**BENTLEYS MRI
CHARTERED ACCOUNTANTS**

**MARTIN FENSOME
PARTNER**

Dated in Melbourne on this 4 day of June 2007

CORPORATE GOVERNANCE STATEMENT

The corporate governance practices of Aquenox have been extracted from the policies and practices of Cardia Technologies Ltd as set out in that Companies 2006 Annual Report.

A description of these practices is set out below after taking into account the fact that the company is not listed.

1. ROLE OF THE BOARD AND MANAGEMENT

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

The Board's responsibilities include:

- Leadership of the organisation
- Strategy formulation
- Overseeing planning activities
- Shareholder liaison
- Monitoring compliance and risk management
- Company finances
- Human resources
- Remuneration policy

2. STRUCTURE AND COMPOSITION OF THE BOARD

The Board has been formed so that it has an effective mix of personnel who are committed to discharging their responsibilities and duties, and being of value to the Company.

The names of the Directors, and their qualifications and experience are stated on Page 8 along with the term of office held by each.

There are no Directors on the Board at present that could be classified as 'Independent'. The number of independent Directors on the Board will increase as the Company develops and the Board believes that it can attract appropriate independent directors with the necessary industry experience.

However, where any Director has material personal interest in a matter and, in accordance with the *Corporations Act 2001*, the Director will not be permitted to be present during discussion or to vote on the matter. The enforcement of this requirement aims to ensure that the interest of shareholders, as a whole, is pursued and that their interest or the Director's independence is not adversely affected.

The Company believes that at this stage in its development, the most appropriate person for the position of Chairman is an Executive Officer of the Company. The Executive Officer's overall expertise has been crucial to the Company's development and negates any perceived lack of independence.

Directors collectively or individually have the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities. All advice obtained is made available to the Full Board.

2. STRUCTURE AND COMPOSITION OF THE BOARD (CONTINUED)

The Company does not have a Nomination Committee because the Board considers that selection and appointment of Directors is such an important task that it should be the responsibility of the entire Board to consider the nominations process.

3. ETHICAL AND RESPONSIBLE DECISION-MAKING

Due to the size of the Company and the resources available to it, the Board does not consider that a formal Code of Conduct for directors and other key executives is appropriate. Rather, it is agreed that all officers of the Company will act ethically and in the best interests of the Company.

The Company has a share trading policy that regulates the dealings by directors, officers and employees, in shares, options and other securities issued by the Company.

The policy has been formulated to ensure that directors, officers, employees and consultants who work on a regular basis for the Company are aware of the legal restrictions on trading in company securities while in possession of unpublished price-sensitive information.

4. INTEGRITY IN FINANCIAL REPORTING

The Executive Chairman has provided written declarations to the Board confirming that the Company's financial reports present a true and fair view of the Company's financial condition and operational results and are in accordance with the relevant accounting standards.

As the Board only consists of 3 members, the Company does not have an Audit Committee because it would not be a more efficient mechanism than the full Board for focusing the Company on specific issues and an audit committee cannot be justified based on a cost-benefit analysis.

In the absence of an Audit Committee the Board deals with the issues and the responsibilities usually delegated to the Audit Committee, thus ensuring the integrity of the financial statements of the Company and the independence of the external auditor.

5. RISK MANAGEMENT

The Board reviews all key areas of the Company's risk management on an ongoing basis and keeps shareholders informed of any changes in the risk profile of the Company.

Due to the size of the Company and its Board a Risk Management Committee and formal risk management policies have not been established.

6. ENCOURAGE ENHANCED PERFORMANCE

The Board is responsible for evaluating its performance and that of individual Directors and key executives and in doing so may engage independent external advisors if thought appropriate to do so.

7. REMUNERATE FAIRLY AND RESPONSIBLY

The Company has not established a Remuneration Committee as it deemed the full Board of the Company a more efficient mechanism to administer the Company's remuneration policy than a committee. The Board considers that due to its small size all members should be involved in determining remuneration levels.

7. REMUNERATE FAIRLY AND RESPONSIBLY (CONTINUED)

The Company is committed to remunerating its senior executives in a manner that is market-competitive and consistent with 'Best Practice' as well as supporting the interests of shareholders. Senior executives receive a remuneration package based on fixed and variable components, determined by their position and experience. Shares and/or Options may also be granted based on an individual's performance and subject to approval by shareholders.

Non-Executive directors are paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of non-executive directors. Non-executive directors do not receive performance based bonuses and do not participate in Equity Schemes of the Company without prior shareholder approval.

Current remuneration details are disclosed on pages 9-10 in the Director's Report.

8. THE RECOGNITION OF LEGITIMATE INTERESTS OF STAKEHOLDERS

The Board is conscious of the need for sound business practices for dealing with employees, customers, suppliers and other stakeholders and monitors the performance of management in relation to these practices. However, the Board does not believe that it is appropriate to formalise these practices into a Code of Conduct as it believes that stakeholders will be better served by the Company's current informal system.

INCOME STATEMENT

For the year ended 31 December 2006

	Notes	ECONOMIC ENTITY		PARENT ENTITY	
		2006	2005	2006	2005
		\$	\$	\$	\$
Revenue from Ordinary Activities	2	225,004	212,165	225,004	212,165
Changes in inventories of finished goods and work in progress		(170,402)	(218,653)	(170,402)	(218,653)
Office Expenses		(135,848)	(227,432)	(113,956)	(111,203)
Depreciation Expenses		(28,564)	(28,245)	(11,158)	(13,729)
Employee Benefits Expenses		(344,750)	(347,302)	(301,771)	(316,166)
Research and Development, Exploration and Patents		(95,551)	(118,136)	(95,551)	(118,136)
Travel and Marketing Expenses		(67,676)	(56,449)	(59,705)	(52,992)
Professional Fees		(5,208)	(18,294)	-	-
Other Expenses from Ordinary Activities		(66,901)	(53,900)	(12,283)	(33,126)
Foreign exchange gains (net)		-	(270)	-	-
Loss from Ordinary Activities before Income Tax Expense		(689,896)	(856,517)	(539,821)	(651,841)
Income Tax Expense/(Credit)	4	-	-	-	-
Loss from Ordinary Activities after Income Tax Expense		(689,896)	(856,517)	(539,821)	(651,841)
Basic Earnings (Loss) per Share (cents per share)	7	(34,494,800)	(42,825,900)	-	-

There are no options on issue.

The accompanying notes form part of these financial Statements.

BALANCE SHEET

At 31 December 2006

	Notes	ECONOMIC ENTITY		PARENT ENTITY	
		2006	2005	2006	2005
		\$	\$	\$	\$
Current Assets					
Cash and cash equivalents	8	57,637	36,892	50,329	22,417
Trade and other receivables	9	82,668	137,942	72,719	108,005
Inventories	10	179,633	79,419	134,878	34,699
Total Current Assets		319,938	254,253	257,926	165,121
Non-Current Assets					
Trade and other receivables	9	-	-	121,698	64,402
Financial Assets	11	-	-	79,132	79,132
Plant and Equipment	13	44,146	64,965	35,515	37,566
Total Non-Current Assets		44,146	64,965	236,345	181,100
Total Assets		364,084	319,218	494,271	346,221
Current Liabilities					
Trade and other payables	14	4,602,460	3,882,939	4,249,967	3,562,095
Total Current Liabilities		4,602,460	3,882,939	4,249,967	3,562,095
Non Current Liabilities		-	-	-	-
Total Non Current Liabilities		-	-	-	-
Total Liabilities		4,602,460	3,882,939	4,249,967	3,562,095
Net Assets		(4,238,376)	(3,563,721)	(3,755,696)	(3,215,874)
Equity					
Issued Capital		2	2	2	2
Reserves		(39,079)	(54,320)	-	-
Accumulated Losses		(4,199,299)	(3,509,403)	(3,755,698)	(3,215,876)
Total Equity		(4,238,376)	(3,563,721)	(3,755,696)	(3,215,874)

The accompanying notes form part of these financial Statements.

STATEMENT OF CHANGES IN EQUITY
FOR YEAR ENDED 31 DECEMBER 2006

Economic Entity

	Issued Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Total Equity
	\$	\$	\$	\$
Balance at 1.1.2005	2	(2,652,886)	(75,425)	(2,728,309)
Movement of foreign currency translation Reserve	-	-	21,105	21,105
Loss attributable to members of Aquenox Ltd	-	(856,517)	-	(856,517)
Balance at 31.12.2005	2	(3,509,403)	(54,320)	(3,563,721)
Balance at 1.1.2006	2	(3,509,403)	(54,320)	(3,563,721)
Movement of foreign currency translation Reserve	-	-	15,241	15,241
Loss attributable to members of Aquenox Ltd	-	(689,896)	-	(689,896)
Balance at 31.12.2006	2	(4,199,299)	(39,079)	(4,238,376)

The accompanying notes form part of these financial Statements.

STATEMENT OF CHANGES IN EQUITY
FOR YEAR ENDED 31 DECEMBER 2006

Parent Entity

	Issued Share Capital	Accumulated Losses	Total Equity
	\$	\$	\$
Balance at 1.1.2005	2	(2,564,035)	(2,564,033)
Loss attributable to members of Aquenox Ltd	-	(651,841)	(651,841)
Balance at 31.12.2005	2	(3,215,876)	(3,215,874)
Balance at 1.1.2006	2	(3,215,876)	(3,215,874)
Loss attributable to members of Aquenox Ltd	-	(539,821)	(539,821)
Balance at 31.12.2006	2	(3,755,698)	(3,755,696)

The accompanying notes form part of these financial Statements.

CASH FLOW STATEMENT

For the year ended 31 December 2006

	Notes	ECONOMIC ENTITY		PARENT ENTITY	
		2006	2005	2006	2005
		\$	\$	\$	\$
Cash Flows from Operating Activities					
Receipts from customers (inclusive of goods and services tax)		96,393	78,476	76,350	95,193
Payments to suppliers and employees (inclusive of goods and services tax)		(972,444)	(1,007,609)	(865,655)	(860,168)
Interest received		3,458	1,547	3,458	1,547
Research and Development Rebate		184,361	107,810	184,361	107,810
Net Cash (Outflow) from Operating Activities	19	(688,232)	(819,776)	(601,486)	(655,618)
Cash Flows from Investing Activities					
Purchase of plant and equipment		(9,107)	(1,318)	(9,107)	(1,035)
Loans to related parties		-	-	(57,296)	(20,000)
Net Cash (Outflow) from Investing Activities		(9,107)	(1,318)	(66,403)	(21,035)
Cash Flows from Financing Activities					
Proceeds from borrowing		718,554	808,201	695,801	666,331
Proceeds from issues of ordinary shares and options			5,000		
Net Cash Inflow from Financing Activities		718,554	813,201	695,801	666,331
Net Increase/(Decrease) in Cash Held		21,215	(7,893)	27,912	(10,322)
Cash at the Beginning of the Financial Year		36,892	44,678	22,417	32,739
Effect of exchange rates on cash holding in foreign currencies		(470)	107	-	-
Cash at the End of the Financial Year		57,637	36,892	50,329	22,417
Non-Cash Financing and Investing Activities					

The accompanying notes form part of these financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial report covers the economic entity of Aquenox Limited and controlled entities, and Aquenox Limited as an individual parent entity.

Aquenox Limited was incorporated in Australia.

The financial report of Aquenox Pty Limited and controlled entities, and Aquenox Pty Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

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

BASIS OF PREPARATION

Going Concern Assumption

The company experienced operating losses during the year to 31 December 2006 however its continuing viability and its ability to continue as a going concern and meet its debts and commitments as they fall due are subject to the company being successful in:

- accessing additional capital
- deferring the payment of debt to Cardia until it successfully achieves its own listing in terms of the Convertible Note executed between Cardia and Aquenox.
- establishing greater revenue from its current activities

The Directors are confident that the Company will be successful in the above matters if the following is achieved:

- the completion of the Company's first raising of approx \$ 900,000 from a fully underwritten entitlements issue of shares and options to the members and optionholders of Cardia in terms of the Offer Information Statement to which this Financial Report is attached and forms part thereof.
- the continuing receipt by Aquenox of research and development tax rebates.

Accordingly the Directors have prepared the Financial Report on a going concern basis. At this time the Directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the Financial Report at 31 December 2006.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

a) Principles of Consolidation

A controlled entity is any entity controlled by Aquenox Pty Limited whereby Aquenox Pty Limited has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities. All controlled entities have a June financial year end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

b) Income Tax

The charges for current income tax expense are based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

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

c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

d) Plant and Equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and Machinery	13% to 33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

e) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

f) Financial Instruments**Recognition**

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Held-to-maturity investments

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available for sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial Liabilities

Non-derivative financial liabilities are recognized at amortized cost, comprising original debt less principal payments and amortization.

Derivative instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognized in the income statement.

g) Impairments of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

h) Intangibles**Goodwill**

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Patents and trademarks

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a definite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised over their useful life .

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technically feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

i) Foreign Currency Transactions and Balances**Functional and presentation currency**

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange difference arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date.

Income and expenses are translated at average exchange rates for the period.

Retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

j) Employee Benefits

Provision is made for the group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

k) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

l) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

m) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

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

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

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

n) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

o) Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight –line basis.

p) Comparative Figures

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

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. No impairment has been recognised in respect of plant and equipment.

Key Estimates- Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates. No impairment has been recognised in respect of plant and equipment.

Key Judgements- Doubtful Debts Provisions

Receivable from wholly –owned entities have been entirely provided for as the entities have negative net assets positions at year end. There were no other significant key judgements made by the Directors.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 REVENUE

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Revenue from Ordinary Activities				
Revenue from operating activities				
Revenue from sale of goods	37,185	102,808	37,185	102,808
Total revenues from operating activities	37,185	102,808	37,185	102,808
Revenue from outside the operating activities				
Interest	3,458	1,547	3,458	1,547
Research and Development Rebate	166,681	107,810	166,681	107,810
Government Grant	17,680	-	17,680	-
	187,819	109,359	187,819	109,357
Revenue from ordinary activities (excluding share of equity accounted net profits/(losses) of associates)	225,004	212,165	225,004	212,165

NOTE 3 LOSS FOR THE YEAR

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
The loss from ordinary activities before income tax has been arrived at after considering the following major items of expenses				
a) Expenses				
Cost of goods sold	170,402	218,653	170,402	218,653
Depreciation on plant and equipment	29,329	28,245	11,923	13,729
Rental expenses relating to operating leases	61,733	62,899	30,618	26,777
Research, development, and patents	95,551	118,136	95,551	118,136
Foreign exchange gain/(loss)	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 INCOME TAX EXPENSE

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
a) The prima facie tax (credit) on profit (loss) from ordinary activities before income tax is reconciled to the income tax (credit) as follows :				
Prima facie tax payable (credit provided) on profit (loss) from ordinary activities before income tax at 30% (2005: 30%)				
- Economic Entity	(206,958)	(258,236)	-	-
- Parent Entity	-	-	(161,946)	(196,327)
	(206,958)	(258,236)	(161,946)	(196,327)
Add :				
Tax effect of :				
- Adjustment for foreign tax rate	18,754	25,796	-	-
- Non –deductible expenses	515	-	515	-
	19,269	25,796	515	-
Less :				
Tax effect of :				
- Research and Development rebate	(50,004)	(32,343)	(50,004)	(32,343)
	(50,004)	(32,343)	(50,004)	(32,343)
Deferred income tax assets not brought to account	(237,693)	(264,783)	(211,435)	(228,670)
b) The Directors estimate that the potential deferred income tax assets at 31 December 2006 in respect of tax losses not brought to account is :				
	2,874,924	2,349,445	2,036,720	1,663,580

NOTE 5 KEY MANAGEMENT PERSONNEL COMPENSATION

Names and positions held of economic and parent entity key management personnel in office at any time during the financial year are

Key Management Person	Position
Pat Volpe	Director
G Tigani	Director & Chief Executive Officer
J Wilson	Company Secretary
Mr Y S Fu	Director – Aquenox (H.K.) Environmental Protection Hong Kong Technologies Company Limited.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Compensation Practices

The Company's policy for determining the nature and amount of remuneration of board members and senior executives of the Company is as follows:

The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Company. The only existing contract for service between the Company and an executive is on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement, specified directors and executives are paid employee benefit entitlements accrued to date of retirement. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time. Although no executive options are currently on issue, any options issued in the future and not exercised before or on the date of termination will automatically lapse.

Key Management Personnel Compensation

2006 Name	Short –term Benefits		Post-employment Benefits	
	Cash salary and fees	Non-monetary benefits	Super – annuation	Total
	\$	\$	\$	\$
Key Management Personnel				
P Volpe	20,048	-	1,575	21,623
G Tigani	117,548	-	10,350	127,898
J Wilson	-	-	-	-
Y S Fu	2,548	-	-	2,548
	140,144	-	11,925	152,069

2005 Name	Short –term Benefits		Post-employment Benefits	
	Cash salary and fees	Non-monetary benefits	Super – annuation	Total
	\$	\$	\$	\$
Key Management Personnel				
P Volpe	5,066	-	-	5,066
G Tigani	110,066	-	8,100	118,166
J Wilson	-	-	-	-
Y S Fu	5,066	-	-	5,066
	120,198	-	8,100	128,298

Mr Wilson was paid by Cardia Technologies Ltd.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 REMUNERATION OF AUDITORS

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:				
Audit services				
Bentleys MRI – Australian firm	-	-	-	-
C.W.IP & CO – Hong Kong firm	5,237	5,178	-	-
	5,237	5,178	-	-

Bentleys MRI were paid by Cardia Technologies Ltd.

NOTE 7 EARNINGS PER SHARE

	Economic Entity	
	2006	2005
	\$	\$
a) Reconciliation of losses to profit or loss		
Loss used to calculate basic EPS	(689,896)	(856,517)
	No	No
b) Weighted average number of ordinary shares used in the calculation of basic earnings per share	2	2

There is no diluted EPS as there are no options on issue.

NOTE 8 CASH AND CASH EQUIVALENTS

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Cash at bank and on hand	57,637	36,892	50,329	22,417

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Cash and cash equivalents	57,637	36,892	50,329	22,417
Balances per statement of cash flows	57,637	36,892	50,329	22,417

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 TRADE AND OTHER RECEIVABLES

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Current				
Trade Receivables	32,482	71,783	29,514	68,679
Prepayments	21,031	18,522	14,050	16,021
Other receivables	29,155	47,637	29,155	23,305
	<u>82,668</u>	<u>137,942</u>	<u>72,719</u>	<u>108,005</u>
Non Current				
Amount receivable from :				
wholly-owned entities	-	-	121,698	64,402
	<u>-</u>	<u>-</u>	<u>121,698</u>	<u>64,402</u>

NOTE 10 INVENTORIES

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Current				
At Cost				
Raw Materials and Spare Parts	108,985	79,419	108,149	34,699
Work in Progress	46,424	-	26,729	-
	<u>155,409</u>	<u>79,419</u>	<u>134,878</u>	<u>34,699</u>
At Net realisable value				
Finished Goods	24,224	-	-	-
	<u>24,224</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>179,633</u>	<u>79,419</u>	<u>134,878</u>	<u>34,699</u>

NOTE 11 FINANCIAL ASSETS

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Non Current				
Unlisted Investments ,at cost				
- Shares in controlled entities	-	-	495,000	495,000
Provision for investment impairment	-	-	(415,868)	(415,868)
	<u>-</u>	<u>-</u>	<u>79,132</u>	<u>79,132</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 CONTROLLED ENTITIES

Name	Country of Incorporation	Equity Holding	
		2006 %	2005 %
Aquenox (H.K.) Environmental Protection Technologies Company Limited	Hong Kong	100	100
Waterpower Environment Protection Technologies (Shenzhen) Co., Limited (100% owned by Aquenox (H.K.) Environmental Protection Technologies Company Limited)	People's Republic of China	100	100

NOTE 13 PLANT AND EQUIPMENT

	Economic Entity		Parent Entity	
	2006 \$	2005 \$	2006 \$	2005 \$
Plant & machinery				
At cost	143,372	138,956	81,118	72,011
Accumulated depreciation	(99,226)	(73,991)	(45,603)	(34,445)
Total plant and equipment	44,146	64,965	35,515	37,566

Movement in Carrying Amounts

Reconciliations of the carrying amounts of plant and equipment at the beginning and end of the current and previous financial year are set out below.

	Economic Entity		Parent Entity	
	2006 \$	2005 \$	2006 \$	2005 \$
Carrying amount at 1 January 2006	64,965	90,864	37,566	50,258
Additions	9,107	1,318	9,107	1,037
Foreign Exchange Rate Variation	(1,362)	(1,028)	-	-
Depreciation expense	(28,564)	(28,245)	(11,158)	(13,729)
Carrying amount at 31 December 2006	44,146	64,965	35,515	37,566

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 TRADE AND OTHER PAYABLES

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Current				
Trade Payables	127,707	130,816	39,092	65,913
Sundry payables and accrued expenses	35,811	38,279	35,811	23,463
Withholding tax payable	6,289	12,579	6,289	12,579
Employee benefits	25,595	12,762	25,595	12,762
Amount payable to ultimate parent entity	4,407,058	3,688,504	4,143,180	3,447,379
	4,602,460	3,882,939	4,249,967	3,562,095

NOTE 15 ISSUED CAPITAL

(A) Share Capital

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Ordinary - fully paid shares	2	2	2	2

(B) Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(C) Movement in Ordinary Share Capital

There were no movements in Share Capital during the period

NOTE 16 RESERVES

Nature and Purpose of Reserves

Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary as described in Note 1(i)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 17 CONTINGENT LIABILITIES & CONTINGENT ASSETS

There were no contingent liabilities or contingent assets as at 31 December 2006.

NOTE 18 CAPITAL AND LEASING COMMITMENTS

Operating Lease Commitments

Commitments in relation to operating leases contracted for at the reporting date but not recognised as liabilities, payable:

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Operating Lease Commitments				
Not later than 12 months	23,909	33,716	1,572	2,096
between 12 months and 5 years	-	16,858	-	1,048
	23,909	50,574	1,572	3,144

The consolidated entity leases property under operating leases expiring from one to five years. Leases generally provide the consolidated entity with a right of renewal from nil years to three years.

NOTE 19 SEGMENT INFORMATION

Primary Reporting - Business Segments

The consolidated entity only operates within one business segment being manufacturing and development of Water treatment systems and technology.

Secondary Reporting - Geographical Segments

Although the consolidated entity's divisions are managed on a global basis they operate in two main geographical areas:

Australia

The home country of the parent entity which is also the main operating entity. The area of operation is in the environment industry.

Asia

Comprises operations carried on in Hong Kong and the People's Republic of China.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Segment revenues from sales to external customers		Segment assets		Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
Australia	37,185	102,808	277,436	202,687	9,107	1,035
Asia	-	-	86,648	116,531	-	-
	37,185	102,808	364,084	319,218		

NOTE 20 CASH FLOW INFORMATION

	Economic Entity		Parent Entity	
	2006 \$	2005 \$	2006 \$	2005 \$
Reconciliation of Cash Flow from Operations with Profit after Income Tax				
Operating Loss after income tax	(689,896)	(856,517)	(539,821)	(651,841)
Depreciation on plant and equipment	28,564	28,245	11,158	13,729
Changes in operating assets and liabilities, net of effects of disposal of subsidiary:				
(Increase)/decrease in receivables	39,301	2,191	39,165	(7,615)
(Increase)/decrease in other operating assets	(67,167)	(51,277)	(104,058)	(20,011)
Increase/(decrease) in creditors	(3,109)	25,324	(26,821)	(7,322)
(Decrease)/increase in provisions and other operating liabilities	4,075	32,258	18,891	17,442
Net cash (outflow) from operating activities	(688,232)	(819,776)	(601,486)	(655,618)
Non-Cash Financing and Investing Activities	-	-	-	-

NOTE 21 AFTER BALANCE DATE EVENTS

Other than the matters discussed below, there has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company to affect the operations of the consolidated entity, the results of these operations or the state of affairs of the consolidated entity in subsequent years.

Conversion to public company status

The Company converted to public company status on 9th February 2007.

Appointment of Auditors

Following its conversion to a public company the company appointed Bentley MRI as its Auditors on 9th March 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 22 RELATED PARTIES

A. Key Management Personnel**Directors**

The names of persons who were Directors of consolidated entity-Aquenox Ltd at any time during the year are as follows: Messrs P J Volpe, Joseph Tigani, and Y.S Fu. All these persons were also Directors during the year ended 31 December 2005.

Remuneration

Information on remuneration of Directors is disclosed in Note 5.

Other Transactions with Directors and Director-Related Entities

During the year the company paid companies related to Mr Y S Fu \$3,567 for office rental in Hong Kong and \$7,479 for office rental in China. These rental figures were based on commercial terms.

Amounts owing to Directors and Director-related entities are disclosed in Note 14.

B. Wholly-owned group**Aquenox Ltd**

The wholly-owned group consists of Aquenox Ltd and its wholly-owned controlled entities Aquenox (H.K.) Environmental Protection Technologies Company Limited (formerly Waterpower (H.K.) Environmental Protection Technologies Company Limited) and Waterpower Environment Protection Technologies (Shenzhen) Co., Limited. Ownership interests in these controlled entities are set out in note 12.

Transactions between Aquenox Ltd and other entities in the wholly-owned group during the years ended 31 Dec 2005 and 2006 consisted of interest-free loans advanced by the ultimate Parent Company- Cardia Technologies Ltd.

Aggregate amounts payable to the ultimate Parent Company Cardia Technologies Ltd by entities in the wholly-owned group at balance date were:

	2006	2005
	\$	\$
Trade & Other payables	4,407,058	3,688,504

Ownership Interests in Related Parties

Interests held in the following classes of related parties are set out in the following notes:

Controlled Entities Note 12

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 23 FINANCIAL INSTRUMENTS

a) Financial Risk Management

The group's financial instruments consist mainly of deposits with banks, local money market instruments, and short term investments, accounts receivable and payable, loans to and from subsidiaries, bills and leases.

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

i) Treasury Risk Management.

The Directors at their periodic Board Meeting analyse currency and interest rate exposure and evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

ii) Financial Risks

The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk and credit risk.

Interest rate risk

Currently the Company's cash holding are on a floating rate basis.

Foreign currency risk

The group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency.

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.

The economic entity does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity.

b) Financial Instruments**i. Credit Risk Exposure**

The credit risk on financial assets of the consolidated entity which have been recognised in the statement of financial position is the carrying amount, net of any provisions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

II. Interest Rate Risk

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's market value will fluctuate as a result of changes in market interest rates, and the effective weighted average interest rates on classes of financial assets and financial liabilities, are as follows:

2006	Weighted Average effective interest rate %	Floating interest rate \$	<u>Fixed interest rate maturing</u>			Non interest bearing \$	Total \$
From 1 January 2006 to 31 December 2006			1 year or less \$	1 to 5 years \$	over 5 years \$		
Assets:							
Cash	2.50%	50,329	-	-	-	7,308	57,637
Receivables		-	-	-	-	61,637	61,637
Total financial assets		50,329	-	-	-	68,945	119,274
Liabilities:							
Trade and other creditors		-	-	-	-	162,071	162,071
Total financial liabilities		-	-	-	-	162,071	162,071
Net financial assets (liabilities)		50,329	-	-	-	(93,126)	(42,800)

2005	Weighted Average effective interest rate %	Floating interest rate \$	<u>Fixed interest rate maturing</u>			Non Interest bearing \$	Total \$
From 1 January 2005 to 31 December 2005			1 year or less \$	1 to 5 years \$	over 5 years \$		
Assets:							
Cash	1.91%	22,417	-	-	-	14,475	36,892
Receivables		-	-	-	-	137,942	137,942
Total financial assets		22,417	-	-	-	152,417	174,834
Liabilities:							
Trade and other creditors		-	-	-	-	181,674	181,674
Total financial liabilities		-	-	-	-	181,674	181,674
Net financial assets (liabilities)		22,417	-	-	-	(29,257)	(6,840)

III. Net Fair Values

The carrying amount of financial assets and liabilities is approximately equal to net fair value.

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Financial Assets				
Available –for-sale financial assets at fair value	-	-	79,132	79,132
Receivables	82,668	137,942	72,719	108,005
	82,668	137,942	151,851	187,137

NOTE 24 COMPANY DETAILS

The principal place of business and registered office is:

Suite 5.10, Level 5, 737 Burwood Road, Hawthorn, Victoria, Australia 3122

DIRECTORS' DECLARATION

1. The Directors declare that the financial statements and notes set out on pages 16 to 39 are in accordance with the *Corporations Act 2001* and:
 - a. comply with Accounting Standards, the Corporations Regulations 2001; and
 - b. give a true and fair view of the financial position as at 31 December 2006 and of the performance for the year ended on that date of the company and economic entity.
1. The Executive Chairman declared that:
 - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c. the financial statements and notes for the financial year give a true and fair view.
3. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



P J Volpe

Director

Hawthorn

Dated this 4th day of June 2007

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF AQUENOX LTD

Scope

The financial report and directors' responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Aquenox Limited (the company) and Aquenox Limited (the consolidated entity), for the year ended 31 December 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

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

Audit Approach

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

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

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

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

**INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF AQUENOX LTD (Continued)**

Audit Approach (Continued)

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

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

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

Audit Opinion

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

- a. the Corporations Act 2001, including:
 - i. giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2006 and of their performance for the year ended on that date; and
 - ii. complying with Accounting Standards in Australia and the Corporation Regulations 2001; and
- b. other mandatory professional reporting requirements.

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to note 1. The company is reliant on the assumptions of future revenue from its current activities, accessing additional capital and deferring the payment of debt to Cardia Technologies Limited until it successfully achieves its own listing in terms of the Convertible Note executed between Cardia Technologies Limited and Aquenox Limited. Should these assumptions not be realised, there is significant uncertainty regarding the ability of the company to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.



**BENTLEYS MRI
CHARTERED ACCOUNTANTS**



**MARTIN FENSOME
PARTNER**

Dated in Melbourne on this 4 day of June 2007