Cardia Bioplastics Limited™
Suite 510 Level 5 Pacific Tower
737-741 Burwood Road Hawthorn
Victoria 3122, Australia

Telephone +61 3 9813 3228
Facsimile +61 3 9813 2668

TO: COMPANY ANNOUNCEMENTS OFFICE
ASX LIMITED

DATE: 28 OCTOBER 2010

NOTICE OF ANNUAL GENERAL MEETING

The Notice of the Annual General Meeting of Cardia Bioplastics Ltd to be held on Monday 29th November 2010 together with the accompanying documents will be dispatched to shareholders today. At the same time the 2010 Annual Report will be sent to shareholders who requested it.

The Notice and accompanying documents are attached.

Rekha Bhambhani
Company Secretary

Cardia Bioplastics Limited™
Suite 510 Level 5 Pacific Tower
737-741 Burwood Road Hawthorn
Victoria 3122, Australia

Telephone +61 3 9813 3228
Facsimile +61 3 9813 2668

27 October 2010

Dear Shareholder,

CARDIA BIOPLASTICS LIMITED –Annual General Meeting 2010

Please find enclosed the Notice of Annual General Meeting for Cardia Bioplastics Limited ("Cardia") to be held on 29th November 2010, commencing at 9.00 am at Ground Floor, Pacific Tower 737 Burwood Road Hawthorn VIC 3122.

If you cannot attend, you are encouraged to complete and lodge the enclosed Proxy Form as directed.

An Explanatory Memorandum in connection with the business to be transacted at the meeting is also enclosed.

The 2010 Annual Report is enclosed for those shareholders who have elected to receive a hard copy.

Other shareholders may access the Report on the company's website at www.cardiabioplastics.com

Yours Sincerely,

Rekha Bhambhani
Company Secretary

Cardia Bioplastics Limited™
Suite 510 Level 5 Pacific Tower
737-741 Burwood Road Hawthorn
Victoria 3122, Australia

Telephone +61 3 9813 3228
Facsimile +61 3 9813 2668

CARDIA BIOPLASTICS LIMITED
(ACN 064 755 237)

NOTICE OF ANNUAL GENERAL MEETING

PROXY FORM

AND

EXPLANATORY MEMORANDUM

Date of Meeting
Monday 29th November 2010

Time of Meeting
9.00am AEDST

Place of Meeting
Ground Floor
Pacific Tower
737 Burwood Road
Hawthorn VIC 3122.

CARDIA BIOPLASTICS LIMITED
(ACN 064 755 237)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF CARDIA BIOPLASTICS LIMITED (ACN 064 755 237) ("CARDIA OR THE COMPANY") WILL BE HELD AT GROUND FLOOR, PACIFIC TOWER,737 BURWOOD ROAD, HAWTHORN VICTORIA 3122 IN THE STATE OF VICTORIA ON MONDAY 29 NOVEMBER 2010 AT 9.00AM (AEDST).

An Explanatory Memorandum containing information in relation to the business to be transacted at the meeting accompanies this Notice of Annual General Meeting.

AGENDA

ORDINARY BUSINESS

FINANCIAL STATEMENTS AND REPORTS

To receive and consider the Financial Statements for the year ended 30 June 2010 and accompanying Reports of the Directors and Auditor.

1. ADOPTION OF REMUNERATION REPORT

To consider and, if thought fit, pass the following resolution as an ordinary resolution.

"That the Remuneration Report (which forms part of the Director's Report) for the year ended 30 June 2010 be adopted".

Note – Pursuant to Section 250R (3) of the Corporations Act 2001 ('the Act"), the vote on this resolution is advisory only and does not bind the Directors or the Company.

2. RE-ELECTION OF DIRECTOR : DR JOHN SCHEIRS

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That Dr John Scheirs, a director retiring by rotation in accordance with ASX Listing Rule 14.5 and Clause 5.3 of the Company's Constitution and being eligible, is re-elected as a director of the Company".

3. REMOVAL OF AUDITOR

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That WHK Horwath Melbourne be removed as auditor of the Company."

Note- Pursuant to Section 329(1A) of the Act, the Company has received a Notice of intention. The Notice was served by a member holding more than 5% of the votes in the Company, to remove its current Auditor WHK Horwath Melbourne.

4. APPOINTMENT OF NEW AUDITOR

To consider and, if thought fit, pass the following resolution as a special resolution:

"That, in as much as:

(i) Pursuant to Section 328(1) of the Act, William Buck has been nominated in writing to be appointed as the auditor of the Company;

(ii) William Buck has consented in writing to be appointed as auditor of the Company in accordance with the provisions of Section 327(7) of the Act and has not withdrawn that consent as at the date of this Notice of Meeting.

William Buck be appointed as auditor of the Company in lieu of WHK Horwath Melbourne with effect from the date on which WHK Horwath Melbourne are removed as auditor of the Company."

5. ISSUE OF SHARES TO DIRECTOR- MR CHEN YI

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That, for the purpose of ASX Listing Rule 10.11 and in accordance with a resolution of the Board of Directors, Mr Chen Yi (or his nominee) be issued 2.5 million ordinary shares in the capital of the Company at an issue price of $0.02 (2 cents) per share in satisfaction of his partly outstanding salary for the 13 months period to March 2010 with such shares to be free from restriction and freely tradeable with effect from the date of issue."

Voting Exclusion Statement:

The Company will disregard any votes cast on the Resolution by Mr Yi and any associate of, Mr Yi. However, the Company will not disregard a vote if it is cast:

(a) by any such person and any of his associates as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form.

By Order of the Board of
Cardia Bioplastics Limited

Rekha Bhambhani
Company Secretary
Dated: 27 October 2010

EXPLANATORY MEMORANDUM

This Explanatory Memorandum has been prepared for the information of shareholders of **CARDIA BIOPLASTICS LIMITED** ("Cardia" or "the Company") in connection with the business to be transacted at the Annual General Meeting of shareholders of Cardia to be held at the Ground Floor, Pacific Tower, 737 Burwood Road, Hawthorn Victoria 3122 on Monday 29th November 2010 at 9.00am AEDST.

It forms part of the accompanying Notice of Meeting convening the 2010 Annual General Meeting and contains an explanation of, and information about, the following matters to be considered at the meeting:

- the Financial Statements and Reports;
- the Remuneration Report;
- the re-election of Dr. Scheirs as a director of the Company.
- Removal of Auditor and Appointment of New Auditor
- Issue of Shares to Director-Mr Chen Yi

The Directors recommend shareholders read the accompanying Notice of General Meeting ("Notice") and this Explanatory Memorandum in full before making any decision in relation to the resolutions.

FINANCIAL STATEMENTS AND REPORTS

Under the Corporations Act 2001, the directors of a public company that is required to hold an Annual General Meeting must table the financial statements and reports of the Company for the previous year for discussion by the members at that annual general meeting.

Shareholders have been provided with all relevant information concerning the Company's financial statements for the year ended 30 June 2010 in the Annual Report.

A Copy of the Annual Report is enclosed with this Notice for those shareholders who have requested it.

Shareholders should note that the sole purpose of tabling the financial statements of the Company at the Annual General Meeting is to provide the shareholders with the opportunity to ask questions or discuss matters arising therefrom at the meeting. It is not the purpose of the meeting that the financial statements be approved, rejected or modified in any way. Further as it is not required by the Corporations Act, no resolution to adopt, receive or consider the statements will be put to the meeting.

RESOLUTION 1: REMUNERATION REPORT

The Corporations Act 2001 requires that the Remuneration Report be submitted to shareholders for consideration and adoption by way of a non-binding resolution.

The Remuneration Report is set out on pages 18-21 of the Company's Annual Report.

Notwithstanding that the resolution is non-binding; the Board will take the outcome of the vote into consideration when reviewing the remuneration practices and policies of the Company.

Shareholders will have the opportunity at the meeting to raise questions in respect to the Remuneration Report.

RESOLUTION 2: RE-ELECTION DR.SCHEIRS AS A DIRECTOR OF THE COMPANY

In accordance with ASX Listing Rule 14.5 and Clause 5.3 of the Company's Constitution, at every Annual General Meeting, one-third of the directors (excluding the Managing Director) must retire from office and are eligible for re-election. The directors to retire are those who have been longest in office since their appointment or last re-appointment, or, if the directors have been in office for an equal length of time, by agreement.
Dr.Scheirs retires by rotation and being eligible for re-election, has consented to be re-elected and presents himself for re-election. He is 44 years of age and was appointed a director in March 2009.
The Directors of Cardia (other than Dr.Scheirs) recommend that shareholders vote in favour of the re-election of Dr.Scheirs.

Information about Dr Scheirs is contained in the 2010 Annual Report.

RESOLUTIONS 3 & 4: REMOVAL OF WHK HORWATH MELBOURNE AS AUDITOR AND APPOINTMENT OF WILLIAM BUCK

As a consequence of the receipt from a member of a Notice of Intention for the removal of the existing auditor and a nomination for a replacement auditor, the Directors have included Resolutions 3 & 4 on this Notice of Annual General Meeting.

i) Notice of Intention

Polarity B Pty Ltd, a substantial shareholder of the Company has served a Notice of Intention to include a Resolution in this Notice of Meeting to enable the members to consider and, if thought fit, to remove WHK Horwath as Auditor of the Company.

Pursuant to Section 329(2) of the Act, a copy of Notice of Intention has been lodged with ASIC and sent to WHK Horwath Melbourne – the current Auditor of the Company.

Resolution 3 on the Notice of Meeting is pursuant to the above request by Polarity B Pty Ltd for WHK Horwath Melbourne's removal

ii) Nomination for appointment of William Buck as auditor

Mr John Wilson, a member of the Company has nominated William Buck to be appointed as Auditor of the Company in lieu of WHK Horwath Melbourne and has requested that the Company include the appropriate Resolutions in the Notice of the 2010 Annual General Meeting of the Company. Resolution 4 is included on the Notice of Meeting in response to the nomination. As required by Section 328(3) of the Act, a copy of that Notice of Nomination is enclosed with this Notice of Meeting, and is being sent to the auditor of the Company and to each person entitled to receive notice of general meetings whether under the Act or the Company's Constitution.

iii) Audit Consent

William Buck are independent of the Company and its directors and major shareholders and have consented to act as Auditor in the event that the members of the Company pass the Resolution to remove WHK Horwath Melbourne.

iv) Directors' Recommendation

The Directors recommend the appointment of William Buck as auditor of the Company in place of WHK Horwath on the basis that the level of audit fees for the 2011 financial year will be significantly lower than those charged in 2010.

v) William Buck Qualifications

In support of the recommendation that William Buck be appointed as auditor, a brief summary of the Company and its international connections is set out below to enable the members to consider their suitability for such appointment.

William Buck is an independent firm offering total financial solutions ranging across audit, tax, business advisory and financial services.

William Buck is a member of the Praxity International Accounting Group, the 8th largest accounting group in the world.Praxity is strongly represented in North America, Europe and the Asia Pacific region including an affiliate office in Shanghai.

vi) Nature of the Resolutions

Resolution 3 for the removal of WHK Horwath Melbourne is an ordinary resolution.

Resolution 4 for the appointment of William Buck is a special resolution which must be passed by "a majority of not less than three-quarters of such members of the company as, being entitled so to do, vote in person or, where proxies are allowed, by proxy."

vii) ASIC's Power to Appoint Auditor

If Resolution 3 is passed removing WHK Horwath Melbourne as auditor but the Resolution for the appointment of William Buck is not passed by the statutory majority referred to above then under Section 327(11) of the Act the Company must give ASIC notice of the failure to appoint a new auditor and ASIC has the power to then appoint as auditor a person or persons, firm or firms, who or which consent to be so appointed.

RESOLUTION 5: ISSUE OF SHARES TO MR CHEN YI

Mr Yi is a director of the Company and its wholly owned subsidiary Cardia Bioplastics (Australia) Pty Ltd.

The shares are being issued to Mr Yi by way of salary sacrifice in satisfaction of his partly outstanding salary for 13 months period to March 2010 as per a Resolution of the Board.

Mr Yi currently hold 16,000,000 fully paid ordinary shares in the Company, (1.81% of the current shares on issue).The effect of the issue of the additional 2.5 million shares ,if approved, will increase the holding to 2.08% of the shares on issue.

In considering the resolution Members should note the following matters:

(a) The shares being issued as salary sacrifice to Mr Yi in lieu of his partly outstanding salary for 13 months period to March 2010.The Shares were agreed to be issued to him by resolution of the board at a time when the market price of the shares was $0.015 (1.5 cents).

(b) The shares are being issued by way of remuneration under Section 211 of the Corporations Act. The directors consider that the benefit to Mr Yi is reasonable as remuneration as a term of his engagement as a director by the Company and, as such, the placement of the shares to Mr Yi falls within the exception to the related party provisions of the Corporations Act by virtue of the provisions of Section 211 such that members' approval is not required under the provisions of Chapter 2E.

(c) the resolution to approve the issue of the Shares to Mr Yi is, however, being put to members for the sake of probity and to comply with the provisions of Listing Rule 10.11 of the Listing Rules of ASX. Under Listing Rule 10.11, the Company cannot place shares to a related party, including a director, without the approval of the members in general meeting, where the Notice of Meeting complies with the requirements of Listing Rule 10.13.

Pursuant to Listing Rule 10.13 the following information regarding Resolution 5 is provided to shareholders:

(i) Number of Securities allotted: a total of 2.5 million ordinary shares are to be allotted to Mr Yi or nominee

(ii) The price at which the shares are to be allotted is as set out in the resolution: namely an amount of $0.02 (2 cents) per share.

(iii) Terms of the Securities allotted: the securities to be allotted are ordinary shares which rank pari passu with all other ordinary shares on issue from the date of allotment.

(iv) Name of the allottee: the shares will be issued to Mr Yi or his nominee as set out in the resolution.

(v) Use of funds raised: no funds will be raised by the placement but the value of the consideration payable for the shares will reduce the Company's obligation to pay outstanding amount for Mr Yi's salary.

(vi) The date by which the entity will issue the shares will be 29th December 2010, which is not be more than 1 month after the date of the meeting;

(vii) the notice contains a voting exclusion statement immediately under the text of the resolution.

Related Party Requirements of Chapter 2E of the Corporations Act 2001

Notwithstanding that the issue of shares to Mr Yi falls within section 211 of the Corporations Act, the directors provide the following additional information which would otherwise have been required under Section 219 of the Act.

The only Director of the Company who has an interest in the outcome of resolution 5 is Mr Yi.

The nature of the financial benefits which may be obtained by Mr Yi as a related party of the Company is that he (or his nominee) will be issued the shares at an issue price which is presently below current market price.

The issue of the shares to Mr.Yi and his willingness to acquire same on the terms set out indicates Mr Yi's confidence in the future of the Company.

Director's recommendations

The Corporations Act requires in Section 219, inter alia, that, in relation to each director of the company it must be set out herein:

if the director wanted to make a recommendation to members about the proposed resolution—the recommendation and his or her reasons for it; or

(a) if not—why not; or

(b) if the director was not available to consider the proposed resolution—why not.

Accordingly the following information is provided.

Mr Yi abstains from making any recommendation because he is interested in the outcome of the resolution.

Each of the directors of the Company other than Mr Yi unanimously and strongly recommend to members that they vote in favour of the resolution because the terms of issue of the shares to on the terms proposed as salary sacrifice reduces the cash operating costs of the Company while at the same time the shares provide Mr Yi with a significant incentive to continue working with the Company.

OTHER MATTERS

The Directors are not aware of any other information that:

(a) is reasonably required by members in order to decide whether or not it is in the Company's interests to pass each of the proposed resolutions; and,

(b) is known to the Company or to any of its directors;

that has not previously been disclosed either direct to members or generally to the market in accordance with the Company's continuing disclosure obligations under the Listing Rules of ASX.

John Wilson
6 Moonda Grove,
Cheltenham,
VIC 3192

20th October 2010

M/s Rekha Bhambhani
Company Secretary
Cardia Bioplastics Limited
Suite 5.09, Level 5,
737 Burwood Road,
Hawthorn,
VIC 3122

NOMINATION OF AUDITOR

Dear Rekha,

I write as a member of Cardia Bioplastics Limited and hereby nominate William Buck to be appointed as Auditor of Cardia Bioplastics Limited at the Annual General Meeting to be held on 29th November 2010.

Yours faithfully,

John Wilson

CARDIA BIOPLASTICS LIMITED
(ACN 064 755 237)
PROXY FORM

The Company Secretary
Cardia Bioplastics Limited
Suite 5.09, Level 5
737 Burwood Road
Hawthorn Victoria 3122

I/We (name of shareholder)…………………………………………………………………………………………..

Of (address)……
Being member/members of Cardia Bioplastics Limited Hereby Appoint:

(Name)……

of (Address)……

and/or failing him (Name)…………………………………………………………………………………………..

of (Address)……
or failing that person then the Chairman of the Annual General Meeting as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at Ground Floor, Pacific Tower, 737 Burwood Road, Hawthorn, Victoria 3122 on Monday 29th November 2010 at 9.00am AEDST and at any adjournment of the meeting.

INSTRUCTIONS AS TO VOTING ON RESOLUTIONS
If no directions are given my proxy may vote as the proxy thinks fit or may abstain. Otherwise the Proxy is to vote for or against the resolutions referred to in the notice convening the General Meeting as follows:

	FOR	AGAINST	ABSTAIN
Resolution 1 – Adoption of Remuneration Report			
Resolution 2 - Re-election of Dr. Scheirs			
Resolution 3- Removal of Auditor			
Resolution 4- Appointment of New Auditor			
Resolution 5- Issue of Shares to Director- Mr. Chen Yi			

This Proxy is appointed to represent ________% of my voting right, or if 2 proxies are appointed Proxy 1 represents ________% and Proxy 2 represents _% of my total votes. My total voting right is __________ shares. If no direction is given above or if more than one box is marked, I/we authorise my/our proxy to vote or abstain as my/our proxy thinks fit in respect of the resolution to be considered by the meeting and any adjournment of the meeting.
Signature(s)

Date

Individual or Joint Shareholder 1	Joint Shareholder 2	Joint Shareholder 3
Director/Company Secretary	Director	Sole Director & Sole Company Secretary

NOTES: Voting and Instructions for Appointment of Proxy:

1. In accordance with the Corporations Act 2001, the Directors have determined that the shares of Cardia that are quoted on the Australian Securities Exchange as at 7.00 pm AEDST on 26th November 2010, will be taken, for the purposes of the Annual General Meeting, to be held by the persons who held them at that time. Accordingly, those persons will be entitled to attend and vote at the meeting.
2. A Member entitled to attend and vote at a Meeting is entitled to appoint not more than two proxies to attend and vote on his behalf. Where more than one proxy is appointed, such proxy must be allocated a proportion of the Member's voting rights.
3. If the Member does not specify the proportion of votes the proxy may exercise, then each proxy will be taken to exercise one half of the votes held and subject to the proxy with fractional entitlements to votes being disregarded.
4. A proxy duly appointed need not be a Member of the Company. In the case of joint holders all must sign.
5. To be effective, this proxy, duly executed, and any document necessary to show the validity of this proxy must be lodged at the Company's share registry office not less than 48 hours before the time appointed for the Meeting. Any proxy lodged after that time will be treated as invalid.
6. Directors and Officers of all corporate shareholders should note that unless the corporate shareholder either:
   (a) completes and lodges with the Company a valid appointment of proxy in accordance with the instructions in these notes; or
   (b) completes and either lodges with the Company prior to the meeting a form of appointment of or certificate of appointment of a personal representative in accordance with the provisions of Section 250D of the Corporations Law or causes such personal representative to attend the meeting with such form of appointment or certificate; or
   (c) has appointed an attorney.

   and such proxy, personal representative or attorney attends the relevant meeting, then such corporate shareholder will be unable to exercise any votes at the relevant meeting.
7. This proxy form may be returned to the Company's share registry in either of the following ways:
   (a) in person or by post to the Company's registered office at:
   Cardia Bioplastics Limited
   Suite 5.09, Level 5,
   737 Burwood Road,
   Hawthorn, VIC 3122

   (b) by facsimile to (03) 98132668
8. Corporate Members should comply with the execution requirements set out in these notes or otherwise comply with the provisions of Section 127 of the Act. Section 127 of the Act provides that a company may execute a document without using its common seal if the document is signed by:
   - 2 directors of the company; or
   - a director and a company secretary of the company; or
   - for a proprietary company that has a sole director who is also the sole company secretary – that director.

   For Cardia Bioplastics Limited to rely on the assumptions set out in Sections 129(5) and (6) of the Act, a document must appear to have been executed in accordance with Section 127(1) or (2).This effectively means that the status of the persons signing the document or witnessing the affixing of the seal must be set out and conform to the requirements of Section 127(1) or (2) as applicable.

   In particular a person who witnesses the affixing of a common seal and who is the sole director and sole company secretary of the company must state that next to his or her signature.
9. Completion of this proxy form will not prevent individual Members from attending the meetings in person if they wish.Where a Member completes and lodges a valid proxy form and attends the meeting in person then the proxy's authority to speak and vote for that Member is suspended while the Member is present at the meeting.
10. Where this proxy form is lodged and is executed under power of attorney the power of attorney must be lodged in like manner as a proxy.
11. Chairman's voting intentions:

    All members appointing proxies should note that the Chairman intends to exercise proxies in his favour, and which do not direct the proxy holder how to vote, in favour of all resolutions. **If you do not wish to direct your proxy how to vote please place a mark in the box.**

    ☐

    By marking this box, you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as proxy holder will be disregarded because of that interest.

    If you do not mark this box, and you have not directed your proxy how to vote, the Chairman will not cast your votes on the resolution and your votes will not be counted in calculating the required majority if a poll is called on the resolution.

CARDIA BIOPLASTICS LIMITED
AND ITS CONTROLLED ENTITIES

ACN 064 755 237

ANNUAL REPORT 2010

Directors:	Patrick John Volpe (Chairman) Frank Peter Glatz (Managing Director) John Scheirs Chen Yi
Company Secretary:	Rekha Bhambhani
Registered Office:	Suite 5.10, Level 5 737 Burwood Road HAWTHORN VICTORIA 3122 Telephone (03) 9813 3228 Facsimile (03) 9813 2668 Email: rekha@cardia.com.au
Share Registry:	Advanced Share Registry Limited 150 Stirling Highway, NEDLANDS W.A.-6009 Telephone: +61 8 9389 8033 Facsimile: +61 8 9389 7871
Bankers:	National Australia Bank 580 Church Street RICHMOND VIC 3121
Auditors:	WHK Horwath Melbourne Level 17, 181 William Street MELBOURNE, VIC 3000
Lawyers:	Mills Oakley Lawyers St James Building Level 4, 121 William St, MELBOURNE, VIC 3000.
Stock Exchange:	Australian Securities Exchange Level 5, Riverside Centre 123 Eagle Street BRISBANE QLD 4000

On behalf of the Directors of Cardia Bioplastics Limited ("Cardia") I am pleased to present the 30 June 2010 Annual Report and Financial Statements.

In July 2009 shareholders approved the Company name change to Cardia Bioplastics Limited and whilst Cardia maintained its five principal business units for the year, its main focused activity was in the bioplastics business through its 100% owned operating subsidiary Cardia Bioplastics (Australia) Pty Ltd.

It has been an eventful year with the Company achieving many milestones as it advanced its objectives and strategies of becoming a quality and reliable supplier of renewable and sustainable bioplastics technology and products that use less oil and have environmental benefits – essentially alternatives to conventional plastic packaging which I like to term "the new plastics".

Globally, the plastics packaging market is estimated to exceed $180b per annum and reports continued growth despite the global financial crisis. Only a small percentage of this market is represented by the bioplastics industry, however this sector is expected to grow substantially over the next five years.

Given the recent international uncertainties and instabilities, the Board was pleased with the growing number of Governments both locally and internationally, expressing and implementing legislation that mandates and/ or promotes the use of compostable packaging and plastics that use less oil.

Consumers are supporting these Government initiatives and international brand owners are responding by demanding greener alternatives to conventional plastic packaging, however with performance characteristics and pricing commensurate with that of traditional plastic products. This is where Cardia is positioned.

This global shift contributed to the increase in Cardia sales during 2010, a trend that has strengthened in the first quarter of the 2010 financial year. Cardia has entered into agreements in several countries and for a variety of applications demonstrating the broad range and flexibility of our technology and the global demand for it.

Through the acquisition of Biograde Limited in March 2009, Cardia has established a manufacturing infrastructure in China. Capacity was expanded when Cardia's manufacturing plant moved to larger facilities during the year. Shareholder funds were invested into the new plant and equipment that now enables Cardia to manufacture finished bioplastic products as well as patented resins.

The manufacture of Cardia bioplastic products is supported by a patent portfolio that has been expanded during the year with Cardia continuing research on the next generation of bioplastics. One of the most exciting of these projects under research and development is our CO2S project which is being conducted in conjunction with a subsidiary of China National Offshore Oil Corporation (CNOOC), one of China's largest petroleum companies. Cardia's CO2S (CO2 plus starch) provisional patent was lodged in 2010, and covers the next generation of innovative bioplastics that are derived from CO2 emissions blended with starch. Simply, we aim to take carbon emissions out of the atmosphere and with our intellectual property convert the CO2 and starch into bioplastics.

Whilst the Company reported a net loss of $5.5m on sales of $2.2m for the year, this figure included the write off of $1.1m of Cardia's loan to Aquenox,all product and customer development costs, and IP and patent expenditure incurred for the bioplastics business that were expensed to Profit and Loss. This reflects the Board's conservative financial policy.

Cardia's business model is weighted towards development agreements with major brand owners and international packaging corporations. Reflecting the growing importance of Cardia in the emerging bioplastics industry, numerous confidentiality agreements have been entered into and several Memorandums of Understanding established. The process from concept to market acceptance and launch can take up to two years or more and then must be successfully converted to supply and licence agreements.

The Company has developed both film and rigid products and is now being acknowledged by global companies as a quality and reliable provider of Bioplastics solutions and a provider of technology and finished products.

Cardia has established offices and research centers in several international locations with representation in China, United Kingdom, Europe and the USA along with Asian countries such as Malaysia and of course, in Australia.

The company has been successful in supplying either directly to the client or through trading houses or converters, and to brand names such as McDonalds, KFC, CIG gas, Penrith City Council trials, K-Mart trials, Brisbane City Council, Jusco, Seven Eleven and others.

The Board expects sales performance in the financial year to June 30, 2011 to exceed the June 2010 result. Based on contracts won in the September 2010 quarter and recent sales in China, USA and Australia of a range of products including nappies, feminine hygiene products, pens, bottles and caps and carrier bags. More details on these recent sales achievements are included in the Managing Director's Report that follows.

It is with pleasure that I remind our shareholders that since 2002 Biograde Limited, acquired by Cardia in 2009, have won many awards. Some of these achievements include the Aust-China Business excellence award and the Clean Equity award in Monte Carlo for commercialization. In 2008, Cardia won an exclusive supply contract for the Beijing Olympic Games which is recognized as a great achievement and endorsement of the credibility of our products and of the Company.

During the year to 30 June 2010, the Company raised $2.6m to fund its business and growth plans and in August 2010 announced a rights issue to raise up to an additional $3.7m if fully subscribed to. The issue was not underwritten. In view of the recent progress in the Company's development projects and its sales and marketing activities the Company is in need for additional working capital and the Directors resolved to provide eligible shareholders with the opportunity to invest under this rights issue entitlement.

In September 2009, Shareholders were also offered an entitlement in Cam Bow Limited which was thereby divested from Cardia. Cardia's only other material investment is an 18.5% interest in Bioglobal Limited. Small investments in P-Fuel Limited and Natural Pharmacy Pty Ltd complete the Company's asset portfolio but are not considered to be material in financial terms.

As the bioplastics business becomes the major focus of the Company, I am pleased to reflect back to the Board's stated objectives and strategies detailed to shareholders since 2002.These are the development, acquisition and incubation of early stage start-up and R & D businesses into Cardia until those businesses are suitably developed, and are able to be demerged into their own corporate structure and recapitalised through either an ASX listing or a rights entitlement into an unlisted public company with the objective of listing at a later stage.

As a result shareholders over this period, received entitlements to A-Cap Resources Limited and then Botswana Metals Limited, Dia-B Tech Limited, Aquenox Limited and Cam Bow Limited achieving the Board's stated objectives and strategy with those business.

In concluding: I will say that your Board has built up an international team of experts and thanks each staff member for their valuable contribution during a year where many advances have taken place that will impact on the Company's future.

Accepting the risks of any new technology, Cardia has achieved a global presence in the new and exciting bioplastics industry.

I look forward to some rewarding outcomes in the coming years as a result of the Company repositioning itself and focusing on development activities that have taken place since the merger of Cardia with Biograde in 2009. The anticipated growth in the bioplastics market over the next five years should impact positively on our Company.

As a result of shareholders funding support, valuable assets, operational, distribution, marketing and sales measures and systems are now in place to take advantage of and capitalize on, the expected growth opportunities in the bioplastics market.

I thank all shareholders and our new customers, partners and others who have had an impact on the business during the year.

Pat Volpe
Chairman

The 2009/10 financial year has been one of significant development and growth for Cardia Bioplastics. In a year of general global market uncertainty, Cardia made steady progress towards our company milestones. In order to better understand our activities and achievements, let me briefly provide you with an overview of the Bioplastics business.

Business Overview

Cardia Bioplastics Limited ("Cardia") develops, manufactures and markets sustainable resins and finished products derived from renewable resources for the global packaging and plastic products industries. Cardia's mission is to be the international leader in the supply of technically advanced sustainable resins and products made from renewable resources.

Established in 2002 as Biograde Limited, the company expanded rapidly to become Cardia Bioplastics, a global business with head quarters and Global Applications Development Centre in Melbourne, Australia. The Product Development Centre and manufacturing plant is in Nanjing, China. There are Cardia offices in the Americas, Europe, UK, China and Malaysia, and a network of leading distributors across the Americas, Europe and Asia. Cardia's key people are internationally recognised experts in high performance sustainable packaging.

Cardia's business model is underpinned by technology development. The business commits significant resources to its own and its co-operative packaging development with leading global packaging producers and users. Cardia has formed strategic relationships with these packaging leaders and is developing product and application technology specific for their packaging applications. Several of its packaging developments are already at in-market validation stage. In addition to initial sales, Cardia has generated significant packaging know-how and expanded its patent portfolio through these developments and through its own R&D activities. Cardia's expectation is that this development business will lead to long-term sales agreements for large resin business. Cardia's technology activities drive and expand the company's resin business where it sells and distributes Cardia resins for standard packaging applications. In addition to strengthening its resin business, in 2010 the company successfully set up Cardia Bioproducts, its own finished goods business. Cardia Bioproducts sells and distributes ready to use Biohybrid™ and compostable film and bag products.

The growth of Cardia's business is fuelled by the global trend towards sustainable packaging. The company holds a strong patent portfolio and a track record for creating innovative products based on its proprietary technology. During this financial year Cardia significantly expanded its product application range across the whole packaging spectrum. Cardia has developed materials that are suitable for film, injection moulding, blow moulding, foam, extrusion and coating applications.

Cardia's product range offers customers a choice of solutions. Cardia Bioplastics enables packaging options across a range of sustainable resin technologies. This means Cardia can offer each customer a choice of solutions for their packaging or plastics product applications. The business supplies:

Cardia Biohybrid™ Resins

These products are a blend of renewable thermoplastic materials and traditional plastics. Biohybrid™ resins allow manufacturers to embrace sustainable packaging early with existing equipment, and enable them to immediately increase the renewable content of their products by up to 50% and reduce their carbon footprint. This high performance range has a wide processing and application window and is colourable and printable. Cardia Bioplastics can tailor compounds to suit specific customer applications.

Cardia Compostable Resins

This range of biodegradable products meets international standards for compostability, including Europe's EN 13432, the USA's ASTM D 6400, Japan's GreenPla and Australia's AS 4736. These resins enable customers to offer certified compostable packaging and plastic products, with no additional investment in existing production equipment. Derived from renewable resources, the compostable resins are soft touch, colourable and printable. Cardia Bioplastics can develop compounds for specific customer needs and offer a base compostable resin range.

Cardia Bioproducts Finished Goods

As a service to customers, the Cardia Bioproducts team offers design, development and production of ready to use finished goods, such as film and bag products. This service is ideal for customers that are new to the sustainable products sector and want to trial new goods, or those wanting assistance to time their change to the production of goods made from sustainable resources. With the focus on individual customer needs, Cardia Bioproducts finished goods can be manufactured from either Biohybrid™ or compostable resins.

Business Update

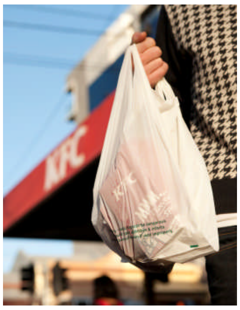
The 2009/10 financial year has seen significant progress for Cardia Bioplastics in sales, commercialization and technical development. Several product launches and technology developments were communicated to the market. This highlights the significant momentum of Cardia's business development and the range of applications in which Cardia materials are now being used.

Sales – increase by 61%

Sales revenues for 2009/10 were $2.2M. This represented a 61% increase in sales compared to 2008/9 on annualised basis.

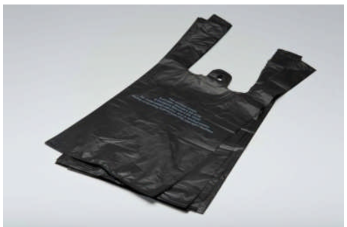
Market Launches

The following market launches were conducted in the 2009/10 financial year and up to the date of this Report.



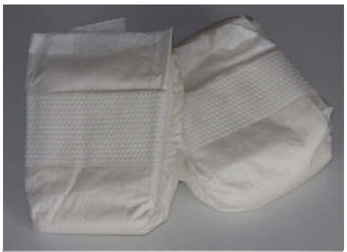
<u>KFC chooses Cardia Bioplastics compostable bags</u>

KFC (Kentucky Fried Chicken) chooses compostable bags manufactured by Cardia Bioplastics to replace plastic bags, which were banned by the South Australian Government in May 2009. The KFC press release is available on Cardia's website www.cardiabioplastics.com



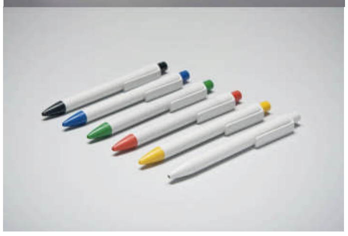
<u>Doggy bags to clean up Brisbane</u>

Millions of biodegradable bags will be distributed across Queensland parks in an environmentally friendly bid to clean up dog waste. The Brisbane Council press release is available on Cardia's website.



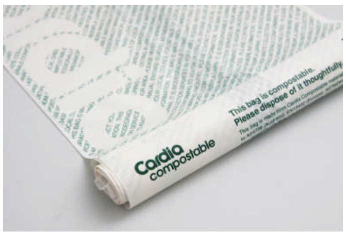
<u>Cardia compostable "bio-film" wins $1.5M p.a. global hygiene products contract</u>

Cardia will supply major Chinese manufacturer Ben's Land with a new compostable moisture barrier film for the manufacture of a range of baby diaper and feminine hygiene products, and their packaging. The Ben's Land press release is available on Cardia's website.



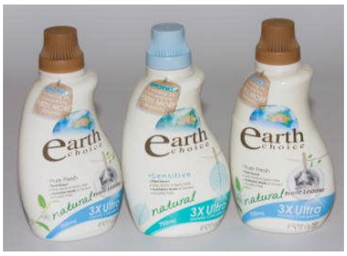
<u>Cardia pioneers pens made from sustainable resin</u>

Cardia is collaborating with the high profile Beifa Group in China to develop a new pen manufactured from both sustainable Cardia Biohybrid™ and Cardia compostable resin. The Beifa press release is available on Cardia's website.



<u>Cardia and SULO collaborate</u>

Cardia and SULO collaborate in household food waste recycling solutions. Cardia will provide SULO, Australia's leading supplier of waste containment products with certified compostable bags enabling SULO to offer fully integrated organic waste diversion services to local governments. The SULO press release is available on Cardia's website.



Natures Organics selects Cardia Biohybrid™ sustainable packaging technology

Leading Australian manufacturer of naturally based household and personal care products Natures Organics has selected Cardia Biohybrid™ sustainable packaging technology to be used across its "Earth choice" and "Purity" laundry care and "Organic Care" body care product packaging. The Natures Organics press release is available on Cardia's website.

Advances in Cardia Bioplastics Technology

The following advances in Cardia Bioplastics technology and supply relationships were communicated during the year:

Cardia Biohybrid multilayer films breakthrough for food contact market

Cardia Bioplastics announced a new range of Cardia Biohybrid™ based films that comply with the European Commission Directive 2002/72 EC for food contact. This development enables customers to move confidently into more sustainable packaging solutions and opens significant new market opportunities for Cardia Bioplastics, which extend from commodity packaging into the food packaging industry. The Multilayer Films press release is available on Cardia's website.

Packaging technology made from carbon dioxide and renewable resources

Cardia developed novel biodegradable plastics packaging technology made from carbon dioxide and renewable resources.The novel Cardia Bioplastics product technology

- combines plastic made from carbon dioxide (Polypropylene carbonate (PPC)) blended with starch to craft a new biodegradable plastic
- reduces petrochemicals in bioplastics by more than 60%
- contributes to global warming prevention by sequestering and utilizing the green house gas carbon dioxide

The PPC press release is available on Cardia's website.

BASF Supply Agreement

Cardia Bioplastics and BASF SE entered into an agreement for BASF to supply Cardia Bioplastics with the product Ecoflex® for the manufacture of the Cardia Compostable product range. By working together with BASF SE, Cardia Bioplastics will further enhance its product offering and application development capabilities. Cardia Compostable products made with Ecoflex® from BASF are quality and high performing products meeting international composting standards and certification schemes. The BASF Supply press release is available on Cardia's website.

Commercialisation

Resin business: in-market validation stage

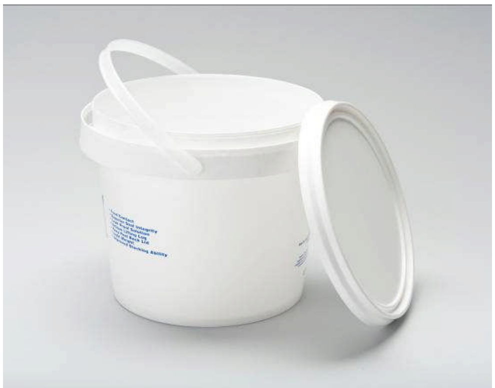
In addition to growing the company's base business, Cardia delivered solid progress in 2010 moving several of its projects with global packaging producers and users towards commercialisation. Initial sales have already been achieved, with several large packaging companies and brand owners currently at in-market validation stage. As these targeted business development activities move forward to market launch and ramp up stage, it is expected that they will drive Cardia's future business success and deliver significant resin supply contracts over the next 12 months.

In-market validation of new range of Biohybrid multilayer films

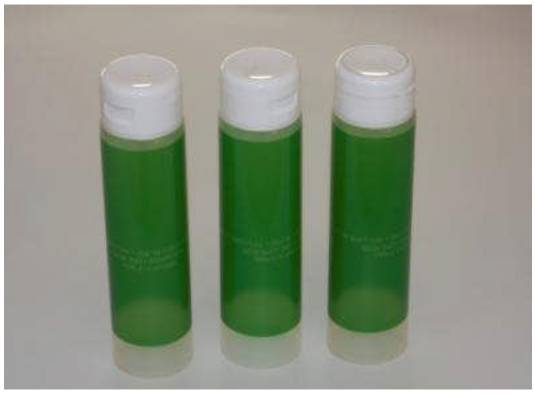
Together with a leading European packaging company Cardia conducted successful in-market validation of Cardia's new range of Biohybrid multilayer films that achieved compliance with the European Community Standard 2002/72 EC for food contact. These products are the first applications of Cardia's new film technology that provides multilayer films for the food industry with excellent clarity, and mechanical and processing properties. The multilayer films passed the very demanding cold supply chain performance requirements of large food companies. This achievement will provide Cardia with significant new market opportunities, extending from commodity packaging to high performance food packaging.

Production of rigid packaging products for in-market validation

A key achievement of 2010 was the successful production of rigid packaging products for in-market validation with leading global packaging users. The production run performed well and Cardia achieved production efficiencies at parity with commodity plastics. The products met stringent food contact requirements and efficiently replaced the current rigid packaging products in these customers' high speed packaging processes. Cardia Biohybrid™ products are now being tested by these large global packaging users in their applications in market. Photos of a thin wall injection moulded bucket and a thin wall extruded tube that are currently undergoing in-market validation stage made from Cardia Biohybrid™ resin are shown below.



Thin wall injection moulded bucket made from Cardia Biohybrid™



Thin wall extruded tubes made from Cardia Biohybrid™

Cardia Resin Manufacturing and Film Making

Increasing sales and business development of Cardia Biohybrid™ and compostable resins and finished Cardia Bioproducts for major international brands were the key drivers for the company to relocate and expand its manufacturing facility in Nanjing, China. The changeover of Cardia's production was successfully completed in early 2010. Cardia's strict production and quality processes at the plant have been recognized with ISO9001 Quality Certification. The relocation to the larger site has provided sufficient space to significantly increase manufacturing output. In addition to the relocation of the manufacturing equipment, Cardia Nanjing set up an expanded Product Development Center, and a film and bag production. The latter has already been used by the Bioproducts team to win new business and better service their global film and bag customers. The company's administration and sales team servicing the China market have also relocated to the new Nanjing facility enabling efficient integration of the China business. Photos of the new production facility and the in-house film and bag production are shown below.

Cardia's new production facility in Nanjing, China

Cardia's new film and bag production in Nanjing, Chin

Technical Development

<u>Novel Biohybrid™ products for advanced film and protective foam applications</u>

Cardia's technical resources support global customers with advanced product testing, application development and packaging design. During 2009/10 new Cardia Biohybrid™ concentrates for advanced film and protective foam applications were launched. Provisional patents were lodged for these innovative Biohybrid™ products tailored to the production of well homogenised and high performing packaging films and protective foams. These new developments expand Cardia's reach into the major flexible film and foam packaging markets.

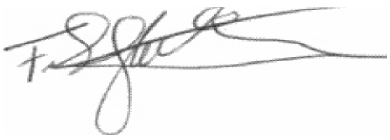
<u>Cardia Biohybrid™ Polyolefin blends achieved compliance with European food contact regulations</u>

In 2009/10 Cardia further expanded its food contact position. Cardia's new range of Biohybrid™ multilayer films achieved compliance with the European Community Standard 2002/72 EC for food contact. In addition, Cardia's new Biohybrid™ blends for advanced injection moulding applications also achieved compliance for direct food contact. This breakthrough provides Cardia with significant new market opportunities for its injection moulding product applications which extend from commodity packaging into the food packaging industry.

<u>Packaging technology made from carbon dioxide and renewable resources</u>

Cardia lodged provisional patents and announced its breakthrough on novel biodegradable plastics packaging technology made from carbon dioxide and renewable resources. The process combines a polymer (PPC) made from carbon dioxide and starch to produce a novel bioplastic. The innovative technology reduces petrochemicals in bioplastics by more than 60%. It enables global warming prevention by sequestering and utilizing the green house gas carbon dioxide. China National Offshore Oil Corporation (CNOOC) subsidiary, CNOOC Green Materials Co Ltd, has developed and is manufacturing the new PPC resin to Cardia Bioplastics's specification under a co-operation agreement. The tailored PPC is then used by Cardia Bioplastics in its proprietary starch blending technology.

As highlighted, Cardia Bioplastics has built significant momentum in its business development and expanded its product reach in 2009/10. This is evidenced by its sales growth, commercialization and technical development outcomes. The outlook for 2010/11 is solid. I look forward to keeping you updated on Cardia Bioplastics progress. In the interim, please consult our website www.cardiabioplastics.com for further information.



Frank Glatz
Managing Director

The Directors present their report on the consolidated entity consisting of Cardia Bioplastics Limited ("Cardia or the Company") and the entities it controlled ("the Group") at the end of, or during, the year ended 30 June 2010.

DIRECTORS

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

Patrick John Volpe (Chairman)

Frank Peter Glatz (Managing Director)

John Scheirs

Chen Yi

COMPANY SECRETARY

The Company Secretary is Rekha Bhambhani, B.Com, ACIS, CPA (Associate), ACA (ICAI) who was appointed to the position on 10th August 2010. Miss Rekha Bhambhani has been Chief Financial Officer of Cardia for last 4 years and has also worked as an assistant with the previous Company Secretary- Mr John Wilson on company secretarial matters. Prior to that, she has worked in accounting positions in India for more than 8 years.

The previous Company Secretary-Mr John Wilson resigned on 10th August 2010.

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the consolidated entity consisted of developing the company's five business units, namely:

- Environmental Technology;
- Biotechnology Medical
- Biotechnology Agricultural
- Natural Pharmaceuticals;
- Mineral Exploration.

In September 2009, Cam Bow Limited was deconsolidated from Cardia on the completion of a non –renounceable entitlement issue of shares in Cam Bow to Cardia shareholders on basis of 1 share for every 5 shares held in Cardia. .

OPERATING RESULTS

The consolidated loss for the year attributable to the members of the Company was:

	2010	**2009**
	$	**$**
Operating Profit/ (loss) after income tax	**(5,553,902)**	(3,761,209)*
Outside equity interests	**(3,580)**	(3,682)
Net Profit / (loss) attributable to members of the Company	**(5,557,482)**	(3,764,891)

* Includes $1,546,833 for impairment of goodwill on acquisition of Biograde Limited.

DIVIDENDS

The Directors do not recommend the payment of a dividend and no dividends have been paid or declared since the end of the last financial year.

REVIEW OF OPERATIONS

During the year to 30 June 2010, the Company continued to focus on its bioplastics business following the acquisition of the Biograde business last year. The Company's overall strategy of development, acquisition and incubation of early stage start-up and R & D businesses under its 5 business units model was however maintained.

Environmental Technology

Cardia Bioplastics (Australia) Pty Ltd

During the year, Cardia continued to focus on its Bioplastics business through its wholly owned subsidiary Cardia Bioplastics (Australia) Pty Ltd (formerly Biograde Limited) ("Cardia Australia"), acquired in March 2009.

Cardia Australia continued to provide customers with the choice of using sustainable Biohybrid resins or compostable resins. The Company's products are suitable for film, injection moulding, blow moulding, extrusion and coating applications. In addition to the flexible packaging applications which include flexible film for food and non -food applications, shrink wrap, protective packaging films, carrier bags, waste management bags and sacks, Cardia Australia also assists customers with the design , development and production of ready to use finished goods such as film and bag products.

During the year,Cardia Australia made significant progress with project and business development with global packaging producers and users of their sustainable and renewable packaging solutions and also achieved growth in sales of 61% compared to last year's annualised sales.

The company expanded its manufacturing facilities in Nanjing, China by relocating to a new larger site. The relocation to new premises provided sufficient space to double manufacturing output. The new premises were also equipped with in-house film and bag production facilities which had enabled the company to better service its global film and bag customers.

The Company's Chinese administration and sales team had also relocated to the new Nanjing facility. The production and quality processes at the new facilities had been recognized with ISO 9001 Quality Certification.

The Company's Global Application Centre in Melbourne Australia is in full operation providing global customers with advanced product testing, application development and packaging design. The Centre has also developed the Company's increased product range including the launch of the new biohybrid film concentrate during the year.

The Company achieved the following break throughs in technical, project and business development areas, during the year.

Biohybrid Films for Food Contact Markets

The Company launched its new range of Biohybrid films which complies with the European Commission Standard 2002/72 EC for food contact. This was the first application of Cardia's technology that provides multilayer film for the food industry. The new provisional patent had been lodged to protect this novel technology.

Certification for Compostable film resins

The Company strengthened its Compostable business by gaining third party certification to Australian Standard for Compostability of Packaging AS 4736 for its compostable film resin. The Certification Scheme is administered by the Australasian Bioplastics Association in co-ordination with the European DIN Certco Group.

Cardia's compostable materials already meet international standards for compostability including Europe's EN 13432,the USA's ASTM.D6400 and Japan's GreenPla.

Biogradeable Plastics made from Carbon Dioxide (CO2) and renewable resources

The Company developed a new process which combines plastics made from CO2 –carbon dioxide (PPC) with starch to craft new biogradeable plastics. This new process will enable the company to produce plastics with a smaller carbon footprint by sequestering and utilizing the green house gas CO2-carbon dioxide. A new provisional patent has been lodged to protect this novel process.

The Company entered into a non-binding Agreement, with CNOOC Green Materials Co Ltd (a company controlled by major Chinese oil company, China National Offshore Oil Corporation (CNOOC)) to develop and manufacture a new PPC resin to its specifications to be used to manufacture the biogradeable plastics using the abovementioned starch blending process.

Collaboration with Leading International Stationary Supplier- Beifa Group, to develop Hybrid Pen

The company collaborated with Beifa Group to develop a new pen crafted from hybrid resin. Final product development and in market trials were completed successfully with an annual supply agreement under negotiation.

Commercial Supply Orders

The Company received its first overseas resin orders from its Asian and European distributors during the year. In addition to its basic business resin sales to bag makers, the company was selected to supply KFC, its compostable bags following comprehensive in store trials completed in 2009 by KFC.

The Company was also awarded the contract to supply Brisbane City Council with biodegradable waste collection bags for use in "dog off leash parks" and other parks throughout the city.

For further operational events and update, please refer to the Managing Director's Report.

Aquenox Limited

Cardia and Aquenox had reached an agreement in May 2010 that Cardia would forgive all its amounts owing from Aquenox Limited under the Convertible Debt Deed of $ 5,161,864 and Secured Loan of $1,000,000 with accrued interest thereon of $224,050 for an agreed amount of $80,000 in full settlement. This amount is expected to be settled before 31 December 2010.

Mineral Exploration

During the year, Cardia's wholly owned subsidiary Cam Bow Limited, offered shares to Cardia Shareholders' through a non-renounceable entitlement issue on the basis of 1 ordinary share in Cam Bow for every 5 shares held in Cardia at 1.5cents each.

The Entitlement Issue was closed in September 2009 and Cam Bow raised $1.87 million before costs from the issue. On the completion of the issue, Cam Bow was deconsolidated from Cardia and had established itself as a fully focused exploration company.

Cam Bow Limited repaid its loans from Cardia of $601,352 in full from the proceeds of entitlement share issue.

Corpoarte

Change of Name

To better reflect the changing nature of the Company's activities following the acquisition of Biograde Limited, the Company changed its name from Cardia Technologies Limited to Cardia Bioplastics Limited. The name change occurred with the approval of shareholders' in General Meeting held on 7th July 2009.

Change of Auditors

At the Company's Annual General Meeting held on 30th November 2009 shareholders voted to remove Bentleys Melbourne Partnership as auditor of the Company and appoint WHK Horwath as the replacement auditor.

Investments

As at 30th June 2010, the Company held the following investments:-

Bioglobal Limited

18,780,000 ordinary shares in unlisted entity Bioglobal Ltd reduced from 27.3% to 18.44% of the issued capital of that Company following placement of 33,009,313 shares during the year.

P-Fuel Limited

During the year, Cardia invested $210,000 to acquire 7 million ordinary shares in the capital of P-Fuel Ltd ("P-Fuel") at an issue price of $0.03 per share. The shares were acquired as a result of an underwriting agreement entered into by Cardia in May 2009 in relation to an entitlements issue to all P-Fuel members.

The shares acquired represent a total of 5.8% of the issued capital of P-Fuel.

P- Fuel Ltd is an unlisted Australian public company that has the rights to market and distribute technology that converts waste plastic and waste oils into diesel, mixed oils and other hydrocarbons and for power generation.

The Investment in P-Fuel compliments Cardia's bioplastics business and this association will help Cardia to offer clients an end of life cycle solution to waste plastics and diversion from landfills.

Mr Pat Volpe, Dr.John Scheirs and Dr.Frank Glatz are Directors and Shareholders of P-Fuel Limited.

Dia-B Tech Limited

The Company continues to hold 156,877 ordinary shares in Pallane Medical Limited (previously Dia-B Tech Limited).

Natural Pharmacy Pty Ltd

990 shares in Natural Pharmacy Pty Ltd or 66% of the issued capital of that Company. Natural Pharmacy is entitled to a royalty of $14,662 during the year based on sales of $ 1,466,152.

Mine Remediation Services Pty Ltd

6,150,000 Shares in Mine Remediation Services Pty Ltd or 69.36% of the issued capital of that Company.

Securities Issued

To employees in lieu of services rendered

On 4th August 2009, 6,700,000 Ordinary Shares were issued to the employees of the Company in accordance with terms of their employment contracts. Of these 6,000,000 Ordinary shares were issued at 2.5 cents each and the balance 700,000 at 5 cents each. The issue of shares to the employees was approved by the Shareholders in the general meeting held on 7th July 2009.

Placement of Shares to professional and sophisticated investors

In March 2010, the Company placed 118,759,996 Ordinary Shares at 2.2 cents per share and 59,379,998 - 30 June 2011 Options exercisable at 10 cents to professional and sophisticated investors. The options were issued free on the basis of one option for every two shares applied for. The placement was made under the approval given by shareholders at a general meeting held on 30 December 2009.

The issue raised $2,612,720 before costs.

With the above issues, the total numbers of securities on issue as at 30 June 2010 are:

▪ Ordinary Fully paid Shares	741,596,587
▪ Options expiring 30 June 2011 (Exercise Price 10 cents each)	581,992,197

FINANCIAL POSITION

The net assets of the consolidated entity were $11,007,402 as at 30 June 2010 compared to $13,631,788 as at 30 June 2009, a decrease of $2,624,386.This decrease has resulted primarily from losses for the year of $5,553,902 partly funded by a capital raising of $2.61 million.

The Directors consider the group to be in a stable financial position and able to expand and grow its current operations.

EARNINGS (LOSS) PER SHARE

	2010	2009
	$	$
Basic Earnings (Loss) Per Share	**(0.0085)**	(0.0107)
Diluted Earnings (Loss) Per Share	**(0.0085)**	(0.0107)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**656,014,234**	352,710,645
Weighted average number of options used in the calculation of diluted earnings per share	**656,014,234**	352,710,645

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

Deconsolidation of Cam Bow Limited

As a result of of the non-renounceable entitlement issue by Cam Bow Limited to Cardia Shareholders in September 2009, Cam Bow was deconsolidated from Cardia.

Assets and liabilities of Cam Bow Limited on disposal date are disclosed in Note 20 to the Financial Statements.

Share and Option Issues

Shares and Options Issued during the year have been disclosed in "Securities Issued" under "Review of Operations".

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.

Company Secretary Appointment/Resignation

Mr John Wilson, Company Secretary retired on 10th August 2010 and Miss Rekha Bhambhani was appointed as Company Secretary with effect from 10th August 2010.

Proposed Sale of Bioglobal Limited Shares

The Company announced to the market on 18th August 2010 that it proposed to dispose of its' investment in Bioglobal Limited, either in part or in full. The Company has entered into an Option Deed with an interested party to acquire the shares. The Deed involved a series of short dated back –to-back options to acquire the shares.

Under the Deed, the first call option had to be exercised on 15th September 2010 or the Deed would automatically terminate.

The first call option was not exercised on 15th September 2010 therefore the Deed has been terminated.

Non Renounceable Rights Issue to Cardia Shareholders

On 19 August 2010 the Company announced a non-renounceable rights issue to Cardia shareholders on the basis of 1 ordinary share for every 3 shares in Cardia at 1.5cents per share.

247,198,862 ordinary shares were offered under the Rights Issue, of which 109,978,766 ordinary shares were subscribed for by Cardia shareholders by the closing date of issue (20th September 2010). The Directors will look to place the balance 137,220,096 shortfall shares within 2 months from the date of closure of the rights issue subject to the terms and conditions contained in the Offer Document.

The company raised approx $1.65 million from the Rights Issue.The Funds raised will provide additional working capital required for Cardia's Bioplastics business.

Heads of Agreement with Malaysian based company

On 28th September 2010, the Company announced that it had entered into a Heads of Agreement with Malaysian based company RNZ Green Bio to establish a new Malaysian entity, Cardia Bioplastics Malaysia Manufacturing ("CBMM").

FUTURE DEVELOPMENTS

Cardia will focus on its new bioplastics business whilst at the same time reviewing any new investment opportunities and exploring ways to dispose of all or part of its passive investments.

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 *B.Bus(Acc), P.G.(Tax), CPA*	Experience: Chairman for 11 years	Executive Director for 15 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:	52
	Special Responsibilities:	Corporate finance and investment, Acquisitions and mergers.
	Interest in Shares & Options:	120,333,334 Ordinary Shares 74,859,047 Options over Ordinary Shares
	Directorships held in other Listed Entities:	Botswana Metals Limited (appointed 19 Jan 2007) and was a Director of Dia-B Tech Ltd until 27th March 2006 and A-cap Resources Ltd until 12th Januray 2010.
Dr Frank Peter Glatz *Ph D, M.Sc, MBA*	Experience:	Appointed 1 May 2009 Background in the Fast Moving Consumer Goods-(FMCG) companies, plastic industry with particular emphasis on development of new technologies and packaging applications.
	Age:	46
	Special Responsibilities:	As Managing Director is responsible for the general management of the Company and for international marketing.
	Interest in Shares & Options:	12,962,334 Ordinary Shares 4,800,000 Options over Ordinary Shares
	Directorships held in other	Has not held a directorship in any other listed entity over the last 3 years
Dr John Scheirs *Ph D, Applied Chemistry*	Experience:	Appointed 16 March 2009 Specialist in plastic recycling and polymer degradation. Author of leading books "Polymer Recycling Science, Technology and Applications" and "Compositional and Failure Analysis of Polymers."
	Age:	44
	Special Responsibilities:	Technical Advisor
	Interest in Shares & Options:	6,592,224 Ordinary Shares 6,492,224 Options over Ordinary Shares
	Directorships held in Other Listed Entities:	Has not held a directorship in any other listed entity over the last 3 years

Chen Yi	Experience:	Appointed 1 May 2009 Background in Sales
	Age:	30
	Special Responsibilities:	The Chinese operations
	Interest in Shares & Options:	16,000,000 Ordinary Shares 16,000,000 Options over Ordinary Shares
	Directorships held in Other Listed Entities:	Has not held a directorship in any other listed entity over the last 3 years

DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors and the Audit and Compliance Committee held during the year ended 30 June 2010 and the number of meetings attended by each Director.

Director	Board Meetings		Audit & Compliance Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
P J Volpe	14	14	2	2
F P Glatz	14	14	-	-
J Scheirs	14	14	-	-
Chen Yi	14	14	-	-
J H Wilson (Company Secretary)	-	-	2	2

REMUNERATION REPORT

Remuneration Policy

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 and particular experience of the individual concerned.
- All key management personnel receive a base salary and superannuation. Fringe Benefits and performance incentives are negotiated with the employees depending upon their duties and responsibilities and their area of expertise.
- Performance Incentives are generally paid once predetermined key performance indicators have been met.
- Incentives are paid in the form of a bonus as a percentage of base salary.

Key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.

Upon retirement, key management personnel are paid employee benefit entitlements accrued to the date of retirement. Termination payments are generally not payable on resignation or dismissal for serious misconduct

Terms of employment require that the relevant group entity provide the contracted person with a minimum of three months notice prior to termination of the contract. Similarly a contracted person has to provide at least three months notice prior to the termination of their contract. In the instance of serious misconduct the Company can terminate employment at any time.

All remuneration paid to key management personnel is valued at the cost to the company and expensed.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board collectively determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, and duties and accountability. Independent external advice is sought when required. The maximum amount of fees that can be paid to non executive directors is approved by shareholders.

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.

Performance-based Remuneration

The Group seeks to emphasise reward incentives for results and continued commitment to the Group through the provision of incentive payments based on the achievement of revenue targets.

No bonuses were paid in the year to 30 June 2010.

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

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. To achieve this aim, performance based bonus incentive based on key performance indicators have been introduced.

The Company has a Employee Share and Option Scheme however no shares and options have been issued to any employee or director of the consolidated group under the Scheme during the year.

With the focus of the company's business activities being to expand the Bioplastics business, the Company believes that this policy is effective.

Employment details of members of key management personnel and other executives:

Group Key Management Personnel	Position held as at 30 June 2010 and any change during the year	Contract Details (Duration & Termination)	Proportions of elements of remuneration related to performance	Proportions of elements of remuneration not related to performance
Patrick Volpe	Chairman	No Fixed Term	-	100%
Frank Glatz	Managing Director	24 months contract from 24th April 2009	20%	80%
John Scheirs	Non Executive Director	No Fixed Term	-	100%
Chen Yi	Non Executive Director & General Manager-China Operations	36 months contract from 6th March 2009	-	100%
John Wilson	Company Secretary	No Fixed Term Resigned 10th August 2010	-	100%
A Fernando	Chief Operating Officer	24 months contract from 23rd February 2009	7%	93%
Chen Chan Ping	Technical Director ,China Operations	36 months contract from 6th March 2009	-	100%
R Bhambhani	Group Financial Accountant & Company Secretary	No Fixed Term Appointed Company Secretary - 10th August 2010	-	100%
Philip Lee	Chief Financial Officer	No Fixed Term Resigned 29 June 2010	-	100%

Terms of employment require that the relevant group entity provide the contracted person with a minimum of three months notice prior to termination of contract. Similarly a contracted person has to provide at least three months notice prior to the termination of their contract. In the instance of serious misconduct the Company can terminate employment at any time.

Changes in Directors and Executives subsequent to year-end

On 5th July 2010, Mr. Graeme Ward was appointed as General Manager of Cardia Bioplastics (Australia) Pty Ltd.

Mr .Philip Lee, Chief Financial Officer resigned on 29th June 2010.

Mr John Wilson resigned as a company secretary on 10th August 2010.

Miss Rekha Bhambhani was appointed as a company secretary on 10th August 2010.

Remuneration Details for the year ended 30 June 2010

The following table of benefits and payment details, together with the components of remuneration for each member of the key management personnel of the consolidated group for the financial year.

2010

Name	Short term Benefits		Post Employment	Equity-settled share-based payments	Termination Benefits	Total
	Salary and Fees	Non-monetary benefits	Superannuation	Shares		
	$	**$**	**$**	**$**	**$**	**$**
P J Volpe	310,000	-	27,900	-	-	337,900
F P Glatz	168,318	24,361	17,623	150,000	-	360,302
J Scheirs	50,000	-	4,500	-	-	54,500
Chen Yi	94,752	-	7,720	-	-	102,472
J Wilson	5,352	-	482	-	-	5,834
A Fernando	100,917	14,964	9,083	15,000	-	139,964
R Bhambhani	51,369	-	4,177	-	-	55,546
Chen Chan Ping	68,910	-	7,720	-	-	76,630
Philip Lee	55,592	-	9,908	-	-	65,500
B Van Den Hoek	-	-	-	-	63,750	63,750
	905,210	**39,325**	**89,113**	**165,000**	**63,750**	**1,262,398**

2009

Name	Short term Benefits		Post Employment	Equity-settled share-based payments	Total
	Salary and Fees	Non-monetary benefits	Superannuation	Shares	
	$	**$**	**$**	**$**	**$**
P J Volpe	310,000	-	27,900	-	337,900
F P Glatz	64,372	7,737	5,505	(i)	77,614
J Scheirs	16,667	-	1,500	-	18,167
Chen Yi	17,363	-	-	-	17,363
R G Armstrong	30,000	-	-	-	30,000
P Pena	30,000	-	2,700	-	32,700
J Wilson	66,147	-	3,853	-	70,000
B Van Den Hoek	75,893	4,998	5,250	-	86,141
A Fernando	34,575	3,750	3,217	(ii)	41,542
R Bhambhani	80,000	-	7,200	-	87,200
Chen Chan Ping	23,000	-	-	-	23,000
Philip Lee	9,908	-	892	-	10,800
	757,925	**16,485**	**58,017**	**-**	**832,427**

Remuneration for Biograde Employees has been included since the acquisition of Biograde Limited i.e. 6th March 2009 to 30th June 2009.

(i) In accordance with the terms of employment contract of Dr Glatz, his salary for the 12 months period ending April 2010 included a salary component of $100,000 to be paid by the issue of Shares and 2 million shares as a sign-on fee. Accordingly, 4 million shares were issued to Dr Glatz at an issue price of $0.025 per share and 2 million shares were also issued to him at an issue price of $0.025 per share as a sign-on fee for 2 years from April 2009 with no trading restrictions or penalties should Dr Glatz terminate his employment during this period.

(ii) The Employment Contract of Mr Alex Fernando included a salary component of $15,000 to be paid in the form of 300,000 shares at an issue price of $0.05 per share.

The above shares were issued on 4th August 2009 after receiving shareholders' approval in general meeting on 7th July 2009.These payments are expensed in the financial year ending 30th June 2010.

No options over unissued ordinary shares of the Company were granted to Directors during the financial year as part of their remuneration packages.

Performance Income as a Proportion of Total Remuneration

No performance based remuneration was paid during the year.

Options Issued as part of remuneration for the year ended 30 June 2010.

No options were issued during the year as part of remuneration. For Options held by Directors please refer Note 5- Key Management Personnel.

OPTIONS

The Company has listed options trading under ASX Code CNNO. These options are exercisable at 10 cents at any time up to 30 June 2011.

At the date of this Report there were 581,992,197 unissued ordinary shares of the Company under option.

INDEMNIFICATION AND INSURANCE OF DIRECTORS & 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 paid an annual premium to insure the Directors' and Officers against liabilities incurred in their respective capacities. Under the policy, details of the premium are confidential.

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

During the year 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 30 June 2010 has been received and can be found on page 22.

This report of the Directors incorporating the Remuneration Report is signed in accordance with a Resolution of the Board of Directors.

P. Volpe

Pat Volpe
Director
Dated this 30th day of September 2010

Hawthorn, Victoria

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WHK Horwath Pty Ltd
ABN 41 099 415 845

Member Crowe Horwath International

Auditor's Independence Declaration Under S 307C of the Corporations Act 2001 to the Directors of Cardia Bioplastics Limited and Controlled Entities

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2010, there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

WHK HORWATH MELBOURNE

Peter Sexton
30 September 2010

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better advice for a better life

This statement reflects Cardia Bioplastics Limited's corporate governance policies and practices as at 30 June 2010 and which were in place throughout the year.

The Board's philosophy is to adopt practices that are consistent with the best practice recommendations of the ASX Corporate Governance Council and in the best interests of the Company. The governance practices are reviewed regularly.

A description of the Company's main corporate governance practices is set out below.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

The Board has delegated the responsibility for management of the Company to the Managing Director and senior management who implement the Board's strategies and compliance activities. The Board constantly monitors the performance of the Managing Director and senior management in their undertaking of these duties.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

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. It consists of 4 members, one of whom is non-executive director.

The Constitution requires a minimum number of three Directors .The maximum number of Directors is fixed by the Board but may not be more than 10, unless the members of the Company, in general meeting, resolve otherwise. The names of the Directors, and their qualifications and experience are stated on Page 16 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 Board considers, however that given the size and scope of the Company's operations at present, it has the relevant experience in the industry and is appropriately structured to discharge its duties in a manner that is in the best interests of the Company and its Shareholders from a both a long-term strategic and an operational perspective. The number of independent Directors on the Board is likely to 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 a material personal interest in a matter, in accordance with the *Corporations Act 2001,* the Director will not be permitted to be present during discussion of the matter or to vote on it. The enforcement of this requirement aims to ensure that the interest of shareholders, as a whole, is pursued and that neither their interest nor the Director's independence is 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.

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.

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. The Company has not established a formal process to evaluating the performance of the Board, its committees and individual directors, however the performance of the Board, the directors, officers and employees is monitored on a regular basis by the Board, with appropriate feedback and necessary training given to those parties.

Directors collectively or individually have the right to seek independent professional advice at the Company's expense, subject to the prior approval of the Chairman; to assist them to carry out their responsibilities. All advice obtained is made available to the Full Board.

PRINCIPLE 3: PROMOTE 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 by the Board that all officers of the Company will act ethically and in the best interests of the Company.

The Company has a Securities 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.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Executive Chairman and Company Secretary have 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 Company is small with a team of 4 officers, it has not established a series of committees to address specific areas of corporate governance such as risk management, strategic review, operations and remuneration but has established an Audit and Compliance Committee.

The members of the Committee at the date of this report are Patrick Volpe (Chairman) and John Wilson (Company Secretary). The Audit and Compliance Committee was established by the Board to give additional assurance regarding the quality and reliability of financial information used by the Board and financial information provided by the Company pursuant to its statutory reporting requirements. The members of the Committee meet formally twice a year and on an adhoc basis as required.

The Board selected the members of the Audit and Compliance Committee on the basis that they are considered to have the most expertise in the area and are therefore not necessarily independent or non-executive directors.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the Australian Securities Exchange ("ASX ") as well as communicating with the ASX. In accordance with the ASX's 'Listing Rules' the Company immediately notifies the ASX of information concerning the Company:

1. That a reasonable person would or may expect to have a material effect on the price or value of the Company's securities; and
2. That would, or would be likely to influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

Due to the size of the Company, it achieves compliance with ASX 'Listing Rules' disclosure requirements without the need for formal policies and procedures, however there are specific processes followed by the Board and officers with regard to ensuring the Company complies with its disclosure requirements.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Due to the size of the Company, it does not have a formal policy regarding the promotion of effective communications with shareholders and encouraging their participation at general meetings.

The Company respects the rights of its Shareholders, and to facilitate the effective exercise of these rights, the Company is committed to:

1. Communicating effectively with shareholders through ongoing releases to the market via the ASX and the Company's website, and the general meetings of the Company;
2. Giving shareholders ready access to balanced and understandable information about the Company and Corporate Proposals;

3. Making it easy for shareholders to participate in general meetings of the Company; and providing appropriate notice periods and disclosure for general meetings;
4. Requesting the External Auditor to attend the Annual General Meeting and be available to answer shareholder's questions about the conduct of the audit, and the preparation and content of the Auditor's Report.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The Company has not established formal policies for the oversight and management of material business risks. Due to the size of the Company and the size of the Board, the Board monitors 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.

The Board has delegated the responsibility of designing risk management and internal control systems to the Managing Director and senior management who manage the Company's material business risks and report to the Board on the effectiveness of those systems.

As the Board has responsibility for the monitoring of risk management it has not required a formal report regarding the material risks and whether those risks are managed effectively however the Board believes that the Company is currently effectively communicating its significant and material risks to the Board and its affairs are not of sufficient complexity to justify the implementation of a more formal system for identifying ,assessing monitoring and managing risk in the Company.

The Board requires that the Managing Director and the Company Secretary provide a written statement that the financial statements of the Company present a true and fair view, in all material aspects, of the financial position and operational results and have been prepared in accordance with Australian Accounting Standards and the Corporations Act. The Board also requires that the Managing Director and Company Secretary provide sufficient assurance that the declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material aspects in relation to financial reporting risks and discloses accordingly.

The declarations have been received by the Board, in accordance with the recommendation of the Corporate Governance Council.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Due to the size of the Company, it has not established a Remuneration Committee and it currently uses independent external consultants to determine the level and components of remuneration for the directors. The Company has four employees. The remuneration paid to executive directors and senior executives is distinguished from that paid to non-executive directors.

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 19-21 in the Director's Report.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Notes	Economic Entity 2010 $	Economic Entity 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Continuing Operations					
Sales	2	**2,205,817**	456,875	**-**	-
Cost of Sales		**(2,117,905)**	(531,213)	**-**	-
Gross Profit		**87,912**	(74,338)	**-**	-
Other Income	2	**298,396**	353,615	**114,102**	339,145
Administrative Expenses		**(422,192)**	(396,608)	**(215,237)**	(205,702)
Employment Benefits		**(1,789,546)**	(1,074,425)	**(816,972)**	(625,924)
Travel, Marketing & Distribution Expenses		**(591,680)**	(264,165)	**(69,823)**	(101,085)
Research & Development Expenses & Patent Costs		**(958,522)**	(60,236)	**-**	-
Depreciation & Amortisation		**(198,967)**	(78,644)	**(3,642)**	(3,825)
Provision for impairment of receivables		**-**	-	**(2,997,150)**	(1,653,654)
Write Off of Financial Assets		**(1,144,050)**	(1,100)	**(1,145,150)**	-
Provision for Impairment in Financial Assets		**-**	(195,771)	**-**	(195,771)
Amounts written Off as Bad Debts		**(60,329)**	-	**(60,329)**	-
Provision for Impairment in Goodwill		**-**	(1,546,833)	**-**	-
Net Finance Costs		**(46,682)**	(51,979)	**33,665**	(13,198)
Other Expenses		**(460,432)**	(207,941)	**(210,497)**	(61,105)
Results from operating activities		**(5,286,092)**	(3,598,425)	**(5,371,033)**	(2,521,119)
Share of net profit/(loss) of Associates (net of income tax)		**(354,171)**	(162,784)	**-**	-
Loss before income tax	3	**(5,640,263)**	(3,761,209)	**(5,371,033)**	(2,521,119)
Income Tax Expense		**-**	-	**-**	-
Loss from continuing operations		**(5,640,263)**	(3,761,209)	**(5,371,033)**	(2,521,119)
Gain on deconsolidation of subsidiary	20 b	**86,361**	-	**-**	-
Loss for the period after tax		**(5,553,902)**	(3,761,209)	**(5,371,033)**	(2,521,119)
Other comprehensive income					
Foreign currency translation differences for foreign operations		**(174,665)**	(273,730)	**-**	-
Net change in fair value of available for sale financial assets		**-**	101,645	**-**	101,645
Gain on dilution of shareholdings in associate		**334,478**	636,468	**-**	-
Foreign currency exchange movements to Capital Reserve		**(768)**	(3,787)	**-**	-
Income tax on other comprehensive income		**-**	-	**-**	-
Total comprehensive income for the period		**(5,394,857)**	(3,300,613)	**(5,371,033)**	(2,419,474)
(Loss)/Profit from continuing operations attributable to:					
Members of the Company		**(5,643,843)**	(3,764,891)	**(5,371,033)**	(2,419,474)
Non Controlling Interest		**3,580**	3,682	**-**	-
Loss from continuing operations		**(5,640,263)**	(3,761,209)	**(5,371,033)**	(2,419,474)
(Loss)/Profit attributable to :					
Members of the Company		**(5,557,482)**	(3,764,891)	**(5,371,033)**	(2,419,474)
Non Controlling Interest		**3,580**	3,682	**-**	-
Loss for the period after tax		**(5,553,902)**	(3,761,209)	**(5,371,033)**	(2,419,474)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010 (CONTINUED)

Total comprehensive income attributable to :					
Members of the Company		**(5,398,437)**	(3,304,295)	**(5,371,033)**	(2,521,119)
Non Controlling Interest		**3,580**	3,682	**-**	-
Total comprehensive income for the period		**(5,394,857)**	(3,300,613)	**(5,371,033)**	(2,521,119)
Earnings per share					
From continuing and discontinued operations					
-Basic earnings per share (cents per share)	**7(a)**	**(0.0085)**	(0.0107)		
-Diluted earnings per share (cents per share)	**7(a)**	**(0.0085)**	(0.0107)		
From continuing operations					
-Basic earnings per share (cents per share)	**7(b)**	**(0.0085)**	(0.0107)		
-Diluted earnings per share (cents per share)	**7(b)**	**(0.0085)**	(0.0107)		
From discontinuing operations					
-Basic earnings per share (cents per share)	**7(c)**	**(0.0001)**	-		
-Diluted earnings per share (cents per share)	**7(c)**	**(0.0001)**	-		

The accompanying notes form part of these financial Statements.

BALANCE SHEET AT 30 JUNE 2010

	Notes	ECONOMIC ENTITY 2010 $	ECONOMIC ENTITY 2009 $	PARENT ENTITY 2010 $	PARENT ENTITY 2009 $
Current Assets					
Cash and cash equivalents	8	**1,718,012**	3,820,677	**1,264,935**	2,651,849
Trade and other receivables	9	**627,759**	368,910	**53,865**	36,415
Inventories	10	**595,696**	536,228	**-**	-
Financial Assets	12	**80,000**	-	**80,000**	-
Total Current Assets		**3,021,467**	4,725,815	**1,398,800**	2,688,264
Non-Current Assets					
Trade and other receivables	9	**-**	-	**2,321,679**	2,961,815
Investments accounted for using the equity method	11	**916,147**	935,840	**179,264**	179,264
Financial Assets	12	**210,000**	1,145,473	**7,928,954**	8,865,529
Plant and Equipment	13	**926,166**	665,173	**7,255**	10,535
Intangible Assets	14	**6,776,704**	6,902,749	**-**	-
Other non current Assets	15	**-**	473,681	**-**	-
Total Non-Current Assets		**8,829,017**	10,122,916	**10,437,152**	12,017,143
Total Assets		**11,850,484**	14,848,731	**11,835,952**	14,705,407
Current Liabilities					
Trade and other payables	16	**717,710**	1,101,990	**110,829**	416,944
Short term provisions	17	**125,372**	114,953	**101,281**	64,059
Total Current Liabilities		**843,082**	1,216,943	**212,110**	481,003
Total Liabilities		**843,082**	1,216,943	**212,110**	481,003
Net Assets		**11,007,402**	13,631,788	**11,623,842**	14,224,404
Equity					
Issued Capital	18	**33,749,092**	30,978,621	**33,749,092**	30,978,621
Reserves	19	**1,979,685**	1,820,640	**1,461,689**	1,461,689
Accumulated Losses		**(24,777,172)**	(19,219,690)	**(23,586,939)**	(18,215,906)
Parent Entity Interest		**10,951,605**	13,579,571	**11,623,842**	14,224,404
Minority Equity Interest		**55,797**	52,217	**-**	-
Total Equity		**11,007,402**	13,631,788	**11,623,842**	14,224,404

The accompanying notes form part of these financial Statements.

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

Economic Entity

	Issued Share Capital	Accumulated Losses	Option Issue Reserve	Foreign Currency Translation Reserve	Revaluation Reserve	Dilution Gain Reserve	Capital Reserve	Non Controlling Interests	Total Equity
	$	$	$	$	$	$	$	$	$
Balance at *1.7.2008*	22,427,510	(15,454,799)	-	-	(101,645)	-	-	48,535	6,919,601
Shares/Options issued during the period	8,659,111	-	-	-	-	-	-	-	8,659,111
Cost of Capital	(108,000)	-	(62,892)	-	-	-	-	-	(170,892)
Options Expired	-	-	1,524,581	-	-	-	-	-	1,524,581
Loss attributable to members of the parent entity	-	(3,764,891)	-	-	-	-	-	-	(3,764,891)
Loss attributable to non controlling interests	-	-	-	-	-	-	-	3,682	3,682
Total other comprehensive income for the year	-	-	-	(273,730)	101,645	636,468	(3,787)	-	460,596
Balance at *30.06.2009*	30,978,621	(19,219,690)	1,461,689	(273,730)	-	636,468	(3,787)	52,217	13,631,788
Balance at *1.7.2009*	30,978,621	(19,219,690)	1,461,689	(273,730)	-	636,468	(3,787)	52,217	13,631,788
Shares/Options issued during the period	2,797,720	-	-	-	-	-	-	-	2,797,720
Cost of Capital	(27,249)	-	-	-	-	-	-	-	(27,249)
Loss attributable to members of the parent entity	-	(5,557,482)	-	-	-	-	-	-	(5,557,482)
Loss attributable to non controlling interests	-	-	-	-	-			3,580	3,580
Total other comprehensive income for the year	-	-	-	(174,665)	-	334,478	(768)	-	159,045
Balance at *30.06.2010*	**33,749,092**	**(24,777,172)**	**1,461,689**	**(448,395)**	**-**	**970,946**	**(4,555)**	**55,797**	**11,007,402**

The accompanying notes form part of these financial Statements.

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

	Issued Share Capital	Accumulated Losses	Option Issue Reserve	Revaluation Reserve	Total Equity
	$	$	$	$	$
Balance at 01.07.2008	**22,427,510**	**(15,694,787)**	**-**	**(101,645)**	**6,631,078**
Shares/Options issued during the period	8,659,111	-	-	-	8,659,111
Cost of Capital Raising	(108,000)	-	(62,892)	-	(170,892)
Option Reserve on expiry of Options issued	-	-	1,524,581	-	1,524,581
Loss attributable to members of Parent Entity	-	(2,521,119)	-	-	(2,521,119)
Total other comprehensive income for the year	-	-	-	101,645	101,645
Balance at 30.06.2009	**30,978,621**	**(18,215,906)**	**1,461,689**	**-**	**14,224,404**
Balance at 01.07.2009	**30,978,621**	**(18,215,906)**	**1,461,689**	**-**	**14,224,404**
Shares/Options issued during the period	2,797,720	-	-	-	2,797,720
Cost of Capital	(27,249)	-	-	-	(27,249)
Loss attributable to members of Parent Entity	-	(5,371,033)	-	-	(5,371,033)
Balance at 30.06.2010	**33,749,092**	**(23,586,939)**	**1,461,689**	**-**	**11,623,842**

The accompanying notes form part of these financial Statements.

CASH FLOW STATEMENT

For the year ended 30 June 2010	Notes	ECONOMIC ENTITY 2010 $	ECONOMIC ENTITY 2009 $	PARENT ENTITY 2010 $	PARENT ENTITY 2009 $
Cash Flows from Operating Activities					
Receipts from customers (inclusive of goods and services tax)		**2,000,823**	456,875	**-**	-
Payments to suppliers and employees (inclusive of goods and services tax)		**(5,791,277)**	(3,392,546)	**(1,168,936)**	(950,974)
Interest received		**25,025**	223,946	**23,784**	222,910
Brokerage Received		**10,500**	-	**10,500**	-
Export Marketing Development Grant received		**91,213**	-	**-**	-
Net Cash Outflow from Operating Activities	24	**(3,663,716)**	(2,711,725)	**(1,134,652)**	(728,064)
Cash Flows from Investing Activities					
Purchase of plant and equipment		**(416,346)**	(119,600)	**(362)**	-
Loans to related parties		**-**	-	**(2,939,590)**	(4,296,619)
Exploration expenditure	15	**(289,133)**	(155,712)	**(289,133)**	-
Acquisition of Financial Assets		**(210,000)**	-	**(210,000)**	-
Disposal of cash on deconsolidation of subsidiary	20(b)	**(703,935)**	-	**-**	-
Cash on acquisition of subsidiary		**-**	585,541	**-**	(1,100)
Cost of business purchase		**-**	(179,985)	**-**	(179,985)
Net Cash Inflow/(Outflow) from Investing Activities		**(1,619,414)**	130,244	**(3,439,085)**	(4,477,704)
Cash Flows from Financing Activities					
Repayment of borrowings		**-**	(1,418,891)	**-**	
Loan repaid by other parties		**601,352**		**601,352**	
Proceeds from issues of ordinary shares and options		**2,612,720**	2,644,723	**2,612,720**	2,644,723
Payment of share and options issue costs		**(27,249)**	(170,892)	**(27,249)**	(170,892)
Net Cash Inflow from Financing Activities		**3,186,823**	1,054,940	**3,186,823**	2,473,831
Net Decrease in Cash Held		**(2,096,307)**	(1,526,541)	**(1,386,914)**	(2,731,937)
Cash at the Beginning of the Financial Year		**3,820,677**	5,442,550	**2,651,849**	5,383,786
Effect of exchange rates on cash holding in foreign currencies		**(6,358)**	(95,332)	**-**	-
Cash at the End of the Financial Year	8	**1,718,012**	3,820,677	**1,264,935**	2,651,849
Non-Cash Financing and Investing Activities		**185,000**	7,538,969	**150,000**	-

The accompanying notes form part of these financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

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

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

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

Cardia Bioplastics Limited is a listed public company, incorporated and domiciled in Australia.

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.

Reporting Basis and Conventions

The accounting policies set out below have been consistently applied to all the years presented.

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.

Going Concern Assumption
The economic entity's revenue from sales has increased significantly but is not yet sufficient to cover operational costs of the business. As a result, the company experienced operating losses during the year ended 30 June 2010. The Company's continuing viability, its ability to continue as a going concern and to meet its debts and commitments as they fall due, are subject to the company being successful in:

- increasing revenue and gross margins from its current operational activities,
- reducing its operating costs, and
- accessing additional capital through the placement of shortfall shares not taken up by eligible shareholders under recent non-renounceable rights issue . The Company has raised $1.65m from the rights issue.

a. Principles of Consolidation
A controlled entity is any entity controlled by Cardia Bioplastics Limited whereby Cardia Bioplastics Limited has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities. Control will generally exist when the parent entity owns directly or indirectly through subsidiaries more than half of the voting of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered. 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. A list of controlled entities is contained in Note 20 to the financial statements.

Non controlling equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report. The non controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method.

The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

b. Income Tax

The charge for current income tax expense is 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 statement of comprehensive income 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.

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 statement of comprehensive income 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statement of comprehensive income.

e. Exploration and Development Expenditure
Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

f. 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.

g. Financial Instruments

Initial recognition and measurement
Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset. (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified ‘at fair value through profit or loss”, in which case transaction costs are expensed to profit or loss immediately.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification and subsequent measurement
Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

a. the amount at which the financial asset or financial liability is measured at initial recognition;
b. less principal repayments;
c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
d. less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

i) 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 statement of comprehensive income in the period in which they arise.

ii) 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.

iii) 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.

iv) 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.

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

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 statement of comprehensive income.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognized in profit or loss.

h. 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 statement of comprehensive income.

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.

i. Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised group's share of post-acquisition reserves of its associates.

j. 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.

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical 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.

k. 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 statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences 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 statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statement of comprehensive income in the period in which the operation is disposed.

l. 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. Employees benefits payable later than one year have been measured at the present value of the estimated future cash flows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

m. 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.

n. 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.

o. 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.

p. 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.

q. 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s. 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 and Intangible assets.

Key Judgements- Doubtful Debts Provisions

Receivable of $2,996,059 from wholly owned entities have been provided for as the entities have negative net asset positions at year end. There were no other significant key judgments made by the Directors.

t. Adoption of New and Revised Accounting Standards

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

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

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

Disclosure impact

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

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

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

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

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

AASB 8: Operating Segments
In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. As a result, some of the required operating segment disclosures have changed with the addition of a possible impact on the impairment testing of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

goodwill allocated to the cash generating units of the entity. Below is an overview of the key changes and the impact on the Group's financial statements.

Measurement impact

Identification and measurement of segments- AASB 8 requires the "management approach" to the identification, measurement and disclosure of operating segments. The "management approach" requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance. This could also include the identification of operating segments which sell primarily or exclusively to other internal operating segments. Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered.

The adoption of the "management approach" to segment reporting has resulted in the identification of reportable segments to accord with the Group's current focus on its Bioplastics business.

Under AASB 8, operating segments are determined based on management reports using the "management approach" whereas under AASB 114 financial results of such segments were recognized and measured in accordance with Australian Accounting Standards. This has resulted in changes to the presentation of segment results, with inter-segment sales and expenses such as depreciation and impairment now being reported for each segment rather than in aggregate for total group operations, as this is how they are reviewed by the chief operating decision maker.

Impairment testing of the segment's goodwill

Impairment of Assets, paragraph 80 requires that goodwill acquired in a business combination shall be allocated to each of the acquirer's CGUs,or group of CGUs that are expected to benefit from the synergies of the combination. Each cash generating unit (CGU) which the goodwill is allocated to must represent the lowest level within the entity at which goodwill is monitored, however it cannot be larger than an operating segment.Therefore,due to the changes in the identification of segments, there is a risk that goodwill previously allocated to a CGU which was part of a larger segment could now be allocated across multiple segments if a segment had to be split as a result of changes to AASB 8.

Management have considered the requirements of AASB 136 and determined the implementation of AASB 8 has not impacted the CGUs of each operating segment.

Disclosure impact

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

u. New Accounting Standards for Application in Future Periods

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

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

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

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held –to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognized in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on :

  (a) the objective of the entity's business model for managing the financial assets; and
  (b) the characteristics of the contractual cash flows/

.

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

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

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

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

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

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

AASB 2009-9: Amendments to Australian Accounting Standards-Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Group.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

The Financial Report was authorised for issue on 29 September 2010 by the Board of Directors.

NOTE 2 REVENUE

	Economic Entity		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
Revenue from continuing operations				
Sales				
Revenue from sale of goods	**2,205,817**	456,875	**-**	**-**
Total	**2,205,817**	456,875	**-**	**-**
Other Income				
Interest	**104,843**	340,181	**103,602**	339,145
Royalty Income	**14,662**	13,434	**-**	-
Export Marketing Grant	**115,996**	-	**-**	-
Brokerage Received	**10,500**	-	**10,500**	-
Other	**52,395**	-	**-**	-
Total	**298,396**	353,615	**114,102**	339,145
Total Revenue	**2,504,213**	810,490	**114,102**	339,145

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 LOSS FOR THE YEAR

	Economic Entity 2010 $	Economic Entity 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
The Loss before income tax has been arrived at after the following major items of expenses				
Expenses				
Depreciation & Amortizations	**198,967**	78,644	**3,642**	3,825
Rental expenses relating to operating leases	**91,089**	61,145	**23,403**	22,500
Share of associate's net loss	**354,171**	162,784	**-**	-
Research, development, and Patent costs	**958,522**	60,236	**-**	-
Provision for impairment of receivables	**-**	-	**2,997,150**	1,653,654
Write off of financial assets	**1,144,050**	-	**1,145,150**	-
Amounts written off as Bad debts	**60,329**	-	**60,329**	-
Write off of stock	**52,699**	71,371	**-**	-
Provision for impairment of goodwill	**-**	1,546,833	**-**	-
Provision for impairment of financial assets	**-**	195,771	**-**	195,771

NOTE 4 INCOME TAX EXPENSE

	Economic Entity 2010 $	Economic Entity 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
a) The prima facie tax credit on loss before income tax is reconciled to the income tax credit as follows :				
Prima facie tax credit provided on loss before income tax at 30% (2009: 30%)				
- Economic Entity	**(1,666,171)**	(1,129,471)	**-**	**-**
- Parent Entity	-	-	**(1,611,310)**	(756,340)
	(1,666,171)	(1,129,471)	**(1,611,310)**	(756,340)
- Share of associates' net losses	**106,251**	48,835	**-**	-
- Adjustment for foreign tax rate	**44,145**	44,145	**-**	-
- Non –deductible expenses	**2,251**	408,831	**901,057**	556,806
- Gain on deconsolidation of controlled entity	**(25,908)**	**-**	**-**	-
- Losses on acquisition of Biograde Limited	**-**	(1,709,051)	**-**	-
- Adjustments to prior year losses	**(692,995)**	1,353,965	**61,467**	1,223,313
	(2,232,427)	146,725	**(648,638)**	1,780,119
Recoupment of prior years' tax losses not previously brought to account.	**-**	-	**-**	-
Deferred income tax assets not recognised	**2,232,427**	**-**	**648,638**	**-**
Income tax attributable to entity adjusted	**-**	146,725	**-**	1,023,779
b) The Directors estimate that the potential deferred income tax assets at 30 June 2010 in respect of tax losses not brought to account is :	**4,985,814**	2,753,386	**1,954,379**	1,305,593

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 KEY MANAGEMENT PERSONNEL COMPENSATION

a. 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
Mr Pat Volpe	Chairman
Dr Frank Glatz	Managing Director
Dr John Scheirs	Non Executive Director
Mr Chen Yi	Non Executive Director
Mr John Wilson	Company Secretary (Resigned 10th August 2010)
Mr A Fernando	Chief Operating Officer
Mr Chen Chan Ping	Technical Director, China Operations
Miss R Bhambhani	Group Financial Accountant & Company Secretary
Mr Philip Lee	Chief Financial Officer (Resigned 29th June 2010)
Mr Barend Van den Hoek	Chief Operating Officer (Resigned 1st July 2009)

Key management personnel remuneration has been included in the Remuneration Report section of the Directors Report.

	2010 $	2009 $
Short-term employee benefits	**1,109,535**	774,410
Post-employment benefits	**89,113**	58,017
Termination Benefits	**63,750**	-
	1,262,398	832,427

b. Option Holdings

Number of Options Held by Key Management Personnel

2010 (Options Expiring 30 June 2011)

	Balance 1.7.2009	Granted as Compensation	Options Exercised	Net Change Other (I)	Balance 30.6.2010
P Volpe	**74,859,047**	**-**	**-**	**-**	**74,859,047**
F Glatz	**4,800,000**	**-**	**-**	**-**	**4,800,000**
J Scheirs	**6,492,224**	**-**	**-**	**-**	**6,492,224**
Chen Yi	**16,000,000**	**-**	**-**	**-**	**16,000,000**
J Wilson	**1,170,011**	**-**	**-**	**-**	**1,170,011**
R Bhambhani	**112,400**	**-**	**-**	**-**	**112,400**

(I) Net Change Other refers to options purchased and /or sold during the financial year. These options were purchased on market or subscribed to or were part of the consideration on the Cardia-Biograde merger. No options were issued as part of any employee option scheme.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

2009 (Options Expiring 30 June 2011)

	Balance 1.7.2008	Granted as Compensation	Options Exercised	Net Change Other (I)	Balance 30.6.2009
P Volpe	-	-	-	74,859,047	74,859,047
F Glatz	-	-	-	4,800,000	4,800,000
J Scheirs	-	-	-	6,492,224	6,492,224
Chen Yi	-	-	-	16,000,000	16,000,000
P Pena	-	-	-	1,022,800	1,022,800
R Armstrong	-	-	-	7,041,626	7,041,626
J Wilson	-	-	-	1,170,011	1,170,011
R Bhambhani	-	-	-	112,400	112,400

(I) Net Change Other refers to options purchased and /or sold during the financial year. These options were purchased on market or subscribed to or were part of the consideration on the Cardia-Biograde merger. No options were issued as part of any employee option scheme.

c. Share Holdings

2010

	Balance 1.7.2009	Received as Compensation	Options Exercised	Net Change Other (I)	Balance 30.6.2010
P Volpe	**90,498,297**	**-**	**-**	**-**	**90,498,297**
F Glatz	**6,002,334**	**6,000,000**	**-**	**260,000**	**12,262,334**
J Scheirs	**6,592,224**	**-**	**-**	**-**	**6,592,224**
Chen Yi	**16,000,000**	**-**	**-**	**-**	**16,000,000**
J Wilson	**1,865,019**	**-**	**-**	**-**	**1,865,019**
R Bhambhani	**168,110**	**-**	**-**	**-**	**168,110**
A Fernando	**-**	**300,000**	**-**	**-**	**300,000**

(I) Net Change Other refers to shares purchased and /or sold during the financial year. No Shares were issued as part of an employee share scheme.

2009

	Balance 1.7.2008	Received as Compensation	Options Exercised	Net Change Other (I)	Balance 30.6.2009
P Volpe	39,098,123	-	-	51,400,174	90,498,297
F Glatz	-	-	-	6,002,334	6,002,334
J Scheirs	250,000	-	-	6,342,224	6,592,224
Chen Yi	-	-	-	16,000,000	16,000,000
P Pena	2,055,000	-	-	236,902	2,291,902
R Armstrong	8,750,000	-	-	(1,750,000)	7,000,000
J Wilson	950,019	-	-	915,000	1,865,019
R Bhambhani	-	-	-	168,110	168,110

(I) Net Change Other refers to shares purchased and /or sold during the financial year. These shares were purchased on market or subscribed to or were part of the consideration on the Cardia-Biograde merger. No Shares were issued as part of an employee share scheme.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 REMUNERATION OF AUDITORS

	Economic Entity 2010 $	Economic Entity 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Remuneration of the auditor of the parent entity for				
- auditing or reviewing the financial report	**48,783**	39,250	**48,783**	39,250
Remuneration of other auditors of subsidiaries for :				
- auditing or reviewing the financial report of subsidiaries	**6,715**	24,500	-	-
	55,498	63,750	**48,783**	39,250

NOTE 7 EARNINGS PER SHARE

	Economic Entity 2010 $	Economic Entity 2009 $
a) Reconciliation of losses to profit or loss		
Loss from continuing & discontinuing operations	**(5,553,902)**	(3,761,209)
Profit attributable to non controlling interest	**(3,580)**	(3,682)
Loss used to calculate basic EPS from continuing and discontinuing operations	**(5,557,482)**	(3,764,891)
b) Reconciliation of losses to profit or loss		
Loss from continuing operations	**(5,640,263)**	(3,761,209)
Profit attributable to non controlling interest	**(3,580)**	(3,682)
Loss used to calculate basic EPS from continuing operations	**(5,643,843)**	(3,764,891)
c) Reconciliation of losses to profit or loss		
Profit from discontinuing operations	**86,361**	**-**
Profit attributable to non controlling interest	**-**	**-**
Profit from discontinuing operations	**86,361**	**-**
	Number	**Number**
d) Weighted average number of ordinary shares used in the calculation of basic earnings (loss) per share	**656,014,234**	**352,710,645**
e) Weighted average number of options used in the calculation of diluted earnings (loss) per share	**656,014,234**	**352,710,645**

539,553,1431 (2009: 300,072,550) options do not have a dilutive effect since the average market price of ordinary shares during the year did not exceed the exercise price of options.

NOTE 8 CASH AND CASH EQUIVALENTS

	Economic Entity 2010 $	Economic Entity 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Cash at bank and on hand	**1,603,791**	3,281,540	**1,264,935**	2,112,712
Term Deposit against L/C	**114,221**	-	**-**	-
Deposits at Call	**-**	539,137	**-**	539,137
Balances per statement of cash flows	**1,718,012**	3,820,677	**1,264,935**	2,651,849

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 CASH AND CASH EQUIVALENTS (CONTINUED)

The short term deposits are provided as security against Letter of Credits for imports and earn no interest. These deposits have maturity period of 90 days.

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash and cash equivalents	**1,718,012**	3,820,677	**1,264,935**	2,651,849

NOTE 9 TRADE AND OTHER RECEIVABLES

	Economic Entity		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
Current				
Trade Receivables	**312,243**	107,250	**-**	7,979
Prepayments	**63,525**	55,912	**-**	6,706
Other receivables	**148,485**	205,748	**16,355**	21,730
Government Grants Receivable	**65,996**	-	**-**	-
Receivables from Key Management Personnel	**37,510**	-	**37,510**	-
	627,759	368,910	**53,865**	36,415
Non Current				
Amount receivable from:				
- wholly-owned subsidiaries	**-**	**-**	**6,969,522**	4,613,599
- provision for impairment- wholly owned subsidiaries	**-**	**-**	**(4,647,843)**	(1,651,784)
- other controlled entities	**-**	**-**	**2,962**	1,870
- provision for impairment- controlled entities	**-**	**-**	**(2,962)**	(1,870)
	-	**-**	**2,321,679**	2,961,815

Provision for Impairment of Receivables

Current trade receivables are non-interest bearing and are generally on 30-day terms. Non current trade receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade receivable is impaired. These amounts have been disclosed as a separate line item in Statement of comprehensive income.

Movement in the provision for impairment of receivables is as follows:

2010	**Opening Balance 1.7.2009**	**Charge for the Year**	**Amounts Written Off**	**Closing Balance 30.06.2010**
	$	**$**	**$**	**$**
Economic Entity				
Current Trade & Other Receivables	-	-	-	-
	-	-	-	-
Parent Entity				
Current Trade & Receivables	-	-	-	-
Non Current wholly owned subsidiaries	1,651,784	2,996,059	-	4,647,843
Non Current Other controlled entities	1,870	1,092	-	2,962
	1,653,654	**2,997,150**	**-**	**4,650,805**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 TRADE AND OTHER RECEIVABLES (CONTINUED)

2009	Opening Balance 1.7.2008	Charge for the Year	Amounts Written Off	Closing Balance 30.06.2009
	$	$	$	$
Economic Entity				
Current Trade & Other Receivables	-	-	-	-
	-	-	-	-
Parent Entity				
Current Trade & Receivables	-	-	-	-
Non Current wholly owned subsidiaries	-	1,651,784	-	1,651,784
Non Current Other controlled entities	-	1,870	-	1,870
	-	**1,653,654**	**-**	**1,653,654**

There are no balances within trade and other receivables that contain assets that are not impaired and are past due. It is expected these balances will be received when due. Impaired assets are provided for in full.

Credit Risk- Trade and Other Receivables

The Group has no significant concentration of credit risk with respect to any single counter party or group of counter parties other than receivables specifically provided for and mentioned within Note 9. The class of assets described as Trade and Other Receivables is considered to be the main source of credit risk related to the Group.

On a geographical basis, the Group has significant credit risk exposures in Australia and China given the substantial operations in those regions. The Group's exposure to credit risk for receivables at reporting date in those regions is as follows:

	Economic Entity		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
Australia	**332,163**	221,240	**53,865**	29,709
China	**295,596**	147,670	**-**	-
	627,759	368,910	**53,865**	**29,709**

The following table details the Group's trade and other receivables exposed to credit risk with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial terms (as detailed in the table) are considered to be of high credit quality.

Economic Entity

	Gross Amount	Past due and Impaired	Past due but not impaired (days overdue)				Within initial trade terms
			<30	31-60	61-90	>90	
2010							
Trade Receivables	**312,243**		**99,928**	**17,309**	**21,897**	**15,109**	**158,000**
Other Receivables	**315,516**		**-**	**6,806**	**4,952**	**4,383**	**299,375**
Total	**627,759**		**99,928**	**24,115**	**26,849**	**19,492**	**457,375**
2009							
Trade Receivables	107,250	-	-	11,430	19,807	54,130	21,883
Other Receivables	261,660	-	1,665	10,242	-	27,051	222,702
Total	368,910	-	1,665	21,672	19,807	81,181	244,585

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 TRADE AND OTHER RECEIVABLES (CONTINUED)

Parent Entity

	Gross Amount	Past due and Impaired	Past due but not impaired (days overdue)				Within initial trade terms
			<30	31-60	61-90	>90	
2010							
Trade Receivables	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other Receivables	**53,865**	**-**	**-**	**-**	**-**	**-**	**53,865**
Total	**53,865**	**-**	**-**	**-**	**-**	**-**	**53,865**
2009							
Trade Receivables	7,979	-	-	-	-	-	7,979
Other Receivables	28,436	-	1,665	-	-	-	26,771
Total	36,415	-	1,665	-	-	-	34,750

Neither the Group nor parent entity holds any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

Financial assets classified as loans and receivables

	Economic Entity 2010 $	Economic Entity 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Trade and other receivables				
Total current	**564,234**	312,998	**53,865**	29,709
Total non current	**-**	-	**2,321,679**	2,961,815
	564,234	312,998	**2,375,544**	2,991,524

NOTE 10 INVENTORIES

	Economic Entity 2010 $	Economic Entity 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Current				
At cost				
Raw materials and stores	**359,171**	235,014	**-**	**-**
Work in progress	**17,971**	9,855	**-**	**-**
Finished goods	**218,554**	291,359	**-**	**-**
	595,696	536,228	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 ASSOCIATED ENTITY

Interest is held in the following associated entity.

Name	Principal Activities	Country of Incorporation	Ordinary Shares	Ownership Interest		Carrying amount of Investments	
				2010	**2009**	**2010**	2009
				%	**%**	**$**	$
Bioglobal Ltd- (Unlisted)	Agricultural Pest Control	Australia	18,780,000	**18.44**	27.30	**916,147**	935,840

Bioglobal has issued further 33,009,313 shares during the year through placement of shares to professional and sophisticated investors. Cardia has not participated in any of share offers during the year and hence its equity interest in Bioglobal has diluted progressively from 27.3% to 18.44%.

As a result of progressive dilution of its equity interest in Bioglobal, Cardia's has ceased to have significant influence in Bioglobal, effective 10 June 2010. Accordingly, investments in Bioglobal will be discontinued to be accounted for as "Investments in Associates" using equity method and will be accounted for in accordance with AASB 139 from July 2010.

		Economic Entity		Parent Entity	
		2010	**2009**	**2010**	**2009**
		$	**$**	**$**	**$**
a.	**Movements During the Year in Equity Accounted Investment in Associated Entity**				
	Balance at beginning of the financial year	**935,840**	462,156	-	-
	Add: Share of associate's loss after income Tax	**(354,171)**	(162,784)	-	-
	Less :Disposal during the year		-	-	-
	Add : Gain on dilution in shareholdings in Associate	**334,478**	636,468	-	-
	Balance at end of the financial year	**916,147**	935,840	-	-
b.	**Equity accounted profits of associate are broken down as follows :**				
	Share of associate's loss before income tax expense	**(391,900)**	(256,631)	-	-
	Share of associate's income tax expense	**37,729**	93,847	-	-
	Share of associate's loss after income tax	**(354,171)**	(162,784)	-	-
c.	**Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associate**				
	Current Assets	**4,093,029**	1,274,273	-	-
	Non-Current Assets	**1,322,314**	893,244	-	-
	Total Assets	**5,415,343**	2,167,517	-	-
	Current Liabilities	**375,546**	68,592	-	-
	Non –Current Liabilities	**74,228**	137,417	-	-
	Total Liabilities	**449,774**	206,009	-	-
	Net Assets	**4,965,569**	1,961,508	-	-
	Revenues	**2,258,425**	2,669,458	-	-
	Loss after income tax of associate	**(1,520,904)**	(596,278)	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 FINANCIAL ASSETS

		Economic Entity		Parent Entity	
		2010	2009	2010	2009
		$	$	$	$
Current					
Receivables					
From related party		**5,161,864**	5,161,864	**5,161,864**	5,161,864
Provision for impairment of receivables		**-**	(5,161,864)	-	(5,161,864)
Secured Loans					
To related party		**1,000,000**	-	**1,000,000**	-
Interest Accrued thereon		**224,050**	-	**224,050**	-
Total Receivables & Secured Loans with Interest Accrued		**6,385,914**	-	**6,385,914**	-
Write Off of Receivables & Secured Loan with Accrued Interest		(6,305,914)	-	(6,305,914)	-
	(a)	**80,000**	**-**	**80,000**	**-**
Available –for-sale financial assets					
Listed Investments, at fair value		**94,126**	94,126	**94,126**	94,126
Provision for Impairment		**(94,126)**	(94,126)	**(94,126)**	(94,126)
	(b)	**-**	**-**	**-**	-
		80,000	**-**	**80,000**	
Non Current					
Other Investments					
Unlisted Investments ,at cost		**210,000**	**-**	**8,648,580**	8,438,580
Provision for investment write down		**-**	**-**	**(713,524)**	(718,524)
Write down of Investments		**-**	**-**	**(6,102)**	-
		210,000	**-**	**7,928,954**	7,720,056
Secured Loan					
To related party		-	1,000,000	**-**	1,000,000
Interest Accrued thereon		-	145,473	**-**	145,473
		-	1,145,473	**-**	1,145,473
		210,000	1,145,473	**7,928,954**	8,865,529

(a) In May 2010, Cardia and Aquenox Ltd reached agreement that Cardia would accept $80,000 from Aquenox in full settlement of its amounts owing under the Convertible Debt Deed and the Secured Loan inclusive of accrued interest.

(b) Available for sale financial assets consist of 156,877 ordinary shares in Pallane Medical Limited (formerly Dia-B Tech Investments Limited). The investment in those shares had been fully impaired as at 30 June 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 PLANT AND EQUIPMENT

	Economic Entity		Parent Entity	
	2010	**2009**	**2010**	**2009**
	$	$	$	$
Plant & Machinery				
At cost	**688,362**	533,466	**-**	-
Accumulated depreciation	**(166,854)**	(105,308)	**-**	-
	521,508	428,158	**-**	-
Office Equipments				
At cost	**126,796**	118,575	**26,952**	26,591
Accumulated depreciation	**(77,623)**	(55,072)	**(23,307)**	(21,297)
	49,173	63,503	**3,645**	5,294
Motor Vehicles				
At cost	**126,426**	100,325	**-**	-
Accumulated depreciation	**(56,810)**	(37,530)	**-**	-
	69,616	62,795	**-**	-
Furniture & Fixtures				
At cost	**39,879**	39,879	**20,807**	20,807
Accumulated depreciation	**(19,844)**	(16,783)	**(17,197)**	(15,566)
	20,035	23,096	**3,610**	5,241
Leasehold Improvements				
At cost	**299,993**	103,060	**-**	-
Accumulated depreciation	**(34,159)**	(15,439)	**-**	-
	265,834	87,621	**-**	-
	926,166	665,173	**7,255**	10,535

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

	Plant & Machinery	**Office Equipments**	**Motor Vehicles**	**Furniture & Fixtures**	**Leasehold Improvements**	**Total**
	$	$	$	$	$	$
Balance at 1 July 2008	-	7,488	-	6,873	-	14,361
Additions on acquisition of Biograde Limited	494,692	-	86,530	53,047	46,408	680,677
Additions during the year	46,804	15,880	-	9,673	47,243	119,600
Foreign Exchange Rate Variations	(97,488)	49,299	(17,147)	(44,622)	(3,762)	(113,720)
Depreciation Expenses	(15,850)	(9,164)	(6,588)	(1,875)	(2,268)	(35,745)
Balance at 30 June 2009	428,158	63,503	62,795	23,096	87,621	665,173
Balance at 1 July 2009	**428,158**	**63,503**	**62,795**	**23,096**	**87,621**	**665,173**
Additions during the year	**175,246**	**11,280**	**31,417**	**-**	**198,403**	**416,346**
Foreign Exchange Rate Variations	**(16,114)**	**(2,224)**	**(3,839)**	**-**	**(1,135)**	**(23,312)**
Depreciation Expenses	**(23,625)**	**(23,386)**	**(20,757)**	**(3,061)**	**(19,055)**	**(89,884)**
Depreciation included in Cost of goods sold	**(42,157)**	**-**	**-**	**-**	**-**	**(42,157)**
Balance at 30 June 2010	**521,508**	**49,173**	**69,616**	**20,035**	**265,834**	**926,166**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 PLANT AND EQUIPMENT (CONTINUED)

Parent Entity

	Plant & Machinery	Office Equipments	Motor Vehicles	Furniture & Fixtures	Leasehold Improvements	Total
	$	$	$	$	$	$
Balance at 1 July 2008	-	7,488	-	6,873	-	14,361
Additions during the year	-	-	-	-	-	-
Depreciation Expenses	-	(2,194)	-	(1,632)	-	(3,826)
Balance at 30 June 2009	-	5,294	-	5,241	-	10,535
Balance at 1 July 2009	**-**	**5,294**	**-**	**5,241**	**-**	**10,535**
Additions during the year	**-**	**362**	**-**	**-**	**-**	**362**
Depreciation Expenses	**-**	**(2,011)**	**-**	**(1,631)**	**-**	**(3,642)**
Balance at 30 June 2010	**-**	**3,645**	**-**	**3,610**	**-**	**7,255**

NOTE 14 INTANGIBLE ASSETS

	Economic Entity		Parent Entity	
	2010	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**
Goodwill				
Cost	**8,112,783**	8,112,783	-	-
Accumulated impaired losses	**(1,546,833)**	(1,546,833)	-	-
Net carrying value	**6,565,950**	6,565,950	-	-
Patents and Trademarks				
Cost	**651,954**	686,772	-	**-**
Accumulated amortisation and impairment	**(441,200)**	(349,973)	-	**-**
Net carrying value	**210,754**	336,799	-	**-**
Total Intangibles	**6,776,704**	6,902,749	-	**-**

Economic Entity	**Goodwill**	**Patents & Trademarks**
	$	**$**
Year Ended 30 June 2009		
Balance at the beginning of year	-	-
Additions	8,112,783	444,328
Foreign Exchange Rate Variation	-	(64,630)
Amortisation Charge	-	(42,899)
Impairment losses	(1,546,833)	-
Closing Value at 30 June 2009	**6,565,950**	**336,799**
Year Ended 30 June 2010		
Balance at the beginning of year	**6,565,950**	**336,799**
Foreign Exchange Rate Variation	-	(16,963)
Amortisation Charge	-	(109,082)
Impairment losses	-	-
Closing Value at 30 June 2010	**6,565,950**	**210,754**

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the statement of comprehensive income. Goodwill has an infinite life.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 INTANGIBLE ASSETS (CONTINUED)

Impairment Disclosures

Goodwill is allocated to the distribution division of the company being a cash generating unit.

The recoverable amount of the cash-generating unit is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections for the next four years. The cash flows are discounted using estimated discount rate based on Capital Asset Pricing Model adjusted to incorporate risks associated with a particular segment.

The following assumptions were used in the value-in-use-calculations:

a. Revenue is premised on a "zero based budget" approach whereby each customer, or potential customer, has been specifically assessed having regard to current indications of demand, customer contacts or as assessed by the relevant sales manager.

   Long term contracts typically include expenditure "rise and fall" clause. Accordingly, Revenue is forecast to alter in line with relevant changes to the Company's direct manufacturing costs.

b. Projected cash flows have been discounted using discount rate of 15%.
c. Gross profit margin is assumed to be in a range of 35%-40% dependent upon region.

Management has based the value-in-use calculations on four year budget forecasts of Biograde business. Revenue has been projected on the abovementioned assumptions. Costs are calculated taking into account historical gross margins as well as estimated weighted inflation rates over the period which is consistent with inflation rates applicable to the locations in which the unit operates. Discount rates are pre-tax and reflect risks associated with a particular segment.

Based on the above assumptions, the recoverable amount of the cash generating unit has been determined to exceed its carrying amount as at 30th June 2010 and hence no impairment loss has been recognised.

NOTE 15 OTHER NON CURRENT ASSETS

	Economic Entity		Parent Entity	
	2010	**2009**	**2010**	**2009**
	$	$	$	$
Non Current				
Exploration expenditure capitalized				
- exploration and evaluation phases	**-**	473,681	-	-
	-	473,681	-	-

Capitalised costs paid during the year amounting to **$289,133** (2009: 155,712) have been included in the Cash Flow Statement as Cash Flows from Investing Activities.

NOTE 16 TRADE AND OTHER PAYABLES

	Economic Entity		Parent Entity	
	2010	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**
Current				
Unsecured Liabilities				
Trade Payables	**320,968**	737,173	**25,668**	351,812
Sundry payables and accrued expenses	**352,913**	272,490	**62,180**	47,470
Withholding tax payable	**43,829**	92,327	**22,981**	17,662
	717,710	1,101,990	**110,829**	416,944

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 17 SHORT TERM PROVISIONS

	Economic Entity		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
Employee benefits	**125,372**	114,953	**101,281**	64,059
	125,372	114,953	**101,281**	64,059

Reconciliation of Provisions

	Economic Entity		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
Opening Balance at 1 July 2009	**114,953**	36,027	**64,059**	36,027
Addition on acquisition of Biograde	**-**	36,847	**-**	-
Additional provisions	**103,280**	47,908	**72,692**	28,828
Amount Used	**(92,861)**	(5,829)	**(35,470)**	(796)
Balance at 30 June 2010	**125,372**	114,953	**101,281**	64,059

Provision for long term employee benefits

A provision has been recognized for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1(L) to this report.

NOTE 18 ISSUED CAPITAL

(A) Share Capital

	Economic Entity		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
Ordinary - fully paid shares	**33,749,092**	30,978,621	**33,749,092**	30,798,621

(B) Movement in Ordinary Share Capital

Date		Number of Shares	Issue Price	Amount $
1 July 2008	**Opening Balance**	**276,172,149**		**22,427,510**
6 March 2009	Issued as consideration for the acquisition of Biograde Limited	259,964,442	$0.025	6,499,111
25 May 2009	Placement of Shares	80,000,000	$0.027	2,160,000
25 May 2009	Cost of Capital Raising			(108,000)
30 June 2009	**Balance**	**616,136,591**		**30,978,621**
1 July 2009	**Opening Balance**	**616,136,591**		**30,978,621**
4 August 2009	Issue of shares to Managing Director	6,000,000	$0.025	150,000
4 August 2009	Issue of shares to employees	700,000	$0.050	35,000
18 March 2010	Share Placement	118,759,996	$0.022	2,612,720
18 March 2010	Cost of Capital Raising			(27,249)
30 June 2010	**Balance**	**741,596,587**		**33,749,092**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 18 ISSUED CAPITAL (CONTINUED)

(C) 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.

(D) Movement in options exercisable at $ 0.10 on or before 30 June 2011

Date		Number of Options	Issue Price	Amount $
1 July 2008	**Opening Balance**	**-**	**-**	**-**
31 August 2008	New Options exercisable at $0.10 expiring 30 June 2011, subscribed under an Entitlements Issue offered on the basis of 1 new option for each 31 December 2007 option held unexercised at the time of its expiry.	**96,944,604**	**0.005**	**484,723**
31 August 2008	Options issued free under a Bonus Issue to Cardia Shareholders on the basis of 3 new options (exercisable at $0.10 expiring 30 June 2011) for every 5 shares held in Cardia	**165,703,153**	**-**	**-**
31 August 2008	Cost of Raising Options monies	**-**	**-**	**(62,892)**
6 March 2009	Issued as consideration for the acquisition of Biograde Limited	**259,964,442**	**0.004**	**1,039,858**
30 June 2009	**Balance**	**522,612,199**	**-**	**1,461,689**

1 July 2009	**Opening Balance**	**522,612,199**	**-**	**1,461,689**
18 March 2010	Options issued free under share placement to professional and sophisticated investors on the basis of 1 new option (exercisable at $0.10 expiring 30 June 2011) for every 2 shares subscribed for in Cardia	**59,379,998**	**-**	**-**
30 June 2010	**Balance**	**581,992,197**		**1,461,689**

(E) Capital Management

Management controls the capital of the group in order to maintain sufficient liquidity to cover the group's working capital requirements, to meet any new investment opportunities as they arise and to safeguard the company's ability to continue as a going concern.

The group's debt and capital includes ordinary share capital and financial liabilities supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the group's capital by regularly monitoring its current and expected liquidity requirements and by assessing the group's financial risks, rather than using debt/equity ratio analyses. The group's capital structure is adjusted in response to the changes in liquidity requirements and financial risks. These responses include the management of debt levels and share issues.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 19 RESERVES

Nature and Purpose of Reserves

a. Asset Revaluation Reserve

The asset revaluation reserve records revaluations of non-current assets.

b. 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(j)

c. Option Reserve

The Balance of $1,461,689 at 30 June 2010 represents the amount of $421,831 raised (after costs) in August 2008 from a new issue of options exercisable at 10 cents expiring on or before 30 June 2011 and balance of $1,039,858 represents fair value of 259,964,442 options issued as part of consideration for the acquisition of Biograde Limited. Fair value of Options has been determined based on closing bid price of Cardia Options at the date of the acquisition.

d. Capital Reserve

The Balance of $4,555 represents an exchange gain on capital injected into the controlled entity Biograde (Nanjing) Pty Ltd as required to be disclosed separately as per Capital Regulations in the Peoples Republic of China.

NOTE 20 CONTROLLED ENTITIES

a. Controlled Entities Consolidated

Name	Country of Incorporation	Equity Holding (%) *	
		2010	2009
Cardia Bioplastics (Australia) Ltd	Australia	100.00	100.00
Biograde (Nanjing) Pty Ltd	China	100.00	100.00
Biograde (Hong Kong) Pty Ltd	Hong Kong	100.00	100.00
Cam Bow Pty Ltd	Australia	-	100.00
Cam Bow Holdings (Pty) Ltd	Botswana	-	100.00
Mine Remediation Services Pty Ltd	Australia	69.36	69.36
Natural Pharmacy Pty Ltd	Australia	66.00	66.00
Herbworx International Pty Ltd (60% owned by Natural Pharmacy Pty Ltd)	Australia	39.60	39.60

* *Percentage of voting power is in proportion to ownership.*

b. Deconsolidation of Controlled Entities

As a result of a capital raising by Cam Bow Limited of approx $1.8million through a non-renounceable offer of shares in Cam Bow Limited to Cardia shareholders, Cam Bow Limited was deconsolidated from Cardia.

The Gain on Deconsolidation of the Subsidiary of $ 86,361 disclosed in the Statement of comprehensive income is the accumulated losses of Cam Bow Limited which have been consolidated in Cardia's Financial Statements to 22 September 2009 after elimination of intra-group transactions. The details are produced below

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 20 CONTROLLED ENTITIES (CONTINUED)

	2010 $	2009 $
Revenue	**126**	-
Expenses	**(83,803)**	(2,684)
Loss before income tax	**(83,677)**	(2,684)

The net cash flows of the deconsolidated subsidiary which have been incorporated into the statement of cash flows are as follows

	2010 $	2009 $
Net cash outflow from operating activities	**(24,221)**	116
Net cash outflow from investing activities	**(983)**	(473,681)
Net cash inflow from financing activities	**601,352**	-
Net cash increase/(decrease) in cash generated by deconsolidated subsidiary	**576,148**	(473,565)
Cash at the Beginning of the Financial Year	**127,787**	-
Cash held at disposal date	**703,935**	**-**

Assets and Liabilities of subsidiary held at disposal date were:

	2010 $
Assets	
Cash & Bank Balance	**703,935**
Trade & Other Receivables	**16,535**
Non Current assets-Exploration Expenditure	**468,278**
Plant & Equipment	**954**
Total Assets	**1,189,702**
Liabilities	
Payables	**1,276,063**
Total Liabilities	**1,276,063**
Net Assets	**(86,361)**

NOTE 21 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no contingent liabilities or contingent assets as at 30 June 2010.

NOTE 22 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	
	2010 $	2009 $	2010 $	2009 $
Operating Lease Commitments				
Not later than 12 months	**158,071**	71,689	-	2,274
between 12 months and 5 years	**59,277**	-	-	-
	217,348	71,689	-	2,274

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 22 CAPITAL AND LEASING COMMITMENTS

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 23 OPERATING SEGMENTS

Segment Information

Identification of reportable segments

The business segments of the consolidated entity continued to be five business divisions namely:

- **Environmental Technology**
- **Biotechnology Medical**
- **Biotechnology Agricultural**
- **Natural Pharmaceuticals**
- **Mineral Exploration**

Cardia Bioplastics (Australia) Pty Ltd (formerly Biograde Limited) was acquired by Cardia on 6th March 2009.That Company's operations are in Bioplastics and is classified under "Environmental Technology" business segment of the Group.Bioplastics is the current focus of business, and the Group has identified its operating segments to accord with that business .

Operating segments are premised on the internal reports that are reviewed and used by the Board of Directors in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings as the diversification of the Group's operations inherently have different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

-the products sold and/or services provided by the segment;
- the manufacturing process;
-the distribution method; and
-any external regulatory requirements.

The following operating segments have been identified

(i) Manufacturing Division
(ii) Distribution Division
(iii) Corporate Division

Types of products and services by segment

(i) Manufacturing Division

The manufacturing segment develops, manufactures sustainable resins derived from renewable resources for the global packaging and plastic products industries.

Manufacturing segment, which includes manufacturing unit in China, is responsible for distribution and sales of products locally due to better management of logistics and knowledge of local market.

The manufacturing segment also sales products to the distribution segment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 23 OPERATING SEGMENTS (CONTINUED)

(ii) Distribution Division

The distribution segment which includes group's distributors in Australia, Americas, Europe, and Asia, led by the Business Development Managers in those regions. The distribution segment distributes Company's manufactured stock items both domestically in the respective region and also internationally.

(iii) Corporate Division

Corporate Division serves manufacturing and distribution divisions on financial, administrative and legal matters and also holds and manages portfolio of investments and interests held or acquired under five division business model of the Group.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

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

Inter-segment transactions

An internally determined transfer price is set for all inter-segment sales. This price is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation of the group's financial statements.

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to that segment that receives majority economic value from that asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Segment liabilities include trade and other payables.

Unallocated items

The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment.

- Non –recurring items of revenue or expense
- Goodwill on acquisition

Comparative information

This is the first annual reporting period in which AASB 8 has been adopted. Due to change in structure of the entity's internal organisation resulting from Cardia's merger in March 2009 with its now wholly owned subsidiary Cardia Bioplastics (Australia) Pty Ltd, the above reportable segments have been identified for the first time and consequently comparative information for the corresponding period of 12 months to June 2009 has been restated to conform to the requirements of the Accounting Standard- AASB 8.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 23 OPERATING SEGMENTS (CONTINUED)

Segment Information

Year ended 30.06.2010	Manufacturing Division $	Distribution Division $	Corporate $	Total $
Revenue				
External Sales	1,559,992	645,825	-	2,205,817
Inter –segment sales	655,712	-	-	655,712
Interest revenue	1,115	-	103,728	104,843
Other Income	52,381	116,010	25,162	193,553
Total Segment Revenue	**2,269,200**	**761,835**	**128,890**	**3,159,925**
Reconciliation of segment revenue to group revenue				
Inter-segment elimination	(655,712)	-	-	(655,712)
Total Group Revenue	**1,613,488**	**761,835**	**128,890**	**2,504,213**
Segment Net Loss before Tax	**(716,612)**	**(1,925,428)**	**(1,240,706)**	**(3,882,746)**
Reconciliation of segment result to group net loss before tax				
-Amount not included in segment result but reviewed by Board				
- Depreciation & amortisation	(149,249)	(46,076)	(3,642)	(198,967)
- Write down of Financial Assets	-	-	(1,144,050)	(1,144,050)
- Bad Debts	-	-	(60,329)	(60,329)
- Share of loss of associates using Equity Accounting	-	-	(354,171)	(354,171)
Net Loss before tax from continuing operations	**(865,861)**	**(1,971,504)**	**(2,802,898)**	**(5,640,263)**
- Gain on Deconsolidation of subsidiary	-	-	86,361	86,361
Net Loss for the Period	**(865,861)**	**(1,971,504)**	**(2,716,537)**	**(5,553,902)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 23 OPERATING SEGMENTS (CONTINUED)

Segment Performance

Year ended 30.06.2009	Manufacturing Division $	Distribution Division $	Corporate $	Total $
Revenue				
External Sales	220,363	236,512	-	456,875
Inter –segment sales	187,517	-	-	187,517
Interest revenue	1,036	-	352,579	353,615
Total Segment Revenue	408,916	236,512	352,579	998,007
Reconciliation of segment revenue to group revenue				
Inter-segment elimination	(187,517)	-	-	(187,517)
Total Group Revenue	221,399	236,512	352,579	810,490
Segment Net Loss before Tax	(300,156)	(812,586)	(664,435)	(1,777,177)
Reconciliation of segment result to group net profit/loss before tax				
-Amount not included in segment result but reviewed by Board				
- Depreciation & amortisation	(69,752)	(5,067)	(3,825)	(78,644)
- Provision for impairment of Financial Assets	-	-	(195,771)	(195,771)
- Impairment of Goodwill	-	-	(1,546,833)	(1,546,833)
- Share of loss of associates using Equity Accounting	-	-	(162,784)	(162,784)
Net Loss before tax from continuing operations	**(369,908)**	**(817,653)**	**(2,573,648)**	**(3,761,209)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 23 OPERATING SEGMENTS (CONTINUED)
Segment Assets

As at 30.06.2010	Manufacturing Division $	Distribution Division $	Corporate $	Total $
Segment Assets	1,791,789	12,670,475	12,867,238	27,329,502
Reconciliation of segment assets to group assets				
Inter-segment eliminations	(32,182)	(5,205,572)	(10,241,264)	(15,479,018)
Segment Assets after inter-segment eliminations	1,759,607	7,464,903	2,625,974	11,850,484
Total Group Assets				**11,850,484**
Segment asset increases for the period				
- Capital expenditure	336,877	79,107	362	416,346
Included in segment assets are				
- Equity accounted associates	-	-	916,148	916,148
-Goodwill	207,108	6,358,892	-	6,565,950

As at 30.06.2009	Manufacturing Division $	Distribution Division $	Corporate $	Total $
Segment Assets	1,940,206	11,799,603	15,990,142	29,729,951
Reconciliation of segment assets to group assets				
Inter-segment eliminations	-	(4,357,971)	(10,523,249)	(14,881,220)
Segment Assets after inter-segment eliminations	1,940,206	7,441,632	5,466,893	**14,848,731**
Total Group Assets				**14,848,731**
Segment asset increases for the period				
- Capital expenditure	11,792	107,808	-	119,600
- Acquisitions	-	-	7,718,954	7,718,954
- Goodwill	207,108	6,358,892	-	6,565,950
Included in segment assets are				
- Equity accounted associates	-	-	935,840	935,840

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 23 OPERATING SEGMENTS (CONTINUED)

Segment Liabilities

	Manufacturing Division	Distribution Division	Corporate	Total
As at 30.06.2010	**$**	**$**	**$**	**$**
Segment Liabilities	1,100,427	7,226,572	285,305	8,612,304
Reconciliation of segment liabilities to group liabilities				
Inter-segment eliminations	(760,926)	(7,005,334)	(2,962)	(7,769,222)
Total Group Liabilities				**843,082**

	Manufacturing Division	Distribution Division	Corporate	Total
As at 30.06.2009	**$**	**$**	**$**	**$**
Segment Liabilities	290,416	4,527,624	1,157,620	5,975,660
Reconciliation of segment liabilities to group liabilities				
Inter-segment eliminations	(134,194)	(4,021,313)	(603,210)	(4,758,717)
Total Group Liabilities				**1,216,943**

Revenue by geographical region	**2010**	**2009**
	$	**$**
Revenue attributable to external customers is disclosed below, based on the location of the external customer		
Australia	**457,378**	206,744
China	**1,559,992**	220,367
Rest of Asia	**-**	893
USA	**39,048**	14,905
Europe	**149,399**	13,966
Total Revenue	**2,205,817**	456,875

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 23 OPERATING SEGMENTS (CONTINUED)

Assets by geographical region	2010	2009
	$	$
The location of segment assets by geographical location of assets is disclosed below:		
Australia	**10,090,877**	12,625,202
Africa	**-**	473,681
Asia	**1,759,607**	1,749,848
Total Assets	**11,850,484**	14,848,731

Major customers

The Group has a number of customers to whom it provides products. The Group has supplied a single external customer in the manufacturing segment who accounted for 11.19% (2009: 2.89%) of external revenue. The next two significant customers accounted for 9.05% (2009: 6.95%) and 7.60% (2009: NIL) of external revenue respectively.

NOTE 24 CASH FLOW INFORMATION

	Economic Entity		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
Reconciliation of Cash Flow from Operations with Profit after Income Tax				
Operating Profit /(Loss) after income tax	**(5,553,902)**	(3,761,209)	**(5,371,033)**	(2,521,129)
Depreciation on plant and equipment	**198,967**	78,644	**3,624**	3,825
Impairment of goodwill	**-**	1,546,833	**-**	-
Impairment of investments	**-**	195,771	**-**	195,771
Provision for impairment of receivables	**-**	-	**2,996,058**	1,653,654
Bad Debts	**60,329**	-	**60,329**	-
Write off of Investments	**1,144,050**	-	**1,145,144**	-
Write down of investments	**-**	1,100	**1,100**	-
Issue Of shares to employees	**185,000**	-	**150,000**	-
Equity accounting of associates' operating loss/(profit)	**354,171**	162,784	**-**	-
Changes in operating assets and liabilities, net of effects of disposal of subsidiary:				
(Increase)/decrease in receivables	**237,369**	(182,814)	**33,190**	(889)
(Increase)/decrease in other operating assets	**(879,422)**	(864,084)	**(1,081,213)**	(100,520)
Increase/(decrease) in creditors	**620,406**	19,785	**943,063**	290,330
(Decrease)/increase in provisions and other operating liabilities	**(30,684)**	91,466	**(14,914)**	(249,106)
Net cash (outflow) from operating activities	**(3,663,716)**	(2,711,724)	**(1,134,652)**	(728,064)
Non –Cash Financing and Investing Activities				
2010: Issue of Shares				
In August 2009, the Company issued 6,700,000 fully paid ordinary shares to the employees in accordance with the terms of their employment contracts.	**185,000**	-	**150,000**	-
2009 : Shares and Options Issue:				
On 6th March 2009, Cardia acquired all the issued capital of Biograde Limited through Scheme of arrangement. The Consideration for acquisition was paid as follows:				
259,964,442 Ordinary Shares at fair value of $0.025 per share.	-	6,499,111	-	6,499,111
259,964,442 Options exercisable at a price of 0.10 per share (expiring at 30 June 2011) at fair value of $0.004 per option	-	1,039,858	-	1,039,858

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 25 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.

Company Secretary Appointment/Resignation

Mr John Wilson, Company Secretary retired on 10th August 2010 and Miss Rekha Bhambhani was appointed as Company Secretary with effect from 10th August 2010.

Proposed Sale of Bioglobal Limited Shares

The Company announced to the market on 18th August 2010 that it proposed to dispose of its' investment in Bioglobal Limited, either in part or in full. The Company has entered into an Option Deed with an interested party to acquire the shares. The Deed involved a series of short dated back –to-back options to acquire the shares.

Under the Deed, the first call option had to be exercised on 15th September 2010 or the Deed would automatically terminate.

The first call option was not exercised on 15th September 2010 therefore the Deed has been terminated

Non Renounceable Rights Issue to Cardia Shareholders

On 19 August 2010 the Company announced a non-renounceable rights issue to Cardia shareholders on the basis of 1 ordinary share for every 3 shares in Cardia at 1.5cents per share.

247,198,862 ordinary shares were offered under the Rights Issue, of which 109,978,766 ordinary shares were subscribed for by Cardia shareholders by the closing date of issue (20th September 2010). The Directors will look to place the balance 137,220,096 shortfall shares within 2 months from the date of closure of the rights issue subject to the terms and conditions contained in the Offer Document.

The company raised approx $1.65 million from the Rights Issue. The Funds raised will provide additional working capital required for Cardia's Bioplastics business.

Heads of Agreement with Malaysian based company

On 28th September 2010, the Company announced that it had entered into a Heads of Agreement with Malaysian based company RNZ Green Bio to establish a new Malaysian entity, Cardia Bioplastics Malaysia Manufacturing ("CBMM").

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 26 RELATED PARTIES

A. Key Management Personnel
The names of persons who were Key Management Personnel of Cardia Bioplastics Limited at any time during the year are as follows:

Mr P J Volpe	**Chairman**
Dr F P Glatz	**Managing Director**
Dr J Scheirs	**Director**
Mr Chen Yi	**Director and General Manager (China Operations)**
Mr J Wilson	**Company Secretary (Resigned 10th August 2010)**
Mr A Fernando	**Chief Operating Officer**
Mr Chen Chang Ping	**Technical Director, China Operations**
Miss R Bhambhani	**Group Financial Accountant**
Mr Philip Lee	**Chief Financial Officer (Resigned 29th June 2010)**
Mr Barend Van den Hoek	**Chief Operating Officer (Resigned 1st July 2009)**

Remuneration

Information on remuneration of Key Management Personnel is disclosed in the Directors Report.

Transactions of Directors and Director-Related Entities Concerning Shares and Share Options

During the year, aggregate numbers of shares and share options of Cardia Bioplastics Limited acquired and/or disposed of by Directors of the parent entity or the consolidated entity or their Director-related entities from the Company were:

	Parent Entity	
	2010 Number	**2009 Number**
Acquisitions:		
Ordinary shares	6,260,000	79,981,634
Options expiring 30 June 2011	-	110,215,697
Disposals:		
Ordinary Shares	-	1,750,000
Options expiring 30 June 2011	-	-

Aggregate numbers of shares and share options of Cardia Bioplastics Limited held directly, indirectly or beneficially by Directors of the parent entity or the consolidated entity or their Director-related entities at balance date were:

	Parent Entity	
	2010 Number	**2009 Number**
Ordinary shares	**125,352,855**	128,384,757
Options expiring 30 June 2011	**102,151,271**	110,215,697

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 26 RELATED PARTIES (CONTINUED)

Other Transactions with Directors and Director-Related Entities

During the year, Cardia invoiced Botswana Metals Ltd $6,307 (incl GST) for the provision of office and administration facilities. Mr. P J Volpe is Chairman and the major shareholder of Botswana Metals Limited.

During the year, Cardia has entered into distribution agreement with Bio-Mart Pty Ltd, the Company which is controlled by relatives (children) of Mr. Volpe. The distribution agreement is on the identical commercial terms that apply to all the distributors. No commercial transactions have occurred with Bio-Mart Pty Ltd during the year.

During the year, Cardia invested $210,000 to acquire 7 million ordinary shares in the capital of P-Fuel Ltd ("P-Fuel") at an issue price of $0.03 per share. The shares were acquired as a result of an underwriting agreement entered into by Cardia in May 2009 in relation to an entitlements issue to all P-Fuel members. Mr Pat Volpe, Dr.John Scheirs and Dr.Frank Glatz are Directors and Shareholders of P-Fuel Limited.

Amounts owing from Directors and Director-related entities are disclosed in Note 9.

B. Wholly-owned group

The wholly-owned group consists of Cardia Bioplastics Limited and its wholly-owned controlled entities Cardia Bioplastics (Australia) Pty Ltd, Biograde (Hong Kong) Pty Ltd and Biograde (Nanjing) Pty Ltd .Ownership interests in these controlled entities are set out in Note 20.

Transactions between Cardia and other entities in the wholly-owned group during the years ended 30 June 2009 and 2010 consisted of interest-free loans advanced by Cardia and inter company sales and purchase transactions between Biograde (Nanjing) Pty Ltd and Cardia Bioplastics (Australia) Pty Ltd.

Aggregate amounts receivable by Cardia from entities in the wholly-owned group at balance date:

	2010 $	2009 $
Receivables	**6,985,743**	4,615,469
Provisions for impairment	**(4,647,843)**	(1,653,654)
	2,337,910	2,961,815

Other Related Parties

Cardia and Aquenox had reached an agreement in May 2010 that Cardia would forgive all its amounts owing from Aquenox Limited under the Convertible Debt Deed of $ 5,161,864 and Secured Loan of $1,000,000 with accrued thereon of $224,050 for an agreed amount of $80,000 in full settlement. The amount of $80,000 is disclosed in Note 12 as Financial Assets.

This amount is expected to be settled before 31 December 2010.

Ownership Interests in Related Parties

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

(a) Controlled Entities Note 20
(b) Associated Entity Note 11

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 27 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 totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	Economic Entity		Parent Entity	
		2010	2009	2010	2009
		$	$	$	$
Financial Assets					
Cash and cash equivalents	8	**1,718,012**	3,820,677	**1,264,935**	2,651,849
Secured Loans	12	**80,000**	1,145,473	**80,000**	1,145,473
Loans and receivables	9	**564,234**	312,998	**53,865**	29,709
Total Financial Assets		**2,362,246**	5,279,148	**1,398,800**	3,827,031
Financial Liabilities					
Financial liabilities at amortised cost					
Trade and other payables	16	**717,710**	1,101,990	**110,829**	416,944
Total Financial Liabilities		**717,710**	1,101,990	**110,829**	416,944

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 credit risk and liquidity risk.

Interest rate risk

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

Foreign currency risk

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

The group has minimized its major foreign currency risk exposure for payments in US Dollars through hedging, by applying US Dollars payments from its receivables in that currency.

For payments in all other foreign currencies, the Group has established that its exposure to foreign currency risk is not material at this stage.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 27 FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

The group manages liquidity risk by monitoring forecasted cash flows and ensuring that new funding facilities are in place either in the form of the issuing of new securities or establishing borrowing facilities.

Financial liability and financial asset maturity analysis

Economic Entity

2010	Weighted Average Effective interest rate	Floating interest rate	Fixed interest rate maturing 1 year or less	Fixed interest rate maturing 1 to 5 years	Fixed interest rate maturing Over 5 years	Non Interest bearing	Total
	%	$	$	$	$	$	$
From 1 July 2009 to 30 June 2010							
Assets:							
Cash	**1.82%**	**1,321,107**	**-**	**-**	**-**	**396,905**	**1,718,012**
Secured Loans		**-**	**-**	**-**	**-**	**80,000**	**80,000**
Loans & Receivables						**564,234**	**564,234**
Total financial assets		**1,321,107**	**-**	**-**	**-**	**1,041,139**	**2,362,246**
Liabilities:							
Trade & other payables		**-**	**-**	**-**	**-**	**717,710**	**717,710**
Net financial assets		**1,321,107**	**-**	**-**	**-**	**323,429**	**1,644,536**

Economic Entity

2009	Weighted Average Effective interest rate	Floating interest rate	Fixed interest rate maturing 1 year or less	Fixed interest rate maturing 1 to 5 years	Fixed interest rate maturing Over 5 years	Non Interest bearing	Total
	%	$	$	$	$	$	$
From 1 July 2008 to 30 June 2009							
Assets:							
Cash	**4.01%**	3,646,683	-	-	-	173,994	3,820,677
Secured Loans	**11.63%**	-	-	1,145,473	-	-	1,145,473
Loans & Receivables		-	-	-	-	312,998	312,998
Total financial assets		3,646,683	-	1,145,473	-	486,992	5,279,148
Liabilities:							
Trade & other payables		-	-	-	-	1,101,993	1,101,993
Net financial assets		3,646,683	-	1,145,473	-	(615,001)	4,177,155

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 27 FINANCIAL INSTRUMENTS (CONTINUED)

Parent Entity

2010	Weighted Average Effective interest rate	Floating interest rate	Fixed interest rate maturing 1year or less	1 to 5 years	Over5 years	Non Interest bearing	Total
	%	$	$	$	$	$	$
From 1 July 2009 to 30 June 2010							
Assets:							
Cash	2.14%	1,264,473	-	-	-	462	1,264,935
Loans & Receivable		-	-	-	-	53,865	53,865
Secured Loan		-	-	-	-	80,000	80,000
Total financial assets		1,264,473	-	-	-	134,327	1,398,800
Liabilities:							
Trade & other payables		-	-	-	-	110,829	110,829
Net financial assets		1,264,473	-	-	-	23,498	1,287,971

2009	Weighted Average Effective interest rate	Floating interest rate	Fixed interest rate maturing 1year or less	1 to 5 years	Over5 years	Non Interest bearing	Total
	%	$	$	$	$	$	$
From 1 July 2008 to 30 June 2009							
Assets:							
Cash	4.58%	2,651,849	-	-	-	-	2,651,849
Loans & Receivable	11.63%	-	-	-	-	2,991,524	2,991,524
Secured Loan		-	-	1,145,473	-	-	1,145,473
Total financial assets		2,651,849	-	1,145,473	-	2,991,524	6,788,846
Liabilities:							
Trade & other payables		-	-	-	-	416,944	416,944
Net financial assets		2,651,849	-	1,145,473	-	2,574,580	6,371,902

Trade and sundry payables are expected to be paid as follows:

	Economic Entity 2010	Economic Entity 2009	Parent Entity 2010	Parent Entity 2009
	$	$	$	$
Less than 6 months	717,710	1,090,665	110,829	405,619
6 months to 1 year	-	-	-	-
1 to 5 years	-	11,325	-	11,325
Over 5 years	-	-	-	-
	717,710	1,101,990	110,829	416,944

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 27 FINANCIAL INSTRUMENTS (CONTINUED)

I. Net Fair Values

Fair Value estimation

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the balance sheet. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgement and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

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.

	Foot note	Economic Entity		Parent Entity	
		2010	2009	**2010**	2009
		$	$	**$**	$
Financial Assets					
Cash and Cash equivalents	(i)	**1,718,012**	3,820,677	**1,264,935**	2,651,849
Secured Loans	(ii)	**80,000**	1,145,473	**80,000**	1,145,473
Loans & Receivables	(i)	**627,759**	368,910	**53,865**	2,991,524
Total financial assets		**2,425,771**	5,335,060	**1,398,800**	6,788,846
Financial Liabilities					
Trade & Other payables	(i)	**717,710**	1,101,990	**110,829**	416,957
Total financial liabilities		**717,710**	1,101,990	**110,829**	416,957

The fair value disclosed in the above table have been determined based on the following methodologies

(i) Cash and cash equivalents, trade and other receivables and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value. Trade and payables exclude amounts provided for relating to annual leave which is not considered a financial instrument.

(ii) Secured loan has been frozen to a fixed amount as disclosed in Note 12 (a) , and fair value therefore approximates carrying value.

III. Sensitivity Analysis

Interest Rate Risk and Foreign Currency Risk

The group has performed a sensitivity analysis relating to its exposure to interest rate risk, foreign currency risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Interest Rate Sensitivity Analysis

At 30 June 2010, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 27 FINANCIAL INSTRUMENTS (CONTINUED)

	Economic Entity		Parent Entity	
	2010	2009	**2010**	2009
	$	$	**$**	**$**
Change in profit				
- Increase in interest rate by 2%	30,211	97,861	25,301	83,759
-Decrease in interest rate by 2%	(30,211)	(97,861)	(25,301)	(83,759)
Change in Equity				
- Increase in interest rate by 2%	30,211	97,861	25,301	83,759
-Decrease in interest rate by 2%	(30,211)	(97,861)	(25,301)	(83,759)

Foreign Currency Risk Sensitivity Analysis

At 30 June 2010, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar, Euro and Canadian Dollar, with all other variables remaining constant is as follows:

	Economic Entity		Parent Entity	
	2010	**2009**	**2010**	2009
	$	**$**	**$**	**$**
Change in profit				
- Improvement in AUD to USD by 5%	15,911	34,419	-	-
- Decline in AUD to USD by 5%	(15,911)	(34,419)	-	-
- Improvement in AUD to EURO by 5%	11,512	-	-	-
- Decline in AUD to EURO by 5%	(11,512)	-	-	-
- Improvement in AUD to CAD by 5%	10,954	-	-	-
- Decline in AUD to CAD by 5%	(10,954)	-	-	-
Change in Equity				
- Improvement in AUD to USD by 5%	15,911	34,419	-	-
- Decline in AUD to USD by 5%	(15,911)	(34,419)	-	-
- Improvement in AUD to EURO by 5%	11,512	-	-	-
- Decline in AUD to EURO by 5%	(11,512)	-	-	-
- Improvement in AUD to CAD by 5%	10,954	-	-	-
- Decline in AUD to CAD by 5%	(10,954)	-	-	-

The above interest rate and foreign exchange rate sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

NOTE 28 COMPANY DETAILS

The principal place of business and registered office is:

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

1. The Directors declare that the financial statements ,notes set out on pages 26 to 72 and remuneration disclosures that are detailed within the Remuneration Report in the Directors' Report, 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 30 June 2010 and of the performance for the year ended on that date of the company and economic entity.

2. The Chairman and Company Secretary have each 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.

Pat Volpe
Director

Hawthorn
Dated this 30th day of September 2010

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WHK Horwath Pty Ltd
ABN 41 099 415 845

Member Crowe Horwath International

Independent Auditor's Report to the Members of Cardia Bioplastics Limited and Controlled entities

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Cardia Bioplastics Limited (the company) and Cardia Bioplastics Limited and Controlled Entities (the consolidated entity), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

THE RESPONSIBILITY OF THE DIRECTORS FOR THE FINANCIAL REPORT

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial statements, comprising the financial statements and notes, complies with IFRS.

AUDITOR'S RESPONSIBILITY

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

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

Liability limited by a scheme approved under Professional Standards
Legislation other than the acts or omissions of financial services licensees

better advice for a better life

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

INDEPENDENCE

We are independent of the company, and have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditors Independence Declaration, a copy of which is attached to the Financial Report.

AUDITOR'S OPINION

In our opinion:

a. the financial report of Cardia Bioplastics Limited and Cardia Bioplastics Limited and Controlled Entities is in accordance with the *Corporations Act 2001*, including:

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

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

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

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 18 to 21 of the report of the directors for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

AUDITOR'S OPINION

In our opinion the Remuneration Report of Cardia Bioplastics Limited for the year ended 30 June 2010 complies with s 300A of the *Corporations Act 2001*.

WHK HORWATH MELBOURNE

Peter Sexton
30 September 2010

The shareholder information set out below was applicable as at 27 September 2010.

(A) DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of equity security holders by size of holding:

			Ordinary Shares	Options 30 June 2011
1	-	1,000	87	105
1,001	-	5,000	336	424
5,001	-	10,000	339	382
10,001	-	100,000	1,097	794
100,001	and	over	645	421
			2,504	**2,126**

There were 1,335 holders of less than a marketable parcel of ordinary shares.

(B) EQUITY SECURITY HOLDERS

The names of the twenty largest holders of quoted equity securities are listed below:

Fully Paid Ordinary Shares	**Number Held**	**Percentage of Issued Shares**
Polarity B Pty Ltd	155,141,803	18.22
Vermar Pty Ltd	87,000,000	10.22
Growth Tech International Pty Ltd	33,333,334	3.92
Hsbc Custody Nominees (Australia) Limited	20,870,304	2.45
Mr Kwok Sin Poon + Mrs Ka Ming Marie Wong	17,174,842	2.02
Chen Yi	16,000,000	1.88
Sandhurst Trustees Ltd	15,502,222	1.82
Andama Holdings Pty Ltd	13,466,667	1.58
Citicorp Nominees Pty Ltd	12,024,688	1.41
Lee San Development Limited	9,800,000	1.15
Mr Vince Truda	9,500,000	1.12
Dr Frank Peter Glatz	9,000,000	1.06
Australian Brands Pty Ltd	8,660,000	1.02
Jiminy Pty Limited	7,333,334	0.86
Mr John Scheirs	6,592,224	0.77
Claric 182 Pty Ltd	6,500,000	0.76
Riotek Pty Ltd	6,200,000	0.73
J P Morgan Nominees Australia Limited	5,505,196	0.65
Cellante Securities Pty Limited	5,240,000	0.62
Bell Ixl Investments Limited	5,000,000	0.59
	449,844,614	**52.85**

(B) EQUITY SECURITY HOLDERS (CONTINUED)

Options-30 June 2011	Number Held	Percentage of Issued Options
Polarity B Pty Ltd	85,811,252	14.74
Vermar Pty Ltd	41,525,713	7.14
Growth Tech International Pty Ltd	33,333,334	5.73
Chen Yi	16,000,000	2.75
Simpol Pty Ltd	11,000,000	1.89
HSBC Custody Nominees (Australia) Limited	10,432,486	1.79
Goffacan Pty Ltd	9,506,967	1.63
Mr John Christoudias	9,500,000	1.63
Mr Vince Truda	9,200,000	1.58
Australian Brands Pty Ltd	8,660,000	1.49
Mr Gerald Di Benedetto	8,000,000	1.37
Mr John Scheirs	6,492,224	1.12
Mr Don Tsoutsoulis + Mrs Nadica Tsoutsoulis	6,097,881	1.05
Citicorp Nominees Pty Limited	5,933,878	1.02
Planmoor Investments Pty Ltd	5,780,000	0.99
Cardia Technologies Limited	5,508,992	0.95
Mrs Janet Louise Colman	5,400,000	0.93
Innovation Marketing & Finance Pty Ltd	5,340,000	0.92
William Thomas Investments Pty Ltd	5,000,000	0.86
Cressida Holdings Pty Ltd	5,000,000	0.86
	293,522,727	**50.44**

(C) SUBSTANTIAL SHAREHOLDERS

Substantial shareholders in the Company are:

	Number of Ordinary Shares Held	Percentage of Issued Shares
Polarity B Pty Ltd	155,141,803	18.22
Vermar Pty Ltd	87,000,000	10.22

(D) VOTING RIGHTS

The voting rights attaching to each class of equity security are set out below:

Ordinary Shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options

No voting rights.