

**TO: COMPANY ANNOUNCEMENTS OFFICE  
ASX LIMITED**

**DATE: 23 May 2011**

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**DESPATCH OF PROSPECTUS**

Further to earlier announcement on 5<sup>th</sup> May 2011 regarding the renounceable rights issue being made to Cardia shareholders, we advise that the Prospectus will be dispatched today to those shareholders entitled to participate.

A copy of the Prospectus is attached.

**REKHA BHAMBHANI**  
Company Secretary

# CARDIA BIOPLASTICS LIMITED

**ABN 89 064 755 237**

## PROSPECTUS

For the offer of a renounceable pro rata rights issue of approximately 447,274,855 New Shares on the basis of one New Share for every 2 existing Shares held on the Record Date at an issue price of 1 cent each to raise up to approximately \$4,500,000, with 1 free New Option for every 4 New Shares subscribed for.

If a New Option is exercised the New Option holder is entitled to receive a Piggy Back Option (***Rights Issue Offer***)

**Underwriter and Lead Manager**  
Patersons Securities Limited

### IMPORTANT NOTICE

The Securities offered by this Prospectus should be considered a speculative investment and potential investors should refer to Section 6 for further details concerning the risk factors.

This document is important. It should be read in its entirety. If you do not understand its contents or are in doubt as to the course you should follow, you should consult your stockbroker or professional adviser.

Neither Cardia Bioplastics Limited nor any other person guarantees the performance of the Securities offered pursuant to this Prospectus, or the performance of Cardia Bioplastics Limited, or the return of any investment.

## Corporate Directory

|                           |                                                                                                                                                          |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Directors:</b>         | Mr Pat Volpe (Chairman)<br>Mr Frank Glatz (Managing Director)<br>Mr John Scheirs (Non Exec. Director)<br>Mr Chen Yi (Non Exec. Director)                 |
| <b>Company Secretary:</b> | Miss Rekha Bhambhani                                                                                                                                     |
| <b>Contact Details:</b>   | Unit 18/35 Dunlop Road<br>Mulgrave VIC 3170<br>Telephone (03) 9562 0122<br>Facsimile (03) 9562 0422                                                      |
| <b>Share Registry:</b>    | Advanced Share Registry Services Limited *<br>Unit 2<br>150 Stirling Highway<br>NEDLANDS WA 6009<br>Telephone (08) 9389 8033<br>Facsimile (08) 9389 7871 |
| <b>Auditor:</b>           | William Buck Audit (Vic) Pty Ltd<br>Level 1, 465 Auburn Road,<br>HAWTHORN EAST VIC 3123<br>Telephone (03) 9824 8555<br>Fax (03) 9824 8580                |
| <b>Underwriter:</b>       | Patersons Securities Limited<br>Level 15, 333 Collins Street,<br>MELBOURNE VIC 3000<br>Telephone (03) 9242 4000<br>Fax (03) 9242 4099                    |
| <b>Lawyers:</b>           | Mills Oakley Lawyers<br>Level 6, 530 Collins Street<br>MELBOURNE VIC 3000<br>Telephone (03) 9670 9111<br>Fax (03) 9605 0933                              |
| <b>Stock Exchange:</b>    | ASX Limited *<br>Level 45,<br>Rialto South Tower<br>525 Collins Street<br>MELBOURNE VIC 3000                                                             |
| <b>Company Code:</b>      | CNN                                                                                                                                                      |

*\*These entities have not been involved in the preparation of this Prospectus and have not consented to being named in this Prospectus. They are named for information purposes only.*

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# 1 Important Dates and Important Information

## 1.1 Important Dates

| Event                                                                                                       | Date         |
|-------------------------------------------------------------------------------------------------------------|--------------|
| Announcement of the Rights Issue Offer                                                                      | 5 May 2011   |
| Lodge Prospectus with ASIC and ASX                                                                          | 5 May 2011   |
| Lodge Appendix 3B with the ASX                                                                              | 5 May 2011   |
| Notice to existing Optionholders regarding participation in the Right Issue Offer                           | 5 May 2011   |
| Notice sent to shareholders containing information required by Appendix 3B                                  | 6 May 2011   |
| Existing Shares quoted on “ex” basis                                                                        | 13 May 2011  |
| Rights trading starts                                                                                       | 13 May 2011  |
| Record Date to determine Entitlements to participate in the Rights Issue Offer                              | 19 May 2011  |
| Prospectus and Entitlement and Acceptance Forms despatched to Eligible Shareholders ( <b>Opening Date</b> ) | 23 May 2011  |
| Rights trading ends                                                                                         | 31 May 2011  |
| Final date and time for receipt of acceptance and payment in full ( <b>Closing Date</b> )*                  | 7 June 2011  |
| Company to notify ASX of under subscriptions                                                                | 9 June 2011  |
| Securities quoted on a deferred settlement basis                                                            | 13 June 2011 |
| Despatch of holding statements                                                                              | 16 June 2011 |
| Date of quotation of Securities                                                                             | 17 June 2011 |

*\*The dates are indicative only. Subject to the Listing Rules, the Directors may vary the dates without prior notice.*

## 1.2 Important Information

Applicants should read this document in its entirety and, if in doubt, should consult their professional advisors.

This Prospectus is dated 5 May 2011 and a copy of this Prospectus was lodged with ASIC on that date. ASIC and ASX take no responsibility for the content of this Prospectus.

The Expiry Date of the Prospectus is 13 months after the date the Prospectus was lodged with ASIC. No Securities will be allotted or issued on the basis of this Prospectus after the Expiry Date. Securities allotted or issued pursuant to this Prospectus will be allotted or issued on the terms and conditions set out in this Prospectus.

No person is authorised to give information or to make any representation in connection with this Prospectus which is not contained in the Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with this Prospectus.

Certain terms and abbreviations used in this Prospectus have defined meanings, which are explained in Section 10 of this Prospectus.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and therefore persons into whose possession this document comes should seek advice on and observe any such restrictions. Any failure to comply with these restrictions constitutes a violation of those laws. No action has been taken to register or qualify the Securities the subject of this Prospectus or otherwise permit a public offering of the Securities the subject of this Prospectus in any jurisdiction outside Australia.

Recipients may not send or otherwise distribute this Prospectus or the Application Form to any person outside Australia (other than to Eligible Shareholders).

Applicants should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for Securities pursuant to this Prospectus. For further information in relation to the risk factors of the Company please refer to Section 6 of this Prospectus.

## 2 Chairman's letter

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Dear Shareholder

On behalf of the Directors of Cardia, I am pleased to offer you the opportunity to participate in an offer of New Shares and New Options to Shareholders (***Rights Issue Offer***).

The primary purpose of the Rights Issue Offer is to provide the funding required to progress the Company's development projects, sales and marketing activities and further working capital funding, as the bioplastics business gains sales momentum for the Company.

In this respect, Cardia has been extensively working on development projects with several local and international companies. Some of these projects are in commercial negotiations and others have advanced to "in market trials".

Also, Cardia has appointed several major distributors which are expected to contribute to an increase in sales and positive cashflow over the next 12 months. It is anticipated these distributors will capture a share of the growing global bioplastics market.

A large part of this new global interest in Cardia and its products has been driven by the recent increase in the oil price resulting in price increases in conventional plastics. Brand owners are looking for alternatives such as bioplastics that contain less oil with a smaller carbon footprint. The Directors believe that Cardia is well positioned to meet their needs.

Further details of the purpose of the Rights Issue Offer are set out in Section 4 of this Prospectus.

Pursuant to the Rights Issue Offer, Eligible Shareholders are entitled to subscribe for 1 New Share for every 2 existing Shares held on the Record Date at 1 cent per New Share. The New Shares will be issued with 1 New Option for every 4 New Shares issued at no additional cost. The New Options are exercisable at 1.5 cents at any time before 30 June 2012. If a New Option is exercised, then the holder will receive 1 Piggy Back Option for each New Option, exercisable at 2 cents at any time before 30 June 2013. Eligible Shareholders who take up their entitlement in full pursuant to the Rights Issue Offer will also have the opportunity to apply for additional New Shares out of the Shortfall (if any). Further details of the Rights Issue Offer and the rights attaching to the Securities are set out in Sections 3 and 5 of this Prospectus.

In addition, those Eligible Shareholders who take up their entitlement in full pursuant to the Rights Issue Offer and hold less than 200,000 Shares are offered the opportunity to participate in the Rounding Up Offer described in Section 3.3 of this Prospectus.

The Rights Issue Offer is renounceable. This means that Eligible Shareholders who do not wish to take up all or some of their entitlements may sell or transfer their excess entitlements. Trading of entitlements will commence on 13 May 2011 and will cease at close of trading on 31 May 2011.

The Rights Issue Offer is also fully underwritten by Patersons Securities Limited (***Underwriter***). Further details regarding the underwriting of the Rights Issue Offer are set out in Sections 3.2 and 8.1 of this Prospectus. Pursuant to the terms of the Underwriting Agreement, the Underwriter (or its

nominees) will receive an additional 111,818,714 Underwriter Options on the same terms as the New Options.

The Rights Issue Offer is not being extended to any Shareholder with a registered address outside Australia or New Zealand. The Company will appoint a nominee who will seek to sell the entitlements of New Shares which would otherwise be issued to ineligible shareholders. The nominee will remit any proceeds of the sale of the entitlements or New Shares (less costs) to be distributed to the ineligible shareholders. Further details are set out in Section 3.11 of this Prospectus.

The Board of Cardia looks forward to your participation in the Rights Issue Offer.

Yours faithfully,

A handwritten signature in dark ink, appearing to read 'P Volpe', with a stylized flourish at the end.

Pat Volpe  
Chairman

### 3 Details of the Rights Issue Offer

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#### 3.1 Details of the Rights Issue Offer

The Company is making a pro rata renounceable offer to issue approximately 447,274,855 New Shares under this Prospectus at an issue price of 1 cent per New Share to raise approximately \$4.5 million. The New Shares will be issued with one New Option for every four New Shares issued at no additional cost, such that a maximum of 111,818,714 New Options are issued.

The New Shares are being offered on the basis of one New Share for every two Shares held on the Record Date. In the calculation of any entitlement, fractions will be rounded down to the nearest whole number.

The New Shares offered pursuant to this Prospectus will rank equally with existing Shares on issue. The New Options have an exercise price of 1.5 cents and an expiry date of 30 June 2012. If a New Option is exercised prior to the expiry date, the New Option holder is entitled to receive a Piggy Back Option exercisable at 2 cents on or before 30 June 2013. The full terms and conditions of the New Shares, New Options and Piggy Back Options are set out in sections 5.1 to 5.3 respectively of this Prospectus.

The Company currently has on issue 894,549,709 Shares. The Company also currently has on issue 581,992,197 listed Options. All Eligible Shareholders on the Record Date are entitled to participate in the Rights Issue Offer. Optionholders who exercise their Options after the date of this Prospectus but prior to the Record Date are also entitled to participate in the Rights Issue Offer.

The number of New Shares to which you are entitled as an Eligible Shareholder is shown on the accompanying personalised Entitlement and Acceptance Form.

The Rights Issue Offer is fully underwritten by Patersons Securities Limited. Refer to section 8.1 of this Prospectus for further details of the terms of the underwriting.

Eligible Shareholders holding less than 200,000 Shares after taking up their Entitlement in full may also participate in the Rounding Up Offer described in section 3.3 below.

Eligible Shareholders who accept their full Entitlement have the opportunity to apply for additional New Shares at the same issue price of 1 cent each. The allocation of these additional New Shares will be limited to any Shortfall and allocation will be at the discretion of the Directors (in consultation with the Underwriter).

#### 3.2 Underwriting

The Rights Issue Offer is fully underwritten by Patersons Securities Limited (ABN 69 008 896 311) (**Underwriter**). A summary of the Underwriting Agreement including the fees to be paid to the Underwriter is set out in Section 8.1 of this Prospectus.

The Underwriter may appoint sub-underwriters to sub-underwrite the Rights Issue Offer at its discretion.

Under the terms of the Underwriting Agreement and as an incentive for sub-underwriters, the Company has agreed to issue 111,818,714 Options (**Underwriter Options**) to the Underwriter (or its nominees) on the same

terms and conditions as the New Options as part consideration for underwriting the Rights Issue Offer on the basis of one Underwriter Option for every four Shares underwritten.

The offer of the Underwriting Options is a separate offer pursuant to this Prospectus. The Underwriter Options will be issued to or at the discretion of the Underwriter for distribution to sub-underwriters as identified by the Underwriter.

### **3.3 Details of the Rounding Up Offer**

If, after taking up your Entitlement in full, you still hold less than 200,000 Shares, you may apply to round up to 200,000 Shares out of the Shortfall (if any). If you wish to apply for additional New Shares (in excess of your Entitlement) for rounding up purposes, you may do so by completing the section in the Entitlement and Acceptance Form titled "Entitlement under the Round Up Offer", enclosing your cheque for the appropriate application monies and forwarding those documents to the share registry by the Closing Date (or such later date determined by the Directors and announced on ASX).

The number of New Shares which may be issued under the Rounding Up Offer is limited to the number of Shortfall Securities available under the Shortfall (if any). The Directors therefore cannot guarantee that any New Shares applied for under the Rounding Up Offer will be available for allocation.

### **3.4 Rights Trading**

Entitlements to Securities pursuant to the Rights Issue Offer are renounceable and accordingly, Rights will be traded on ASX. Details on how to sell your Rights are set out in Section 3.5 below.

### **3.5 How to accept the Rights Issue Offer**

#### **(a) If you want to take up your Rights**

If you are an Eligible Shareholder and you wish to take up all or part of your Rights, you must accept the Rights Issue Offer by completing the personalised Entitlement and Acceptance Form mailed to you with this Prospectus. Your personalised Entitlement and Acceptance Form will detail your entitlement to New Shares and New Options under the Rights Issue Offer. You should complete the form in accordance with the instructions set out on the reverse side of the form.

Your completed Entitlement and Acceptance Form must be accompanied by the requisite Application Monies calculated at 1 cent for each New Share or payment must be made via Bpay® following the instructions on your personalised Entitlement and Acceptance Form, by the Closing Date (or such later date as the Directors advise).

#### **(b) If you want to apply for additional New Shares**

Eligible Shareholders who accept their full Entitlement have the opportunity to apply for additional New Shares.

If you wish to apply for any additional New Shares under the Shortfall, complete the accompanying Shortfall Acceptance Form in respect of the number of additional New Shares you wish to apply for and include an appropriate payment of the Application Monies.

A single cheque, money order or bank draft should be used for the Application Monies for your Entitlement and the additional New Shares being applied for. That is, the total New Shares applied for multiplied by 1 cent. Send the completed Shortfall Acceptance Form and cheque to the Share Registry before the Closing Date.

Alternatively, if you wish to include payment for additional New Shares using Bpay®, the Share Registry may treat you as applying for as many New Shares as the cleared monies will pay for.

The Directors (in consultation with the Underwriter) reserve the right to allocate any Shortfall at their absolute discretion (subject to the order of allocation set out in Section 3.7 below). As such, Eligible Shareholders who apply for additional New Shares may receive fewer than that applied for or none at all. In this event, any surplus Application Monies will be refunded without interest as soon as practicable.

**(c) If you wish to sell your Rights in full on ASX**

If you wish to sell all of your Rights on ASX, follow the instructions on the back of the accompanying Entitlement and Acceptance Form.

You can sell your Rights on ASX from 13 May 2011. All sales on ASX must be effected by close of trading on 31 May 2011, when Rights trading ends on the ASX.

The Company does not accept any responsibility for any failure by your stockbroker to carry out your instructions.

**(d) If you wish to sell part of your Rights on ASX and take up the balance**

If you wish to sell part of your Rights on ASX and take up the balance, follow the instructions on the back of the accompanying Entitlement and Acceptance Form.

You can sell your Rights on ASX from 13 May 2011. All sales on ASX must be effected by close of trading on 31 May 2011, when Rights trading ends on the ASX.

To take up the remaining part of your Rights, your stockbroker will need to ensure that the completed Entitlement and Acceptance Form together with the requisite Application Monies reaches the Share Registry by the Closing Date (or such later date as the Directors advise).

The Company does not accept any responsibility for any failure by your stockbroker to carry out your instructions.

**(e) If you wish to transfer all or part of your Rights to another person other than on ASX**

If you hold Shares on the issuer-sponsored register and you wish to transfer all or part of your Rights to another person other than on ASX, forward a completed standard renunciation form (which can be obtained from your stockbroker or the Share Registry) signed by you (as the seller) and the buyer, together with the Entitlement and Acceptance Form completed by the buyer and the buyer's cheque or bank draft for the appropriate Application Monies to reach the

Share Registry by no later than the Closing Date (or such later date as the Directors advise).

If you are an Eligible Shareholder holding Shares on CHESS and you wish to transfer all or part of your Rights to another person other than on ASX, you should contact your sponsoring participant.

If the Share Registry receives both a completed renunciation form and a completed Entitlement and Acceptance Form in favour of the same Shareholder in respect of the same Rights, the renunciation will be given effect in priority of the acceptance.

(f) **If you do nothing**

If you are an Eligible Shareholder and you do nothing by the Closing Date, your Rights will form part of the Shortfall which will be dealt with by the Underwriter as outlined in Section 3.7.

(g) **Form of payment**

All cheques must be drawn on an Australian Bank or Bank Draft and made payable in Australian currency to "Cardia Bioplastics Share Subscription A/c" and crossed "Not Negotiable".

Your completed Entitlement and Acceptance Form, together with your cheque must be forwarded to:

By Mail:

In Person:

Advanced Share Registry Ltd  
P O Box 1156  
Nedlands WA 6009

Advanced Share Registry Ltd  
150 Stirling Highway  
Nedlands WA 6009

Those who elect to pay via Bpay® must follow the instructions for Bpay® set out in the Entitlement and Acceptance Form. Investors who elect to pay via Bpay® will not need to return their completed Entitlement and Acceptance Form.

Completed Entitlement and Acceptance Forms or payment by Bpay® must be received by no later than 5.00pm AEST on the Closing Date.

### **3.6 Minimum subscription**

There is no minimum subscription for the Rights Issue Offer.

### **3.7 Shortfall**

If you do not wish to take up any part of your Entitlement or trade your Rights under the Rights Issue Offer, you are not required to take any action. However, your percentage shareholding in the Company will be diluted. That part of your Entitlement not taken up or traded will form part of the Shortfall.

The Shortfall will be dealt with at the discretion of the Directors (in conjunction with the Underwriter) and will be allocated in the following order:

- (a) to Eligible Shareholders who accept their full Entitlement and apply for additional New Shares as part of the Rounding Up Offer; and then

- (b) to Eligible Shareholders who accept their full Entitlement and apply for additional New Shares; and then
- (c) to the Underwriter.

The offer of the Shortfall (including the Rounding Up Offer) are separate offers pursuant to this Prospectus. The issue price of any New Shares allocated pursuant to the Shortfall shall be 1 cent, being the price at which the Entitlement has been offered to Shareholders pursuant to this Prospectus and will include one New Option for every four New Shares allotted.

In the event that the Shortfall or part of the Shortfall is not dealt with by the Underwriter for any reason, the Directors reserve the right to issue the Shortfall at their discretion.

### **3.8 Allotment of Securities**

Securities issued pursuant to the Rights Issue Offer will be allotted as soon as practicable after the Closing Date and otherwise in accordance with the Listing Rules. Where the number of Securities issued is less than the number applied for, or where no allotment is made under the Shortfall, surplus Application Monies will be refunded without any interest to the Applicant as soon as practicable after the Closing Date.

Until allotment and issue of the Securities or payment of refunds pursuant to this Prospectus, the Application Monies will be held in trust in a separate bank account opened and maintained for that purpose only. Any interest earned on the Application Monies will be for the benefit of the Company and will be retained by it irrespective of whether allotment and issue of the Securities takes place.

### **3.9 ASX Listing**

The Company will make application to ASX within 7 days following the date of this Prospectus for official quotation of the Securities offered pursuant to this Prospectus. If approval is not granted by ASX within 3 months after the date of this Prospectus, the Company will not allot the Securities and will repay all Application Moneys (where applicable) as soon as practicable, without interest.

A decision by ASX to grant official quotation of the Securities is not to be taken in any way as an indication of ASX's view as to the merits of the Company, or the Securities.

### **3.10 Piggy Back Options**

Any Piggy Back Options issued upon exercise of the New Options or Underwriter Options will not be issued to holders of such Options until such time as the Company has prepared a disclosure document for the purposes of complying with the technical requirements of the Corporations Act in respect of the grant of those subsequent Piggy Back Options.

### **3.11 Ineligible Shareholders**

The Company has decided that it is unreasonable to make offers under the Rights Issue Offer to Shareholders with registered addresses outside Australia and New Zealand having regard to:

- (a) the number of Shareholders in those places;
- (b) the number and value of the New Shares they would be offered;
- and

- (c) the cost of complying with the legal and regulatory requirements in those places.

Accordingly, the Rights Issue Offer is not being extended to, and does not qualify for distribution or sale, and no New Shares will be issued under the Rights Issue Offer to Shareholders having registered addresses outside Australia and New Zealand. This Prospectus is sent to those Shareholders for information purposes only.

The Directors will offer the Rights which would otherwise have been offered to each of those Shareholders to a nominee approved by ASIC (**Nominee**). The Company will announce the identity of the nominee once approved by ASIC. If there is a viable market in the Rights and a premium over the expenses of the sale can be obtained, the Nominee will sell the Rights. Any sale will be at prices and otherwise in a manner determined by the Nominee in its sole discretion. The Nominee will not charge the Company any fees in acting in this capacity other than the recovery of any expenses in relation to the sale.

Neither the Company nor the Nominee will be held liable for failure to sell the Rights or to sell the Rights at any particular price. The proceeds of the sale will be distributed to Shareholders for whose benefit the Rights are sold in proportion to their Shareholding (after deducting costs).

If there is no viable market for the Rights, the Rights of Shareholders with registered addresses outside Australia and New Zealand will be allowed to lapse.

### **3.12 CHESS and Cardia Sponsorship**

The Company participates in CHESS. ASTC, a wholly owned subsidiary of ASX, operates CHESS in accordance with the ASX Listing Rules, the ASTC Settlement Rules and the ACH Clearing Rules. Holders of Securities will not be issued a certificate but will be issued and sent a confirmation of their allotment of their holding of Securities.

If you are a sponsored holder in CHESS, you will be sent a confirmation notice by the Share Registry which will set out the number of Securities issued to you under this Prospectus and provide details of your HIN (holder identification number).

If you are registered on the issuer sponsored sub-register, your holding statement will contain the number of Securities issued to you under this Prospectus and your SRN (security holder reference number).

A CHESS holding statement or issuer sponsored holding statement will otherwise be sent to Shareholders or Optionholders at the end of any calendar month during which the balance of their shareholding changes. Shareholders or Optionholders may request a statement at any other time; however a charge may be made for additional statements.

### **3.13 Privacy Act**

Shareholders provide personal information to the Company (directly or indirectly to the Company's share registry). The Company collects, holds and will use that information to service your needs as a Shareholder, facilitate distribution payments and corporate communications to you as a Shareholder and carry out administration.

The information may also be used from time to time and disclosed to persons inspecting the register, bidders for your securities in the context of takeovers, regulatory bodies, including the Australian Taxation Office,

authorised securities brokers, print service providers, mail houses and the Company's share registry.

You can access, correct and update the personal information that we hold about you. Please contact the Company or its share registry if you wish to do so at the relevant contact numbers set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the Privacy Act, the Corporations Act and certain rules such as the ASTC Settlement Rules. You should note that if you do not provide the information required on the application for New Shares, the Company may not be able to accept or process your application.

#### **3.14 Taxation**

It is the responsibility of all persons to satisfy themselves of the particular taxation treatment that applies to them by consulting their own professional tax advisers. Taxation consequences will depend on particular circumstances. Neither the Company nor any of its officers accept any liability or responsibility in respect of the taxation consequences connected with an investment in the Securities in the Company.

#### **3.15 Enquiries**

Any questions concerning the Rights Issue Offer should be directed to the Company Secretary, Miss Rekha Bhambhani on +61 3 9562 0122.

## **4 Purpose and Effect of the Rights Issue Offer**

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### **4.1 Background**

Cardia develops, manufactures and markets sustainable resins and finished products derived from renewable resources for the global packaging and plastic products industries. The Company holds a strong provisional patent portfolio to drive its mission to be an international supplier of technically advanced sustainable resins made from renewable resources.

Cardia has its headquarters and global applications development centre in Melbourne, Australia. Its product development centre and manufacturing plant is in Nanjing, China. Cardia has representative offices located in Europe, Malaysia, China and the Americas. These offices complement a network of leading distributors across Australia, the Americas, Asia and Europe.

Cardia's growth is fuelled by the global trend towards sustainable packaging. Cardia gives customers the choice of using sustainable Cardia Biohybrid™ resins or compostable resins for their packaging or plastic product applications. As a service to customers, the Cardia team offers design, development and production of ready to use finished goods, such as film and bag products. Cardia's materials are suitable for film, injection moulding, blow moulding, foam, extrusion and coating applications.

Cardia has also focused on development projects with several local and international companies under confidential development agreements. Some of these projects have progressed to Memorandum of Understanding stage with others now being in commercial negotiations after in market trials having been completed. Whilst no assurances can be given as to the success of converting these projects from development to successful commercial outcomes, any number of conversions would result in a substantial and positive effect on the Company's sales and cash flows.

The Company has developed both flexible and rigid packaging products and Cardia is now being acknowledged by global companies as a quality and reliable provider of bioplastics solutions, technology and finished products. This was evidenced with the announcement during the year by Nestle that Cardia is their development partner for renewable and sustainable bioplastics packaging.

In respect of its standard finished products, the Company has been successful in supplying either direct to clients or through distribution partners or converters, brand owners such as McDonalds, KFC, Jusco, BOC Gas, Nature Organics, K-Mart trials, Brisbane City Council, Penrith City Council trials, and many others.

Recently Cardia won contracts to supply bio-film for the manufacture of a range of baby diaper and feminine hygiene products and Biohybrid™ resin to other environmentally responsible product suppliers into the retailer markets of the USA, Europe and the South America. Cardia's distribution network has also recently expanded with the appointment of Wesco Polymers in China, Plastribution in the UK and EcoVentures in Brazil adding to our established distributors being Muhlestein for USA and Marubeni for Europe.

Cardia has won many awards since commencing business in 2002. Some of the achievements include the AustCham China Business Excellence Award 2008 and the 2009 CleanEquity Monaco Conference Award for Excellence in Environmental Technology Commercialisation. In 2008, Cardia won an

exclusive supply contract of compostable packaging to the Beijing 2008 Olympics and Paralympics.

Cardia has filed 44 provisional patents covering its Cardia Compostable and Cardia Biohybrid™ products and applications, as well as its development of novel biodegradable and compostable plastics made from carbon dioxide (Polypropylene carbonate (PPC)) and renewable resources and established a subsidiary fully focused on the next generation of CO2S bioplastics.

The manufacturing facilities of the Company are in one of the world's most efficient manufacturing districts; Nanjing, China and can now manufacture up to 10,000 tonnes per year of its proprietary resin products and convert these resins into finished goods like flexible film and bags on its in-house film and bag making facilities.

#### **4.2 Purpose of the Rights Issue Offer**

The purpose of the Rights Issue Offer is to supplement capital to the business to fund anticipated growth in sales along with the planned expansion of manufacturing and marketing capabilities of the Company and will allow the Company to meet growing demand for its bioplastics products.

Assuming no existing Options are exercised prior to the Record Date, on the basis that that the Rights Issue Offer is fully underwritten, the issue of all the New Shares under this Prospectus will raise approximately \$4.5 million before expenses. In addition to the issue of the New Shares, if all New Options which are issued are also exercised prior to the Option Expiry Date, the Company will raise approximately a further \$3.35 million in addition to the amount raised by the issue of New Shares.

#### **4.3 Use of Funds**

The net proceeds from the Rights Issue Offer will be used to fund the following:

- (a) current and new client development projects;
- (b) manufacturing and distribution activities of the Company;
- (c) expansion of the sales and marketing team of the Company to develop new alternative packaging for major brand owners;
- (d) maintenance of the Company's existing provisional patents portfolio, accreditations and application for new patents;
- (e) the purchase and implementation of a new integrated financial accounting system (ERP) that will allow management of financial and accounting systems and reporting which will be required as the Company's business expands globally;
- (f) the purchase of additional equipment to expand the resin and finished goods capability of the Company; and
- (g) for general working capital requirements.

The net proceeds from the Rights Issue Offer (i.e. less the expenses as detailed in Section 8.7 of this Prospectus) will be approximately \$4.06 million and will be applied over next 12 months. In detail it is anticipated that the funds raised pursuant to the Rights Issue Offer will be used as follows:

| <b>Item</b>                                                                           | <b>\$</b>        |
|---------------------------------------------------------------------------------------|------------------|
| Purchase of additional equipment                                                      | 1,720,000        |
| Development Projects                                                                  | 840,000          |
| Purchase and implementation of the ERP financial accounting system                    | 140,000          |
| Expansion of international sales and marketing team                                   | 320,000          |
| Maintenance of the existing provisional patents portfolio and new patent applications | 210,000          |
| General Working Capital                                                               | 831,219          |
| Cost of Issue                                                                         | 411,529          |
| <b>Total</b>                                                                          | <b>4,472,748</b> |

#### **4.4 Effect on capital structure**

The effect of the offers of securities under this Prospectus on the capital structure of the Company is set out below.

|                                                         | <b>Shares</b>        | <b>Options</b>     |
|---------------------------------------------------------|----------------------|--------------------|
| Securities currently on issue                           | 894,549,709          | 581,992,197*       |
| Securities offered pursuant to the Rights Issue Offer   | 447,274,855          | 111,818,714        |
| Underwriter Options offered pursuant to this Prospectus | -                    | 111,818,714        |
| <b>Total</b>                                            | <b>1,341,824,564</b> | <b>805,629,624</b> |

\* CNNO options exercisable at 10 cents, expiring 30 June 2011.

It should also be noted that if the New Options and Underwriter Options issued pursuant to this Prospectus are exercised by the Option Expiry Date, the Optionholder will be entitled to receive a Piggy Back Option. Assuming all New Options and Underwriter Options are exercised in this period, the Company will issue a total of 223,637,428 Piggy Back Options.

#### **4.5 Effect on financial position**

Set out below is the un-audited pro forma statement of financial position of the Company as at 31 December 2010 which presents the audited financial position as at 30 June 2010, as audited by William Buck Audit (VIC) Pty Ltd, the audit reviewed financial position as at 31 December 2010, as reviewed by William Buck Audit (VIC) Pty Ltd, and the unaudited statement of financial position which has been adjusted for the impact of the proposed Offers.

|                                                      | Audited<br>30/06/2010 | Audit<br>Reviewed<br>31/12/2010 | Proforma<br>31/12/2010 |
|------------------------------------------------------|-----------------------|---------------------------------|------------------------|
|                                                      | \$                    | \$                              | \$                     |
| <b>ASSETS</b>                                        |                       |                                 |                        |
| <b>CURRENT ASSETS</b>                                |                       |                                 |                        |
| Cash and cash equivalents                            | 1,718,012             | 1,952,056                       | 6,013,275              |
| Trade and other receivables                          | 627,759               | 666,315                         | 666,315                |
| Inventories                                          | 595,696               | 645,703                         | 645,703                |
| Financial Assets                                     | 80,000                | -                               | -                      |
| <b>TOTAL CURRENT ASSETS</b>                          | <b>3,021,467</b>      | <b>3,264,074</b>                | <b>7,325,293</b>       |
| <b>NON-CURRENT ASSETS</b>                            |                       |                                 |                        |
| Investments accounted for<br>using the equity method | 916,147               | -                               | -                      |
| Plant and equipment                                  | 926,166               | 774,790                         | 774,790                |
| Financial assets                                     | 210,000               | 3,027,000                       | 3,027,000              |
| Intangible assets                                    | 6,776,704             | 6,711,580                       | 6,711,580              |
| <b>TOTAL NON-CURRENT<br/>ASSETS</b>                  | <b>8,829,017</b>      | <b>10,513,370</b>               | <b>10,513,370</b>      |
| <b>TOTAL ASSETS</b>                                  | <b>11,850,484</b>     | <b>13,777,444</b>               | <b>17,838,663</b>      |
| <b>CURRENT LIABILITIES</b>                           |                       |                                 |                        |
| Trade and other payables                             | 717,710               | 532,228                         | 532,228                |
| Short-term provisions                                | 125,372               | 159,154                         | 159,154                |
| <b>TOTAL CURRENT<br/>LIABILITIES</b>                 | <b>843,082</b>        | <b>691,382</b>                  | <b>691,382</b>         |
| <b>TOTAL LIABILITIES</b>                             | <b>843,082</b>        | <b>691,382</b>                  | <b>691,382</b>         |
| <b>NET ASSETS</b>                                    | <b>11,007,402</b>     | <b>13,086,062</b>               | <b>17,147,281</b>      |
| <b>EQUITY</b>                                        |                       |                                 |                        |
| Issued capital                                       | 33,749,092            | 36,035,925                      | 40,097,144             |
| Reserves                                             | 1,979,685             | 2,713,413                       | 2,713,413              |
| Accumulated losses                                   | (24,777,172)          | (25,721,307)                    | (25,721,307)           |
| Parent entity interest                               | 10,951,605            | 13,028,031                      | 17,089,250             |
| Non controlling interest                             | 55,797                | 58,031                          | 58,031                 |
| <b>TOTAL EQUITY</b>                                  | <b>11,007,402</b>     | <b>13,086,062</b>               | <b>17,147,281</b>      |

*Notes:*

*In preparing the pro forma accounts no assumptions have been made other than that the Company will raise \$ 4,061,219 after costs from the Rights Issue Offer, which will result in increase in cash and cash equivalents (current asset) and corresponding increase in issued capital (equity) by the amount raised. The Company will apply the funds raised for the purposes disclosed in section 4.4 of the Prospectus.*

## **5 Rights and Liabilities attaching to New Securities**

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### **5.1 Rights attached to New Shares**

New Shares will, once issued, rank *pari passu* with existing Shares. The rights attached to Shares are:

- (a) set out in the Company's Constitution which may be examined free of charge by appointment between 9.00am and 5.00pm on normal business days at the registered office of the Company; and
- (b) in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules and the general law.

Set out below is a summary of the principal rights attaching to Shares:

(a) *General meetings*

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

(b) *Reports and Notices*

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

(c) *Voting rights*

At a general meeting of the Company every ordinary member present in person, or by proxy, attorney or representative shall on a show of hands, have one vote and upon a poll every member present in person or by proxy, attorney or representative has one vote for every Share held. A qualification to the above is that where a person is present at a meeting as proxy or representative for more than one member then on a show of hands that person shall have only one vote and not one vote for each person represented by him.

(d) *Issue of further Shares*

The allotment and issue of Shares is under the control of the Directors of the Company. Subject to restrictions on the allotment of Shares to Directors or their associates contained in the Constitution, the Corporations Act, and the ASX Listing Rules, the Directors may allot or otherwise dispose of Shares on such terms and conditions as they see fit.

(e) *Variation of rights*

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

(f) *Winding up*

Subject to any special or preferential rights attaching to any class or classes of shares, members will be entitled in a winding up to share in any surplus assets of the Company in proportion to the Shares held

by them respectively, less any amount which remains unpaid on their Shares at the time of distribution.

(g) *Dividends*

The Directors may declare and authorise the distribution of dividends to be distributed to members according to their rights and interests subject to the Corporations Act.

(h) *Transfer of Shares*

Subject to the Constitution of the Company and the Corporations Act the New Shares will be freely transferable.

(i) *Reduction of Capital*

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

(j) *Directors*

The Constitution of the Company contains provisions relating to the rotation of Directors (other than the managing director).

## 5.2 **Terms and Conditions of New Options and Underwriter Options**

The following is a summary of the rights and liabilities attaching to the Options offered by this Prospectus:

- (a) Each Option entitles the holder to, subject to any Shareholder approval under Item 7 of section 611 of the Corporations Act (if required), subscribe for one Share in the Company at the exercise price of 1.5 cents. If an Option is exercised by the Option Expiry Date, the Optionholder is entitled to receive a Piggy Back Option for no additional consideration.
- (b) Each Option will expire at 5.00pm EST on 30 June 2012 (**Option Expiry Date**).
- (c) Each Share allotted as a result of the exercise of an Option will rank in all respects pari passu with the existing Shares in the Company on issue at the date of allotment.
- (d) Options do not have any voting rights at general meetings of the Company.
- (e) Subject to the Constitution of the Company and the Corporations Act, the Options will be freely transferable and it is intended that application will be made to ASX for quotation of the New Options.
- (f) An Optionholder may exercise Options at any time prior to the Option Expiry Date by submitting the relevant Option Exercise Form to the Company's Share Registry. Forms for exercising New Options are available from the Company's share registry, the Company's website or by contacting the Company directly.
- (g) Options issued by the Company do not entitle the Optionholder to participate in new issues by the Company.
- (h) In the event of any reconstruction (including a consolidation, sub-division, reduction or return) of the issued capital of the Company, all rights of holders of Options will be changed to the extent necessary to comply with the Listing Rules at the time of the reorganisation.

### **5.3 Terms and conditions of Piggy Back Options**

The terms and conditions of the Piggy Back Options are as follows:

- (a) Each Piggy Back Option entitles the holder to, subject to any Shareholder approval under item 7 of section 611 of the Corporations Act (if required), subscribe for one Share in the Company at the exercise price of 2 cents.
- (b) The Piggy Back Options are exercisable on and from the date of issue and expire at 5.00pm on 30 June 2013. Any Piggy Back Options not exercised on or before that date will automatically lapse.
- (c) The Piggy Back Options will only be issued under a disclosure document to be lodged with ASIC probably in July 2012.
- (d) The terms and conditions of the Piggy Back Options are otherwise the same as the Options set out in Section 5.2 above.

## **6 Risk Factors**

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### **6.1 General**

There are a number of factors, both specific to Cardia and of a general nature, which may affect the future operating and financial performance of Cardia and the value of an investment in Cardia.

Some of these factors can be mitigated by the use of safeguards and appropriate commercial action. However, many are outside the control of Cardia and cannot be mitigated.

This section describes certain risks associated with an investment in Cardia. Prior to making an investment decision, Eligible Shareholders should carefully consider the following risk factors, as well as the other information contained in this Prospectus.

### **6.2 Securities Investment**

Applicants should be aware that there are risks associated with investment in securities of companies listed on a stock exchange. The value of securities can be expected to fluctuate depending on various factors including general worldwide economic conditions, changes in government policies, investor perceptions, movements in interest rates and stock markets, variations in the operating costs and costs of capital replacement which Cardia may in the future require. Accordingly, assuming that the New Securities are granted official quotation by ASX, they may trade on ASX at higher or lower prices than the issue price.

Each Applicant should consider whether Securities are a suitable investment for them before deciding to invest in the Securities. Any Applicant in doubt about investing in securities should consult their stockbroker, accountant, lawyer or other professional adviser immediately.

### **6.3 Economic risks**

#### *(a) Economic risk and external market factors*

Factors, such as, but not limited to, political movements, stock market trends, changing customer preferences, interest rates, inflation levels, commodity prices, exchange rates, industrial disruption, environmental impacts, international competition, taxation changes and legislative or regulatory changes, may all have an adverse impact on Cardia's operating costs, profit margins and share price. These factors are beyond the control of Cardia and Cardia cannot, to any degree of certainty, predict how they will impact on Cardia.

#### *(b) War and terrorist attacks*

War or terrorist attacks anywhere in the world could result in a decline in economic conditions worldwide or in a particular region. There could also be a resultant material adverse effect on the business, financial condition and financial performance of Cardia.

#### *(c) Foreign exchange risk*

Revenue and expenditure in overseas jurisdictions are subject to the risk of fluctuations of international currency exchange markets. Foreign taxes, limitation on repatriation of earnings, compliance with foreign accounting and business laws, and cultural differences, carry a certain amount of risk. Fluctuations in exchange rates may

adversely affect the Company and the price of its Shares. The Company does not at present have any currency hedging in place.

#### **6.4 Specific risks**

*(a) Profitability*

The Company is not presently profitable and may never be so. The ability of the Company to pay dividends will depend on it generating revenue and the overall financial position of the Company.

*(b) On-going capital requirements for Cardia*

If Cardia requires access to further funding at any stage in the future, Cardia may be adversely affected in a material way if, for any reason, access to that capital is not available. There can be no assurance that additional funds will be available. If additional funds should be raised by issuing equity securities, this might result in dilution to the then existing Shareholders.

*(c) Ability to retain and attract personnel*

Cardia's success depends, in part, on its ability to identify, attract, motivate and retain suitably qualified management personnel. Competition for qualified staff is strong. The inability to access and retain the services of a sufficient number of qualified staff could be disruptive to Cardia's development efforts or business development and could materially adversely affect its operating results.

*(d) Litigation*

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

*(e) Regulatory Risks*

Operations by the Company may require approvals from regulatory authorities which may not be forthcoming or which may not be able to be obtained on terms acceptable to the Company. While the Company has no reason to believe that all requisite approvals will not be forthcoming Applicants should be aware that the Company cannot guarantee that any requisite approvals will be obtained. A failure to obtain any approvals would mean that the ability of the Company to develop or operate any project may be limited or restricted either in part or absolutely.

*(f) Risks Related to Investment in Technology Generally*

Investment in areas involving technology are generally subject to high levels of risk. Risks involve those associated with maintenance and development of intellectual property, competition, product obsolescence, the risk that research and development outcomes generally, although successful in laboratory conditions, may not be able to be replicated on a commercial basis either at all or profitably, the time frame for product development and market penetration and other risks such as relying on research personnel which may be contracted, the financial and marketing competence and ability of licensees and other persons.

(g) *Intellectual Property Rights*

Obtaining, securing and maintaining rights to technology and patents are an integral part of the Company's business. Competition in retaining and sustaining protection of technology and the complex nature of technologies can lead to patent disputes.

Cardia's success depends, in part, on its ability to obtain patents, maintain trade secret protection and operate without infringing the proprietary rights of third parties. Additionally, success may depend on the Company enforcing and defending its intellectual property against third-party challengers. Because the patent position of companies such as Cardia can be highly uncertain and frequently involve complex legal and factual questions, neither the breadth of claims allowed nor their enforceability can be predicted. There can be no assurance that any patents which Cardia may own, access or control will afford Cardia commercially significant protection of its technology or its products or have commercial application.

(h) *No Valuation*

No formal or informal valuations have been completed of any of the intellectual property or other assets of the Company. The Company makes no representation as to the value of its intellectual property or any other such assets. All impending investors and their advisers should make their own assessments as to these matters after having regard to all of the matters contained in this Prospectus.

(i) *Impairment of Assets*

The assets of the Company such as goodwill may be subject to impairment. Such impairment would affect the underlying net assets of the Company.

(j) *Limited operating history*

Cardia has only commenced sales of its products within the past three years, and continues to develop and launch new product lines. Therefore, the Company is subject to all of the risks inherent in a new business enterprise. Additionally, with a limited operating history, it makes it difficult to evaluate Cardia's financial performance and prospects. As such, period to period comparisons of results from operations may not be meaningful.

(k) *Commercial success depends on widespread market acceptance of bioplastics*

The market for bioplastics is a relatively young industry and is still developing. Cardia's success is dependent on consumers' acceptance of these plastic products as well as the successful commercialisation of its plastics produced with Cardia resins by third parties.

(l) *Ability to recycle existing plastics improves*

Established product manufacturers could improve their ability to recycle their existing products or develop new environmentally friendly products which could render Cardia's technology less competitive. Any improvements or increased recycling of plastic

products could lessen its harmful environmental impact, and have an adverse affect on Cardia business.

(m) *Regulatory changes*

Cardia and many of its product applications that are sold into end markets are regulated by various national and local regulations. Changes in those regulations could result in additional costs, seizures, confiscations, recall or fines, any of which could prevent the Company from development and distribution of it's products.

(n) *Volatility of petroleum prices*

The traditional plastics market is subject to fluctuations in petroleum prices. This hydrocarbon is a critical raw material in the development and manufacturing of plastics. Recently, these prices have been volatile and moved increasingly toward conditions that are supportive of the bioplastics market. With the bioplastic market currently commanding a premium price, any fall in petroleum prices could render bioplastics less competitive as the gap between bioplastic and traditional plastic pricing narrows.

(o) *Intellectual property protection*

Commercial success may depend on Cardia's ability to obtain and/or maintain patents, trade secrets and trademark protection of its technology. Additionally, success may depend on the Company enforcing and defending its intellectual property against third-party challengers.

(p) *External Suppliers*

Cardia relies on a number of external suppliers for the provision of services and feedstocks. There can be no assurance given that the failure of an external supplier(s) will not adversely affect the business of Cardia.

(q) *Contract Risks Generally*

The Company operates through a series of contractual relationships with various parties. All contracts carry risks associated with the performance by the parties thereto of their obligations both as to financial performance and technical capacity and as to the time frames in which operations are carried out and in relation to the quality of work performed. There will be contract risks including relating to the purchase of capital equipment and feedstocks, the maintenance and operation of facilities in China and in respect of all other aspects of its operations.

(r) *Operational Risks*

These include the possibility of the risk of unexpected mechanical failure or equipment breakdown resulting in loss of production and additional expense generally, unexpected interruption to or imposition of onerous conditions on access, industrial disputes and resultant increases in costs of operation. The availability and pricing of transport and freight may also lead to a cessation of business either temporarily or permanently.

(s) *Other Business Risks*

Cardia is exposed to a number of other business risks which include higher than projected operating costs, higher interest rates

on credit funds and an increase in competition, all of which may have a material adverse effect on the business and financial performance of Cardia.

#### **6.5 Speculative Nature of Investment**

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of its Securities.

Therefore, the Securities carry no guarantee with respect to the payment of dividends, returns of capital or their market value. Applicants should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to invest.

## **7 Continuous Disclosure Obligations**

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### **7.1 Nature of this Prospectus**

This Prospectus is issued under the special prospectus content rules for continuously quoted securities in section 713 of the Corporations Act. This enables listed disclosing entities to issue a prospectus with less rigorous disclosure requirements if:

- (a) the securities offered by the prospectus are in a class of securities that have been quoted securities at all times in the 3 months before the date of the prospectus; and
- (b) the company is not subject to certain exemptions or declarations prescribed by the Corporations Act.

Securities are quoted securities if:

- (a) the company is included in the official list of ASX; and
- (b) the ASX Listing Rules apply to those securities.

The information in this Prospectus principally concerns the terms and conditions of the Rights Issue Offer and the information necessary to make an informed assessment of:

- (a) the effect of the Rights Issue Offer on Cardia; and
- (b) the rights and liabilities attaching to the New Securities offered by this Prospectus.

As Cardia has been listed on ASX since 21 November 1996, a substantial amount of information concerning Cardia has previously been notified to ASX and is therefore publicly available.

This Prospectus is intended to be read in conjunction with the publicly available information in relation to Cardia which has been notified to ASX and does not include all of the information that would be included in a prospectus for an initial public offering of securities in an entity that is not already listed on a stock exchange. Applicants should therefore also have regard to the other publicly available information in relation to Cardia before making a decision whether or not to invest in the New Shares. Information can be accessed from ASX or via Cardia's website at <http://www.cardiabioplastics.com>.

### **7.2 Regular reporting and disclosure obligations**

Cardia is a disclosing entity under the Corporations Act. It is subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules.

These obligations require Cardia to notify ASX of information about specified events and matters as they arise for the purposes of ASX making that information available to the stock market conducted by ASX. In particular, Cardia has an obligation under the ASX Listing Rules (subject to certain limited exceptions) to notify ASX immediately of any information of which it becomes aware concerning Cardia which a reasonable person would expect to have a material effect on the price or value of securities in Cardia.

Cardia is also required to prepare and lodge with ASIC both yearly and half yearly financial statements accompanied by a Directors' statement and report and an auditor's report.

All announcements made by Cardia are available from ASX.

Having taken such precautions and having made such enquiries as are reasonable, Cardia believes that it has complied with the general and specific requirements of the ASX (as applicable from time to time throughout the 12 months before the issue of this Prospectus) which require Cardia to notify ASX of information about specified events or matters as they arise, for the purpose of the ASX making that information available to the market.

Cardia believes there is no other information that Shareholders or investors would reasonably require for the purposes of making an informed assessment of the assets and liabilities, financial position and performance, profits and losses and prospects of Cardia and the rights and obligations attaching to the New Shares under this Prospectus, which has been excluded from a continuous disclosure notice in accordance with the ASX Listing Rules.

### **7.3 Your right to obtain copies of Cardia's documents**

Copies of any documents in relation to Cardia which are lodged with ASIC may be obtained from, or inspected at, an ASIC office.

During the period that the Rights Issue Offer remains open, Cardia will provide copies of the following to any person on request, free of charge:

- (a) Cardia's annual financial report for the year ended 30 June 2010 (being the last annual financial report that has been lodged with ASIC before lodgement of this Prospectus);
- (b) Cardia's financial report for the half-year ended 31 December 2010 lodged with ASIC on 28 February 2011; and
- (c) any continuous disclosure notices used to notify ASX of information relating to Cardia between 30 September 2010 (being the date of lodgement of the financial report referred to in paragraph (a) with ASIC) and the date of lodgement of this Prospectus, being the following:

| Date       | Title of notice as lodged with ASX                          |
|------------|-------------------------------------------------------------|
| 02/05/2011 | Trading Halt                                                |
| 29/04/2011 | Appendix 4C-quarterly                                       |
| 07/04/2011 | Stellar launches Personal Care Films utilising Cardia Tech  |
| 25/03/2011 | Cardia ADR Trading to begin on OTC Market                   |
| 22/03/2011 | Cardia launches range of certified compostable bags         |
| 15/03/2011 | Cardia Bioplastics Appoints Plastribution as UK Distributor |
| 10/03/2011 | Cardia and Wesco China announce exclusive distributorship   |
| 28/02/2011 | Half Year Report -31 December 2010                          |
| 18/02/2011 | Proposed Issue of New Securities                            |
| 16/02/2011 | Material Differences in Half Year Results                   |
| 01/02/2011 | Cardia launches ADR Program on OTC QX Market in the US      |
| 31/01/2011 | Quarterly Cash flow Report                                  |
| 25/01/2011 | Change of Registered Office                                 |

| <b>Date</b> | <b>Title of notice as lodged with ASX</b>                  |
|-------------|------------------------------------------------------------|
| 12/01/2011  | Cardia sets up subsidiary to commercialise CO2Starch       |
| 31/12/2010  | Issue of Shares to Employees                               |
| 24/12/2010  | Securities Trading Policy                                  |
| 13/12/2010  | Cardia expands into Brazil                                 |
| 03/12/2010  | Notice under section 708A(6)                               |
| 02/12/2010  | Change of Director Interest Notice                         |
| 01/12/2010  | Issue of Shares                                            |
| 30/11/2010  | Change of Auditor                                          |
| 29/11/2010  | Results of annual general meeting                          |
| 29/11/2010  | AGM Presentation                                           |
| 25/11/2010  | Collaboration with nestle to reduce environmental impact   |
| 22/11/2010  | Update on fund raisings                                    |
| 02/11/2010  | Presentation at Bio Malaysia 2010 Biotechnology Conference |
| 29/10/2010  | Appendix 4C - quarterly                                    |
| 28/10/2010  | Notice of Annual General Meeting                           |
| 25/10/2010  | World first biodegradable bag made from CO2 emissions      |
| 22/10/2010  | Cardia to appoint Viriathus Capital -listing on OTCQX      |
| 19/10/2010  | Annual General Meeting - Date and Time                     |
| 19/10/2010  | Notice of Change of Interest of Substantial Holder         |
| 19/10/2010  | Notice of Change of Interest of Substantial Holder         |
| 18/10/2010  | Food Contact Breakthrough for Injection moulded products   |
| 15/10/2010  | Placement of part of shortfall from Rights Issue           |

#### **7.4 Documents available for inspection**

The following documents are available for inspection during normal business hours at the registered office of Cardia:

- (a) this Prospectus;
- (b) the Constitution of Cardia; and
- (c) the consents referred to in section 8.5 of this Prospectus.

## 8 Additional Information

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### 8.1 Underwriting Agreement

Pursuant to an agreement between Patersons Securities Limited (**Underwriter**) and the Company (**Underwriting Agreement**), the Underwriter has agreed to fully underwrite the Rights Issue Offer for 447,274,855 New Shares and 111,818,714 New Options.

Pursuant to the Underwriting Agreement, the Company has agreed to:

- (a) pay the Underwriter an underwriting fee of 6% on the underwritten amount of the Rights Issue, being \$278,365 plus GST;
- (b) pay the Underwriter a lead manager fee of \$60,000 (exclusive of GST);
- (c) issue to the Underwriter (or its nominees) the Underwriter Options; and
- (d) in the event that the Company or the Underwriter terminates the Underwriting Agreement for the Underwriter to act as lead manager and underwriter to the Rights Issue (except where such termination is by the Company in accordance with the Underwriting Agreement (see below)), pay the Underwriter a termination fee of \$60,000.

In addition, the Company has agreed to pay all of Paterson's reasonable out of pocket expenses of and incidental to the Rights Issue (including legal expenses and professional fees).

The Underwriting Agreement is conditional upon several conditions precedent, including that the Underwriter has entered into sub-underwriting agreements with sub-underwriters on terms and conditions satisfactory to the Underwriter (in its sole and absolute discretion) for the entire Rights Issue Offer.

The obligations of the Underwriter to underwrite the Rights Issue Offer are subject to certain events of termination. These events of termination include (but are not limited to) the following events:

- (a) the All Ordinaries Index (IRESS XAO.ASX) or the S&P/ASX 200 (IRESS:XJO.ASX) or the S&P/ASX Small industrials (IRESS:XSI.ASX) as published by ASX is at any time after the date of the Underwriting Agreement, 7.5% or more below its respective level as at the close of business on the Business Day prior to the date of the Underwriting Agreement;
- (b) the ordinary fully paid shares of the Company finish trading on the ASX under the ASX code of "CNN" on any trading days with a closing price that is less than 1 cent;
- (c) official quotation has not been granted for all the New Shares, New Options and Underwriter Options by the shortfall notice deadline date or, having been granted, is subsequently withdrawn, withheld or qualified;
- (d) it transpires that there is a statement in the Prospectus that is misleading or deceptive or likely to mislead or deceive, or that there is a material omission from the Prospectus (having regard to the provisions of section 713 of the Corporations Act) or if any statement in the Prospectus becomes misleading or deceptive or

likely to mislead or deceive or if the issue of the Prospectus is or becomes misleading or deceptive or likely to mislead or deceive;

- (e) an application is made by ASIC for an order under section 1324B or any other provision of the Corporations Act in relation to the Prospectus, the shortfall notice deadline date has arrived, and that application has not been dismissed or withdrawn;
- (f) ASIC gives notice of its intention to hold a hearing under section 739 or any other provision of the Corporations Act in relation to the Prospectus to determine if it should make a stop order in relation to the Prospectus or ASIC makes an interim or final stop order in relation to the Prospectus under section 739 or any other provision of the Corporations Act;
- (g) the Takeovers Panel makes a declaration that circumstances in relation to the affairs of the Company are unacceptable circumstances under Pt 6.10 of the Corporations Act;
- (h) there is an outbreak of hostilities or a material escalation of hostilities (whether or not war has been declared) after the date of the Underwriting Agreement involving one or more of Australia, New Zealand, Indonesia, Japan, Russia, the United Kingdom, the United States of America, or the Peoples Republic of China, Israel or any member of the European Union, or a terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries anywhere in the world;
- (i) an event occurs which gives rise to a material adverse effect (as defined in the Underwriting Agreement) in the reasonable opinion of the Underwriter;
- (j) a prescribed occurrence (as defined in the Underwriting Agreement) occurs;
- (k) an event of insolvency occurs in respect of the Company;
- (l) a judgment in an amount exceeding \$70,000 is obtained against the Company or any of its subsidiaries and is not set aside within 10 days;
- (m) there is a change in the composition of the Board or a change in the senior management of the Company before completion of the Rights Issue Offer without the prior written consent of the Underwriter; and
- (n) a force majeure event affecting the Company's business or any obligation under the Underwriting Agreement lasting in excess of 14 days occurs.

The Company may without cost or liability to itself and without prejudice to any rights for damages arising out of any breach by the Underwriter of its representations, warranties or obligations under the Underwriting Agreement, if any of the following events occur:

- (a) default by the Underwriter under the Underwriting Agreement; or
- (b) any representation, warranty or undertaking given by the Underwriter in the Underwriting Agreement is or becomes untrue or incorrect.

The Underwriting Agreement also contains a number of indemnities, representations and warranties from the Company to the Underwriter that are considered standard for an agreement of this type.

## 8.2 Directors' interests and benefits

Other than as set out below or elsewhere in this Prospectus, no Director or proposed Director of Cardia, and no firm in which a Director or proposed Director of Cardia is a partner, holds, or held at any time during the last 2 years before the date of this Prospectus, any interest in:

- (a) the formation or promotion of Cardia;
- (b) any property acquired or proposed to be acquired by Cardia in connection with its formation or promotion or in connection with the Rights Issue Offer, or
- (c) the Rights Issue Offer,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any Director or proposed director of Cardia:

- (a) to induce them to become, or to qualify them as, a Director; or
- (b) for services rendered by them in connection with the formation or promotion of Cardia or in connection with the Rights Issue Offer.

Directors are not required under Cardia's constitution to hold any shares in Cardia.

The table below shows the interest of each Director (whether held directly or indirectly) in securities of Cardia as at the date of this Prospectus:

| Director        | Shares      | Options    |
|-----------------|-------------|------------|
| Mr Pat Volpe    | 120,333,334 | 74,859,047 |
| Dr Frank Glatz  | 12,962,334  | 4,800,000  |
| Dr John Scheirs | 6,592,224   | 6,492,224  |
| Mr Chen Yi      | 18,500,000  | 16,000,000 |

Directors may hold the relevant interests in Shares and Options shown above directly, or through holdings by companies, trusts or other persons with whom they are associated.

## 8.3 Related party transactions

There are no related party transactions entered into that have not otherwise been disclosed in this Prospectus other than as set out below.

The Company, on an as needs basis, receives consultancy services from Excelpas Pty Ltd, a company controlled by Dr John Scheirs. An amount of \$10,811 (including GST) was paid by the Company to Excelpas Pty Ltd for the 6 month period to December 2010 for these consultancy services.

The Company has entered into a non-exclusive distribution agreement with Bio-Mart Pty Ltd (a company controlled by the children of Mr Pat Volpe) on identical commercial terms that apply to all distributors of the Company. No commercial transactions have occurred to date with Bio-Mart Pty Ltd pursuant to the non-exclusive distribution agreement.

#### **8.4 Interests of other persons**

Other than as set out below or elsewhere in this Prospectus, no person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, and no promoter of Cardia holds, or held at any time during the last 2 years before the date of this Prospectus, any interest in:

- (a) the formation or promotion of Cardia;
- (b) any property acquired or proposed to be acquired by Cardia in connection with its formation or promotion or in connection with the Rights Issue Offer; or
- (c) the Rights Issue Offer,

and no amounts have been paid or agreed to be paid and no benefit has been given or agreed to be given to any of these persons for services rendered by them in connection with the formation or promotion of Cardia or in connection with the Rights Issue Offer.

#### **8.5 Consents**

Each of the parties referred to in this section:

- (a) has not authorised or caused the issue of this Prospectus;
- (b) does not make, or purport to make, any statement in this Prospectus other than as specified in this section;
- (c) has not made any statement on which a statement in this Prospectus is based, other than as specified in this section; and
- (d) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Prospectus other than the reference to its name and the statement (if any) included in this Prospectus with the consent of that party as specified in this section.

Mills Oakley Lawyers have given and, at the time of lodgement of this Prospectus, have not withdrawn their written consent to being named in this Prospectus as legal advisers to Cardia in respect of the Rights Issue Offer in the form and context in which they are named.

William Buck Audit (Vic) Pty Ltd have given and, at the time of lodgement of this Prospectus, have not withdrawn their written consent to being named in this Prospectus as auditors to Cardia in respect of the Rights Issue Offer in the form and context in which they are named.

Patersons Securities Limited have given and, at the time of lodgement of this Prospectus, have not withdrawn their written consent to being named in this Prospectus as lead management and underwriter in respect of the Rights Issue Offer, in the form and context in which they are named.

#### **8.6 Market Price of Shares**

The Company is a disclosing entity for the purposes of the Corporations Act and its Shares are enhanced disclosure securities quoted on ASX.

The highest and lowest market sale prices of the Company's Shares on ASX during the 3 months immediately preceding the date of lodgement of this Prospectus with the ASIC and the respective dates of those sales were:

Highest: 1.9 cents per Share 17 and 18 February 2011

Lowest: 1.1 cents per Share 17 March 2011

The latest available closing sale price of the Company's Shares on ASX prior to the lodgement of this Prospectus with the ASIC was 1.3 cents on 2 May 2011.

#### **8.7 Expenses of the Rights Issue Offer**

The estimated costs of the Rights Issue Offer are:

|                                  | <b>Amount (\$)</b> |
|----------------------------------|--------------------|
| ASIC fees                        | 2,068              |
| ASX fees                         | 26,096             |
| Underwriting and management fees | 338,365            |
| Legal expenses                   | 30,000             |
| Printing and other expenses      | 15,000             |
| <b>TOTAL</b>                     | <b>411,529</b>     |

These expenses are payable by the Company.

#### **8.8 Electronic Prospectus**

Pursuant to Class Order 00/44, ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic prospectus and electronic Application Form on the basis of a paper prospectus lodged with the ASIC, and the publication of notices referring to an electronic prospectus or electronic Application Form, subject to compliance with certain conditions.

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please phone the Company on +61 3 9562 0122 and the Company will send you, for free, either a hard copy or a further electronic copy of the Prospectus, or both.

New Shares and New Options will only be issued on receipt of an Application Form issued together with this Prospectus. The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

## **9 Director's authorisation**

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This Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

The Directors state that they have made all reasonable enquiries and on that basis have reasonable grounds to believe that any statements made by the Directors in this Prospectus are not misleading or deceptive and that, in respect to any other statements made in this Prospectus by persons other than Directors, the Directors have made reasonable enquiries and, on that basis, have reasonable grounds to believe that persons making the statement or statements were competent to make such statements. Those persons have given their consent to the statements being included in this Prospectus, in the form and context in which they are included and have not withdrawn that consent before lodgement of this Prospectus with the ASIC or, to the Directors' knowledge, before any issue of the New Shares and New Options pursuant to this Prospectus.

Each of the Directors of the Company has consented to the lodgement of this Prospectus in accordance with section 720 of the Corporations Act and has not withdrawn that consent.

This Prospectus is signed for and on behalf of the Company pursuant to a resolution of the Board.

Dated: 5 May 2011



Pat Volpe  
Director

## 10 Glossary

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|                                    |                                                                                                                                                        |
|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ACH Clearing Rules</b>          | means the official clearing rules of the Australian Clearing House Pty Ltd ABN 48 001 314 503.                                                         |
| <b>AEST</b>                        | means Australian Eastern Standard Time.                                                                                                                |
| <b>Applicant</b>                   | means an investor that applies for Securities pursuant to this Prospectus.                                                                             |
| <b>Application Form</b>            | means an Entitlement and Acceptance Form either attached to or accompanying this Prospectus.                                                           |
| <b>Application Moneys</b>          | means money received by the Company in respect of Applications.                                                                                        |
| <b>ASTC</b>                        | means ASX Settlement and Transfer Corporation Pty Ltd ABN 49 008 504 532.                                                                              |
| <b>ASTC Settlement Rules</b>       | means the official settlement rules of ASTC.                                                                                                           |
| <b>ASX</b>                         | means ASX Limited ABN 98 008 624 691.                                                                                                                  |
| <b>ASX Listing Rules</b>           | means the official listing rules of the ASX.                                                                                                           |
| <b>Company or Cardia</b>           | means Cardia Bioplastics Limited ABN 89 064 755 237                                                                                                    |
| <b>Board or Board of Directors</b> | means the board of directors of the Company.                                                                                                           |
| <b>Business Day</b>                | means a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Melbourne, Australia.            |
| <b>CHESS</b>                       | means Clearing House Electronic Subregister System operated by ASTC                                                                                    |
| <b>Closing Date</b>                | means the closing date for receipt of an Entitlement and Acceptance Form under this Prospectus as set out in Section 1 (unless extended).              |
| <b>Constitution</b>                | means the Company's constitution as at the date of this Prospectus.                                                                                    |
| <b>Corporations Act</b>            | means <i>Corporations Act 2001</i> (Cth).                                                                                                              |
| <b>Directors</b>                   | means the directors of the Company as at the date of this Prospectus.                                                                                  |
| <b>Eligible Shareholders</b>       | means a Shareholder whose registered address is in Australia or New Zealand and who is a Shareholder at 5.00 pm (AEST) on the Record Date.             |
| <b>Electronic Prospectus</b>       | means the electronic copy of this Prospectus located at Cardia's website at <a href="http://www.cardiabioplastics.com">www.cardiabioplastics.com</a> . |
| <b>Entitlement</b>                 | means the entitlement of an Eligible Shareholder to participate in the Rights Issue Offer.                                                             |

|                                            |                                                                                                                                                                                                                                        |
|--------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Entitlement and Acceptance Form</b>     | means the application form entitled “Entitlement and Acceptance Form” either attached to or accompanying this Prospectus.                                                                                                              |
| <b>Listing Rules</b>                       | means the listing rules of the ASX.                                                                                                                                                                                                    |
| <b>New Options</b>                         | means the free attaching Options issued with the New Shares under this Prospectus, on the terms set out in Section 5.2 of this Prospectus.                                                                                             |
| <b>New Shares</b>                          | means the Shares offered pursuant to this Prospectus.                                                                                                                                                                                  |
| <b>Opening Date</b>                        | means the opening date for receipt of Application Forms under this Prospectus as set out in Section 1.                                                                                                                                 |
| <b>Option</b>                              | means an option to acquire a Share.                                                                                                                                                                                                    |
| <b>Optionholder</b>                        | means the holder of an Option.                                                                                                                                                                                                         |
| <b>Option Expiry Date</b>                  | means has the meaning given to that term in Section 5.2(b) of this Prospectus.                                                                                                                                                         |
| <b>Piggy Back Option</b>                   | means an Option issued upon valid exercise of a New Option, on the terms set out in Section 5.3 of this Prospectus.                                                                                                                    |
| <b>Privacy Act</b>                         | means <i>Privacy Act 1988</i> (Cth).                                                                                                                                                                                                   |
| <b>Prospectus</b>                          | means this prospectus.                                                                                                                                                                                                                 |
| <b>Quotation and Official Quotation</b>    | means the official quotation on ASX.                                                                                                                                                                                                   |
| <b>Record Date</b>                         | means the date as at which Rights will be determined, as set out in the timetable in Section 1.                                                                                                                                        |
| <b>Right</b>                               | means a right to subscribe for an Entitlement pursuant to this Prospectus.                                                                                                                                                             |
| <b>Rights Issue and Rights Issue Offer</b> | means the renounceable rights issue offer to Eligible Shareholders as further detailed in Section 3.1 of this Prospectus.                                                                                                              |
| <b>Rounding Up Offer</b>                   | means the offer to round up shareholdings to 200,000 Shares as set out in Section 3.3 of this Prospectus.                                                                                                                              |
| <b>Securities</b>                          | means a Share or Option.                                                                                                                                                                                                               |
| <b>Share</b>                               | means a fully paid ordinary shares in the capital of the Company.                                                                                                                                                                      |
| <b>Shareholder</b>                         | means the holder of a Share as recorded in the register of the Company.                                                                                                                                                                |
| <b>Share Registry</b>                      | means Advanced Share Registry Services Limited.                                                                                                                                                                                        |
| <b>Shortfall</b>                           | means the number of Securities comprising the difference between the Securities the subject of the Rights Issue Offer, and the number of Securities for which valid applications have been received and accepted by the Company by the |

|                               |                                                                                                                                                     |
|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
|                               | Closing Date.                                                                                                                                       |
| <b>Shortfall Securities</b>   | means the number of New Shares and New Options comprising the Shortfall.                                                                            |
| <b>Underwriter</b>            | means Patersons Securities Limited (ABN 69 008 896 311).                                                                                            |
| <b>Underwriter Options</b>    | means the Options offered to the Underwriter (or its nominees) as described in Section 3.2.                                                         |
| <b>Underwriting Agreement</b> | means the underwriting agreement dated 5 May 2011 entered between the Company and the Underwriter, as summarised in section 8.1 of this Prospectus. |