

**TO : COMPANY ANNOUNCEMENTS OFFICE
ASX LIMITED**

DATE : 31 July 2012

30 JUNE 2012 -QUARTERLY REPORT (4C) Activities and Cash flow Report

Cardia Bioplastics Limited (ASX: CNN) hereby lodges its Quarterly Report for the period 1 April 2012 to 30 June 2012. This document contains the Activities Report and Quarterly Cash flow Statement (Appendix 4C).

Summary

Cash Position

- Liquid assets as at 30 June 2012 were \$2.142M made up of:
 - Consolidated cash of \$1.36M plus
 - Cash invested in working capital of around \$0.78M (stock, debtors less creditors).
- Net Operating Cash Flow (outflow) for the quarter was (\$0.51M): ((FY 2012: (\$3.989M)).
- Net decrease of cash in the June 2012 quarter was (\$0.577M): FY2012 :(\$2.781M)).

Cost reduction program

- Cost reduction program implemented during the quarter.
- Expected to reduce cash burn from \$4M p.a. to \$3M p.a. (before cash contributions from gross margins from sales).

Funding

- Discussions (no formal proposals received yet) continued with several parties in Australia and overseas in the June quarter on possible involvement with funding the business to meet working capital requirements for FY2013.

Sales and Marketing

- June quarter sales revenue of \$910,986, up 72% on the previous corresponding period.
- Sales for FY2012 at \$4,249,823, a 158% increase from FY2011.

Sales Contracts

- Two major contracts were entered into in the USA which combined can contribute up to \$1M to sales in FY2013 with
 - Sealed Air Corporation, a major global packaging manufacturer
 - An USA Hygiene products company

Alliances

- Alliance formed with Australasia Alto Packaging to market Cardia Bioplastics derived packaging to their customer base.
- Alliance and product launch with ECO CARE™, world's first eco-friendly facial wipes enclosed in eco-friendly packaging- into the skin care industry.

Product developments and other achievements

- Halal certification received now opens up global opportunity within the 1.6 billion-strong Muslim community.
- World's first Bio-container for nutritional supplements and cosmetics market launched.
- Launch of compostable bubble wrap product in Europe.
- New range of recyclable Cardia Biohybrid™ food packaging resins compliant with both U.S. FDA standards and EU regulations.

Other: Malaysian Manufacturing Joint Venture

- A proposal to terminate Cardia's Malaysian Manufacturing Joint Venture by mutual agreement was negotiated. Subject to a formal settlement process, the finished goods manufacturing rights and the Cardia brand are to be reverted back to Cardia. Cardia has no financial exposure to the Joint Venture.

Details

Cash at Bank at 30 June 2012 was \$1.362M

Cardia Bioplastics Limited recorded a "Net Operating Cash (Out) Flow" for the June quarter of approximately \$0.511M compared to approximately \$0.892M last quarter. The reduction was mostly attributed to the decrease in inventories in store used to complement the supply of goods for sales delivered in the quarter.

Sales revenue for the June quarter was \$910,986, representing a 72% increase over the previous corresponding period in 2011 (\$530,600). The total sales revenue for the 12 months ending June 30, 2012 was \$4,249,823. While the sales target for FY2012 was \$5 million, \$4.25 million still represents significant Company growth and a 158% improvement on the sales recorded for the 2011 Financial Year (\$1,649,171).

Sales revenue for the quarter derived from the sales made to the American and Australian market segments as well as sales of kitchen waste bags in China, supplied under the trial contracts with four city districts of Shanghai – Pudong, Hangzhou West Lake, Yuhang and Nanjing City.

The Company inventory stock on hand was reduced by approximately \$300,000 contributing to the cash working capital requirement of the business in the June 2012 quarter. The Company's cash burn for the FY2012 is expected to come in at around \$4.0 million.

The Board implemented a **cost restructuring** program that took effect in the June 2012 quarter which is expected to reduce the current cash burn rate. The cost reductions are expected to reduce the cash burn to \$3.0 million for FY2013. Assuming no sales or gross margin is contributed to overheads for the FY2013 then the burn translates to around \$750,000 per quarter. The effect of these new cost reduction measures are expected to be visible in the next quarter cash flow statement (September 2012).

Cardia Bioplastics consolidated cash balance of \$1,362,594 at 30 June 2012 along with working capital invested in Debtors & Stock levels of approximately \$780,000 and expected receipts from sales over the next six months should provide the company with sufficient cash for the next two quarters.

Future Cash requirements

Cardia appointed M&A Partners Pty Ltd, a corporate advisory group from Melbourne, Australia, to assist the company in locating a strategic equity partner/shareholder to fund its working capital requirements. Strategies to unlocking potential shareholder value are also being addressed.

The Board has also received interest from several parties, both nationally and internationally, enquiring as to the company's cash requirement for its working capital needs. At this stage, the Board has not received any formal offers and has not resolved to adopt any fund raising plans. However, it is expected that in the next quarter the company will require to raise additional cash to support its working capital requirements for at least the next 12 months. Once the Board has decided on any such strategy, the market will be advised.

Sales and Marketing

As previously reported, the company entered into two supply relationships that are expected to contribute to cash flow in FY2013: The two contracts have the potential to generate up to \$1M sales in the first 12 months of FY2013.

Details are:

Sealed Air supply contract for sustainable resin to be used for Fill-Air R5[®] inflatable packaging

The Sealed Air supply contract for its innovative Fill-Air R5[®] inflatable packaging is an exclusive agreement that require Sealed Air to purchase a minimum of \$500,000 per annum of Cardia's resins. If this target is not met after the first year, then the contract will revert to a non-exclusive supply agreement. Sales are expected to commence in the September 2012 quarter.

Hygiene Products Contract with American supplier for a minimum of \$500,000 p.a.

The contract was announced in the March 2012 quarter. Sales commenced in the June 2012 quarter and Cardia is now supplying Biohybrid™ Hygiene films to this American diaper company for the development of its environmentally-sensitive diapers. The contract is for the supply of film worth at least \$500,000 per annum.

Other Marketing and Development achievements

During the quarter Cardia achieved numerous other milestones that are expected to contribute to potential sales opportunities for the company in FY2013.

Further details are as follows:

Major alliance formed with Alto Packaging a leading Australasian plastic packaging company

Cardia Bioplastics has formed an alliance with major Australasian rigid packaging company, Alto Packaging, to innovate and deliver high performance fresh food packaging solutions with an improved environmental profile into Alto's packaging and product channels. The alliance aims to open another potential sales channel for Cardia in the area of rigid packaging such as food trays and other related applications. If the new product range is successfully adopted, sales will be received within the next 6 months.

World first for skin care industry

Cardia Bioplastics and emerging organic skincare company, ECO CARE™ launched the world's first eco-friendly facial wipes enclosed in eco-friendly packaging - into the skin care industry. The resulting 'green' combination has a significantly lower carbon footprint than its competitors. Cardia expects to receive sales in FY2013 and again opens up a new industry and application for potential future sales.

Halal certification opens up global opportunity within the 1.6 billion-strong Muslim community

Cardia's range of sustainable Biohybrid™ resins received Halal certification which opens up significant new market share opportunities in a previously untapped market – the 1.6 billion-strong Muslim community worldwide. Issued by the Chinese Islamic Association, an appointed Halal Certification Body by Halal Malaysia, Department of Islamic Development Malaysia (JAKIM), and the certification is formal acknowledgement of compliance with Islamic laws regarding safety and quality.

World's first Bio-container for nutritional supplements and cosmetics market

Cardia launched the world's first food contact compliant and fully recyclable Biohybrid™ container for the global nutritional supplement market and cosmetics industries. This achievement follows extensive development work with a major nutritional supplement company and an US manufacturer of plastic containers, who are looking to launch the product into the US market this year and again demonstrates another new market opportunity for potential sales in FY2013.

Launch of compostable bubble wrap product in Europe

In collaboration with a European manufacturer of protective packaging, Cardia Bioplastics has developed and launched in Europe, Compostable Bubble Wrap. Made from Cardia's certified compostable resin, the product is comparable in performance to traditional bubble wrap, with the added advantage of being industrially compostable.

New range of recyclable Cardia Biohybrid™ food packaging resins compliant with both U.S. FDA standards and EU regulations

Cardia has developed a new range of resin products, made from the Biohybrid™ resin technology, that are FDA and EU food contact-compliant and fully recyclable. The milestone achievement will provide Cardia Bioplastics with an expanded market opportunity into food packaging applications.

The Board believes that these achievements open up the potential for the company to generate sales in diversified industries within various market applications.

Global pipeline of development projects

During the June quarter, Cardia Bioplastics remained active with its portfolio of development projects. The Company continues to work with several national and international brands and packaging companies on integrating Cardia's bioplastic resins into their existing packaging solutions. Ultimately, these companies are looking for the ways to reduce their carbon footprint.

Individually these projects are at various stages of development – ranging from initial production trials to market validation, and some are more advanced and moving towards commercial launch.

Manufacturing update

Cardia Bioplastics Manufacturing Malaysia – (CBMM, Kuala Lumpur, Malaysia)

Cardia Bioplastics is expected to have re-assigned 100% of the manufacturing rights for finished goods and the Cardia brand in Malaysia after joint venture partner, RNZ Green Bio Sdn Bhd, could not continue to fund operations. The joint venture agreement is expected to be dissolved in early August 2012. The Cardia brand 'Cardia Bioplastics Manufacturing Malaysia (CBMM)' will be assigned to Cardia.

The termination of the joint venture has no financial impact on Cardia Bioplastics Limited's Balance Sheet as Cardia is not required to make any cash contribution to the joint venture.

Cardia Bioplastics Malaysia: (CBM):

CBM is unaffected by the Joint Venture termination and continues to operate and seek business opportunities in Malaysia with a focus on project development, marketing and sales.

In October 2011, CBM was awarded the prestigious BioNexus status from the Malaysian Biotechnology Corporation, a Malaysian Government body. The status provides the Company with fiscal incentives, including 10 years tax-free status, grants and other guarantees to assist with driving growth. In addition, it exempts CBM from all import duties on its manufacturing inputs.

Principal Business and Investments

During the quarter, no funds were applied to any of the Company's other business ventures or investments. The monetary value of Cardia's investment portfolio is not considered to be material (less than 5% of the Company's net assets) as of 30 June 2012.

Whilst the company's other four principal activities were monitored and reviewed during the quarter with the view of assessing any business opportunities that can add value to shareholders, the majority of activities continued to be focused on the bioplastics business during the quarter.

Exercise of Options

During the quarter, an amount of \$1,788 was raised via exercise of 119,195- Cardia Options (June 2012) by the option holders. A total of 366,296 Options were exercised by the expiry date of 30 June 2012 and balance 223,271,186 options lapsed.

On 26th July 2012, the Company lodged Prospectus with ASIC for the grant of 366,296 piggyback options to the option holders who exercised their June 2012 Cardia Options. The terms for the issue of Piggyback options were included in Cardia's Renounceable Rights Issue Prospectus dated 5 May 2011.

Given the current tough global trading conditions, particularly in Europe, the Board is pleased with the Company's quarterly sales performance within the Bioplastics business. New partnerships and contract wins provide further commercial validation of the unique resin technologies, and confirm that Cardia Bioplastics products are achieving market acceptance in a new and developing growth industry. The current global downturn does however make it difficult for the Board to forecast sales with certainty for FY2013.

Cardia has made some truly exciting steps forward in the FY2012 which were evidenced with contracts and relationships now publicly endorsed by major global brand owners and packaging companies.

PAT VOLPE
Chairman

About Cardia Bioplastics

Cardia Bioplastics Limited (“Cardia”) develops, manufactures and markets sustainable resins and finished products derived from renewable resources for the global packaging and plastic products industries. The Company holds a strong provisional patent portfolio that drives its mission to be an international supplier of technically advanced sustainable resins derived from renewable resources. Cardia has its Headquarters and Global Applications Development Centre in Melbourne, Australia. The Product Development Centre and manufacturing plant is in Nanjing, China. Cardia offices are located in Europe, Malaysia, China and the Americas. These offices complement a network of leading distributors across Australia, the Americas, Asia and Europe. The Company’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. The Company’s materials are suitable for film, injection moulding, blow moulding, foam, extrusion and coating applications.

Appendix 4C

Quarterly report
for entities admitted
on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001

Name of entity

Cardia Bioplastics Ltd

ABN

89 064 755 237

Quarter ended ("current quarter")

30 June 2012

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from customers	1,537	4,273
1.2 Payments for		
(a) staff costs	(565)	(1,955)
(b) advertising and marketing	-	(24)
(c) research and development	(199)	(878)
(d) leased assets	(87)	(249)
(e) other working capital	(1,208)	(5,570)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	11	52
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	362
Net operating cash flows	(511)	(3,989)
1.8 Net operating cash flows (carried forward)		
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	(52)	(130)
(e) other non-current assets	-	-
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other investing activities	-	-
Net investing cash flows	(52)	(130)
1.14 Total operating and investing cash flows	(563)	(4,119)

	Cash flows related to financing activities		
1.15	Proceeds from issues of shares, options, etc.	(14)	1,338
1.16	Proceeds from sale of forfeited shares	-	-
1.17	Proceeds from borrowings	-	-
1.18	Repayment of borrowings	-	-
1.19	Dividends paid	-	-
1.20	Other (provide details if material)	-	-
	Net financing cash flows	(14)	1,338
	Net increase (decrease) in cash held	(577)	(2,781)
1.21	Cash at beginning of quarter/year to date	1,941	4,155
1.22	Exchange rate adjustments to item 1.21	(2)	(12)
1.23	Cash at end of quarter	1,362	1,362

Note:

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	282
1.25	Aggregate amount of loans to the parties included in item 1.11	-

1.26 Explanation necessary for an understanding of the transactions

Item 1.24

Mr P Volpe was paid salary and termination payments of \$197,272 inclusive of superannuation during the quarter.

Mr F Glatz was paid a salary of \$60,243 inclusive of superannuation for the quarter

Directors' fees (inclusive of superannuation) totalling \$24,525 were paid to Mr P Volpe - \$14,533 and Mr John Scheirs-\$9,992

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

n/a

Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	n/a	n/a
3.2 Credit standby arrangements	n/a	n/a

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank *	1,362	1,941
4.2 Deposits at call		
4.3 Bank overdraft		
4.4 Term Deposits		
4.5 Deposits against Letter of Credits	-	-
Total: cash at end of quarter (item 1.23)	1,362	1,941

Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1 Name of entity	-	-
5.2 Place of incorporation or registration	-	-
5.3 Consideration for acquisition or disposal	-	-
5.4 Total net assets	-	-
5.5 Nature of business	-	-

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: Sd-..... Date: **31 July 2012.**
(Company Secretary)
Print name: Rekha Bhambhani

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
 - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
 - 9.2 - itemised disclosure relating to acquisitions
 - 9.4 - itemised disclosure relating to disposals
 - 12.1(a) - policy for classification of cash items
 - 12.3 - disclosure of restrictions on use of cash
 - 13.1 - comparative information
3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.