cardiabioplastics.com
info@cardiabioplastics.com

TO: **COMPANY ANNOUNCEMENTS OFFICE**
ASX LIMITED

DATE: **29th October 2012**

NOTICE OF ANNUAL GENERAL MEETING

The Notice of the Annual General Meeting of Cardia Bioplastics Ltd to be held on Thursday 29th November 2012 together with the accompanying documents will be dispatched to shareholders today. At the same time the 2012 Annual Report will be sent to shareholders who requested it.

The Notice and accompanying documents are attached.

Rekha Bhambhani
Company Secretary

cardiabioplastics.com
info@cardiabioplastics.com

CARDIA BIOPLASTICS LIMITED
(ACN 064 755 237)

NOTICE OF ANNUAL GENERAL MEETING

INCLUDING

PROXY FORM

AND

EXPLANATORY MEMORANDUM

Date of Meeting
Thursday 29th November 2012

Time of Meeting
9.00am AEST

Place of Meeting
Suite 5, Level 1,
310 Whitehorse Road,
Balwyn, VIC 3103

CARDIA BIOPLASTICS LIMITED

(ACN 064 755 237)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF CARDIA BIOPLASTICS LIMITED (ACN 064 755 237) ("CARDIA OR THE COMPANY") WILL BE HELD AT SUITE 5, LEVEL 1, 310 WHITEHORSE ROAD, BALWYN, VICTORIA 3103 IN THE STATE OF VICTORIA ON THURSDAY 29 NOVEMBER 2012 AT 9.00AM (AEST) FOR THE PURPOSES OF TRANSACTING THE FOLLOWING BUSINESS.

The Explanatory Memorandum and Proxy Form accompanying this Notice of Annual General Meeting are hereby incorporated in and comprise part of this Notice of Annual General Meeting.

BUSINESS

2012 Annual Financial Report

To receive and consider the Annual Financial Report of the Company for the year ended 30 June 2012, comprising the Financial Report, the Directors' Report, and the Audit Report.

NON-BINDING RESOLUTION

To consider, and if thought fit, to pass, with or without amendment, the following non-binding resolution:

Resolution 1: Adoption of Remuneration Report

"That, for the purposes of section 250R (2) of the Corporations Act 2001(Cth) and for all other purposes, the 2012 Remuneration Report as included in the Directors ' Report of the Annual Financial Report of the Company for the year ended 30 June 2012 be adopted."

Further details in respect of Resolution 1 are set out in the Explanatory Notes accompanying this Notice of Annual General Meeting.

Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 1 by:

(a) a member of the key management personnel for the Company or its subsidiaries whose remuneration details are included in the Remuneration Report (or a closely related party of that person), unless that person does so as a proxy appointed by writing that specifies how the proxy is to vote on Resolution 1 and the vote is not cast on behalf of a member of the Key management personnel of the Company or its subsidiaries whose remuneration details are included in the Remuneration Report (or a closely related party of that person); and

(b) a member of the key management personnel for the Company or its subsidiaries whose remuneration details are not included in the Remuneration Report (or a closely related party of that person) that is appointed as a proxy where the proxy appointment does not specify the way the proxy is to vote on Resolution 1,unless the proxy is the Chairman of the meeting at which Resolution 1 is voted on and the proxy appointment expressly authorises the Chairman to exercise the proxy even if Resolution 1 is connected directly or indirectly with the remuneration of a member of the key management personnel for the Company or its subsidiaries.

ORDINARY RESOLUTIONS

To consider, and if thought fit, to pass, with or without amendment, the following **ordinary resolutions:**

Resolution 2: Re-election of Director- Mr. Pat Volpe

"That Mr Pat Volpe, a director retiring by rotation in accordance with ASX Listing Rule 14.5 and Clause 4.3 of the Company's Constitution and being eligible, is re-elected as a director of the Company".

Further details in respect of Resolution 2 are set out in the Explanatory Notes accompanying this Notice of Annual General Meeting.

Resolution 3: Approval and possible issue of shares

"THAT, in accordance with Listing Rule 7.1 and for all other purposes, shareholders approve the Directors to allot and issue up to maximum of 500 million Shares to sophisticated and professional investors on the terms and conditions set out in the Explanatory Memorandum which forms part of this Notice."

Voting Exclusion Statement
The Company will disregard any votes cast on this Resolution by a person (and any associates of such a person) who may participate in the issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of Shares, if this Resolution is passed.

However, the Company need not disregard a vote cast on Resolution 3 if it is cast by:

(a) a person as proxy for a person who is entitled to vote, if the vote is cast in accordance with the directions on the proxy form; or
(b) the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction of the proxy form to vote as the proxy decides.

SPECIAL RESOLUTION

To consider, and if thought fit, to pass, with or without amendment, the following **special resolution:**

Resolution 4: Approval of 10% placement facility

"That, pursuant to and in accordance with Listing Rule 7.1A and for all other purposes, Shareholders approve the issue of Equity Securities up to 10% of the issued capital of the Company (at the time of the issue) calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions in the Explanatory Memorandum."

Voting Exclusion Statement
The Company will disregard any votes cast on this Resolution by a person (and any associates of such a person) who may participate in the 10% Placement Facility and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of Shares, if this Resolution is passed.

However, the Company will not disregard a vote if :

(a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
(b) it is cast by the Chairman as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

PROXIES

Appointing a proxy
Members are entitled to appoint up to two proxies to act generally at the Annual General Meeting on their behalf, and to vote in accordance with their directions on the Proxy Form. A proxy need not be a Member. A personalised Proxy Form is attached to this Notice of Annual General Meeting.

Where two proxies are appointed, each proxy can be appointed to represent a specified proportion or number of the votes of the member. If no number or proportion of votes is specified, each proxy may exercise half of the member's votes. Neither proxy is entitled to vote on a show of hands if more than one proxy attends the Annual General Meeting.

If you appoint a proxy, the Company encourages you to direct your proxy how to vote on each resolution by making the appropriate boxes on the Proxy Form.

Completed Proxy Forms (together with any authority under which the Proxy Form was signed, or a certified copy of the authority) must be returned by 9.00 am on 27th November 2012.

- by mail to Share Registry – Advanced Share Registry,PO Box 1156, Nedlands, Western Australia -6909
- personally to Share Registry-Advanced Share Registry,150 Stirling Highway, Nedlands, Western Australia- 6009
- by facsimile to + 61 (08) 93897871

Further instructions are on the reverse of the Proxy Form.

Undirected proxies

Where permitted, the Chairman of the Annual General Meeting will vote undirected proxies in favour of all items of business. This includes Resolution 1 on the basis that the Proxy Form expressly authorises the Chairman to vote undirected proxies even if the resolution is connected directly or indirectly with the remuneration of a Director. **Accordingly, if you want to vote against any of the items of business, you should direct your proxy how to vote in respect of that resolution**.

If you appoint a Director (other than the Chairman of the meeting),or any of the Company's other key management personnel or a closely related party of that person ,as your proxy and do not direct your proxy how to vote on Resolution 1, the proxy will not be permitted to vote your proxy on that resolution. **Accordingly, if you want your vote to be counted on that resolution, you should direct your proxy how to vote in respect of it.**

Corporate representation

A corporation which is a member, or which has been appointed a proxy, may appoint an individual to act as a representative to vote at the Annual General Meeting. The appointment must comply with section 250D of the Corporation Act. The representative should bring to the Annual General Meeting evidence of his or her appointment unless it has previously been provided to the Share Registry.

VOTING EXCLUSION

Where a voting exclusion applies, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the Annual General Meeting as proxy for a person who is entitled to vote in accordance with a direction on the Proxy Form to vote as the proxy decides.

ENTITLEMENT TO ATTEND AND VOTE AT THE ANNUAL GENERAL MEETING

All members may attend the Annual General Meeting. The Directors have determined that for the purposes of voting at the meeting, shares will be taken to be held by the persons who are registered as the holders of those shares as at 7 pm (AEST) on 27th November 2012.

By Order of the Board of
Cardia Bioplastics Limited

Rekha Bhambhani
Company Secretary
Dated: 29 October 2012

The accompanying Explanatory Memorandum and Proxy Form including Voting instructions form part of this Notice of Annual General Meeting

EXPLANATORY MEMORANDUM TO NOTICE OF ANNUAL GENERAL MEETING

This Explanatory Memorandum accompanies and forms part of the Cardia Bioplastics Limited ("Cardia" or "the Company") Notice of Annual General Meeting to be held on 29th November 2012 at 9.00 am. The Notice of Annual General Meeting should be read together with this explanatory memorandum.

BUSINESS

2012 ANNUAL FINANCIAL REPORT

To receive and consider the Annual Financial Report of the Company for the year ended 30 June 2012, comprising the Financial Report, the Directors' Report and the Audit Report.

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

Shareholders have been provided with all relevant information concerning the Company's financial statements for the year ended 30 June 2012 in the Annual Report.

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

Shareholders should note that the sole purpose of tabling the Financial Report of the Company at the Annual General Meeting is to provide the shareholders with the opportunity to ask questions or discuss matters arising there from at the meeting. At the meeting, a representative of the Company's auditors, William Buck will be available to answer any questions of the members.

It is not the purpose of the meeting that the financial statements be approved, rejected or modified in any way. Further as it is not required by the Corporations Act, no resolution to adopt, receive or consider the statements will be put to the meeting.

NON-BINDING RESOLUTION

Resolution 1: Adoption of Remuneration Report

1.1 General

Pursuant to section 250R(2) of the Corporations Act, at the Annual General Meeting, the Company must propose a resolution that the Remuneration Report be adopted.

The Remuneration Report is contained within the 2012 Annual Report. You may access the Annual Report by visiting the Company's website www.cardiabioplastics.com or you may order a hard copy of the Annual Report by phoning +61 (0) 3 95620122.

The purpose of Resolution 1 is to lay before the shareholders the Company's Remuneration Report so that shareholders may ask questions about or make comments on the management of the Company in accordance with the requirements of the Corporations Act and vote on a non-binding resolution to adopt the Remuneration Report for the year ended 30 June 2012.

Section 250R (3) of the Corporations Act provides that Resolution 1 is advisory only and does not bind the Directors of the Company of itself, a failure of Shareholders to pass Resolution 1 will not require the Directors to alter any of the arrangements in the Remuneration Report.

However, the Corporations Act has been amended by the Corporations Amendment (Improving Accountability on Director of the Company and Executive Remuneration) Act 2011 **(Director and Executive Remuneration Act)** which received the Royal Assent on 27 June 2011 and came into effect on 1 July 2011.

The Director and Executive Remuneration Act introduced new sections 250U and 250Y, amongst others, into the Corporations Act, giving Shareholders the opportunity to remove the Board if the Remuneration Report receives a 'no' vote of 25% or more at two consecutive annual general meetings **(Two Strikes Rule).**

Under the Two Strikes Rule, where a resolution on the Remuneration Report receives a 'no' vote of 25% or more at two consecutive annual general meetings, the Company will be required to put to Shareholders at the second annual general meeting a resolution on whether another meeting should be held (within 90 days) at which all Directors (other than the managing director) who were in office at the date of approval of the applicable Directors' Report must stand for re-election.

In summary, if the Remuneration Report receives a 'no' vote of 25% or more at this Meeting, Shareholders should be aware that if there is a 'no' vote of 25% or more at the next annual general meeting the consequence are that it may result in the re-election of the Board.

The Chairman will allow a reasonable opportunity for Shareholders as a whole to ask about, or make comments on the Remuneration Report.

The Chairman intends to exercise all undirected proxies in favour of Resolution 1. If the Chairman of the Meeting is appointed as your proxy and you have not specify the way the Chairman is to vote on Resolution 1, by signing and returning the Proxy Form, the Shareholder is considered to have provided the Chairman with an express authorisation for the Chairman to vote the proxy in accordance with the Chairman's intention.

1.2 Voting exclusion statement

For the purposes of the voting exclusion statement:

(a) the "key management personnel" for the Company and its subsidiaries are those persons having authority and responsibility for planning, directing and controlling the activities of the Company and its subsidiaries either directly or indirectly. The Key management personnel for the Company and its subsidiaries during the year ended 30 June 2012 are listed in the Annual Financial Report of the Company; and

(b) a 'closely related party' of a member of the key management personnel for the Company and its subsidiaries means:

(i) a spouse or child of the member;
(ii) a child of the member's spouse;
(iii) a dependant of the member or of the member's spouse;
(iv) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealings with the entity; or
(v) a company the member controls.

The Company will also apply these voting exclusions to persons appointed as attorney by a member to attend and vote at the meeting under a power of attorney- on the basis that references to persons attending and voting are read as references to persons attending and voting and references to an instrument under which the proxy is appointed are read as references to the power of attorney under which the attorney is appointed.

1.3 Directors' Recommendation

The Board recommends that members vote in favour of Resolution 1.

ORDINARY RESOLUTIONS

Resolution 2: Re-election of Director- Mr. Pat Volpe

2.1 General

In accordance with ASX Listing Rule 14.5 and Clause 4.3 of the Company's Constitution, at every Annual General Meeting, one-third of the directors (excluding the Managing Director) must retire from office and are eligible for re-election. The directors to retire are those who have been longest in office since their appointment or last re-appointment, or, if the directors have been in office for an equal length of time, by agreement.

Mr. Volpe retires by rotation and being eligible for re-election, has consented to be re-elected and presents himself for re-election. He is 54 years of age and was appointed a director in May 1994.

Information about Mr.Volpe is contained in the 2012 Annual Report.

2.2 Directors' Recommendation

The Board (other than Mr.Volpe) recommends that members vote in favour of Resolution 2.

Resolution 3: Approval and possible issue of shares

3.1 General

The Company is seeking the power to issue further Shares and Options to raise funds for general working capital purposes. It is proposed that the Company will issue up to maximum of 500 million Shares to sophisticated and professional investors on the terms set out in this Explanatory Memorandum; and

It is proposed that the Shares pursuant to Resolution 3 will be issued to sophisticated and professional investors within 3 months of receiving shareholder approval at the General Meeting.

The Company seeks shareholder approval under ASX Listing Rule 7.1 to issue and allot the Shares pursuant to Resolutions 3.

3.2 ASX Listing Rule 7.1

ASX Listing Rule 7.1 provides that without the approval of shareholders the Company must not issue or agree to issue more securities if such issue, when aggregated with the securities issued by the Company during the previous 12 months, would be an amount that would exceed 15% of the issued shares at the commencement of that 12 month period (subject to certain exceptions that are not relevant to the Company's present circumstances).

The Company seeks shareholder approval under ASX Listing Rule 7.1 in relation to the issue of ordinary shares to sophisticated and professional investors as included in section 3.1 above.

3.3 Technical information required by ASX Listing Rule 7.3

In compliance with ASX Listing Rule 7.3, the following information is provided:

- **Number of securities to be issued pursuant to Resolution 3**
  the maximum number of securities to be issued will be 500 million Shares;

- **Issue price of securities**
  the issue price of the Shares will be $0.003 (0.3cents) per share.

- **Terms of securities**
  the terms of issue of the new Shares will be identical to the terms of the existing Shares;

- **Names of allottees or the basis on which allottees were determined**

  - the Shares approved under Resolution 3 will be issued and allotted progressively and within 3 months of receiving shareholder approval at the Annual General Meeting (subject to any extensions that may be granted by ASX from time to time);

  - the identity of the allottees has not yet been determined but shares will only be allotted to sophisticated and professional investors who do not need disclosure under section 708 of the Corporations Act and for which further approval is not required under ASX Listing Rule 10.

- **Intended use of the funds raised**
  Proceeds from Issue of shares will be used for the working capital purposes.

- **Voting Exclusion Statement**
  A voting exclusion statement is included in the Notice accompanying the Explanatory Note.

3.4 Directors' Recommendation

The Board recommends that members vote in favour of Resolution 3.

SPECIAL RESOLUTION

Resolution 4: Approval of 10% placement facility

4.1 General

Listing Rule 7.1A came into effect on 1 August 2012 and enables eligible entities to issue Equity Securities up to 10% of its issued share capital through placements over a 12 month period after the annual general meeting **(10% Placement Facility).** The 10% Placement Facility is in addition to the Company's 15% placement capacity under Listing Rule 7.1.

An eligible entity for the purposes of Listing Rule 7.1A is an entity that is not included in the S&P/ASX 300 Index and has a market capitalisation of $300 million or less.

The Company is an eligible entity for the purposes of Listing Rule 7.1A as it is not included in the S&P /ASX 300 Index and has a market capitalisation of approximately $4.7 million as at 24th October 2012.

The Company is now seeking shareholder approval by way of a special resolution to have the ability to issue Equity Securities under the 10% Placement Facility.

The exact number of Equity Securities to be issued under the 10% Placement Facility will be determined in accordance with the formula prescribed in Listing Rule 7.1A.2 (refer to Section 4.2(c) below).

The effect of Resolution 4 will be to allow the Directors to issue the Equity Securities under Listing Rule 7.1A during the period up to 12 months after the Meeting without subsequent Shareholder approval and without using the Company's 15% placement capacity under Listing Rule 7.1.

Resolution 4 is a special resolution and therefore requires approval of 75% of the votes cast by Shareholders' present and eligible to vote (in person, by proxy, by attorney or, in the case of a corporate Shareholder, by a corporate representative).

4.2 ASX Listing Rule 7.1A

a) Shareholder approval
The ability to issue Equity Securities under the 10% Placement Facility is subject to shareholder approval by way of a special resolution at an annual general meeting.

b) Equity Securities
Any Equity Securities issued under the 10% Placement Facility must be in the same class as an existing quoted class of Equity Securities of the Company.

The Company. as at the date of the Notice, has on issue three classes of Equity Securities, Shares ,Listed Options and unlisted Options.

c) Formula for calculating 10% Placement Facility
Listing Rule 7.1A.2 provides that eligible entities which have obtained shareholder approval at an annual general meeting may issue or agree to issue, during the 12 month period after the date of the annual general meeting, a number of Equity Securities calculated in accordance with the following formula:

$$(A \times D)-E$$

A is the number of shares on issue 12 months before the date of issue or agreement:

A) plus the number of fully paid shares issued in the 12 months under an exception in Listing Rule 7.2;
B) plus the number of partly paid shares that became fully paid in the 12 months;
C) plus the number of fully paid shares issued in the 12 months with approval of holders of shares under Listing Rules 7.1 and 7.4. This does not include an issue of fully paid shares under the entity's 15% placement capacity without shareholder approval;
D) less the number of fully paid shares cancelled in the 12 months.

Note that A has the same meaning in Listing Rule 7.1 when calculating an entity's 15% placement capacity.

D is 10%

E is the number of Equity Securities under or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of the issue or agreement to issue that are not issued with the approval of shareholders under Listing Rules 7.1 or 7.4.

d) Listing Rule 7.1 and Listing Rule 7.1A

The ability of an entity to issue Equity Securities under Listing Rule 7.1A is in addition to the entity's 15% placement capacity under Listing Rule 7.1.

At the date of this Notice, the Company has on issue 1,567,057,896 Shares and has a capacity to issue:

(i) **235,058,684** Shares under Listing Rule 7.1; and
(ii) subject to Shareholders' approval being obtained under Resolution 5, **156,705,790** Shares under Listing Rule 7.1A.

The actual number of Equity Securities that the Company will have capacity to issue under Listing Rule 7.1A will be calculated at the date of issue of the Equity Securities in accordance with the formula prescribed in Listing Rule 7.1A.2 (refer to 4.2(c) above).

e) Minimum Issue Price

The issue price of Equity Securities issued under Listing Rule 7.1A must be not less than 75% of the volume weighted average price of Equity Securities in the same class calculated over the 15 ASX trading days immediately before:

(i) the date on which the price at which the Equity Securities are to be issued is agreed; or
(ii) if the Equity Securities are not issued within 5 ASX trading days of the date in paragraph (i) above, the date on which the Equity Securities are issued.

f) 10% Placement Period

Shareholder approval of the 10% Placement Facility under Listing Rule 7.1A is valid from the date of the annual general meeting at which the approval is obtained and expires on the earlier to occur of:

(i) the date that is 12 months after the date of the annual general meeting at which the approval is obtained; or
(ii) the date of the approval by shareholders of a transaction under Listing Rules 11.1.2 (a significant change to the nature or scale of activities) or 11.2 (disposal of main undertaking),

or such longer period if allowed by ASX **(10% Placement Period).**

4.3 Information required by ASX Listing Rule 7.3A

ASX Listing Rule 7.3A sets out a number of matters which must be included in a notice of meeting seeking an approval under ASX Listing Rule 7.1A.The following information is provided for the purposes of Listing Rule 7.3A:

a) The Equity Securities will be issued at an issue price of not less than 75% of the volume weighted average price for the Company's Equity Securities over the 15 ASX trading days immediately before:

   (i) the date on which the price at which the Equity Securities are to be issued is agreed; or

   (ii) if the Equity Securities are not issued within 5 ASX trading days of the date in paragraph (i) above ,the date on which the Equity Securities are issued.

b) If Resolution 4 is approved by Shareholders and the Company issues Equity Securities under the 10% Placement Facility, the existing Shareholders' voting power in the Company will be diluted as shown in the table below. There is a risk that:

   (i) the market price for the Equity Securities may be significantly lower on the date of the issue of the Equity Securities than on the date of the Meeting; and

(ii) the Equity Securities may be issued at a price that is at a discount to the market price for the Equity Securities on the issue date,

which may have an effect on the amount of funds raised by the issue of the Equity Securities.

The table below also shows the dilution of existing Shareholders on the basis of the current market price of Shares and the current number of ordinary securities for variable "A" calculated in accordance with the formula in Listing Rule 7.1A (2) as at the date of this Notice.

The table also shows:

(i) two examples where variable "A" has increased, by 50% and 100%.Variable "A" is based on the number of ordinary securities the Company has on issue. The number of ordinary securities on issue may increase as a result of issues of ordinary securities that do not require Shareholder approval (for example, a pro rata entitlements issue or scrip issued under a takeover offer) or future specific placement under Listing Rule 7.1 that are approved at a future Shareholders' meeting; and

(ii) two examples of where the issue price of ordinary securities has decreased by 50% and increased by 100% as against the current market price.

Variable "A" in Listing Rule 7.1A.2		**Dilution**		
		50% decrease in Current Issue Price **$0.0015**	**Current Issue Price** **$0.003**	**100% increase in Current Issue Price** **$0.006**
1,567,057,896 **Current Variable " A"**	**10% Voting dilution**	156,705,790 Shares	156,705,790 Shares	156,705,790 Shares
	Funds raised	$235,059	$470,117	$940,235
2,350,586,844 **50% increase in current Variable "A"**	**10% Voting dilution**	235,058,684 Shares	235,058,684 Shares	235,058,684 Shares
	Funds raised	$352,588	$705,176	$1,410,352
3,134,115,792 **100% increase in current Variable "A"**	**10% Voting dilution**	313,411,579 Shares	313,411,579 Shares	313,411,579 Shares
	Funds raised	$470,117	$940,235	$1,880,469

The table has been prepared on the following assumptions:

(i) The current issue price is $0.003, being the closing price of the Company's Shares on ASX on 24th October 2012.
(ii) The Company issues the maximum number of Equity Securities available under the 10% Placement Facility.
(iii) No Options are exercised into Shares before the date of the issue of the Equity Securities.
(iv) The 10% dilution reflects the aggregate percentage dilution against the issued issued share capital at the time of issue. This is why the voting dilution is shown in each example as 10%.
(v) The table shows only the effect of issues of Equity Securities under Listing Rule 7.1A, not under the 15% placement capacity under Listing Rule 7.1.
(vi) The issue of Equity Securities under the 10% Placement Facility consists only of Shares. If the issue of Equity Securities includes Listed Options, it is assumed that those Listed Options are exercised into Shares for the purpose of calculating the voting dilution effect on existing Shareholders.

c) The Company will only issue and allot the Equity Securities during the 10% Placement Period. The approval under Resolution 4 for the issue of the Equity Securities will cease to be valid in the event that Shareholders approve a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities) or Listing Rule 11.2 (disposal of main undertaking).

d) The Company seeks to issue the Equity Securities for the following purposes:

- for cash consideration in which case the Company intends to use the funds raised for working capital purposes.

e) The Company's allocation policy is dependent on the prevailing market conditions at the time of any proposed issue pursuant to the 10% Placement Facility. The identity of the allotees of the Equity Securities will be determined on a case-by-case basis having regard to the factors including but not limited to the following:

(i) the purpose of the issue;
(ii) alternative methods of raising funds that are available to the Company, including but not limited to, rights issue or other issue in which existing security holders can participate;
(iii) the effect of the issue of the Equity Securities on the control of the Company;
(iv) the circumstances of the Company, including ,but not limited to, the financial situation and solvency of the Company; and
(v) advice from corporate, financial and broking advisers (if applicable).

The allottees under the 10% Placement Facility have not been determined as at the date of this Notice but may include existing substantial Shareholders and/or new Shareholders who are not related parties or associates of a related party of the Company.

f) The Company has not previously obtained Shareholder approval under Listing Rule 7.1A.

g) A voting exclusion is included in the Notice. At the date of the Notice, the Company has not approached any particular existing Shareholder or security holder or an identifiable class of existing security holder to participate in the issue of the Equity Securities. No existing Shareholders' votes will therefore be excluded under the voting exclusion in the Notice.

4.4 Directors' Recommendation

The Board recommends that members vote in favour of Resolution 4.

<u>GLOSSARY</u>

In this Notice and the Explanatory Memorandum:

(a) **$** means Australian Dollars
(b) **10% Placement Facility** has the meaning given in **Section 4.1**
(c) 10% Placement Period has the meaning given in **Section 4.2**
(d) **Annual Report** means the Directors' Report, the Financial Report and the Auditor's Report in respect to the Financial Report ended 30 June 2012.
(e) **ASIC** means Australian Securities and Investments Commission.
(f) **ASX** means ASX Limited or the Australian Securities Exchange, as the context requires.
(g) **ASX Listing Rules** and **Listing Rules** means the listing rules of the ASX.
(h) **AEST** means Australian Eastern Standard Time, being the time in Melbourne, Victoria, Australia.
(i) **Board** means the Directors of the Company as at the date of this Notice of Meeting.
(j) **Chair** and **Chairman** means the person appointed to chair the Meeting.
(k) **Cardia** and **Company** means Cardia Bioplastics Limited (ACN 064 755 237).
(l) **Constitution** means the constitution of the Company as at the commencement of the Meeting.
(m) **Corporations Act** means the Corporations Act 2001 (Cth).
(n) **Director** means a director of the Company.
(o) **Equity Securities** has the meaning as in the ASX Listing Rules.
(p) **Explanatory Memorandum** means the explanatory memorandum to the Notice of Meeting.
(q) **Option** means an option which entitles the holder to subscribe for a Share in the Company.
(r) **Notice** or **Notice of Meeting** means this notice of Annual General Meeting.
(s) **Proxy Form** means the proxy form attached to the Notice of Meeting.
(t) **Remuneration Report** means the remuneration report contained in the Company's 2012 Annual Report.
(u) **Resolution** means a resolution contained in this Notice of Meeting.
(v) **Trading Day** means a day determined by ASX to be a trading day in accordance with the Listing Rules.
(w) **Share** means fully paid ordinary share in the capital of the Company.
(x) **Shareholder** means a shareholder of the Company.

In this Notice and the Explanatory Memorandum words importing the singular include the plural and vice versa.

CARDIA BIOPLASTICS LIMITED
(ACN 064 755 237)

PROXYFORM

BAR CODE

All Registry communication to:
Advanced Share Registry Ltd
150 Stirling Highway
Nedlands WA 6009
PO Box 1156
Nedlands WA 6909
Telephone : (08) 9389 8033
Facsimile: (08) 9389 7871
Website:www.advancedshare.com.au

Sequence No:

< SHAREHOLDER'S DETAILS>

XXXX
XXXXX
XXXXX

STEP 1- Appointment of Proxy

I /We being a member/s of **Cardia Bioplastics Limited** and entitled to attend and vote hereby appoint

☐ the Chairman of the Meeting (mark with an "X") **OR** ☐ If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy**.**

Or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the meeting, as my/our proxy at the Annual General Meeting of Cardia Bioplastics Limited to be held at Suite 5, Level 1, 310 Whitehorse Road, Balwyn ,VIC 3103 on 29th November 2012 at 9.00 am and at any adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit unless I/We have appointed a Director, or any of the Company's other key management personnel or a closely related party of that person, as our proxy.

☐ The Chairman of the meeting is appointed as your proxy or may be appointed by default, and you do not wish to direct your proxy how to vote, please mark this box. By marking this box, you acknowledge that the Chairman of the meeting may vote as your proxy even if he has an interest in the outcome of the resolution and votes cast by the Chairman of the meeting for those resolutions, other than as proxy holder, will be disregarded because of that interest. **The Chairman will vote all undirected proxies in favour of the resolutions on which the Chairman is permitted to vote, including Resolution 1. Accordingly, if you want to vote against any of the resolutions, you should direct your proxy how to vote**. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the meeting will not cast your votes on a resolution if the Chairman has an interest in the outcome of that resolution, and your votes will not be counted in calculating the required majority if a poll is called. Accordingly, if you want your vote to be counted in respect of a resolution, you should direct your proxy how to vote in respect of it.

STEP 2- Voting directions to your Proxy-please mark ☒ to indicate your directions

		For	Against	Abstain *
Resolution 1	**To adopt Remuneration Report**	☐	☐	☐
Resolution 2	**Re-election of Director- Mr Pat Volpe**	☐	☐	☐
Resolution 3	**Approval and possible issue of shares**	☐	☐	☐
Resolution 4	**Approval of 10% placement facility**	☐	☐	☐

***If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3- PLEASE SIGN HERE **This section must be signed in accordance with the instructions overleaf to enable your directions to be implemented.**

Individual or Security holder 1	**Security holder 2**	**Security holder 3**
Sole Director and Company Secretary	**Director**	**Director/Company Secretary**

Contact Name --------------------------- **Contact Daytime Telephone --------------------** **Date / / 2012**

Voting and Instructions for Appointment of Proxy:

YOUR VOTE IS IMPORTANT
FOR YOUR VOTE TO BE EFFECTIVE IT MUST BE RECORDED BEFORE 9.00 AM ON 27th NOVEMBER 2012.

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 Appointment of Proxy

Indicate here who you want to appoint as your Proxy

If you wish to appoint the Chairman of the meeting as your proxy, mark the box. If you wish to appoint someone other than the Chairman of the meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the meeting will be your proxy. A proxy need not be a member of the Company. Do not write the name of the issuer company or the registered member in the space.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must provide evidence of his or her appointment by providing an "Appointment of Corporate Representative" form prior to admission. An Appointment of Corporate Representative form can be obtained from the company's Share Registry.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's Share Registry or you may copy this form.

To appoint a second proxy you must:

(a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.

(b) return both forms together in the same envelope.

STEP 2 Voting Directions to your Proxy

You can tell your Proxy how to vote

To direct your proxy how to vote, place a mark in one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses unless you have appointed a Director, or any of the Company's other key management personnel or a closely related party of that person, as your proxy. If you mark more than one box on an item your vote on that item will be invalid.

Where permitted, the Chairman of the meeting will vote undirected proxies in favour of all items of business. This includes Resolution 1 on the basis that the Proxy Form expressly authorises the Chairman to vote all undirected proxies even if the resolution is connected directly or indirectly with the remuneration of a Director.

Accordingly, if you wish to vote against any of the items of business, you should direct your proxy how to vote in respect of that resolution.

If you appoint a Director (other than the Chairman of the meeting), or any of the Company's other key management personnel or a closely related party of that person, as your proxy and you do not direct your proxy how to vote on Resolution1, the proxy will not be permitted to vote your proxy on that resolution.Accordingly,if you want your vote to be counted on that resolution, you should direct your proxy how to vote in respect of it.

STEP 3 Sign the Form

The form must be signed as follows:
Individual: This form is to be signed by the member.
Joint Holding: Where the holding is in more than one name, all the members must sign.
Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. Please indicate the office held by signing in the appropriate place.

STEP 4 Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below not later than 48 hours before the commencement of the meeting at 9.00 a.m on 29th November 2012. Any Proxy Form received after that time will not be valid for the scheduled meeting.
Proxies may be lodged with the Company's registry in any one of the following ways:

BY MAIL – Advanced Share Registry Limited
PO Box 1156,
Nedlands,
Western Australia- 6909

BY FAX- +61 (08) 93897871

IN PERSON – Advanced Share Registry Limited
150 Stirling Highway,
Nedlands
Western Australia -6009

Attending the Meeting
If you wish to attend the meeting please bring this form with you to assist registration.

CARDIA BIOPLASTICS LIMITED
AND ITS CONTROLLED ENTITIES
ACN 064 755 237

ANNUAL REPORT 2012

Directors:	Patrick John Volpe (Chairman) Frank Peter Glatz (Managing Director) John Scheirs Chen Yi
Company Secretary:	Rekha Bhambhani
Registered Office:	Unit18, 35 Dunlop Road, Mulgrave VICTORIA 3170 Telephone (03) 95620122 Facsimile (03) 95620422 Email: info@cardiabioplastics.com
Share Registry:	Advanced Share Registry Limited 150 Stirling Highway, NEDLANDS W.A.-6009 Telephone: +61 8 9389 8033 Facsimile: +61 8 9389 7871
Bankers:	Bank of Melbourne Level 8, 530 Collins Street, MELBOURNE VIC 3000
Auditors:	William Buck Level 20, 181 William Street, MELBOURNE, VIC 3000
Lawyers:	Mills Oakley Lawyers St James Building Level 4, 121 William St, MELBOURNE, VIC 3000.
Stock Exchange:	Australian Securities Exchange Exchange Centre 20 Bridge Street, Sydney NSW 2000

Dear Shareholders,

In what has been a challenging year across the globe with events such as the European Financial crisis, the slowdown in China and the current economic situation in the U.S.A., it would be understandable why any decision to shift to sustainable and renewable plastics may have been put back as Governments and Corporates focus on their business and economic survival.

Having said that, Cardia in FY2012, maintained strong global interest from customers for its now established portfolio of bioplastic products that focus on providing sustainable renewable resins and finished goods that have a lower carbon footprint with environmental benefits.

Our Company further strengthened its positioning as a bioplastics player, being recognised as one of the World's top 20 bioplastics producers by UK research company Visiongain[1] and also receiving the 2011 "Frost & Sullivan Asia Pacific green excellence award for Technology Innovation".

Several strategic achievements were made during the year, these included Cardia continuing to strengthen its global patent position, increasing its manufacturing capacity in China, establishing additional corporate subsidiaries in Malaysia,(Manager- Mr.Iqbal Huq), in the U.S.A, (Managing Director- Mr James Beck) and for Latin America (Managing Director- Mr. Joao Paulo Mignot).

In that light I welcome the appointment of our Managing Directors to their respective country business entities. Our strategy is to gear up with local country presence as Cardia establishes its global brand with expectation of increased sales momentum in these countries in the coming year.

Cardia achieved record sales in the FY2012 at $4.3M compared to $1.7M in 2011 (a 161% increase).

A good share of sales in the year was represented by once-off orders. Cardia's strategy going into the 2013 year will be to focus on converting our project development pipeline book into long term commercial sales contracts. This development pipeline book represents projects with major brand owners and global packaging manufacturers and remains substantial and attractive.

In the last half -year of the FY2012, Cardia made some significant milestone achievements with several of these large brand owners and global packaging companies signing up for supply contracts. This was as a result of years of development work with them. Customers singing up supply contracts were Sealed Air, a U.S. based global packaging leader, several Hygiene product companies and a major consumer goods supplier- all converting their conventional plastic packaging to bioplastics. Another positive for Cardia is that each of these customers used Cardia resins for different applications, demonstrating the versatility and diversification of the Cardia technology. Whilst the margin from expected sales volumes from these projects currently is not sufficient to cover our operational costs, they confirm the momentum of converting development projects from our pipeline book- into commercial sale.

In FY 2013, Cardia expects to convert several other projects that are now at the "in market trial "stage into commercial sales contracts, again, with Fast Moving Consumer Goods and global brand owner companies.

Our company is at the cross roads of its own development cycle where it still requires funding for working capital whilst our sales book needs to increase to a level that can cover our operational and other costs. Our strategy of securing long- term contracts with global leaders in the plastic packaging industry remains unchanged and is supported by our marketing efforts in the waste management and agriculture industries. Here Cardia's customers include Brisbane City Council, and the Chinese City Councils of Nanjing, Shanghai Pudong, Hangzhou, and Yuhang.

Financially,Cardia's loss performance for the bioplastics business was slightly better in FY2012 at circa $3.9M loss compared to $4.1M loss in 2011.

The overall company's consolidated position for FY2012 was a circa $4.7M loss compared to $3.3M loss in 2011. This increase was due to the write down in the value of our equity investments in both Bioglobal Limited (agricultural pest control) and P-Fuel Limited (waste plastics to diesel), as detailed in the Financial Report that follows.

To fund Cardia's working capital requirements, shareholders were asked to participate in a rights issue that raised $1.33m during the year but this raising was short of the company's requirements. As a result, a cost reduction program was put in place and it is expected that these cost reduction measures should be reflected in the September 2012 quarter numbers.

[1] Refer to the report at visiongain.com/Report/710/The-Biodegradable-Plastic-Packaging-Market-2011-2012

Cardia will require additional cash to fund its activities for the FY2013 and is seeking a strategic cornerstone investor but at the same time is reviewing all of its other funding options.

Simply, our company needs cash to fund its operations until it can convert it development pipeline projects into sufficient sales with margins to cover these costs.

Other achievements during the year included the Malaysian Government's Biotechnology Corporation granting Cardia Bioplastics BioNexus Status, receiving Halal certification for its Biohybrid™ resins, producing the world's first Bio-container for nutritional supplement & cosmetics market and the manufacture of food packing resin compliant to both U.S.A. FDA (Food and Drug Administration) standards and EU (European Union) regulations.

For myself, whilst I am still very active in the operations of the business, I have decided to take a non-executive role in order to reduce the cost of the business. At the same time both Dr. John Scheirs and myself have agreed to focus on the CO2Starch business which has the potential to deliver the next generation of bioplastics. CO2Starch uses CO2 emissions along with renewable resources blended into the next generation of bioplastics that requires less virgin oil input. I am excited with this opportunity and have already received local and international interest in what we are doing.

In closing, I must say that it has been a long road to date, but the company has managed to raise and invest in excess of $20m into the building of our bioplastic business. In the Board's view, the value of our business has not been reflected in the market value of the company's shares.

Cardia is well positioned to take advantage in what your Board firmly believes, is the start of a global industry shift towards the use of new bioplastics. Whilst the change is slow – it is starting to grip with Cardia's recent contracts with global companies confirming this. If the move to bioplastics gains momentum, Cardia is perfectly positioned to capitalise immediately.

The Managing Directors report follows and I would like to thank Frank Glatz for his efforts in that role along with all our loyal employees, in what has been a challenging 2012 year but one which has contributed significantly to building on the previously set foundations of Cardia Bioplastics Limited.

I wish to once again thank our shareholders for their most valuable support.

Pat Volpe
Chairman

The Directors present their report on the consolidated entity consisting of Cardia Bioplastics Limited ("Cardia or the Company") and the entities it controlled ("the Group") at the end of, or during, the year ended 30 June 2012.

DIRECTORS

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

Patrick John Volpe (Chairman)

Frank Peter Glatz (Managing Director)

John Scheirs

Chen Yi

COMPANY SECRETARY

The Company Secretary is Rekha Bhambhani, B.Com, ACIS, ASA, ACA (ICAI), DISA (ICAI) who was appointed to the position on 10th August 2010. Miss Rekha Bhambhani has been Chief Financial Officer of Cardia for last 6 years and has also worked as an assistant with the previous Company Secretary- Mr John Wilson on company secretarial matters. Prior to that, she has worked in accounting and finance positions in India for more than 8 years.

PRINCIPAL ACTIVITIES

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

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

OPERATING RESULTS

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

	2012	2011
	$	$
Profit/ (Loss) for the year after income tax	**(4,659,660)**	(3,323,324)
Loss/(Profit) attributable to non-controlling interests	**17,234**	(1,887)
Net Profit / (Loss) attributable to members of the Company	**(4,642,426)**	(3,325,211)

DIVIDENDS

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

REVIEW OF OPERATIONS:

The Company maintained its principal 5 business segments with the majority of activities directed towards the operations of the Bioplastics business.

The Company's equity interest in its biotechnology agricultural business-Bioglobal Limited was impaired and diluted following HongKong-China investor group's substantial equity interest acquisition in that company and have since refocused its business operations into China.

Cardia also impaired its investment value in P-Fuel Limited but has maintained its equity interest. P-Fuel Limited is the business focused on converting waste plastics and waste oils to diesel. During the year, Cardia obtained board representation in the P-Fuel Limited.

No activity was recorded in the mining exploration business segment for the year.

The details of the principal business activities during the year are below.

SUBSIDIARIES:

CO2Starch Pty Ltd

Cardia restructured its CO2Starch Pty Ltd subsidiary to become a wholly owned subsidiary of Cardia Bioplastics Limited which was formerly wholly owned subsidiary of Cardia Bioplastics(Australia) Pty Ltd.

The CO2Starch patents were assigned to this subsidiary.

Mr. Pat Volpe and Dr. John Scheirs remained the Directors of the Company.

The Board has reviewed the business opportunities for its starch blending with PPC technology with the objective of adding value to the business and increasing its operational activities.

CO2Starch Pty Ltd has launched the world's first bio degradable bag using CO2 emissions into making a PPC polymer that is blended with starch using CO2S novel and unique technology.

U.S.A subsidiary: Cardia Bioplastics LLC

Cardia appointed Mr.James Beck as the Managing Director of the USA subsidiary during the year. James has been with Cardia managing the American market segment since his appointment in April 2009.

Establishment of Latin American subsidiary: Cardia Bioplasticos (Brasil) Ltda

On 28th May 2012, Cardia established a 100% owned subsidiary in Brazil, named Cardia Bioplasticos (Brasil) Ltda .

In order to take advantage of the expected growth in Latin America, Cardia has established a Brazilian subsidiary and appointed Mr. Joao Paulo Mignot to manage the business operations of the Latin American countries with initial focus on Brazil.

Cardia Bioplastics Malaysia Sdn Bhd

On 22 September 2011, Cardia Bioplastics Malaysia Sdn Bhd was set up as a wholly owned subsidiary of the Company.

Mr. Iqbal Huq was appointed as the Manager of the Malaysian subsidiary to manage the expected increase in sales and business activity for Malaysia in the FY2013.

Iqbal was instrumental in Cardia being awarded BioNexus status from the Malaysian Biotechnology Corporation – a Malaysian Government body. The BioNexus status provides CBM with Malaysian Government incentives, including a 10 year tax-free status and exemptions to all import duties for qualifying participants.

REVIEW OF OPERATIONS (CONTINUED)

The manufacturing joint venture with RNZ Green Bio Sdn Bhd (RNZ) did not progress as RNZ could no longer fund these operations. As a result, Cardia took back all the manufacturing rights for finished goods in Malaysia and the brand 'Cardia Bioplastics Manufacturing Malaysia"

The termination of the joint venture had no financial impact on the statement of financial position of Cardia Bioplastics Limited, as the Company was not required to make any cash contribution to the joint venture.

Cardia Bioplastics (Australia) Pty Ltd:
The major operational activities of the company were in its bioplastics business and the Managing Directors Dr. Frank Glatz's review of those activities is as follows:

Operational Review.

The Financial Year 2012 has been one of significant growth for Cardia Bioplastics, with the Company making notable progress in sales, commercialisation and technical development. In addition to posting a record performance in terms of sales for any one year, several product launches and technological developments were communicated to the market. This highlights the significant momentum of Cardia's business development, the strengthening global demand for the patented resin products and the wide range of applications in which the Company's materials are now being used.

Sales

The Financial Year 2012 saw Cardia Bioplastics post a record performance in terms of sales for any one year. Sales revenue totaled $4,301,143 for FY2012, representing a 161% increase on the previous corresponding Financial Year. With strong sales momentum, Cardia delivered an improved sales performance across all of the geographical target markets in which the Company operates. With a growing list of long-term customers, the Company is making significant headway into establishing itself as a leading global manufacturer and supplier of renewable resins for the plastics and packaging industry.

FY2012 has seen Cardia transition from product development phase to global product commercialisation.To complement this transition and enhance commercial viability, the Company has implemented a strategic shift in its commercial business model over the past 12 months, with the focus now firmly on accumulating long-term contracts with major international customers and market-leading brand owners.

Cardia's historical focus has been largely associated with product development and building a portfolio of renewable resin technologies which are primed and ready for commercialisation. During this phase, Cardia's sales revenue was largely underpinned by one-off projects with customers looking for short-term renewable packaging solutions.

To date, Cardia has made significant progress in its strategy, which focuses on building a long-term recurring revenue profile. The Company has already executed a number of long-term customer contracts, including contracts with Sealed Air, the USA based global packaging leader, an USA hygiene company and a global consumer goods company. Furthermore the Company has secured material business contracts with Brisbane City Council, and the Chinese City Councils of Nanjing, Shanghai Pudong, Hangzhou, and Yuhang.Other additional announcements Cardia made to the market regarding partnerships with leading packaging companies, for example Polyden Folien and Alto Packaging, and launches of new products made with Cardia Bioplastics resin technology are all expected to lead to regular, long-term supply contracts as product sales eventuate.

A significant benefit that comes with securing these long-term contracts, partnerships and business development opportunities with major global and market-leading brand names, is the strong and unparalleled validation of the technical performance and commercial viability of Cardia's renewable resin technologies. The product development process within these companies is a lengthy and rigorous multi-step event. Successful progression to in-market validation and ultimately commercialisation is absolute confirmation that the products meet the highest standards for technical and environmental performance, are cost-competitive and have passed specific product trials.

This substantial endorsement by global market leaders and major industry players is invaluable. In addition to validating the technical and commercial appeal of Cardia's technologies, it bolsters Cardia's reputation as a leading developer, manufacturer and marketer in the growing bioplastics industry. In time, it is expected that this will urge an accelerated uptake of Cardia's renewable resin products among other companies who are looking to reduce their carbon footprint through sustainable packaging and plastic technologies.

REVIEW OF OPERATIONS (CONTINUED)

The following sales contracts have been delivered and communicated to the market in FY2012 and up to the date of this report:

Sealed Air selects Cardia Biohybrid™ sustainable resin for Fill-Air R5® inflatable packaging

Cardia Bioplastics will supply Sealed Air Corporation, a leading international packaging company, with renewable Biohybrid™ resin technology for the manufacture of Fill-Air R5® inflatable packaging. Sealed Air is a US packaging leader, with approximately 26,300 employees and serving customers in 175 countries. In 2011, Sealed Air generated revenues of $8.1 billion. Cardia and Sealed Air co-developed the new Fill-Air R5® inflatable packaging and following the successful conclusion of extended in-market trials, Cardia will continue to supply Sealed Air with its Biohybrid™ resin. The new Fill-Air R5® film is designed for use on the Sealed Air Fill-Air® 2000 and Fill-Air Cyclone® packaging systems, to quickly create air-filled cushions for void-fill applications to protect goods during transport. The Sealed Air press release is available on Cardia's website.

Cardia Bioplastics wins $500K hygiene products contract for American market

Cardia Bioplastics has been awarded an annual supply contract for hygiene films made using Cardia Biohybrid™ technology. Cardia signed the supply deal with a leading American diaper products company – the contract is worth at least US$500,000 per annum. Using the hygiene films made from the Biohybrid™ technology, the American diaper products company now offers an environmentally-sensitive diaper that is less dependent on finite resources. To complete the eco-friendly product offering, the diapers are packed in an outer packaging also made using Cardia Biohybrid™ technology. The hygiene products press release is available on Cardia's website.

Cardia Bioplastics secures supply contract with global consumer products company

Cardia Bioplastics secured a $500,000 per annum supply contract with a global consumer products company, to provide Cardia Compostable bags as part of its consumer product offering. The contract win is an important achievement for Cardia and adds another leading global brand to the Company's customer portfolio. The supply contract provides Cardia with a strong revenue stream and exposure to that company's extensive retail channels. The consumer products press release is available on Cardia's website.

The following partnerships and product launches with leading packaging companies have been communicated to the market in FY2012 and up until the date of this report. It is expected that these developments will lead to regular, long-term supply contracts as product sales eventuate.

Major alliance formed with leading plastic packaging company

Cardia Bioplastics announced a new partnership with Alto Packaging to innovate and deliver high performance packaging solutions with an improved environmental profile to the food industry. The alliance with Alto Packaging, one of the leading rigid plastic packaging companies in Australasia, is a milestone achievement for Cardia that creates significant future growth opportunities for the Company. It is further validation of Cardia's unique patented resin technology and places the Company to expand its commercial roll-out. The Alto Packaging press release is available on Cardia's website.

REVIEW OF OPERATIONS (CONTINUED)

Cardia Bioplastics and Polyden Folien cooperate on sustainable packaging films

Cardia Bioplastics and Polyden Folien announced their cooperation on sustainable film products for the European packaging industry. Polyden Folien is one of Germany's leading flexible film specialists with a strong track record of offering innovative products to the packaging industry. Polyden Folien have launched their new range of packaging films, which are made with Cardia Biohybrid™ technology and meet the highest packaging performance standards. The Polyden Folien press release is available on Cardia's website.

INVICTA
PLASTICS LIMITED

Making a material difference

Leicester-based (UK) injection moulding company, Invicta Plastics, have unveiled a range of products made from a low carbon polymer material that promises to shake up the sustainable packaging market. The new product range is made from Cardia Biohybrid™ resin and therefore has up to a 50% lower carbon footprint.

World first for skin care industry - Cardia consolidates another partnership

Cardia Bioplastics partnered with ECOCARE™ to produce organic and biodegradable facial wipes enclosed within renewable content packaging – a world first. The partnership with ECOCARE™, an emerging Australian company dedicated to the development of organic environmentally-friendly skin care products, adds more diversity to Cardia's growing portfolio, as the Company continues to identify new applications for potential sales opportunities. The Ecocare™ press release is available on Cardia's website.

Cardia launches world's first Bio-container for nutritional supplement and cosmetics market

Cardia Bioplastics has launched the world's first food contact-compliant Biohybrid™ container for the global nutritional supplement and cosmetics industries. Cardia is implementing a marketing strategy to launch the Bio-Containers globally. The first step involves Cardia working with both a US manufacturer of plastic containers and a major nutritional supplement company to launch the new Bio-Containers into the US market. The Bio-container press release is available on Cardia's website.

Cardia Bioplastics launches compostable Bubble Wrap product

Cardia Bioplastics launched a new protective packaging product - Cardia Compostable Bubble Wrap. The new bubble wrap product is made from Cardia's certified compostable resin technology. Working closely with a European manufacturer of protective packaging, Cardia Bioplastics developed Compostable Bubble Wrap made from its certified compostable resin and launched it into the European market. Cardia Compostable Bubble Wrap is comparable in protective packaging performance to traditional bubble wrap with the added advantage of being made from certified compostable resin. This means that the bubble wrap is industrially compostable as an end of life disposal option. The Compostable Bubble Wrap press release is available on Cardia's website.

REVIEW OF OPERATIONS (CONTINUED)

Advances in Cardia Bioplastics Commercialisation

During the FY2012 Cardia made solid headway in its path to global commercialisation. A number of projects with global consumer goods companies and packaging producers progressed forward, with several products edging closer to commercialisation phase. Initial sales have already been achieved with the large packaging companies, brand owners and Councils who are currently either at 'in-market' validation stage or conducting pilot studies with Cardia technology products. As these targeted business development activities progress to market launch and ramp-up stage, it is expected that they will drive Cardia's near-future business success and deliver significant resin supply contracts to the Company over the next 12 months.

The following 'in-market validation' activities with global consumer goods companies and market trial contracts with Chinese City Councils have been communicated to the market in FY2012. This section also includes developments up until the date of this report:

Key milestone achieved in commercialisation of Biohybrid™ technology

A leading multi-national consumer goods company has commenced 'in-market validation' of their personal care products packaging, which is made from Cardia's renewable Biohybrid™ resin technology. This is a major milestone event for Cardia – it validates the performance and commercial viability of the renewable resin technology and pushes the Company further along its path to global commercialisation.
The undisclosed multi-national brand owner is a global leader in the hygiene and personal care markets. The Company is collaborating with Cardia in order to improve the environmental profile of their product packaging, via the integration of Cardia's renewable Biohybrid™ resin technology. The 'in-market validation' press release is available on Cardia's website.

Cardia wins contract to supply City of Nanjing householder with Cardia's renewable Biohybrid™ kitchen waste bags

Cardia's 100%-owned, Nanjing-based China subsidiary has been awarded a six month trial contract, for the supply of household kitchen waste bags to the City of Nanjing. The waste bags are made from Cardia's renewable Biohybrid™ resin product, which contains less oil and has a lower carbon footprint compared to conventional plastics. The contract is valued at $500,000. The Nanjing trial press release is available on Cardia's website.

Cardia supplies three more City districts in China with renewable Biohybrid™ kitchen waste bags to householders

Cardia's 100%- owned China subsidiary has been awarded to supply householders in three additional City Districts in China (Shangai Pudong, Hangzhou West Lake and Yuhang) with kitchen waste bags made from renewable Biohybrid™ products. The total sales value for the supply of bags for the trials is expected to be in the order of A$600,000 over the next six months. The China waste bag trial press release is available on Cardia's website.

Advances in Cardia Bioplastics Technology

During FY2012, Cardia Bioplastics made further developments with its bioplastics technology, strengthening its Intellectual Property position. Cardia now owns an intellectual property portfolio of 10 patent families, including 100 submitted and/or registered patents for Bioplastics formulations, processes and applications for global packaging products.

Furthermore, in FY2012, Cardia developed and launched a new range of food contact packaging resin products, made from the patented Biohybrid™ technology. These new products are fully recyclable, comply with both US FDA standards and EU regulations and meet Islamic Halal laws regarding food safety and quality. These product certifications not only validate Cardia's patented technologies, but also open up a large number of potential market opportunities for the Company, in both food packaging and the large worldwide Muslim community.

The following advances in Cardia Bioplastics technology and product certifications were communicated during the FY2012:

REVIEW OF OPERATIONS (CONTINUED)

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

Cardia Bioplastics has developed a new range of food contact packaging resin products made from Cardia Biohybrid™ technology that are fully recyclable and comply with U.S.A Code of Federal Regulations - Title 21 - Food and Drugs (FDA CFR 21) and fulfill the requirements of Europe's Regulation (EU) No. 10/2011 on materials and articles intended to come into contact with food. The breakthrough will provide Cardia Bioplastics with an expanded market opportunity into food packaging applications. The food contact packaging press release is available on Cardia's website.

Cardia Bioplastics receives Halal certification

Cardia Bioplastics has received Halal certification for its range of sustainable Biohybrid™ resins. Derived from renewable products, these Biohybrid™ resins now have formal acknowledgement of compliance with Islamic laws regarding safety and quality, allowing them to be used by the 1.6 billion-strong Muslim community worldwide. Halal certification has the potential to boost global sales and underpins future growth potential. The Halal certification press release is available on Cardia's website.

Manufacturing

Cardia's manufacturing plant, located in Nanjing (China), has the capacity to produce 7,200 tonnes of bioplastic resin per annum. The plant operates under strict production and quality processes which have been recognised with ISO9001 Quality Certification and the China Environmental Label. The plant has low operating costs and is highly scalable.

Cardia Bioplastics' own film and bag production at the Nanjing manufacturing plant has enabled the Cardia Bioproducts team to attract and win business and provide better service to their global film and bag customers.

The Nanjing-based manufacturing plant is shown in the photos below.

Employees:

Cardia has a total of 65 employees of which 57 are located in China and the balance around the world.

REVIEW OF OPERATIONS (CONTINUED)

INVESTMENTS

As at 30 June 2012, the Company held the following material investments:

- **Bioglobal Limited**: 18,780,000 ordinary shares in unlisted entity Bioglobal Ltd, the ownership interest diluted from 17.78% to 4.63% of the issued capital of that Company following issue of 300 million shares during the year.

- **P-Fuel Limited**: Cardia has 5,250,000 ordinary shares (following a 3 for 4 capital reconstruction) representing 5.2% of the issued capital of P-Fuel Limited.

The Company held other investments which were immaterial in value and/or were inactive during the year. This included its mining exploration business segment that whilst inactive during the year, the company received several proposals that were not considered to add value to shareholders.

Your Board will remain active in reviewing all proposals that have the potential to add value to shareholders in line with Cardia's five principal businesses.

PATENTS AND TRADE MARKS :

The Company continued to invest funds into securing its IP position and now has a family of 10 patents covering around 100 applications in various stages of the granting process. The patents cover formulations, processes and application developments for their uniqueness and novelty.

Other than for the CO2S patent, all other patents are held in the 100% subsidiary company of Cardia Bioplastics (Australia) Pty. Ltd.

Cardia also has 4 trade marks granted and at least 2 in application awaiting granting.

COST RESTRUCTURING PROGRAM

The Board conducted a strategic review of the Company's global activities and costs in line with its cash position and as a result, implemented a cost restructuring program which took effect in the June 2012 quarter. This program is expected to reduce the future cash burn rate of the Company, and ultimately reduce business expenses for FY2013 to $3.0 million – business expenses totalled $4.7 million for FY2012. The effects of this cost restructuring program are expected to be visible from the first quarter of FY2013.

OTHER MATTERS

- Following the shareholders' approval at Annual General Meeting held on 29th November 2011, the Company adopted new employee share option plan and new constitution. .
- Effective 1 June 2012, Mr. Volpe's role changed from Executive to Non-Executive Chairman of the Company.

SECURITIES ISSUED

- During the year, the Company raised $1.33 million (net of cost) from its renounceable rights issue offer to shareholders. The Rights Issue offer entitled the Shareholders to subscribe for one new share for every four shares held in Cardia at an issue price of 0.7 cents each with one free attaching new option (exercise price 1.5 cents each with expiry date of 30 June 2015) for every one new share subscribed for. The Company issued 221,285,714 Ordinary shares and 221,285,714 Options (30 June 2015) pursuant to the Rights Issue.
- During the year, the Company has issued 366,296 ordinary shares on exercise of similar number of options expiring 30 June 2012 and have raised $5,496 on exercise of these options and balance of 223,271,186 options expired at the expiry date of 30 June 2012. Directors held 500,000 of these options which lapsed on the expiry date.
- On 22nd December 2011, 3,581,250 Ordinary Shares were issued to the employees of the Company in accordance with terms of their respective employment contracts or arrangements.

With the above issues, the total numbers of securities on issue as at date of this report are:

▪ Ordinary Fully paid Shares	1,567,057,824
▪ Options expiring 30 June 2015 (Exercise Price 1.5 cents each)	221,285,714
▪ Options expiring 30 June 2013 (Exercise Price 2 cents each)	110,308

FINANCIAL POSITION

The net assets of the consolidated entity were $9,948,687 as at 30 June 2012 compared to $15,118,517 as at 30 June 2011, a decrease of $5,169,830. This decrease has resulted primarily due to the following reasons:

Capital Raising (net of costs) during the year	$1.33 M
Valuation of Bioglobal Investments at fair value in accordance with AASB 139. -Refer Note to the Financial statements 12(b)	($2.57) M
Loss from Operating Activities for the year	($3.90)M

The Directors consider the group to be in a stable financial position.

EARNINGS (LOSS) PER SHARE

	2012	2011
	$	$
Basic Earnings (Loss) Per Share	**(0.0033)**	(0.0038)
Diluted Earnings (Loss) Per Share	**(0.0033)**	(0.0038)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**1,404,323,961**	865,279,488
Weighted average number of ordinary shares and options used in the calculation of diluted earnings per share	**1,404,323,961**	865,279,488

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

<u>Share and Option Issues</u>

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

AFTER BALANCE DATE EVENTS

Dissolution of CBMM Joint Venture

As announced to the market on 31 July 2012, Cardia Bioplastics will be 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.

A proposal to terminate Cardia's Malaysian Manufacturing Joint Venture (CBMM) by mutual agreement has been agreed to. The formal settlement process is in progress; on completion of which the finished goods manufacturing rights and the Cardia brand will be reverted back to Cardia.

Cardia has no financial exposure to the Joint Venture.

Issue of Piggyback Options

On 26 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.

110,308 Piggyback Options were issued on 21 August 2012 based on the acceptances received from the 16 Offerees by the closing date of the Prospectus.

The terms of piggyback option entitles the holder to subscribe for one ordinary share in the Company at the exercise price of 2 cents on or before the expiry date of 30 June 2013. Any Piggyback Options not exercised on or before the expiry date will automatically lapse.

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

FUTURE DEVELOPMENTS

Cardia will continue to focus on its principal business activities and will monitor its performance on its bioplastics business whilst at the same time continue to review any new business opportunities relating to its other principal activities.

In respect to its bioplastics business, the Company will focus to accelerate its sales with the expectation that the gross margin from expected sales will contribute to cashflow for the working capital requirements of the company. However additional capital to fund the working capital of the business will still be required for the financial year 2013. If sales expectations are not met, the Company will need further additional funds to cover its working capital requirements for the same period. Should any capital raising fall short of the company's requirements, then asset sales and additional cost cutting measures may be implemented by the Board. The Board will continue to seek a strategic cornerstone investor as part of its capital raising agenda.

ENVIRONMENTAL ISSUES

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

INFORMATION ON DIRECTORS

Patrick John Volpe *B.Bus(Acc), P.G.(Tax), CPA*	Experience:	Executive Director for 17 years Chairman for 12 years Non Executive Chairman effective 1/6/2012 Background in mining, media, transport, manufacturing, banking and stockbroking with a particular emphasis on corporate, restructuring, business acquisitions, investment advising and capital raisings and international business and management skills.
	Age:	54
	Special Responsibilities:	Corporate finance and investment, Acquisitions and mergers. Member of Audit & Compliance Committee
	Interest in Shares & Options:	150,416,649 Ordinary Shares 30,083,315 Options over Ordinary Shares
	Directorships held in other Listed Entities:	Botswana Metals Limited (appointed Chairman 19 Jan 2007), Genesis Resources Limited (appointed non-executive director 11 May 2012) and was the Chairman of A-Cap Resources Ltd until 12th January 2010.
Dr Frank Peter Glatz *Ph D, M.Sc, MBA*	Experience:	Appointed 1 May 2009 Background in the Fast Moving Consumer Goods (FMCG) companies, plastic industry with particular emphasis on development of new technologies and packaging applications.
	Age:	48
	Special Responsibilities:	As Managing Director is responsible for the general management of the Company and for international marketing.
	Interest in Shares & Options:	19,452,917 Ordinary Shares 1,490,583 Options over Ordinary Shares
	Directorships held in other	Has not held a directorship in any other listed entity over the last 3 years
Dr John Scheirs *Ph D, Applied Chemistry*	Experience:	Appointed 16 March 2009 Specialist in plastic recycling and polymer degradation. Author of leading books "Polymer Recycling Science, Technology and Applications" and "Compositional and Failure Analysis of Polymers."
	Age:	46
	Special Responsibilities:	Technical Advisor
	Interest in Shares & Options:	6,592,224 Ordinary Shares
	Directorships held in Other Listed Entities:	Has not held a directorship in any other listed entity over the last 3 years

Chen Yi	Experience:	Appointed 1 May 2009 Background in Sales
	Age:	32
	Special Responsibilities:	The Chinese operations
	Interest in Shares & Options:	18,500,000 Ordinary Shares
	Directorships held in Other Listed Entities:	Has not held a directorship in any other listed entity over the last 3 years

DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors and the Audit and Compliance Committee held during the year ended 30 June 2012 and the number of meetings attended by each Director.

Director	Board Meetings		Audit & Compliance Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
P J Volpe	13	13	2	2
F P Glatz	13	13	-	-
J Scheirs	13	13	-	-
Chen Yi	13	13	-	-
Rekha Bhambhani (Company Secretary)	13	13	2	2

REMUNERATION REPORT

Remuneration Policy

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

- The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service and particular experience of the individual concerned.
- All key management personnel receive a base salary and superannuation. Fringe Benefits and performance incentives are negotiated with the employees depending upon their duties and responsibilities and their area of expertise.
- Performance Incentives are generally paid once predetermined key performance indicators have been met.
- Incentives are paid in the form of a bonus as a percentage of base salary.

Key management personnel receive a superannuation guarantee contribution/social security payments required by the government of the respective region and do not receive any other retirement benefits.

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

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

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board collectively determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, and duties and accountability. Independent external advice is sought when required. No such advice was sought during the year.

REMUNERATION REPORT(CONTINUED)

The maximum amount of fees that can be paid to non executive directors is approved by shareholders.

Although no executive options are currently on issue, any options issued in the future and not exercised before or on the date of termination will automatically lapse.

Performance-based Remuneration

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

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

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

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

Performance in relation to the KPIs is assessed annually, with bonus incentives being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the Board in light of desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year.

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

Group Key Management Personnel	Position held as at 30 June 2012 and any change during the year	Contract Details (Duration & Termination)	Proportions of remuneration package related to performance	Proportions of remuneration package not related to performance
Patrick Volpe	Chairman	No Fixed Term Non Executive Chairman-1/6/2012	-	100%
Frank Glatz	Managing Director	12 months contract from 1st October 2011	20%	80%
John Scheirs	Non Executive Director	No Fixed Term	-	100%
Chen Yi	Non Executive Director & General Manager-China Operations	No Fixed Term	-	100%
G Ward	General Manager	24 months contract from 5th July 2010 Termination -4/7/2012	-	100%
A Fernando	Chief Operating Officer	No Fixed Term- Termination 31/5/2012	7%	93%
Chen Chan Ping	Technical Director ,China Operations	No Fixed Term	-	100%
R Bhambhani	Chief Financial Officer & Company Secretary	No Fixed Term	-	100%

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

Changes in Directors and Executives subsequent to year-end

Mr Ward's employment contract term expired on 4th July 2012 and was not renewed for the further term.

Remuneration Details for the year ended 30 June 2012

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

REMUNERATION REPORT(CONTINUED)

2012

Name	Short term Benefits		Post Employment	Equity-settled share-based payments	Termination Payments	Total
	Salary and Fees	Non-monetary benefits	Superannuation or Equivalent	Shares (I)		
	$	$	$	$	$	$
P J Volpe	**288,333**	**-**	**34,364**	**-**	**142,533**	**465,230**
F P Glatz	**277,450**	**7,586**	**24,970**	**-**	**-**	**310,006**
J Scheirs	**46,667**	**-**	**4,200**	**-**	**-**	**50,867**
Chen Yi (I)	**78,883**	**-**	**10,800**	**-**	**-**	**89,683**
G Ward	**161,365**	**-**	**12,385**	**26,250**	**-**	**200,000**
A Fernando	**92,508**	**4,061**	**10,037**	**15,000**	**32,603**	**154,209**
R Bhambhani	**93,333**	**-**	**8,400**	**-**	**-**	**101,733**
Chen Chan Ping	**54,800**	**-**	**10,800**	**-**	**-**	**65,600**
	1,093,339	**11,647**	**115,956**	**41,250**	**175,136**	**1,437,328**

(I) 3,281,250 Ordinary Shares were issued to Mr. Ward at an issue price of $0.008 each (net of tax basis) and 300,000 Ordinary shares were issued to Mr.Fernando at an issue price of $0.05 each. The number and fair value of shares issued to Mr. Ward and Mr. Fernando was in accordance with the terms of their respective employment contracts.

2011

Name	Short term Benefits		Post Employment	Equity-settled share-based payments	Termination Payments	Total
	Salary and Fees	Non-monetary benefits	Superannuation or Equivalent	Shares		
	$	$	$	$	$	$
P J Volpe	310,000	-	27,900	-	-	337,900
F P Glatz	267,433	27,809	24,059	-	-	319,300
J Scheirs	50,000	-	4,500	-	-	54,500
Chen Yi (I)	65,420	-	5,071	-	-	70,491
G Ward	132,411	-	11,917	50,000	-	194,328
A Fernando	100,917	14,986	9,083	-	-	124,986
R Bhambhani	76,667	-	6,900	20,000	-	103,567
Chen Chan Ping	57,080	-	6,085	-	-	63,165
	1,059,928	**42,795**	**90,444**	**70,000**	**-**	**1,268,237**

(I) Mr. Chen Yi was issued 2,500,000 Ordinary shares at an issue price of 2 cents each towards the settlement of his outstanding salary for prior years. The Share Issue was approved by the Shareholders' in the Annual General Meeting held on 29th November 2010.

(II) Mr. Graeme Ward and M/s.Rekha Bhambhani were issued 2,500,000 and 1,000,000 Ordinary shares respectively at an issue price of 2 cents each in accordance with the terms of their respective employment contract and/or arrangements.

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

REMUNERATION REPORT(CONTINUED)

Cash Bonuses, Performance-related Bonuses

There was no performance related remuneration paid during the year.

Options Issued as part of remuneration for the year ended 30 June 2012.

No options were issued during the year as part of remuneration. For Shares and Options held by Key Management Personnel, please refer Note 6 to the Financial Report.

OPTIONS

The Company has listed 221,285,714 options trading under ASX Code CNNOB. These options are exercisable at 1.5 cents at any time up to 30 June 2015.

The Company also has 110,308 unlisted options. These options are exercisable at 2 cents at any time up to 30 June 2013.

At the date of this Report there were 221,396,022 unissued ordinary shares of the Company under option.

INDEMNIFICATION AND INSURANCE OF DIRECTORS & OFFICERS

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

The Company has paid an annual premium to insure the Directors' and Officers against liabilities incurred in their respective capacities. Under the policy, details of the premium are confidential.

PROCEEDINGS ON BEHALF OF THE COMPANY

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

NON-AUDIT SERVICES

During the year the Company did not employ its auditor on assignments additional to their statutory audit duties.

AUDITOR'S INDEPENDENCE DECLARATION

The lead Auditor's Independence Declaration for the year ended 30 June 2012 has been received and can be found on page 20.

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

P. Volpe

Pat Volpe
Director
Dated this 28th day of September 2012

Mulgrave, Victoria

William Buck

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

I declare that, to the best of my knowledge and belief during the year ended 30 June 2012 there have been:

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

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

William Buck

William Buck Audit [Vic] Pty Ltd
ABN 59 116 151 136

J.C. Luckins
Director

Dated this 28th day of September, 2012

Sydney
Melbourne
Brisbane
Perth
Adelaide
Auckland

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This statement reflects Cardia Bioplastics Limited's corporate governance policies and practices as at 30 June 2012 and which were in place throughout the year.

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

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

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

The Board's responsibilities include:

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

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

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The Board has been formed so that it has an effective mix of personnel who are committed to discharging their responsibilities and duties, and being of value to the Company. It consists of 4 members, one of whom is non-executive director.

The Constitution requires a minimum number of three Directors .The maximum number of Directors is fixed by the Board but may not be more than 10, unless the members of the Company, in general meeting, resolve otherwise. The names of the Directors, and their qualifications and experience are stated on Pages 15-16 along with the term of office held by each.

There are no Directors on the Board at present that could be classified as 'Independent'. The Board considers, however that given the size and scope of the Company's operations at present, it has the relevant experience in the industry and is appropriately structured to discharge its duties in a manner that is in the best interests of the Company and its Shareholders from a both a long-term strategic and an operational perspective. The number of independent Directors on the Board is likely to increase as the Company develops and the Board believes that it can attract appropriate independent directors with the necessary industry experience.

However, where any Director has a material personal interest in a matter, in accordance with the *Corporations Act 2001,* the Director will not be permitted to be present during discussion of the matter or to vote on it. The enforcement of this requirement aims to ensure that the interest of shareholders, as a whole, is pursued and that neither their interest nor the Director's independence is adversely affected.

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

The Board is responsible for evaluating its performance and that of individual Directors and key executives and in doing so may engage independent external advisors if thought appropriate to do so. The Company has not established a formal process to evaluating the performance of the Board, its committees and individual directors, however the performance of the Board, the directors, officers and employees is monitored on a regular basis by the Board, with appropriate feedback and necessary training given to those parties.

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

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

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

The Company has a Securities Trading Policy that regulates the dealings by directors, officers and employees, in shares, options and other securities issued by the Company.

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

The Board has not formalised a Diversity Policy due to the size of the Company, however the Company is committed to diversity and recognises the benefits arising from employee and board diversity and the importance of benefitting from all available talent.

The proportion of women representation in Cardia Bioplastics currently is as follows:

Women represented on the Board – 0%
Women represented in senior executive positions- 1%
Women represented in the whole organisation- 26%

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTIING

The Managing Director and Chief Financial Officer have provided written declarations to the Board confirming that the Company's financial statements present a true and fair view of the Company's financial condition and operational results and are in accordance with the relevant accounting standards.

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

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

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

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

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

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

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

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

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

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

1. Communicating effectively with shareholders through ongoing releases to the market via the ASX and the Company's website, and the general meetings of the Company;
2. Giving shareholders ready access to balanced and understandable information about the Company and Corporate Proposals;
3. Making it easy for shareholders to participate in general meetings of the Company; and providing appropriate notice periods and disclosure for general meetings;
4. Requesting the External Auditor to attend the Annual General Meeting and be available to answer shareholder's questions about the conduct of the audit, and the preparation and content of the Auditor's Report.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The Company has not established formal policies for the oversight and management of material business risks. Due to the size of the Company and the size of the Board, the Board monitors all key areas of the Company's risk management on an ongoing basis and keeps shareholders informed of any changes in the risk profile of the Company.

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

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

The Board seeks assurance from the Managing Director and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporation Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material aspects in relation to financial reporting risks and discloses accordingly.

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

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

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

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

Current remuneration details are disclosed on pages 16-19 in the Director's Report.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012

	Notes	Economic Entity 2012 $	2011 $
Sales	3	**4,301,143**	1,649,171
Cost of Sales		**(3,740,483)**	(1,524,526)
Gross Profit		**560,660**	124,645
Other Income	3	**407,963**	216,655
Administrative Expenses		**(692,657)**	(619,961)
Employment Benefits		**(1,982,644)**	(1,583,063)
Marketing & Distribution Expenses		**(518,803)**	(393,777)
Research & Development Expenses & Patent Costs		**(1,367,967)**	(1,322,833)
Depreciation & Amortisation		**(118,842)**	(144,483)
Net Finance Costs		**(109,797)**	34,601
Other Expenses		**(82,319)**	(371,991)
Loss from operating activities		**(3,904,406)**	(4,094,808)
Impairment –Financial Assets		**(755,254)**	-
Gain on designation of AFS Asset		**-**	736,883
Loss before income tax	5	**(4,659,660)**	(3,323,324)
Income Tax Expense		**-**	-
Loss for the year after tax		**(4,659,660)**	(3,323,324)
Other comprehensive income			
Foreign currency translation differences for foreign operations		**13,035**	(61,338)
Net change in fair value of available for sale financial assets		**(1,900,853)**	1,900,853
Dilution Gain of associate on reclassification to Available for Sale Asset		**-**	(970,946)
Cummulative losses previously recognised on Equity Accounted Associate		**-**	234,063
Foreign currency exchange movements to Capital Reserve		**-**	(10,216)
Total comprehensive income for the year		**(6,547,478)**	(2,230,908)
(Loss)/Profit attributable to :			
Members of the Company		**(4,642,426)**	(3,325,211)
Non Controlling Interest		**(17,234)**	1,887
Loss for the year after tax		**(4,659,660)**	(3,323,324)
Total comprehensive income attributable to :			
Members of the Company		**(6,530,244)**	**(2,232,795)**
Non Controlling Interest		**(17,234)**	**1,887**
Total comprehensive income for the year		**(6,547,478)**	**(2,230,908)**
Earnings per share			
-Basic earnings per share (cents per share)	8	**(0.3306)**	(0.3843)
-Diluted earnings per share (cents per share)	8	**(0.3306)**	(0.3843)

The accompanying notes form part of these financial Statements.

STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2012

	Notes	ECONOMIC ENTITY 2012 $	2011 $
Current Assets			
Cash and cash equivalents	9	**1,362,618**	4,154,064
Trade and other receivables	10	**943,886**	690,209
Inventories	11	**1,319,426**	1,064,645
Total Current Assets		**3,625,930**	5,908,918
Non-Current Assets			
Financial Assets	13	**370,893**	3,027,000
Plant and Equipment	14	**686,967**	689,988
Intangible Assets	15	**6,565,950**	6,565,950
Total Non-Current Assets		**7,623,810**	10,282,938
Total Assets		**11,249,740**	16,191,856
Current Liabilities			
Trade and other payables	16	**1,205,052**	893,239
Short term provisions	17	**60,026**	146,748
Total Current Liabilities		**1,265,078**	1,039,987
Non Current Liabilities			
Long term provisions	18	**35,975**	33,352
Total Non Current Liabilities		**35,975**	33,352
Total Liabilities		**1,301,053**	1,073,339
Net Assets		**9,948,687**	15,118,517
Equity			
Issued Capital	19	**41,468,763**	40,091,115
Reserves	20	**(511,469)**	1,376,349
Accumulated Losses		**(31,049,057)**	(26,406,631)
Parent Entity Interest		**9,908,237**	15,060,833
Non Controlling Interest		**40,450**	57,684
Total Equity		**9,948,687**	15,118,517

The accompanying notes form part of these financial Statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

Economic Entity

	Issued Share Capital	Accumulated Losses	Option Issue Reserve	Foreign Currency Translation Reserve	Revaluation Reserve	Dilution Gain Reserve	Capital Reserve	Parent Entity Interest	Non Controlling Interests	Total Equity
	$	$	$	$	$	$	$	$	$	$
Balance at *1.7.2010*	33,749,092	(24,777,172)	1,461,689	(448,395)	-	970,946	(4,555)	10,951,605	55,797	11,007,402
(Loss)/Profit for the Year	-	(3,325,211)	-	-	-	-	-	(3,325,211)	1,887	(3,323,324)
Other Comprehensive income for the year	-	234,063	-	(61,338)	1,900,853	(970,946)	(10,216)	1,092,416	-	1,092,416
Total comprehensive income for the year	-	(3,091,148)	-	(61,338)	1,900,853	(970,946)	(10,216)	(2,232,795)	1,887	(2,230,908)
Transactions with owners in their capacity as owners										
Shares/Options issued during the period	6,809,671	-	-	-	-	-	-	6,809,671	-	6,809,671
Cost of Capital	(467,648)	-	-	-	-	-	-	(467,648)	-	(467,648)
Expiry of Options	-	1,461,689	(1,461,689)	-	-	-	-	-	-	-
Balance at *30.06.2011*	40,091,115	(26,406,631)	-	(509,733)	1,900,853	-	(14,771)	15,060,833	57,684	15,118,517
Balance at *1.7.2011*	**40,091,115**	**(26,406,631)**	**-**	**(509,733)**	**1,900,853**	**-**	**(14,771)**	**15,060,833**	**57,684**	**15,118,517**
(Loss)/Profit for the Year	**-**	**(4,642,426)**	**-**	**-**	**-**	**-**	**-**	**(4,642,426)**	**(17,234)**	**(4,659,660)**
Other Comprehensive income for the year	**-**	**-**	**-**	**13,035**	**(1,900,853)**	**-**	**-**	**(1,887,818)**	**-**	**(1,887,818)**
Total comprehensive income for the year	**-**	**(4,642,426)**	**-**	**13,035**	**(1,900,853)**	**-**	**-**	**(6,530,244)**	**(17,234)**	**(6,547,478)**
Transactions with owners in their capacity as owners										
Shares/Options issued during the period	**1,595,747**	**-**	**-**	**-**	**-**	**-**	**-**	**1,595,747**	**-**	**1,595,747**
Cost of Capital	**(218,099)**	**-**	**-**	**-**	**-**	**-**	**-**	**(218,099)**	**-**	**(218,099)**
Repatriation of Capital Reserve to Foreign Currency Gains and Losses	**-**	**-**	**-**	**(14,771)**	**-**	**-**	**14,771**	**-**	**-**	**-**
Balance at *30.06.2012*	**41,468,763**	**(31,049,057)**	**-**	**(511,469)**	**-**	**-**	**-**	**9,908,237**	**40,450**	**9,948,687**

The accompanying notes form part of these financial Statements.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2012	Notes	ECONOMIC ENTITY 2012 $	2011 $
Cash Flows from Operating Activities			
Receipts from customers (inclusive of goods and services tax)		**3,983,891**	1,442,365
Payments to suppliers and employees (inclusive of goods and services tax)		**(8,414,464)**	(5,485,561)
Interest received		**62,437**	37,094
Research & Development Tax Rebate		**342,033**	169,442
Export Marketing Development Grant received		**-**	65,996
Net Cash Outflow from Operating Activities	**25**	**(4,026,103)**	(3,770,664)
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		**(106,223)**	(22,596)
Sale of property, plant and equipment		**-**	5,382
Net Cash Outflow from Investing Activities		**(106,223)**	(17,214)
Cash Flows from Financing Activities			
Loan repaid by other parties		**-**	80,000
Proceeds from issues of ordinary shares and options		**1,554,497**	6,639,671
Payment of share and options issue costs		**(218,099)**	(467,648)
Net Cash Inflow from Financing Activities		**1,336,398**	6,252,023
Net Increase/(Decrease) in Cash and Cash Equivalents Held		**(2,795,928)**	2,464,145
Cash and Cash Equivalents at the Beginning of the Financial Year		**4,154,064**	1,718,012
Effect of exchange rates on cash holding in foreign currencies		**4,482**	(28,093)
Cash and Cash Equivalents at the End of the Financial Year	**9**	**1,362,618**	4,154,064

The accompanying notes form part of these financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

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

The financial statements cover the economic entity of Cardia Bioplastics Limited and controlled entities.

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

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

Reporting Basis and Conventions

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

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

Going Concern Assumption

These financial statements have been prepared on a going concern basis, notwithstanding that for the year ended 30 June 2012 the Group incurred a loss from operating activities of $3,904,406 (2011: $4,094,808) and incurred cash outflows from operations totalling $4,026,103 (2011: $3,770,664). As at 30 June 2012 the Group had available working capital, excluding inventory, totalling $1,041,426 (2011: $3,804,286).

The Directors have prepared a cashflow forecast outlining the Group's continuing viability to continue as a going concern and its ability to pay its debts as and when they fall due and payable. The cashflow forecast contemplates the following:

Establishing greater revenue from current activities

The Group has succeeded in ramping up its revenues significantly in the year from $1,649,171 in 2011 to $4,301,143 in 2012 and accordingly has increased its gross profit from $124,645 in 2011 to $560,660 in 2012. This result vindicates the Group's work on a number of development projects with global brand owners and international packaging companies. Some of these projects are in commercial negotiations and others have advanced to "in-market trials" stages. Whilst no assurances can be given, the Group's pipeline of sales is predicted to increase its revenues markedly in its budgeted and forecast periods in its cashflow model, and these increases will yield positive gross profit results for the Group's cashflow position.

Controlling costs

The Group implemented a cost restructure program in the last quarter of the financial year ended 30 June 2012. It is expected that this program will result in additional cash savings for the Group as it develops its operations.

Capital raising

The cashflow forecast incorporates cash inflows arising from the issue of additional capital. The board has a track record of raising capital; in 2012 the Group successfully issued $1,500,000 under an entitlement issue (2011: $6,639,671).

The sale of the Group's non-core assets

The Group may consider divesting some of its non-core assets, the proceeds of which, would yield a net inflow to future cash flows.

Cardia will require additional cash to fund its activities for the FY2013 and is seeking a strategic cornerstone investor but at the same time is reviewing all of its other funding options

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Principles of Consolidation

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

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

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased. A list of controlled entities is contained in Note 19 to the financial statements.

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

Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

(i) the consideration transferred;

(ii) any non-controlling interest; and

(iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in to measure the non-controlling interest in the acquiree either at fair value *(full goodwill method)* or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets *(proportionate interest method).* In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interest is determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interests is recognised in the consolidated financial statements.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying values of goodwill.

b. Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantially enacted at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

c. Inventories

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

d. Plant and Equipment

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

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

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

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

Depreciation

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

f. Financial Instruments

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

Financial instruments are initially measured at fair value plus transaction costs.

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

Amortised cost is calculated as:

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

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

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

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

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

iii) Financial Liabilities
Non-derivative financial liabilities compromising trade and other payables are recognised at amortised cost, comprising original debt less principal payments and amortisation.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition
Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

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

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

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

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

g. Intangibles

Patents and trademarks
Costs incurred in relation to development, registration and maintenance of Patents and trademarks are expensed as and when incurred.

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

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

h. Foreign Currency Transactions and Balances

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Assets and liabilities are translated at year-end exchange rates prevailing at the end of reporting period.
- Income and expenses are translated at average exchange rates for the period.
- Retained profits are translated at the exchange rates prevailing at the date of the transaction.

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

i. Employee Benefits

Provision is made for the group's liability for employee benefits arising from services rendered by employees up to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employees benefits payable later than one year have been measured at the present value of the estimated future cash flows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

Equity-settled compensation

Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recognised in equity. The fair value of options is determined using the Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

j. Provisions

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

k. Cash and Cash Equivalents

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

l. Revenue

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

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

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

Revenue from royalties is recognised on an accrual basis in accordance with the substance of the relevant agreement.

R&D Tax Credits are recognised as revenue in the year of receipt.

m. Goods and Services Tax (GST)

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. Government Grants

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

o. Comparative Figures

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

p. Critical Accounting Estimates and Judgements

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

Key Estimates- Impairment

The group assesses impairment at the end of each reporting period by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates. For details-refer to Note 15.

Key Judgements-

The Directors have made certain key judgments in valuation techniques applied for the measurement of Financial Assets- For details –refer to Note 13.

q. New Accounting Standards for Application in Future Periods

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

- AASB 9: Financial Instruments (December 2010) and AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applicable for annual reporting periods commencing on or after 1 January 2015).

  These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

  The key changes made to accounting requirements include:

  - simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
  - simplifying the requirements for embedded derivatives;
  - removing the tainting rules associated with held-to-maturity assets;
  - removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
  - allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
  - requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
  - requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

The Group has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

- AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011–7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009–11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (applicable for annual reporting periods commencing on or after 1 January 2013).

  AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. The Group has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

- AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either “joint operations” (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or “joint ventures” (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed). This Standard is not expected to significantly impact the Group

- AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a “structured entity”, replacing the “special purpose entity” concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the Group.

  To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. These Standards are not expected to significantly impact the Group.

- AASB 13: Fair Value Measurement and AASB 2011–8: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009–11, 2010–7, 101, 102, 108, 110, 116, 17, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (applicable for annual reporting periods commencing on or after 1 January 2013).

  AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

  AASB 13 requires:

  -inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and

  -enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.

  This Standard is not expected to significantly impact the Group.

- AASB 2011–9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).

  The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

  This Standard affects presentation only and is therefore not expected to significantly impact the Group.

The Financial statements were authorised for issue on 28 September 2012 by the Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 PARENT ENTITY

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.

	2012 $	2011 $
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	806,641	3,566,791
Non-current assets	9,327,816	16,125,821
TOTAL ASSETS	**10,134,457**	**19,692,612**
LIABILITIES		
Current liabilities	164,447	221,962
Non-current liabilities	21,323	33,353
TOTAL LIABILITIES	**185,770**	**255,315**
EQUITY		
Issued capital	41,468,763	40,091,115
Accumulated losses	(31,520,076)	(22,554,671)
Revaluation Reserve	-	1,900,853
TOTAL EQUITY	**9,948,687**	**19,437,297**
STATEMENT OF COMPREHENSIVE INCOME		
Loss for the year after tax	(8,965,407)	(429,421)
Total comprehensive income	(10,866,260)	1,471,432

Guarantees

Cardia Bioplastics Limited has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiaries.

Contingent liabilities

Cardia Bioplastics Limited had no contingent liabilities as at 30 June 2012.

Contractual commitments

At 30 June 2012, Cardia Bioplastics Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2011: NIL).

NOTE 3 REVENUE

	Economic Entity 2012 $	2011 $
Revenue		
Sales		
Revenue from sale of goods and services	**4,301,143**	1,649,171
Total	**4,301,143**	1,649,171
Other Income		
Interest	**62,437**	37,094
Research & Development Tax Credits	**342,033**	169,442
Other	**3,493**	10,119
Total	**407,963**	216,655
Total Revenue	**4,709,106**	1,865,826

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 LOSS FOR THE YEAR

	Economic Entity 2012 $	2011 $
The Loss before income tax has been arrived at after the following items of expenses		
Expenses		
Depreciation & Amortisation	**118,842**	144,483
Rental expenses relating to operating leases	**206,662**	194,869
Research, development, and patent costs	**1,367,967**	1,322,833
Amounts written off as bad debts	**11,039**	-

NOTE 5 INCOME TAX EXPENSE

	Economic Entity 2012 $	2011 $
a) The prima facie tax credit on loss before income tax is reconciled to the income tax credit as follows :		
Prima facie tax credit provided on loss before income tax at 30% (2010: 30%)		
- Economic Entity	**(1,397,898)**	(996,997)
	(1,397,898)	(996,997)
- Adjustment for foreign tax rate	**40,840**	47,045
- Research & Development Tax Offset	**(102,610)**	(50,833)
- Non –deductible expenses	**148,939**	96.630
- Other deductible expenses	**(29,626)**	(3,689)
- Impairment Provision –AFS Assets	**226,576**	-
- Gain on designation of AFS Assets	**-**	(221,065)
- Adjustments to prior year losses	**622,881**	320,915
	(490,898)	(807,994)
Recoupment of prior years' tax losses not previously brought to account.		-
Deferred income tax assets not recognised	**490,898**	807,994
Income tax attributable to entity adjusted	**-**	-
b) The Directors estimate that the potential deferred income tax assets at 30 June 2012 in respect of tax losses not brought to account is :	**6,284,706**	5,793,808

Deferred tax assets have not been brought to account as it is not currently considered probable that future taxable profits will be available against which such assets could be utilised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 KEY MANAGEMENT PERSONNEL COMPENSATION

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

Key Management Person	Position
Mr Pat Volpe	Chairman
Dr Frank Glatz	Managing Director
Dr John Scheirs	Non Executive Director
Mr Chen Yi	Non Executive Director
Mr. Graeme Ward	General Manger
Miss R Bhambhani	Chief Financial Officer & Company Secretary
Mr A Fernando	Chief Operating Officer
Mr Chen Chan Ping	Technical Director, China Operations

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

	2012 $	2011 $
Short-term employee benefits	**1,104,986**	1,107,793
Post-employment benefits	**115,956**	90,444
Termination payments	**175,136**	-
Share based payments	**41,250**	70,000
	1,437,328	1,268,237

b. Option Holdings

Number of Options Held by Key Management Personnel (Directly and Indirect Interest)

2012

	Balance 1.7.2011	Granted as Compensation	Options Exercised	Net Change Other (I)	Balance 30.6.2012
Options Expiring 30 June 2015					
P Volpe	**-**	**-**	**-**	**30,083,315**	**30,083,315**
F Glatz	**-**	**-**	**-**	**1,490,583**	**1,490,583**

(I) Net Change Other in June 2015 Options refers to options purchased and /or sold during the financial year. These options were purchased on market or subscribed to the entitlement issue offers of the Company during the year. No options were issued as part of any employee option scheme.

	Balance 1.7.2011	Granted as Compensation	Options Exercised	Net Change Other (II)	Balance 30.6.2012
Options Expiring 30 June 2012					
F Glatz	500,000	-	-	(500,000)	-
G Ward	450,000	-	-	(450,000)	-
R Bhambhani	72,973	-	-	(72,973)	-

(II) Net Change Other in June 2012 Options refers to options lapsed on their expiry date of 30 June 2012.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

2011

	Balance 1.7.2010	Granted as Compensation	Options Exercised	Net Change Other (I) &(II)	Balance 30.6.2011
Options Expiring 30 June 2012					
F Glatz	-	-	-	500,000	500,000
G Ward	-	-	-	450,000	450,000
R Bhambhani	-	-	-	72,973	72,973
Options Expiring 30 June 2011					
P Volpe	74,859,047	-	-	(74,859,047)	-
F Glatz	4,800,000	-	-	(4,800,000)	-
J Scheirs	6,492,224	-	-	(6,492,224)	-
Chen Yi	16,000,000	-	-	(16,000,000)	-
J Wilson	1,170,011	-	-	(1,170,011)	-
R Bhambhani	112,400	-	-	(112,400)	-

(I) Net Change Other in June 2012 Options refers to options purchased and /or sold during the financial year. These options were purchased on market or subscribed to the entitlement issue offers of the Company during the year. No options were issued as part of any employee option scheme.

(II) Net Change Other in June 2011 Options refers to options expired unexercised as at 30 June 2011.These options were purchased on market or subscribed to or were part of the consideration on the Cardia-Biograde merger. No options were issued as part of any employee option scheme.

c. Share Holdings (Direct and Indirect)

2012

	Balance 1.7.2011	Received as Compensation(I)	Options Exercised	Net Change Other (II)	Balance 30.6.2012
P Volpe	**120,333,334**	**-**	**-**	**30,083,315**	**150,416,649**
F Glatz	**14,962,334**	**-**	**-**	**4,490,583**	**19,452,917**
J Scheirs	**6,592,224**	**-**	**-**	**-**	**6,592,224**
Chen Yi	**18,500,000**	**-**	**-**	**-**	**18,500,000**
G Ward	**4,300,000**	**3,281,250**	**-**	**-**	**7,581,250**
R Bhambhani	**1,500,000**	**-**	**-**	**-**	**1,500,000**
A Fernando	**300,000**	**300,000**	**-**	**-**	**600,000**

(I) Mr. Ward was issued 3,281,250 Ordinary Shares at an issue price of $0.008 each and 300,000 Ordinary shares were issued to Mr. Fernando at an issue price of $0.05 each. The number and the fair value of shares issued to Mr. Ward and Mr. Fernando was in accordance with the terms of their respective employment contracts.

(II) Net Change Other refers to shares purchased and /or sold during the financial year. These shares were purchased on market or subscribed to the entitlement issue offers of the Company during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

2011

	Balance 1.7.2010	Received as Compensation(I)	Options Exercised	Net Change Other (II)	Balance 30.6.2011
P Volpe	90,498,297	-	-	29,835,037	120,333,334
F Glatz	12,262,334	-	-	2,700,000	14,962,334
J Scheirs	6,592,224	-	-	-	6,592,224
Chen Yi	16,000,000	2,500,000	-	-	18,500,000
G Ward	-	2,500,000		1,800,000	4,300,000
R Bhambhani	168,110	1,000,000	-	331,890	1,500,000
A Fernando	300,000	-	-	-	300,000

(I) Mr. Chen Yi was issued 2,500,000 Ordinary shares at an issue price of 2 cents each towards the settlement of his outstanding salary for prior years. The Share Issue was approved by the Shareholders' in the Annual General Meeting held on 29th November 2010. Mr. Graeme Ward and M/s Rekha Bhambhani were issued 2,500,000 and 1,000,000 Ordinary shares respectively at an issue price of 2 cents each in accordance with the terms of their employment contract and/or arrangements.

(II) Net Change Other refers to shares purchased and /or sold during the financial year. These shares were purchased on market or subscribed to the entitlement issue offers of the Company during the year.

Other Transactions with Key Management Personnel

There have been no other transactions involving equity instruments other than those described in the tables above.

For details of other transactions with KMP, refer to Note 28: Related Party Transactions.

NOTE 7 REMUNERATION OF AUDITORS

	Economic Entity 2012 $	2011 $
Remuneration of the auditor of the parent entity for		
- auditing or reviewing the financial statements	**31,000**	37,287
Remuneration of other auditors of subsidiaries for :		
- auditing or reviewing the financial statements of subsidiaries	**11,091**	7,149
	42,091	44,436

NOTE 8 EARNINGS PER SHARE

	Economic Entity 2012 $	2011 $
a) Reconciliation of losses used to calculate earnings per share		
Loss for the year	**(4,659,660)**	(3,323,324)
Loss/(Profit) attributable to non controlling interest	**17,234**	(1,887)
Loss used to calculate basic EPS	**(4,642,426)**	(3,325,211)
	Number	**Number**
b) Weighted average number of ordinary shares used in the calculation of basic earnings (loss) per share	**1,404,323,961**	865,279,488
c) Weighted average number of ordinary shares and options used in the calculation of diluted earnings (loss) per share	**1,404,323,961**	865,279,488

60,536,595 (2011: 8,577,876) options have been excluded from the calculation of diluted earnings per share, as the Economy Entity has incurred a loss and their effect is anti dilutive.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 CASH AND CASH EQUIVALENTS

	Economic Entity 2012 $	Economic Entity 2011 $
Cash at bank and on hand	**1,362,618**	1,067,541
Term Deposit	**-**	3,000,000
Funds in Transit	**-**	86,523
Balances per statement of cash flows	**1,362,618**	4,154,064

Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

Cash and cash equivalents	**1,362,618**	4,154,064

NOTE 10 TRADE AND OTHER RECEIVABLES

	Economic Entity 2012 $	Economic Entity 2011 $
Current		
Trade Receivables	**776,013**	453,052
Less : provision for impairment	**(5,709)**	-
	770,304	453,052
Prepayments	**65,717**	47,598
Other receivables	**107,865**	184,801
Receivables from Key Management Personnel	**-**	4,758
	943,886	690,209

Provision for Impairment of Receivables

Current trade receivables are non-interest bearing and are generally on 30-day terms. A provision for impairment is recognised when there is objective evidence that an individual trade receivable is impaired. These amounts have been disclosed as a separate line item in Statement of comprehensive income. Impaired Receivables age more than 365 days.

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

2012	Opening Balance 1.7.2011 $	Charge for the Year $	Amounts Written Off $	Closing Balance 30.06.2012 $
Economic Entity				
Current Trade & Other Receivables	**-**	**16,748**	**(11,039)**	**5,709**
	-	**16,748**	**(11,039)**	**5,709**

Credit Risk- Trade and Other Receivables

The Group has no significant concentration of credit risk with respect to any single counter party or group of counter parties other than receivables specifically provided for and mentioned within Note 10. The class of assets described as Trade and Other Receivables is considered to be the main source of credit risk related to the Group.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	Economic Entity 2012 $	Economic Entity 2011 $
Australia	**53,971**	198,298
Americas	**412,769**	24,266
Asia	**405,809**	400,369
Others	**5,620**	19,678
	878,169	642,611

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

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

The carrying amount of receivables is considered a reasonable approximation to fair values.

Economic Entity

	Gross Amount	Past due and Impaired	Past due but not impaired (days overdue)				Within initial trade terms
			<30	31-60	61-90	>90	
2012							
Trade Receivables	**776,013**	**5,709**	**126,443**	**2,174**	**8,536**	**543,953**	**89,198**
Other Receivables	**107,865**	**-**	**-**	**1,558**	**2,414**	**48,971**	**54,922**
Total	**883,878**	**5,709**	**126,443**	**3,732**	**10,950**	**592,924**	**144,120**
2011							
Trade Receivables	453,052	-	29,161	20,199	59,519	97,786	246,387
Other Receivables	189,559	-	55,571	2,365	3,926	29,575	98,122
Total	642,611	-	84,732	22,564	63,445	127,361	344,509

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

Financial assets classified as loans and receivables

	Economic Entity 2012 $	Economic Entity 2011 $
Trade and other receivables		
Total current	**878,169**	642,611
	878,169	642,611

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 INVENTORIES

	Economic Entity 2012 $	2011 $
Current		
Raw materials and stores	**601,777**	383,977
Work in progress	**19,002**	34,164
Finished goods	**698,647**	646,504
	1,319,426	1,064,645

NOTE 12 ASSOCIATED ENTITY

As at 30 June 2012, Cardia had 49% equity interest in Malaysian Manufacturing Joint Venture (CBMM) with **NIL** value (2011: NIL). Please refer Note 27 for events occurring after reporting date in relation to CBMM

NOTE 13 FINANCIAL ASSETS

		Economic Entity 2012 $	2011 $
Current			
Available –for-sale financial assets			
Investments, at fair value		**94,126**	94,126
Provision for Impairment		**(94,126)**	(94,126)
	(a)	**-**	-
Non Current			
Available –for-sale financial assets			
Unlisted Investments, at fair value		**2,817,000**	2,817,000
Less : Revaluation Reserve		**(1,900,853)**	-
Less : Impairment		**(672,007)**	-
	(b)	**244,140**	2,817,000
Other Investments			
Unlisted Investments ,at cost		**210,000**	210,000
Less : Impairment		**(83,247)**	-
	(c)	**126,753**	210,000
		370,893	3,027,000

(a) Available for sale financial assets consist of 156,877 ordinary shares in Pallane Medical Limited (formerly Dia-B Tech Investments Limited). The investment in those shares remained fully impaired as at 30 June 2012.

(b) Non current- Available for sale financial assets consist of 18,780,000 ordinary shares in Bioglobal Limited ("BGL"). On 23rd December 2011, Shareholders of BGL approved an issue of shares to Good Harvest Biotech Holdings Limited of 300 million new ordinary shares at 1.3 cents cash per share to raise $3,900,000 in BGL.Cardia did not participate in the issue and its investment of 18.78 million ordinary shares was diluted down to 4.63% (from the previous 17.78%).

As a result, the Company has valued of its investments in BGL at the fair value of 1.3 cents per share to $244,140. The resultant loss of $2,572,860 in the value of the investment has been recognised through Statement of Changes in Equity ($1,900,853) and $672,007 as an impairment charge in the Statement of Comprehensive Income.

(c) This financial asset consists of 5,250,000 ordinary shares in P-Fuel Limited. As at 30 June 2012, the Company has recognised Impairment loss of $83,247 following net assets backing valuation basis of 2.414 cents per share. The net assets backing valuation has been based on latest available financial position of P-fuel Limited.

(d) All financial assets are considered to be Tier 3 assets, as their values have been determined according to non-market inputs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 PLANT AND EQUIPMENT

	Economic Entity 2012 $	2011 $
Plant & Machinery		
At cost	**667,514**	627,495
Accumulated depreciation	**(304,951)**	(213,840)
	362,563	413,655
Office Equipments		
At cost	**124,609**	118,059
Accumulated depreciation	**(103,946)**	(94,362)
	20,663	23,697
Motor Vehicles		
At cost	**74,457**	69,817
Accumulated depreciation	**(45,438)**	(33,090)
	29,019	36,727
Furniture & Fixtures		
At cost	**39,880**	39,880
Accumulated depreciation	**(24,841)**	(22,621)
	15,039	17,259
Leasehold Improvements		
At cost	**277,663**	265,057
Accumulated depreciation	**(110,543)**	(66,407)
	167,120	198,650
Capital Work in Progress		
At Cost	**92,563**	-
	92,563	-
	686,967	689,988

Movement in Carrying Amounts

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

Economic Entity

	Plant & Machinery $	Office Equipment $	Motor Vehicles $	Furniture & Fixtures $	Leasehold Improvements $	Capital Work in Progress $	Total $
2011							
Balance at 1 July 2010	521,508	49,173	69,616	20,035	265,834	-	926,166
Additions during the year	15,600	1,156	5,840	-	-	-	22,596
Disposals during the year	-	-	(10,146)	-	-	-	(10,146)
Foreign Exchange Rate Variations	(50,145)	(3,836)	(8,400)	-	(28,298)	-	(90,679)
Depreciation Expenses	(59,842)	(22,796)	(20,183)	(2,776)	(38,886)	-	(144,483)
Depreciation included in Cost of goods sold	(13,466)	-	-	-	-	-	(13,466)
Balance at 30 June 2011	413,655	23,697	36,727	17,259	198,650	-	689,988

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 PLANT AND EQUIPMENT (CONTINUED)

	Plant & Machinery	Office Equipment	Motor Vehicles	Furniture & Fixtures	Leasehold Improvements	Capital Work in Progress	Total
	$	$	$	$	$	$	$
2012							
Balance at 1 July 2011	**413,655**	**23,697**	**36,727**	**17,259**	**198,650**	**-**	**689,988**
Additions during the year	**10,636**	**3,024**	**-**	**-**	**-**	**92,563**	**106,223**
Disposals during the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Foreign Exchange Rate Variations	**17,941**	**1,019**	**2,273**	**-**	**7,885**	**-**	**29,118**
Depreciation Expenses	**(60,149)**	**(7,077)**	**(9,981)**	**(2,220)**	**(39,415)**	**-**	**(118,842)**
Depreciation included in Cost of goods sold	**(19,520)**	**-**	**-**	**-**	**-**	**-**	**(19,520)**
Balance at 30 June 2012	**362,563**	**20,663**	**29,019**	**15,039**	**167,120**	**92,563**	**686,967**

NOTE 15 INTANGIBLE ASSETS

	Economic Entity 2012	2011
	$	**$**
Goodwill		
Cost	**8,112,783**	8,112,783
Accumulated impaired losses	**(1,546,833)**	(1,546,833)
Net carrying value	**6,565,950**	6,565,950

Impairment Disclosures

All Goodwill is allocated to the Company's distribution division, being a cash generating unit.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 15 INTANGIBLE ASSETS (CONTINUED)

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

b. Projected cash flows have been discounted using discount rate of 16.6%. (2011: 16.6%)
c. Gross profit margins are forecast to be in a range of 20%-25% dependent upon each geographic region. (2011: 20%-25%)
d. The annual growth rate set in the forecast is estimated at 3.5% based on CPI.
e. The annual growth rate of 2% has been estimated in the calculation of terminal value.

Based on the above assumptions, the recoverable amount of the cash generating unit has been determined to exceed its carrying amount as at 30 June 2012 and hence no impairment loss has been recognised.

NOTE 16 TRADE AND OTHER PAYABLES

	Economic Entity	
	2012	**2011**
	$	**$**
Current		
Unsecured Liabilities		
Trade Payables	**613,168**	668,371
Deposits from customers	**54,435**	14,116
Sundry payables and accrued expenses	**440,024**	173,011
Withholding tax payable	**97,425**	37,741
	1,205,052	893,239

NOTE 17 SHORT TERM PROVISIONS

	Economic Entity	
	2012	**2011**
	$	**$**
Employee benefits	**60,026**	146,748
	60,026	146,748

Reconciliation of provisions

	Economic Entity	
	2012	**2011**
	$	**$**
Opening balance at 1 July	**146,748**	105,151
Additional provisions	**138,470**	105,270
Amount Used	**(225,192)**	(63,673)
Balance at 30 June	**60,026**	146,748

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 18 LONG TERM PROVISIONS

	Economic Entity 2012 $	Economic Entity 2011 $
Employee benefits	**35,975**	33,353
	35,975	33,353

Provision for Long -term Employee Benefits

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

NOTE 19 ISSUED CAPITAL

(A) Share Capital

	Economic Entity 2012 $	Economic Entity 2011 $
Ordinary - fully paid shares	**41,468,763**	40,091,115

(B) Movements in Ordinary Share Capital

Date		Number of Shares	Issue Price	Amount $
30 June 2010	**Balance**	**741,596,587**		**33,749,092**
15 October 2010	Entitlement Issue	144,453,122	$0.020	2,166,797
	Cost of Capital Raising			(49,964)
1 December 2010	Issue of Shares to Director-Mr Chen Yi	2,500,000	$0.020	50,000
31 December 2010	Issue of shares to employees	6,000,000	$0.020	120,000
16 June 2011	Entitlement Issue	447,274,855	$0.010	4,472,874
	Cost of Capital Raising			(417,684)
30 June 2011	**Balance**	**1,341,824,564**		**40,091,115**
22 December 2011	Issue of shares to employees	3,281,250	$0.008	26,250
22 December 2011	Issue of shares to employees	300,000	$0.05	15,000
28 February 2012	Exercise of Options- June12	239,578	$0.015	3,594
20 March 2012	Exercise of Options- June 12	7,523	$0.015	113
21 March 2012	Entitlement Issue	214,285,714	$0.007	1,500,000
	Cost of Capital Raising			(218,099)
31 May 2012	Placement of Shortfall- Entitlement Issue	7,000,000	$0.007	49,000
30 June 2012	Exercise of Options-June 12	119,195	$0.015	1,789
30 June 2012	**Balance**	**1,567,057,824**		**41,686,763**

(C) Ordinary Shares

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

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

Ordinary Shares have no par value, and the company does not have a limited amount of authorised share capital.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 19 ISSUED CAPITAL (CONTINUED)

(D) Movements in options

Date		**Number of Options**
30 June 2011	**Balance**	-
21 March 2012	Options issued free pursuant to Entitlement Issue on the basis of 1 new option (exercisable at $0.015 expiring 30 June 2015) for every 1 new share subscribed for in Cardia	214,285,714
31 May 2012	Options issued free on placement of shortfall of Entitlement Issue	7,000,000
30 June 2012	**Balance**	**221,285,714**

Date		**Number of Options**
30 June 2010	**Balance**	-
16 June 2011	Options issued free pursuant to Entitlement Issue on the basis of 1 new option (exercisable at $0.015 expiring 30 June 2012) for every 4 shares subscribed for in Cardia	223,637,482
30 June 2011	**Balance**	**223,637,482**
28 February 2012	Exercise of Options	(239,578)
20 March 2012	Exercise of Options	(7,523)
30 June 2012	Exercise of Options	(119,195)
30 June 2012	**Balance**	**223,271,186**
30 June 2012	**Expiry of Options**	**(223,271,186)**
30 June 2012	**Balance**	**-**

(E) Capital Management

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

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

There are no externally imposed capital requirements.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 20 RESERVES

Nature and Purpose of Reserves

a. Asset Revaluation Reserve

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

b. Foreign Currency Translation Reserve

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

c. Capital Reserve

The Balance of $14,771 represents an exchange gain on capital injected into the controlled entity Biograde (Nanjing) Pty Ltd as required to be disclosed separately as per Capital Regulations in the Peoples Republic of China. As at 30 June 2012, Capital reserve balance has been repatriated to Foreign Currency translation reserve.

NOTE 21 CONTROLLED ENTITIES

a. Controlled Entities Consolidated

Name	Country of Incorporation	Equity Holding (%) (1)	
		2012	2011
Cardia Bioplastics (Australia) Pty Ltd	Australia	100.00	100.00
Tristano Pty Ltd	Australia	100.00	100.00
Biograde (Nanjing) Pty Ltd	China	100.00	100.00
Biograde (Hong Kong) Pty Ltd	Hong Kong	100.00	100.00
Cardia Bioplastics Malaysia Sdn Bhd (2)	Malaysia	100.00	-
Cardia Bioplasticos (Brasil) Ltda(3)	Brazil	100.00	-
CO2Starch Pty Ltd	Australia	100.00	100.00
Cardia Bioplastics LLC	USA	100.00	100.00
Mine Remediation Services Pty Ltd	Australia	69.36	69.36
Natural Pharmacy Pty Ltd	Australia	66.00	66.00
Herbworx International Pty Ltd (60% owned by Natural Pharmacy Pty Ltd)	Australia	39.60	39.60

1. Percentage of voting power is in proportion to ownership.
2. On 22th September 2011, Cardia Bioplastics Malaysia Sdn Bhd was set up as a wholly owned subsidiary of the Company.
3. On 28th May 2012, Cardia Bioplasticos (Brasil) Ltda was set up as a wholly owned subsidiary of the Company.

NOTE 22 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no contingent liabilities or contingent assets as at 30 June 2012 (2011: NIL).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 23 CAPITAL AND LEASING COMMITMENTS

Operating Lease Commitments

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

	Economic Entity	
	2012	**2011**
	$	**$**
Operating Lease Commitments		
Not later than 12 months	**88,580**	146,114
between 12 months and 5 years	**18,472**	95,140
	107,052	241,254

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

NOTE 24 OPERATING SEGMENTS

Business Activities

The consolidated entity continued to operate under a five business activities model namely:

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

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

Segment Information

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

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

The Company's portfolio of investments and interests held or acquired under five activities business model of the Group are classified under "Corporate Division"operating segment of the entity.

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

-the products sold and/or services provided by the segment;

- the manufacturing process;

-the distribution method; and

-any external regulatory requirements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 24 OPERATING SEGMENTS (CONTINUED)

The following operating segments have been identified

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

Types of products and services by segment

(i) Manufacturing Division
The manufacturing segment develops and manufactures sustainable resins derived from renewable resources for the global packaging and plastic products industries.

The Manufacturing segment, that includes the manufacturing unit in China, is responsible for distribution and sales of products to the Chinese market, thus leveraging their local logistics management and business relationship.

The manufacturing segment also sells products to the distribution segment.

(ii) Distribution Division
The distribution segment includes the Group's distributors in Australia, Americas, Europe, and Asia, led by the Company's Business Development Managers in each of those regions. The distribution segment distributes the Company's manufactured stock items both domestically in the respective region and internationally.

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

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

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

Inter-segment transactions

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

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

Segment assets

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

Segment liabilities

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 24 OPERATING SEGMENTS (CONTINUED)

Unallocated items

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

- Non –recurring items of revenue or expense
- Depreciation & Amortisations

Segment Performance

Year ended 30.06.2012	Manufacturing Division $	Distribution Division $	Corporate $	Total $
Revenue				
External Sales	1,688,576	2,612,567	-	4,301,143
Inter –segment sales	1,751,972	-	-	1,751,972
Interest revenue	599	17,909	43,929	62,437
Other Income	-	343,426	2,100	345,526
Total Segment Revenue	**3,441,147**	**2,973,902**	**46,029**	**6,461,078**
Reconciliation of segment revenue to group revenue				
Inter-segment elimination	(1,751,972)	-	-	(1,751,972)
Total Group Revenue	**1,689,175**	**2,973,902**	**46,029**	**4,709,106**
Segment Net Loss before Tax	**(731,439)**	**(2,061,454)**	**(973,455)**	**(3,766,348)**
Reconciliation of segment result to group net loss before tax				
Inter-segment elimination	-	(19,216)	-	(19,216)
-Amount not included in segment result but reviewed by Board				
- Depreciation & amortisation	(84,240)	(33,191)	(1,411)	(118,842)
- Impairment of AFS Assets	-	-	(755,254)	(755,254)
Net Loss for the Period	**(815,679)**	**(2,113,861)**	**(1,730,120)**	**(4,659,660)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 24 OPERATING SEGMENTS (CONTINUED)

Segment Performance

	Manufacturing Division	Distribution Division	Corporate	Total
Year ended 30.06.2011	**$**	**$**	**$**	**$**
Revenue				
External Sales	850,892	798,279	-	1,649,171
Inter –segment sales	856,805	-	-	856,805
Interest revenue	359	5,314	31,421	37,094
Other Income	230	170,539	8,792	179,561
Total Segment Revenue	**1,708,286**	**974,132**	**40,213**	**2,722,631**
Reconciliation of segment revenue to group revenue				
Inter-segment elimination	(856,804)	-	-	(856,805)
Total Group Revenue	**851,481**	**974,132**	**40,213**	**1,865,826**
Segment Net Loss before Tax	**(685,998)**	**(2,054,999)**	**(1,161,857)**	**(3,902,854)**
Reconciliation of segment result to group net loss before tax				
Inter-segment elimination	-	(12,870)	-	(12,870)
-Amount not included in segment result but reviewed by Board				
- Depreciation & amortisation	(98,668)	(42,757)	(3,058)	(144,483)
- Gain on Reclassification of AFS Assets	-	-	736,883	736,883
Net Loss for the Period	**(784,666)**	**(2,110,626)**	**(428,032)**	**(3,323,324)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 24 OPERATING SEGMENTS (CONTINUED)

Segment Assets

As at 30.06.2012	Manufacturing Division $	Distribution Division $	Corporate $	Total $
Segment Assets	**1,778,752**	**15,499,808**	**18,376,484**	**35,655,044**
Reconciliation of segment assets to group assets				
Inter-segment eliminations	**-**	**(7,271,595)**	**(17,133,709)**	**(24,405,304)**
Segment Assets after inter-segment eliminations	**1,778,752**	**8,228,213**	**1,242,775**	**11,249,740**
Segment asset increases for the period	**103,549**	**2,674**	**-**	**106,223**
- Capital expenditure				
Included in segment assets are				
-Goodwill	**-**	**6,565,950**	**-**	**6,565,950**

As at 30.06.2011	Manufacturing Division $	Distribution Division $	Corporate $	Total $
Segment Assets	2,413,648	13,153,140	19,791,491	35,358,279
Reconciliation of segment assets to group assets				
Inter-segment eliminations	-	(6,071,800)	(13,094,623)	(19,166,423)
Segment Assets after inter-segment eliminations	2,413,648	7,081,340	6,696,868	16,191,856
Segment asset increases for the period				
- Capital expenditure	22,596	-	-	22,596
Included in segment assets are				
-Goodwill		6,565,950	-	6,565,950

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 24 OPERATING SEGMENTS (CONTINUED)

Segment Liabilities

	Manufacturing Division	Distribution Division	Corporate	Total
As at 30.06.2012	**$**	**$**	**$**	**$**
Segment Liabilities	**2,817,582**	**13,931,677**	**559,139**	**17,308,398**
Reconciliation of segment liabilities to group liabilities				
Inter-segment eliminations	**(2,668,664)**	**(13,057,165)**	**(281,516)**	**(16,007,345)**
Total Group Liabilities	**148,918**	**874,512**	**277,623**	**1,301,053**

	Manufacturing Division	Distribution Division	Corporate	Total
As at 30.06.2011	**$**	**$**	**$**	**$**
Segment Liabilities	2,417,488	10,241,813	328,452	12,987,753
Reconciliation of segment liabilities to group liabilities				
Inter-segment eliminations	(1,892,630)	(10,021,784)	-	(11,914,414)
Total Group Liabilities	524,858	220,029	328,452	1,073,339

Revenue by geographical region	**2012**	**2011**
	$	**$**
Revenue attributable to external customers is disclosed below, based on the location of the external customer		
Australia	**811,990**	346,804
Asia	**1,773,067**	855,851
Americas	**1,687,942**	346,127
Others	**28,144**	100,389
Total Revenue	**4,301,143**	1,649,171

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 24 OPERATING SEGMENTS (CONTINUED)

Assets by geographical region	2012	2011
	$	$
The location of segment assets (non current) by geographical location of assets is disclosed below:		
Australia	**6,923,147**	9,611,184
Asia	**700,663**	671,754
Total Assets	**7,623,810**	10,282,938

Major customers

The Group has a number of customers to whom it provides products. The Group has supplied a single external customer in the distribution segment who accounted for 24.01% (2011: 12.93%) of external revenue. The next two significant customers accounted for 8.32% (2011: NIL) and 7.46% (2011: NIL) of external revenue respectively.

NOTE 25 CASH FLOW INFORMATION

	Economic Entity	
	2012	2011
	$	$
Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Operating Profit /(Loss) after income tax	**(4,659,660)**	(3,323,324)
Depreciation on plant and equipment	**118,842**	144,483
Depreciation included in Cost of goods sold	**19,520**	13,466
Write Off of Intangible Assets	**-**	191,681
Impairment –Financial Assets	**755,254**	-
Issue of shares to employees	**41,250**	170,000
Loss on sale of Fixed Assets	**-**	4,764
Gain on reclassification of AFS Asset	**-**	(736,883)
Changes in operating assets and liabilities, net of effects of disposal of subsidiary:		
(Increase)/decrease in receivables	**(253,677)**	(112,947)
(Increase)/decrease in other operating assets	**(254,781)**	(418,452)
Increase/(decrease) in creditors	**350,522**	179,742
(Decrease)/increase in provisions and other operating liabilities	**(143,373)**	116,806
Net cash outflow from operating activities	**(4,026,103)**	(3770, 664)

NOTE 26 SHARE BASED PAYMENTS

2012

In December 2011, Mr. Ward was issued 3,281,250 Ordinary Shares at an issue price of $0.008 each and 300,000 Ordinary shares were issued to Mr. Fernando at an issue price of $0.05 each. The number and fair value of shares issued to Mr. Ward and Mr. Fernando was in accordance with the terms of their respective employment contracts.

Total amount of $41,250 representing the above equity settled share based payments has been included in Employment Benefits Expenses in the statement of comprehensive income, with a corresponding increase in Equity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 26 SHARE BASED PAYMENTS (CONTINUED)

2011

- In December 2010, Mr. Chen Yi was issued 2,500,000 Ordinary shares at an issue price of 2 cents each towards the settlement of his outstanding salary for prior years. The Share Issue was approved by the Shareholders' in the Annual General Meeting held on 29th November 2010.

  Trade and other payables were reduced by an amount of $50,000 representing the above equity settled share based payments, with a corresponding increase in Equity.

- Mr. Graeme Ward and Mr. Iqbal Huq each were issued 2,500,000 Ordinary shares and M/s Rekha Bhambhani was issued 1,000,000 Ordinary shares at an issue price of 2 cents each in accordance with the terms of their employment contract and/or arrangements.

  Total amount of $70,000 representing the above equity settled share based payments was included in Employment Benefits Expenses in the statement of comprehensive income, with a corresponding increase in Equity.

NOTE 27 AFTER BALANCE DATE EVENTS

Dissolution of CBMM Joint Venture
As announced to the market on 31 July 2012, Cardia Bioplastics will be 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.

A proposal to terminate Cardia's Malaysian Manufacturing Joint Venture (CBMM) by mutual agreement has been agreed to. The formal settlement process is in progress; on completion of which the finished goods manufacturing rights and the Cardia brand will be reverted back to Cardia.

Cardia has no financial exposure to the Joint Venture.

Issue of Piggyback Options
On 26 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.

110,308 Piggyback Options were issued on 21 August 2012 based on the acceptances received from the 16 Offerees by the closing date of the Prospectus.

The terms of piggyback option entitles the holder to subscribe for one ordinary share in the Company at the exercise price of 2 cents on or before the expiry date of 30 June 2013. Any Piggyback Options not exercised on or before the expiry date will automatically lapse.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 28 RELATED PARTIES

A. Key Management Personnel

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

Mr P J Volpe	**Chairman**
Dr F P Glatz	**Managing Director**
Dr J Scheirs	**Director**
Mr Chen Yi	**Director and General Manager (China Operations)**
Mr Graeme Ward	**General Manager**
Mr A Fernando	**Chief Operating Officer**
Mr Chen Chang Ping	**Technical Director, China Operations**
Miss R Bhambhani	**Chief Financial Officer & Company Secretary**

Remuneration

Information on remuneration of Key Management Personnel is disclosed in the Note 6.

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

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

	2012 Number	**2011 Number**
Acquisitions:		
Ordinary shares	**34,573,898**	32,535,037
Options expiring 30 June 2015	**31,573,898**	-
Options expiring 30 June 2012	**-**	500,000
Disposals:		
Options expiring 30 June 2012 (lapsed on expiry)	**500,000**	-
Options expiring 30 June 2011 (lapsed on expiry)	**-**	102,151,271

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

	2012 Number	**2011 Number**
Ordinary shares	**194,961,790**	160,387,892
Options expiring 30 June 2015	**31,573,898**	-
Options expiring 30 June 2012	**-**	500,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 29 FINANCIAL INSTRUMENTS

Other Transactions with Directors and Director-Related Entities

On 10th January 2011, the Company has also entered into sub-lease agreement with Botswana Metals Limited ("BML") in relation to the shared occupation of office premises. BML has invoiced Cardia $40,833 (incl GST) (2011: $18,206) for rent of office premises for the period up to 31 August 2012. Mr. Volpe is Chairman and the major shareholder of BML.

During the year, amount of $10,295 (Ex GST) (2011: $18,644) was paid to Excelpas Pty Ltd, a company controlled by Dr.John Scheirs for providing consultancy services to the Company.

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

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

Controlled Entities Note 21

a) Financial Risk Management
The group's financial instruments consist mainly of deposits with banks, local money market instruments, and short term investments, accounts receivable and payable financial assets.

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

	Note	Economic Entity	
		2012	**2011**
		$	**$**
Financial Assets			
Cash and cash equivalents	9	**1,362,618**	4,154,064
Loans and receivables	10	**878,169**	642,611
Available –for- Sale Financial Assets	13	**370,893**	3,027,000
Total Financial Assets		**2,611,680**	7,823,675
Financial Liabilities			
Financial liabilities at amortised cost			
Trade and other payables	16	**1,205,052**	893,239
Total Financial Liabilities		**1,205,052**	893,239

Financial Risk Management.
The Group has not established formal policies for the oversight and management of material business risks. Due to the size of the Company and the size of the Board, the Board monitors all key areas of the Company's risk management on an ongoing basis.

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

The overall risk management strategy of the Company is to ensure that the consolidated group meets its financial targets and at the same time minimises potential adverse effects on financial performance. The risk management functions include review of the credit risks policies, future cash flow requirements and use of natural hedges.

Specific Financial Risk Exposures and Management
The main risks the group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk and foreign currency risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 29 FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through the negotiation of payment terms with customers such as advance payment on order or payments through letter of credits, title retention clauses over goods, keeping credit terms to maximum of 30 days from the invoice date, ensuring to the extent possible, that customers and counterparties to transactions are of sound credit worthiness and monitoring the financial stability of significant customers and counterparties. Such monitoring is used in assessing receivables for impairment.

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period is equivalent to the carrying amount of those financial assets (net of any provisions) as presented in the statement of financial position.

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties. However, on a geographical basis, the Group has significant credit risk exposures to Americas and Asia, given the substantial transactions from those regions. Details with respect to credit risk of Trade and Other Receivables are provided in Note 10

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregate of such amounts are as detailed in Note 10.

Credit risk arising on cash balance is not material.

Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or meeting its obligations related to financial liabilities. The group manages liquidity risk by maintaining a reputable credit profile, managing credit risk related to financial assets, monitoring forecasted cash flows and ensuring that new funding facilities are in place either in the form of the issuing of new securities or establishing borrowing facilities.

Market risks

Interest rate risk

Any future change in interest rate will affect future cash flows of the Group as the cash holdings are on a variable rate basis. However the Group has established that its interest rate risk exposure is not material at this stage.

Foreign currency risk

The Group is exposed to fluctuations in foreign currencies arising from the payment of employment costs, sale and purchase of goods and services in currencies other than AUD functional currency of the Group.

As the Group’s significant purchase and sales transactions are in US Dollars, any fluctuations in US Dollars may impact on the Group’s financial results unless this exposure is appropriately hedged. The group has minimised its currency risk exposure for payments in US Dollars through natural hedge, by applying US Dollars payments from its receivables in that currency.

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

Sensitivity Analysis

Interest Rate Risk and Foreign Currency Risk

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 29 FINANCIAL INSTRUMENTS (CONTINUED)

Interest Rate Sensitivity Analysis

At 30 June 2012, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Economic Entity	
	2012	2011
	$	$
Change in Profit and Equity		
- Increase in interest rate by 2%	27,426	34,702
- Decrease in interest rate by 2%	(27,426)	(34,702)

Foreign Currency Risk Sensitivity Analysis

At 30 June 2012, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar with all other variables remaining constant is as follows:

	Economic Entity	
	2012	2011
	$	$
Change in Profit and Equity		
- Improvement in AUD to USD by 5%	53,926	38,135
- Decline in AUD to USD by 5%	(53,926)	(38,135)

NOTE 30 COMPANY DETAILS

The principal place of business and registered office is:

Unit 18, 35 Dunlop Road, Mulgrave, Victoria, Australia 3170.

1. The Directors declare that the financial statements and notes, as set out on pages 24 to 61 and remuneration disclosures that are detailed within the Remuneration Report in the Directors' Report, are in accordance with the *Corporations Act 2001* and:

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

   b. give a true and fair view of the financial position as at 30 June 2012 and of the performance for the year ended on that date of the company and economic entity.

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

2. The Chairman and Company Secretary have each declared that:

   a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;

   b. the financial statements and notes for the financial year comply with the Accounting Standards; and

   c. the financial statements and notes for the financial year give a true and fair view.

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

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

Pat Volpe
Director

Mulgrave
Dated this 28th day of September 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CARDIA BIOPLASTICS LIMITED AND CONTROLLED ENTITIES

Report on the Financial Report
We have audited the accompanying consolidated financial report comprising Cardia Bioplastics Limited (the company) and the entities it controlled at year's end or from time to time during the financial year (the consolidated entity). The consolidated financial report comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report
The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives and true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

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

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

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

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

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williambuck.com

William Buck

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CARDIA BIOPLASTICS LIMITED AND CONTROLLED ENTITIES (CONT)

Auditor's Opinion
In our opinion:

a) the financial report of the consolidated entity is in accordance with the Corporations Act 2001, including:
   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

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

Emphasis of Matter
Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in the going concern assumption paragraph in note 1 to the financial statements, there is inherent uncertainty whether the consolidated entity will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion
In our opinion, the Remuneration Report of Cardia Bioplastics Limited for the year ended 30 June 2012, complies with section 300A of the Corporations Act 2001.

William Buck

William Buck Audit [Vic] Pty Ltd
ABN 59 116 151 136

J.C. Luckins
Director

Dated this 28th day of September 2012

The shareholder information set out below was applicable as at 21 September 2012.

(A) DISTRIBUTION OF EQUITY SECURITIES

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

			Ordinary Shares	Options 30 June 2015 (Listed)	Options 30 June 2013 (Unlisted)
1	-	1,000	120	9	3
1,001	-	5,000	328	31	9
5,001	-	10,000	315	17	2
10,001	-	100,000	1,037	110	2
100,001	and	over	984	155	0
			2,784	**322**	**16**

There were 1,930 holders of less than a marketable parcel of ordinary shares.

(B) EQUITY SECURITY HOLDERS

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

Fully Paid Ordinary Shares	Number Held	Percentage of Issued Shares
POLARITY B PTY LTD	186,218,896	11.88
VERMAR PTY LTD	108,749,982	6.94
GROWTH TECH INTERNATIONAL PTY LTD	41,666,667	2.66
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	38,559,413	2.46
I E PROPERTIES PTY LTD	24,700,000	1.58
MR PAUL BEAUMONT MEDHURST	22,000,000	1.40
G&N LORD SUPERANNUATION PTY LTD	20,517,317	1.31
CHEN YI	18,500,000	1.18
ADVANCE PUBLICITY PTY LTD	16,440,941	1.05
TODISCO INVESTMENTS PTY LTD	14,877,265	0.95
JIMINY PTY LIMITED	13,750,001	0.88
CLARIC 182 PTY LTD	13,687,500	0.87
ANDAMA HOLDINGS PTY LTD	13,200,000	0.84
SAM GOULOPOULOS PTY LTD	13,152,753	0.84
RIOTEK PTY LTD	13,125,000	0.84
INSYNC INVESTMENTS PTY LTD	13,000,000	0.83
KIRZY PTY LTD	13,000,000	0.83
SEAFORTH BLUE PTY LTD	11,000,000	0.70
MRS JANET LOUISE COLMAN	10,092,707	0.64
MR KOKO ZAW	9,850,000	0.63
TOTAL	**616,088,442**	**39.31**

(B) EQUITY SECURITY HOLDERS (CONTINUED)

Options-30 June 2015	Number Held	Percentage of Issued Options
POLARITY B PTY LTD	38,942,222	17.6
VERMAR PTY LTD	21,749,982	9.83
MR MATTHEW BURFORD	10,000,001	4.52
GROWTH TECH INTERNATIONAL PTY LTD	8,333,333	3.77
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	7,928,143	3.58
SIMPOL PTY LTD <SIMEON PAPAZIS FAMILY A/C>	5,250,075	2.37
NUTSVILLE PTY LTD <INDUST ELECTRIC CO S/F A/C>	5,129,749	2.32
GOFFACAN PTY LTD	5,002,139	2.26
WILLIAM GEOFFREY KROON	4,516,250	2.04
MS MARY WESTON	4,150,000	1.88
CLARIC 182 PTY LTD <THE CLARIC SUPERFUND A/C>	3,937,500	1.78
RIOTEK PTY LTD	3,825,000	1.73
KIRZY PTY LTD <SPRINGDALE NO 2 A/C>	3,571,428	1.61
MR CAMPBELL ROBB MACFARLANE <ZEPHYR SUPER FUND A/C>	3,000,000	1.36
INSYNC INVESTMENTS PTY LTD <WEEKLEY SUPER FUND NO 1 A/C>	3,000,000	1.36
NIMOSH HOLDINGS PTY LTD	3,000,000	1.36
MR GIOVANNI SPAGNOLO <MARCUS DELUCA A/C>	2,941,450	1.33
JIMINY PTY LIMITED <SUPER FUND A/C>	2,750,000	1.24
SOMNUS PTY LTD <SOMNUS SUPERANNUATION A/C>	2,402,753	1.09
LINDEN-O OSTRICHES PTY LTD	2,377,753	1.07
TOTAL	**141,807,778**	**64.10**

(C) UNQUOTED SECURITIES

Options-30 June 2013	Number Held	Percentage of Issued Options
MS LOUISE GEHRIG	54,076	49.02
MR RICHARD GEORGE COOKE &	11,875	10.77
MR MARK CHRISTOPHER ENGLAND	7,500	6.80
MR DAVID GEOFFREY WATERWORTH	6,250	5.67
MR JOHN ANDREW LEONARD &	5,000	4.53
MRS HILARY ELSPETH HALLOWES	4,889	4.43
MR TREVOR CONGRAM	3,750	3.40
TANSTAR PTY LTD	3,750	3.40
MRS BEVERLEY JANE FITZSIMONS	3,125	2.83
MR JOHN LAWRENCE MAH &	2,500	2.27
MR NORMAN DOUGLAS RICKETTS &	2,212	2.01
MR JOHN ARTHUR BEAMS	2,139	1.94
YORTMAR NO 12 PTY LTD	1,934	1.75
MR HARMANDEEP SINGH SAHNI	834	0.76
MR WALTER MICHAEL WILLIAMS &	439	0.40
MR CHRISTOPHER LINDSAY BOLLAM	35	0.03
TOTAL	**110,308**	**100.00**

(D) SUBSTANTIAL SHAREHOLDERS

Substantial shareholders in the Company are:

	Number of Ordinary Shares Held	Percentage of Issued Shares
POLARITY B PTY LTD	186,218,896	11.88
VERMAR PTY LTD	108,749,982	6.94

(E) VOTING RIGHTS

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

Ordinary Shares

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

Options

No voting rights.