

**TO: COMPANY ANNOUNCEMENTS OFFICE
ASX LIMITED**

DATE: 30 October 2014

September 2014 Quarterly Report

The Board of Cardia Bioplastics Limited (ASX: CNN) presents its Quarterly Activities Report and Appendix 4C Quarterly Cash Flow Statement for the consolidated entity consisting of Cardia Bioplastics Limited ("Cardia" or "the Company") and the entities it controlled ("the Group") for the quarter ended 30 September 2014.

Overview

Cardia Bioplastics made significant progress towards delivering its business strategy during the September 2014 quarter. In addition to delivering record quarterly sales of \$2,136,626 and growing the business by 137% compared to the September 2013 quarter, Cardia successfully commenced resin production at its new purpose built factory in Nanjing, China.

Cardia's China film and bag production was also relocated to the new factory. Three new production lines were installed that are now operating at full capacity. This is in line with Cardia's business strategy to establish a finished products division with own dedicated resources and manufacturing capability. Six additional film extrusion and bag making lines are currently being installed in Nanjing to meet Cardia's order pipeline, in particular for dog waste bags and other waste management products.

In order to meet increased customer demand for its environmentally friendly retail carry bags, Cardia set up its own film and bag manufacturing plant in São Paulo, Brazil with a capacity of 500 million retail carrier bags per annum. Production commenced in September 2014.

As a result of this September quarter achievements, Cardia Bioplastics is now well positioned to deliver on its business strategy of growing sales globally with a particular focus on its prime markets of China and Brazil.

Highlights of the September 2014 Quarter

- Consolidated cash position was \$1.21 million as at 30 September 2014. The Board will be considering funding options to ensure Cardia can continue to expand sales and production.
- Net Operating Cash (Out) Flow ("NOCF") for the September 2014 quarter was \$1.23 million compared to \$0.47 million for the June 2014 quarter.
- Sales Revenues for the September 2014 quarter were \$2.14 million, an increase of 137% compared to sales revenues for the September 2013 quarter (\$0.90 million), and an increase of 22.8% compared to sales revenues for the June 2014 quarter (\$1.74 million).
- Cardia successfully completed the relocation of its resin, film and bag production to its new purpose-built factory in Nanjing, China. Three new film extrusion and bag making lines were installed and commenced production at full capacity. Six additional film extrusion and bag making lines are currently being installed to meet Cardia's order pipeline.
- Cardia set up and commenced production of retail carry bags at its own film and bag manufacturing plant in São Paulo, Brazil to meet increased customer demand for its environmentally friendly products.

- Several sales contracts were signed during the September 2014 quarter. Cardia Bioplastics Brazil secured additional retail carry bag business of \$1.5 million annualised. Cardia China expanded its Council business by securing a \$0.35 million waste management products supply contract in Nanjing, China.
- Sealed Air, the leading global protective packaging manufacturer, executed the supply agreement for Cardia Compostable films, launched its new PakNatural® Biodegradable Cushion Bags in the US market and purchased Cardia Compostable film to commence its new business.

Cash at Bank on 30 September 2014

- Consolidated cash position was \$1.21 million as at 30 September 2014.
- Net Operating Cash (Out) Flow for the September 2014 quarter was \$1.23 million compared to \$0.47 million for the June 2014 quarter.

The Group's collections from sales [Item 1.1 of Appendix-4C] were largely as per the payment terms negotiated, except with some payment delays from the customers belonging to its Asian market segment. Settlement from these customers is expected to occur in the next quarter.

Cash outflows on other working capital [Item 1.2(e) of Appendix-4C] were commensurate with sales, manufacturing, trading and other operational activities during the quarter. Cardia has applied approximately \$0.175 million during the quarter to fund working capital requirements of its new Brazilian manufacturing set up.

Moreover, in June 2014, the Company has received Research & Development tax concession refund of \$0.27 million for the financial year ending 30 June 2013, no such receipt was recorded for September 2014 quarter.

Corporate Matters

100,000,000 unlisted options exercisable at \$0.035 (3.5 cents) each expired on 15 July 2014.

Revenues and Sales in September 2014 quarter

- Sales Revenues for the September 2014 quarter were \$2.14 million, an increase of 137% compared to sales revenues for the September 2013 quarter (\$0.90 million), and an increase of 22.8% compared to sales revenues for the June 2014 quarter (\$1.74 million). Revenues were made up of sales from Cardia Bioplastics resins and finished products to its global carrier bag, films & packaging and waste management business market segments, and from its wholesale trading business.

General review of sales and sales developments by sales segment

Carrier Bags

- Cardia Bioplastics Brazil has commenced production of retail carrier bags at its new production facility in São Paulo, Brazil. The Brazilian retail chain market has responded very well to Cardia's commitment, own operation, cost competitive, quality sustainable offering and service.
- Since the opening of its own film and bag production the business has already secured new contracts with initial orders equalling \$1.5 million worth of annualised business. These orders are in addition to Cardia's established retail carrier bag business worth \$2.2 million that includes customers like high profile Brazilian retailers Ricoy Supermercados and Drogaria Araujo.
- With local film and bag production in place, an expanded sales force and its quality sustainable Biohybrid™ and Compostable bags in high demand, Cardia will focus on growing its Brazilian business during the financial year 2014/15 and beyond.

Films & Packaging

- Cardia's key target markets within this sales segment are hygiene, protective and food packaging applications. During the quarter Cardia achieved a critical milestone on its path to global commercialization of its environmentally preferred films for the protective packaging market. Sealed Air, the leading global protective packaging manufacturer, executed the supply agreement for Cardia Compostable films, launched its new PakNatural® Biodegradable Cushion Bags in the US market and purchased Cardia Compostable film to commence its new business. Securing product supply to such a major company like Sealed Air provides Cardia with the opportunity to grow along with this very large organisation. In addition, having a track record of supply with a global leader encourages other companies to follow this trend and convert their packaging to Cardia's sustainable product offering.
- Cardia's environmentally friendly hygiene product and packaging films are a unique cost effective offering based on their strength, soft touch, durability and sustainable benefits. Ideal for nappies, feminine hygiene products, incontinence products and external packaging Cardia's compostable and Biohybrid™ environmentally friendly films deliver a differentiated market offering. During the quarter Cardia increased Biohybrid™ film sales to \$1 million per annum level to its long-term hygiene products customer in North America. The customer expanded the application of Biohybrid™ films across different product lines with further potential to increase their use.
- A leading multi-national consumer goods company completed its 'in-market validation' of their personal care products packaging, which is made from Cardia's renewable Biohybrid™ resin technology. As Cardia products have successfully met their performance requirements, the company will progress further along its path towards global commercialization with large scale production validation trials scheduled in Europe for January 2015.
- Cardia Bioplastics developed innovative Biohybrid™ films technology for bag-in-bag water packaging. Cardia delivered initial sales of \$80K with Biohybrid™ bag-in-bag packaging films. As Cardia's water distribution customers have won initial bagged water customers and have committed to installation of additional production lines, Cardia received first follow up orders from these customers and expects that this business will significantly grow.

Waste Management Products

- Cardia Bioplastics has established itself as a provider of organic waste management products and solutions to the government and council sector, commercial and industrial, as well as the retail market. Diversion of organic waste from landfill to composting is promoting the use of certified compostable waste bags. Reducing the carbon footprint of waste management products encourages the use of Biohybrid™ technology.
- Sales of the organic waste management products business in China strengthened during the quarter. Shanghai-Pudong was supplied under its \$1.2 million annual contract. Its off-take was in line with expectations. Nanjing Jianye District extended its supply contract for Cardia waste management products and awarded additional orders of \$0.35 million that were supplied during the quarter. The additional orders were for the supply of Cardia Biohybrid™ kitchen waste bags to the individual households of this region validating the former forecast announced in February 2014 of an \$1 million annual supply requirement and Cardia Bioplastics as preferred supplier.
- Cardia launched its new Compostable and Biohybrid™ dog waste bag ranges at Interzoo 2014, the premier exhibition for the Pet Supplies Industry. During the quarter Cardia delivered initial sales to US and UK retailers that placed dog waste bag orders at the Interzoo trade fair. As these companies validate Cardia's product quality and supply capability, it is expected that these large retailers will execute long-term supply contracts and increase their product off-take. Cardia is currently in the process of setting up six additional film extrusion and bag making lines at Nanjing that are required to meet Cardia's order pipeline, in particular for dog waste bags and other waste management products. Cardia environmentally friendly waste management bags are in demand for their strength, quality, soft touch feel and environmental benefits at competitive pricing.

Wholesale materials trading business

- Cardia delivered sales of \$0.76 million from its wholesale raw material trading business during the September 2014 quarter.

Manufacturing and Technology Summary

- Cardia successfully completed the relocation of its resin production to a new purpose built factory in Nanjing, China. The factory 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.
- In line with Cardia's business strategy to establish a finished products division with own dedicated resources and manufacturing capability, Cardia's China film and bag production was also relocated to the new factory. Three new production lines were installed that are now operating at full capacity. Six additional film extrusion and bag making lines are currently being set up at Nanjing to meet Cardia's order pipeline, in particular for dog waste bags and other waste management products.
- In order to meet increased customer demand for its environmentally friendly retail carry bags, Cardia has set up its own film and bag manufacturing plant in São Paulo, Brazil with a capacity of 500 million retail carrier bags per annum. Production commenced in September 2014.
- The increased finished products capacity will enhance sales margins, as Cardia products will be made in-house. Existing capacity for resin production meets business requirements.

Appendix 4C follows.

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Chairman

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About Cardia Bioplastics

Cardia Bioplastics Limited (ASX CODE: CNN) develops, manufactures and markets its patented renewable resource-based materials and finished products derived from Cardia's proprietary technology for the global packaging and plastic products industries. The company holds a strong patent portfolio and its growth is fuelled by the global trend towards sustainable packaging. Established in Australia in 2002, the company Headquarters and Global Application Development Centre is in Melbourne, Australia. Cardia Bioplastics' Product Development Centre and manufacturing plant for resins is in Nanjing, China. Cardia's manufacturing plants for film and bag products are in Nanjing, China and São Paulo, Brazil with further offices in Australia, China, USA, Brazil and Malaysia, and a network of leading distributors across the Americas, Asia and Europe. Visit www.cardiabioplastics.com

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

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

Name of entity

Cardia Bioplastics Ltd

ABN

89 064 755 237

Quarter ended ("current quarter")

30 September 2014

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (3 months) \$A'000
1.1	Receipts from customers	1,958	1,958
1.2	Payments for		
	(a) staff costs	(404)	(404)
	(b) advertising and marketing	(21)	(21)
	(c) research and development	(122)	(122)
	(d) leased assets	(38)	(38)
	(e) other working capital	(2,513)	(2,513)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	13	13
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	(100)	(100)
	Net operating cash flows	(1,227)	(1,227)
1.8	Net operating cash flows (carried forward)	(1,227)	(1,227)
Cash flows related to investing activities			
1.9	Payment for acquisition of:		
	(a) businesses (item 5)	-	-
	(b) equity investments	-	-
	(c) intellectual property	-	-
	(d) physical non-current assets	(306)	(306)
	(e) other non-current assets	-	-
1.10	Proceeds from disposal of:		
	(a) businesses (item 5)	-	-
	(b) equity investments	-	-
	(c) intellectual property	-	-
	(d) physical non-current assets	-	-
	(e) other non-current assets	-	-
1.11	Loans to other entities	-	-
1.12	Loans repaid by other entities	-	-
1.13	Other investing activities	-	-
	Net investing cash flows	(306)	(306)
1.14	Total operating and investing cash flows	(1,533)	(1,533)

	Cash flows related to financing activities		
1.15	Proceeds from issues of shares, options, etc.	-	-
1.16	Proceeds from sale of forfeited shares	-	-
1.17	Proceeds from borrowings	-	-
1.18	Repayment of borrowings	-	-
1.19	Dividends paid	-	-
1.20	Other (provide details if material)	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(1,533)	(1,533)
1.21	Cash at beginning of quarter/year to date	2,698	2,698
1.22	Exchange rate adjustments to item 1.21	45	45
1.23	Cash at end of quarter	1,210	1,210

Notes:

Note to 1.7

The amount of \$100K is the rent deposit paid in relation to lease of Brazilian factory premises.

Payments to directors of the entity and associates of the directors

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

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	\$84
1.25	Aggregate amount of loans to the parties included in item 1.11	-

1.26 Explanation necessary for an understanding of the transactions

Item 1.24

Dr F Glatz was paid a salary of \$44,350 inclusive of superannuation for the quarter
Mr Chen Yi was paid a salary of \$21,082 inclusive of society insurance premium for the quarter.

Directors' fees totalling \$10,000 (Ex GST) were paid during the quarter as detailed below:

- COB Pty Ltd (a company controlled by Mr. Richard Tegoni)- \$3,750 (Ex GST)
- Bendel Partners Pty Ltd (a company controlled by Mr. Steve Bendel)-\$3,125 (Ex GST)
- GM Legal & Corporate Advisory (a company controlled by Mr. Gideon Meltzer-\$3,125 (Ex GST)

During the Quarter, amount of \$8,700 (Ex GST) was paid to GM Legal & Corporate Advisory (a company controlled by Mr. Gideon Meltzer for providing consultancy services to the Company.

Non-cash financing and investing activities

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

N/A

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

n/a

Financing facilities available

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

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

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	1,210	2,092
4.2 Deposits at call	-	-
4.3 Bank overdraft	-	-
4.4 Term Deposits	-	500
4.5 Deposits against Letter of Credits	-	-
4.6 Funds in Transit	-	106
Total: cash at end of quarter (item 1.23)	1,210	2,698

Acquisitions and disposals of business entities

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

Compliance statement

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

Sign here: Date: **30 October 2014.**
 (Company Secretary)
 Print name: Rekha Bhambhani

Notes

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