Papyrus Australia Ltd

ABN 63 110 868 409

Half-Year Report

for the half-year ended 31 December 2010

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Appendix 4D Requirements

Results for announcement to the market

	2010 $A	2009 $A		Percentage change
Revenues from ordinary activities	46,740	18,808	up	149%
Loss from ordinary activities after tax attributable to the members	(1,454,915)	(900,322)	up	(62)%
Loss for the period attributable to members	(1,454,915)	(900,322)	up	(62)%

Dividends (distributions)

No dividend has been paid during the period ended 31 December 2010

The directors have not proposed a dividend for the half-year ended 31 December 2010

	2010	2009
Net Tangible Assets Per Security - cents	$0.023	$0.104

All other requirements are contained within the attached financial statements and notes.

Directors' Report

The directors of Papyrus Australia Ltd submit their financial report of the consolidated group for the half-year ended 31 December 2010.

Directors

The names of the company's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Mr Edward Byrt (Chairman)
Mr Ramy Azer
Mr Graeme Menzies
Mr Donald Stephens
Mr Christopher Smerdon
Mr Colin Dunsford (Appointed 7 October 2010)

Review of Operations

Mr Colin Dunsford was appointed as a non-executive director of the Company effective from 7 October 2010. Mr Dunsford, a recently retired partner of Ernst & Young, and current chair of the Adelaide office, brings a wealth of corporate governance, business and financial experience to the board.

The Company recognising the need to better communicate with its shareholders introduced an Enewsletter in July 2010 with further editions in September and November 2010.

The day-to-day management of the Company continues under the guidance of an Executive Committee established in July 2009. The committee comprises the chairman, managing director, executive director Donald Stephens and general manager Geoff Whitbread. As the Company transitions from research and development to production and sales, a commercialisation strategy and the development of international markets, the board is of the view that the Executive Committee remains appropriate to provide guidance and support during this crucial stage of the Company's maturation.

The Company's commercialisation strategy remains focused on being a technology licensing Company assisting suitable entities to establish banana veneer and panel production factories in locations worldwide where bananas are grown.

Half yearly expenditure included $450,128 in capital for planned development work to the Company's demonstration factory at Walkamin, Far North Queensland and the design and construction of new machines referred to later in this report. This investment has been supported by a Commonwealth Government grant for developing industries.

The Chairman's address at the Company's Annual General Meeting on 30 November 2010 provided a comprehensive account of the progress and development of the Company and reinforced the strategic approach of the Company in 5 key areas referred to hereunder.

Operations

1. The Walkamin Demonstration Factory

The build of the factory was completed during the period. The site undercover area doubled with the erection of a large mobile equipment storage shed, an engineering workshop, a new facility to house the fibre production line, a climate controlled storage container for veneer and the office and ablution facilities relocated to provide additional factory space for production. New roofing structures were erected to protect the Beta Veneering Unit (BVU) and Fibre Production Unit (FPU) from the wet season. Additional tractors and another purpose-built transporting trailer for banana tree trunks have been added to the fleet to support the harvesting and transporting activities.

Modifications and a rebuild of the BVU by the Company's engineering staff in Q1 resulted in an increase of efficiency and conversion process of banana tree trunks through the BVU of approximately 60%. Less man hours are now required in operating the BVU as a result of these modifications, freeing the staff resource for other production activities.

To cope with the increased BVU production capacity, the Log Yard (the process through which the banana tree trunks are taken from the trailer transport, mechanically cut and sized and conveyed to the BVU) was completely redesigned, constructed, put in line and commissioned during the period. Having learned much from the earlier version, the new Log Yard is functioning with greater accuracy and capacity.

In Q2 the fibre production process was established with the completion of the construction of the FPU. The FPU was placed in line with the BVU to enable the roundup produced by the BVU to be in line processed by the FPU to produce fibre chips which are then mechanically removed for drying. The heat press acquired earlier in the year is also being placed in line to facilitate the production of panel from the fibre chips.

In addition, production of core veneer continued as outlined in the product development report below.

The significant capital development of the factory is now near complete.

In December 2010 the Board considered the Walkamin factory had developed to its near completion sufficient to hand over the factory operation to the Company's host banana plantation farmer Mr Bruce Watkins. This was a milestone achievement for the Company. One of the Company's aims with this appointment is to demonstrate the successful integration of the banana fibre processing factory into the daily operations of a banana plantation. Engineering and production support will continue to be supplied from the Company's specialist management team from Adelaide.

2. Product Development

Veneer production continued consistently since the rebuild of the BVU in Q1. During Q2 modifications to refine the handing process, thus reducing labour input were implemented and have proved successful. The Company continues to supply small quantities of veneer to prospective customers for trialling in Australia, Europe and South Africa. Examples of veneer applications can be viewed on the Company's website: www.papyrusaustralia.com.au .

All available veneer produced is currently sold to an Egyptian purchaser to satisfy an initial order of 10,000 m2 of trimmed veneer equivalent at a sale price of €5 per square metre. The order was received in Q2 and the first tranche of 1000m2 was dispatched in Q2. The veneer is being tested and trialled in flooring manufacture. The Company expects to receive the results from those trials in the coming quarter.

The Chairman's Annual Report of 30 November 2010 provided a clear summary of the tasks required in proving up the panel making process and for certification of banana fibre panel as an alternative for like wood-based products for use in the construction industry. Currently the Company's staff at the Walkamin factory are experimenting and trialling various techniques and formulae for panel production and ultimately for certification. As previously reported, panel making has been undertaken by a cold press method thus far. During Q3 heat press trialling will commence which is expected to provide superior results.

3. AAMC - The Australian Advanced Manufacturing Centre Pty Ltd

AAMC is the wholly owned subsidiary of Papyrus Australia Ltd and operates from Stirling Street, Thebarton, South Australia. The Company’s main function is to design, build, commission and service machinery and equipment required by Papyrus and other customers. The engineering works at the Walkamin factory, described above, was work undertaken by AAMC.

During the period the design work for the enhanced next stage veneering machine was completed and construction commenced of 2 new machines that are scheduled to be completed and commissioned in Q3.

During Q2 AAMC acquired the tools and equipment of a local machinery workshop and 2 experienced staff and integrated this tool making capacity into the AAMC operation. This acquisition not only provides greater capacity to undertake work in-house, including the ability to protect the Company's intellectual property in machinery being manufactured, but also provides flexibility and access to necessary skills. AAMC is also now available to undertake specialist precision engineering tasks as an extra revenue source.

4. Environmental Value

In converting banana tree trunks into usable products by utilising the Papyrus process not only provides environmental benefit by way of reducing the greenhouse gas effects on the environment that would otherwise result from the decomposition process of the waste banana tree trunks, it also creates the potential for generating carbon assets. The Company, as previously reported, commissioned Sigma Global, Sydney, an internationally recognised consulting business in environmental assets to provide advice to the Company on the potential for generating such carbon assets from this conversion process. Sigma Global has advised there is a real potential to generate carbon assets from the Papyrus process in overseas countries that can be monetised in Europe and elsewhere. As the Australian government has announced its intention to establish a carbon price in 2011, the Company awaits with interest this determination.

5. International Strategy

The Company is committed to a commercialisation strategy which involves licensing its technology to enable the establishment of the first full-scale production factory in Egypt to supply the European panel and veneer markets. As previously reported, the Company chose Egypt because it has established networks and contacts in that region and it is a strong banana growing country, with established infrastructure and good logistical connections with Europe. In Europe there is a large market for veneer and panel products and active demand for sustainable products.

The Company completed a detailed Information Memorandum (IM) during Q2 with the assistance of several specialist consultancies. The IM included a comprehensive financial model and business plan for a Papyrus factory in a representative banana growing country and a distribution network in Europe. The objective of producing the IM was to demonstrate the opportunity to potential investors of establishing a Papyrus factory in an appropriate country and the indicative markets for the sale of veneer and panel into Europe. The IM has been designed so that it can be adapted to suit a particular country/region.

On 3 December 2010 the Company announced to the Australian Securities Exchange (ASX) that it had signed a Memorandum of Understanding with an Egyptian-based company to undertake negotiations with the objective of establishing a Papyrus factory in Egypt.

Awards

During the half year Papyrus was the recipient of the award Innovation of the Year at the national 2010 BPN Sustainability Awards. The awards recognise designers, builders and manufacturers for best practice in sustainability. Awards judge Mr Dick Clarke said of the Papyrus entry "I have been a judge of the BPN Sustainability Awards for 4 years and the Papyrus technology is the best innovation I have seen yet”. The Company was also a finalist in 2 categories of the prestigious Banksia 2010 Environmental Awards in the Clean Technology and People’s Choice awards categories. Also, the Company recognises and congratulates Mr Robert Watkins, manager of the plantation operations at Mount Uncle, Walkamin, Far North Queensland for being awarded the Australian Young Farmer of the Year 2010.

After the Reporting Period

Egypt/Europe

The Managing Director Mr Ramy Azer travelled to Egypt in January 2011 for further discussions and negotiation with an Egyptian-based Company as noted above. The Company has also engaged in discussion with other entities in Europe and Egypt towards developing the Papyrus opportunity. The Company will further inform the ASX by announcement when the Company is in a position to do so.

In February 2011 a second tranche of veneer was despatched to Egypt to fulfil the order mentioned under Product Development above.

Capital Raising

On 20 January 2011 the Company executed a mandate with Taylor Collison Ltd to undertake a non-underwritten placement of equity to sophisticated investors and Directors to raise $1.558 million before costs. The funds will be used to continue improvements in production at the Company's Walkamin factory in Far North Queensland, manufacturing and commissioning of new veneering and fibre production units and for working capital purposes.

Cyclone Yasi

Although the Walkamin factory escaped the full effects of Cyclone Yasi in January 2011, the area nevertheless was subject to severe wind and rain events. As reported to the market by ASX announcement, the factory area and plant and equipment were heavily secured pre event, and were virtually undamaged from the cyclone. Likewise the Mount Uncle Plantation that supports the factory with banana tree trunks was also largely undamaged. As a precaution to the factory and the safety of Company staff, the factory was closed for several days resulting in no production during that period.

Auditor's Independence Declaration

The auditor's independence declaration is set out on page 9 and forms part of the directors' report for the half-year ended 31 December 2010.

Signed in accordance with a resolution of the directors.

Donald Stephens

Mr Donald Stephens
Director

28 February 2011

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AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF PAPYRUS AUSTRALIA LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Papyrus Australia Limited for the year ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

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

Grant Thornton

GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants

J L Humphrey
Director – Audit & Assurance Services

Adelaide, 28 February 2011

Consolidated Statement of Comprehensive Income

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Consolidated Group	
	31 Dec 2010 $	31 Dec 2009 $
Revenue from operating activities	46,740	18,808
Depreciation expense	(173,229)	(7,324)
Employee benefits expenses	(805,775)	(555,768)
Other expenses	(839,656)	(627,242)
Loss before income tax benefit	(1,771,920)	(1,171,526)
Income tax benefit	317,005	271,204
Loss for the period	(1,454,915)	(900,322)
Loss attributable to members of the parent entity	(1,454,915)	(900,322)
Other comprehensive income	-	-
Total comprehensive income for the period	(1,454,915)	(900,322)
Total comprehensive income attributable to members of the parent entity	(1,454,915)	(900,322)

Earnings per share:	*Cents*	*Cents*
Basic earnings per share	(1.51)	(1.14)
Diluted earnings per share	(1.51)	(1.14)

The consolidated statement of comprehensive income is to be read in conjunction with the notes to the consolidated interim financial report.

Consolidated Statement of Financial Position
AS AT 31 DECEMBER 2010

	Note	Consolidated Group 31 Dec 2010 $	Consolidated Group 30 June 2010 $
CURRENT ASSETS			
Cash and cash equivalents		380,320	2,444,112
Trade and other receivables	3	593,280	142,654
Other current assets		58,931	146,699
TOTAL CURRENT ASSETS		1,032,531	2,733,465
NON-CURRENT ASSETS			
Property, plant and equipment		4,565,088	4,237,207
Intangible assets		5,114,219	4,854,294
TOTAL NON-CURRENT ASSETS		9,679,307	9,091,501
TOTAL ASSETS		10,711,838	11,824,966
CURRENT LIABILITIES			
Trade and other payables		400,464	602,812
Short-term borrowings		7,545	9,054
Short-term provisions		51,395	52,468
TOTAL CURRENT LIABILITIES		459,404	664,334
NON-CURRENT LIABILITIES			
Other non-current liabilities		2,937,966	2,415,757
TOTAL NON-CURRENT LIABILITIES		2,937,966	2,415,757
TOTAL LIABILITIES		3,397,370	3,080,091
NET ASSETS		7,314,468	8,744,875
EQUITY			
Issued capital		16,889,136	16,889,136
Reserves		785,760	761,252
Retained earnings/(accumulated losses)		(10,360,428)	(8,905,513)
TOTAL EQUITY		7,314,468	8,744,875

The consolidated statement of financial position is to be read in conjunction with the notes to the consolidated interim financial report.

Consolidated Statement of Changes in Equity
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Consolidated Group			
	Issued Capital $	Retained Earnings/ Accumulated losses $	Share Option Reserve $	Total $
Balance at 1 July 2009	11,273,337	(6,129,177)	685,197	5,829,357
Shares issued upon exercise of options	1,449,625	-	-	1,449,625
Acquisition of remaining interest in Pulp Fiction Joint Venture	528,816	-	-	528,816
Total comprehensive income for the period	-	(900,322)	-	(900,322)
Transaction costs (net of tax)	(46,883)	-	-	(46,883)
Share-based payments	-	-	60,066	60,066
Balance at 31 December 2009	13,204,895	(7,029,499)	745,263	6,920,659
Balance at 1 July 2010	16,889,136	(8,905,513)	761,252	8,744,875
Share-based payments	-	-	24,508	24,508
Total comprehensive income for the period	-	(1,454,915)	-	(1,454,915)
Balance at 31 December 2010	16,889,136	(10,360,428)	785,760	7,314,468

The consolidated statement of changes in equity is to be read in conjunction with the notes to the consolidated interim financial report

Consolidated Statement of Cash Flows
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Consolidated Group	
	31 Dec 2010 $	31 Dec 2009 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(1,850,028)	(1,666,654)
Grant funds received	442,957	-
Interest received	54,841	21,053
NET CASH USED IN OPERATING ACTIVITIES	(1,352,230)	(1,645,601)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(450,128)	(101,844)
Purchase of development assets	(259,925)	(166,648)
NET CASH USED IN INVESTING ACTIVITIES	(710,053)	(268,492)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	-	1,449,625
Transaction costs on issue of shares	-	(66,976)
Repayment of borrowings	(1,509)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	(1,509)	1,382,649
Net (decrease)/increase in cash and cash equivalents	(2,063,792)	(531,444)
Cash at the beginning of the financial period	2,444,112	1,129,564
CASH AT THE END OF THE FINANCIAL PERIOD	380,320	598,120

The consolidated statement of cash flows is to be read in conjunction with the notes to the consolidated interim financial report

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting entity

Papyrus Australia Ltd (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2010 comprises the Company and its subsidiaries (the "consolidated entity").

The consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2010 is available upon request from the Company's registered office.

b. Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards including AASB 134: Interim Financial Reporting and the Corporations Act 2001. Compliance with Australian Accounting Standards ensures that the financial statements and notes comply with International Financial Reporting Standards.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2010 together with any public announcements made during the half year.

The same accounting policies and methods of computation have been followed in the interim report as were applied in the most recent annual financial statements.

2. SEGMENT INFORMATION

The directors have considered the requirements of AASB 8 Operating Segments and the internal reports that are reviewed by the chief operating decision maker (the Board) in allocating resources and have concluded at this time that there are no separately identifiable segments.

The Group remains focused on the research, development and commercialisation of the Group's Banana Ply Paper (BPP) technology within Australia.

3. TRADE AND OTHER RECEIVABLES

Trade receivables	99,896	26,400
GST receivable	94,219	102,491
R&D tax offset claim	396,256	-
Other receivables	2,909	13,763
	593,280	142,654

4. SUBSEQUENT EVENTS

On 20 January 2011, the Company announced that it reached an agreement with its brokers, Taylor Collison Ltd, to provide a capital contribution to the Company amounting to approximately $1.4 million by way of a private placement of shares. The first tranche of these shares were allotted on 17 February 2011 and resulted in the issue of 9,651,948 ordinary fully paid shares in the Company, 4,825,974 unlisted options (having an exercise price of $0.12 and expiring 31 March 2013) and resulted in proceeds of $1,158,234 (prior to capital raising costs).

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

5. GOING CONCERN
The financial report has been prepared on the basis of going concern. During the half year ended 31 December 2010, the group had a combined cash outflow from operating activities and investing activities of $2,062,283. The consolidated entity continues to be economically dependent on generating profits from the business and/or raising additional capital for the continued development of its Banana Ply Project and working capital. The consolidated entity additionally continues to be in consultation with its advisers to evaluate alternative means of raising additional capital.

If profits are not generated and/or additional funds are not raised, the going concern basis may not be appropriate, with the result that the consolidated entity may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and in amounts different from those stated in this financial report. No allowance for such circumstances has been made in the financial report.

Directors' Declaration

In accordance with a resolution of the directors of Papyrus Australia Ltd I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001 , including:
    (i) giving a true and fair view of the financial position as at 31 December 2010 and the performance for the half-year ended on that date of the consolidated entity; and
    (ii) comply with Accounting Standard AASB 134 Interim Financial Reporting; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Mr Donald Stephens
Director

28 February 2011

Grant Thornton

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF PAPYRUS AUSTRALIA LIMITED

We have reviewed the accompanying half-year financial report of Papyrus Australia Limited ("Company"), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Papyrus Australia Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Papyrus Australia Limited is not in accordance with the Corporations Act 2001, including:

a giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

b complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

Material uncertainty regarding continuation as a going concern

Without qualification to the conclusion expressed above, we draw attention to Note 5 to the half-year financial report which indicates that the consolidated entity incurred a combined cash outflow from operating and investing activities of $2,062,283 for the half-year ended 31 December 2010.

These conditions, along with other matters as set forth in Note 5, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Grant Thornton

GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants

J L Humphrey
Director – Audit & Assurance Services

Adelaide, 28 February 2011