

UNAUDITED

Papyrus Australia Limited

ABN 63 110 868 409

Preliminary Final ASX Report

for the year ended 30 June 2011

Results for announcement to the market	2011	2010		Percentage
	\$	\$		change
Revenues from ordinary activities	195,070	87,009	up	124%
Loss from ordinary activities after tax attributable to the members	4,791,978	2,776,336	up	(73)%
Loss for the year attributable to members	4,791,978	2,776,336	up	(73)%

Dividends (distributions)

No dividends have been paid during the financial year ended 30 June 2011

The directors have not proposed a dividend for the year end 30 June 2011

Net Tangible Assets Per Security	\$0.023	\$0.042
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Basis of Financial Report Preparation

This financial report is for the year ended 30 June 2011 and has been prepared in accordance with the Australian Securities Exchange Listing rules as they relate to Appendix 4E and in accordance with the Corporations Act 2001. The accounting policies adopted with the contents of this report are consistent with those of the previous financial year and corresponding interim reporting period. Comments are for the twelve months ended 30 June 2011 with comparatives for the twelve months ended 30 June 2010 shown in parentheses. All amounts are measured in Australian Dollars, unless otherwise specified.

Audit Status

The financial statements contained within this Appendix 4E are in the process of being audited and, as such, the accounts presented are unaudited. The Directors have agreed to write off \$1.989 Million of past development costs that were incurred in the earlier stages of the Group, pre development of the Alpha Veneering Machine. These costs are now considered redundant as the intellectual property has been embedded in the next generation Beta Veneering Machine and Process. An impairment review is currently being undertaken on the remaining non-current assets and will be completed before the Directors adopt the final accounts for the year ending 30 June 2011.

There have been no changes in the entities controlled by Papyrus Australia Ltd.

Review of Papyrus Australia Ltd 2011 Results

Corporate

At 30 June 2011, the Group held \$0.833 Million in available cash.

In addition, the following events took place during the year:

- Mr Colin Dunsford was appointed as a non-executive director effective from 7 October 2010;
- Mr Graeme Menzies resigned as a non-executive director effective from 17 June 2011; and
- The Group executed a confidential Deed of Release with Inventure Partners.

The day-to-day management of the Group continues under the guidance of an Executive Committee comprising the Chairman, Managing Director, Director, Donald Stephens, and General Manager, Geoff Whitbread. As the Group transitions from research and development to licensing of technology, a commercialisation strategy and the development of international markets, the board of directors is of the view that the Executive Committee remains appropriate to provide guidance and support during this crucial stage of the Group's maturation.

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

Yearly expenditure included \$1.243 Million in capital for planned development work to the Group's Walkamin Demonstration Factory, Far North Queensland, and the design and construction of new machines noted later in this report. The Group acknowledges the assistance and financial support from a Commonwealth Government grant for developing industries.

Capital Raising

\$1.558 Million (gross of costs) was raised in March 2011 through a non-underwritten placement of equity to sophisticated Investors and Directors (refer ASX Announcement dated 28 January 2011). A General Meeting of Shareholders was held on 16 March 2011 to provide subsequent approval of the placement shares and placement options (refer ASX Announcements dated 15, 17 and 22 February and 16 March 2011). The funds raised were to support the continued improvement of the Walkamin Demonstration Factory, commissioning the new veneering and fibre production units and for working capital purposes.

The General Meeting of Shareholders also provided the Group with the opportunity for the Managing Director to present an update briefing on the state of affairs of the Group - a copy of which was provided to the market (refer ASX Announcement dated 18 March 2011).

Intellectual Property

Papyrus' patent application for *Method and Apparatus for Removing Sheets of Fibres from Banana Plants* (Original Patent) has now been granted in the following countries: Australia, China, Egypt, Indonesia, Mexico, New Zealand, Russia, Singapore, South Africa and African Regional Intellectual Property Organisation (ARIPO) countries.

Papyrus' patent application for *Improved Fibre Furnish* entered the national phase for patent protection in the following Patent Cooperation Treaty ("PCT") countries: Australia, Brazil, Canada, China, Egypt, Hong Kong, India, Mexico, India, Russia, Sri Lanka, Ukraine, USA and Japan.

The *Improved Fibre Furnish* patent for the production of fibre chips (to be used for the making of panel and other products) directly relates to the recently developed Fibre Production Unit that attaches to the Beta Veneering Unit (which is patent protected under the Group's Original Patent).

Operations

The strategic approach of the Group is addressed in the following 5 key areas:

1. Walkamin Demonstration Factory

The construction and fit out of the factory was completed in FY11. All plant and equipment required to enable the demonstration factory to fully function was acquired and put in place. This was a significant milestone achievement for the Group and a culmination of several years of planning, design and persistence to enable the Group to prove the proprietary technology and processes to convert banana tree trunks into veneer for the furniture industry and fibre for the making of panel for the construction industry as its first applications.

Modifications and a rebuild of the Beta Veneering Unit (BVU) by the Group's engineering staff in Q1 resulted in an increase of efficiency and conversion process of banana tree trunks through the BVU of approximately 60%.

The fibre production process was established during Q2 with the completion of the Fibre Production Unit (FPU) which was placed in line with the BVU during Q3. This enabled 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. Fibre chips are used as the base material for the production of panel.

To cope with the increased production capacity of the BVU, the Log Yard (that is the process through which the banana tree trunks are taken from the trailer transport, mechanically cut and sized and conveyed to the BVU) was redesigned and rebuilt for improved handling and loading of the banana tree trunks. The new Log Yard is functioning with greater accuracy and capacity for the feed in of banana tree trunk billets to the BVU for the veneering process.

An additional roofing structure was erected to protect the BVU, FPU and the Log Yard from the elements. This was particularly relevant as the annual wet season (January to March) was particularly harsh in Far North Queensland this year. Fortunately the Mount Uncle Banana Plantation and the Walkamin Demonstration Factory escaped the destructive impact of Cyclone Yasi in early February 2011. Heavy rainfall and stormy conditions continued to hamper operations more so than normal during this wet season.

Another of the Group's milestones was the handover of the factory operation to the Group's host banana plantation farmer Mr Bruce Watkins. One of the Group's aims with this appointment was to demonstrate the successful integration of the banana fibre processing factory into the daily operations of the banana plantation.

The Board of Papyrus Australia determined to scale back the Walkamin Demonstration Factory's operation from June 2011 to one week in every four but with increased productivity in the week of full scale operation. This decision was taken with the support of the host farmer and the Egyptian Banana Fibre Company (EBFC), the current purchaser of the veneer product. Development activities, including that relating to panel, and equipment maintenance are now concentrated in the non production weeks. This decision significantly reduces the cost of operation, thus preserving available working capital.

2. Product Development

Three thousand square metres of trimmed veneer equivalent produced at the Walkamin Demonstration Factory has been dispatched to EBFC in Egypt in part satisfaction of a larger purchase order. EBFC continues to process the veneer for the making of floorboards (the veneer being applied to MDF/HDF substrate) and more recently skins for doors and decorative panels for sale in Egypt and Europe. An 84 page Green Timber Catalogue was developed by the Group with EBFC. The catalogue and samples of these products can be viewed at Papyrus Australia's website: www.papyrusaustralia.com.au.

Small quantities of veneer and fibre chips continue to be supplied to various prospective customers for testing and trialling. One such example was with the Jam Factory, an enterprise based in South Australia that supports and promotes outstanding design and craftsmanship and is recognised nationally and internationally as a centre for excellence. In July 2011, Papyrus and the Jam Factory demonstrated banana veneer applications at the Design Made Trade exhibition in Melbourne available to the architecture and interior design industries.

Test trials have continued on batch quantities of fibre chips utilising various recipes, techniques and formulae under heat test and pressure conditions to produce panel. The test panels were submitted for independent testing and evaluation. The objective is to achieve results of suitable standards and certification to enable banana fibre panel to be offered as a sustainable and superior product alternative to wood based products for use in the construction industry.

Two test batches have now been conducted. The first test results were reported to the market on 4 May 2011. Building on the learning from those results the second batch has been submitted with the results expected in late August 2011.

The process of trialling and testing will continue over the next several months.

3. The Australian Advanced Manufacturing Centre Pty Ltd (AAMC)

AAMC is the wholly owned subsidiary of Papyrus Australia Limited 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 Demonstration Factory, described above, was undertaken by AAMC.

Other activities of the Company during the period included the design and construction of a purpose built fibre chip drying machine for the Walkamin Demonstration Factory, modification works to the Beta Veneering Unit and Fibre Production Unit at the Walkamin Demonstration Factory and precision engineering works for the blade assembly mechanism for the new veneering units. The base assembly for these veneering units have been delayed and are due for completion and "acceptance testing" in Q1 of FY 12. Upon the acceptance test being satisfactory, the machines will be completed with the additions of blade assemblies, blades and control systems and then will be available for sale (refer below).

4. Environmental Value

From an international perspective, the Group's interest in generating carbon assets that will have monetary value only becomes relevant when a contract for production has been established in a relevant country (refer below).

The Group noted with interest the announcement by the Federal Government of the future introduction of a carbon tax in Australia which will ultimately convert to a carbon trading scheme. Although agriculture is currently excluded from the scheme, the Group is yet to learn of any opportunities that may arise through this national policy development. The Group will be keeping a keen eye on the detail of the policy as it becomes available especially as it relates to new sustainable technologies.

5. International Strategy

The Group 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.

The Group remains 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. The Group 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 logistic connections with Europe. The Group continues to investigate market potentials in Europe for product produced from the Papyrus process.

The Group made a significant announcement to the market on 9 June 2011 advising that it had signed an agreement with EBFC to establish a joint-venture Group in Egypt - to be known as Papyrus Egypt - the purpose of which is to own and operate a factory in Egypt to produce banana veneer for the furniture industry and banana fibre chips for the making of panel for the construction industry.

The announcement outlined the major premises upon which the agreement is based. Notably, the agreement requires Papyrus Egypt to purchase from AAMC the necessary proprietary plant and equipment (veneering machine and fibre production unit) for AUD 2.0 million expected to be delivered to Egypt by 31 December 2011. Payment terms will be determined in a sale/purchase agreement.

Discussions continue with other interested parties (on a confidential basis), all of whom have received the Information Memorandum prepared by the Group.

Update post 30 June 2011

Subsequent to the market announcement of the proposal to establish Papyrus Egypt, members and investors are advised that the Group issued an ASX announcement on 26 July 2011 under the banner Papyrus Australia Establishes Papyrus Egypt and Grants an Exclusive Licence Agreement. The announcement gives further particulars on matters in relation to the progress of Papyrus Egypt and the obligations of Papyrus Australia and EBFC.

Statement of Comprehensive Income

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

	Note	Consolidated Group	
		2011 \$	2010 \$
Revenue from operating activities	2 (a)	195,070	87,009
Other income	2 (b)	21,500	23,534
Depreciation expense	2 (c)	(280,148)	(95,278)
Employee benefits expenses	2 (d)	(1,413,542)	(1,156,525)
Other expenses	2 (e)	(1,613,850)	(1,832,704)
Impairment of assets	2 (f)	(1,989,489)	-
Loss before income tax benefit		(5,080,459)	(2,973,964)
Income tax benefit		288,482	197,628
Loss from ordinary activities after income tax expense		(4,791,977)	(2,776,336)
Loss attributable to members of the parent entity		(4,791,977)	(2,776,336)
Other comprehensive income		-	-
Total comprehensive income for the year		(4,791,977)	(2,776,336)
Total comprehensive income attributable to members of the parent entity		(4,791,977)	(2,776,336)
Earnings per share:		<i>Cents</i>	<i>Cents</i>
Basic earnings per share	3	(4.75)	(3.23)
Diluted earnings per share	3	(4.75)	(3.23)

Statement of Financial Position

AS AT 30 JUNE 2011

	Note	Consolidated Group	
		2011	2010
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	4	832,919	2,444,112
Trade and other receivables	5	52,543	142,654
Other current assets	6	74,356	146,699
TOTAL CURRENT ASSETS		959,818	2,733,465
NON-CURRENT ASSETS			
Property, plant and equipment	7	5,093,770	4,237,207
Intangible assets	8	2,888,330	4,854,294
TOTAL NON-CURRENT ASSETS		7,982,108	9,091,501
TOTAL ASSETS		8,941,926	11,824,966
CURRENT LIABILITIES			
Trade and other payables	9	223,940	602,812
Short-term borrowings	10	26,674	9,054
Short-term provisions	11	66,608	52,468
TOTAL CURRENT LIABILITIES		317,222	664,334
NON-CURRENT LIABILITIES			
Long-term borrowings		38,389	-
Long-term provisions		15,188	-
Other non-current liabilities	12	3,118,031	2,415,757
TOTAL NON-CURRENT LIABILITIES		3,171,608	2,415,757
TOTAL LIABILITIES		3,488,830	3,080,091
NET ASSETS		5,453,096	8,744,875
EQUITY			
Issued capital	13	18,380,815	16,889,136
Reserves	14	769,771	761,252
Retained earnings		(13,697,490)	(8,905,513)
TOTAL EQUITY		5,453,096	8,744,875

Statement of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

Consolidated Group				
	Share Capital	Retained Earnings	Share Option Reserve	Total
	\$	\$	\$	\$
Balance at 1 July 2009	11,273,337	(6,129,177)	685,197	5,829,357
Total comprehensive income for the year	-	(2,776,336)	-	(2,776,336)
Shares issued upon exercise of unlisted options	13 5,302,880	-	-	5,302,880
Acquisition of remaining interest in Pulp Fiction Joint Venture	13 528,816	-	-	528,816
Transaction costs (net of tax)	13 (215,897)	-	-	(215,897)
Share-based payments	14	-	76,055	76,055
Balance at 30 June 2010	16,889,136	(8,905,513)	761,252	8,744,875

Consolidated Group				
	Share Capital	Retained Earnings	Share Option Reserve	Total
	\$	\$	\$	\$
Balance at 1 July 2010	16,889,136	(8,905,513)	761,252	8,744,875
Total comprehensive income for the year	-	(4,791,977)	-	(4,791,977)
Shares issued via private placement	13 1,558,234	-	-	1,558,234
Transaction costs (net of tax)	13 (66,555)	-	-	(66,555)
Share-based payments	14	-	8,519	8,519
Balance at 30 June 2011	18,380,815	(13,697,490)	769,771	5,453,096

Statement of Cash Flows

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

	Consolidated Group	
	2011	2010
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	158,007	-
Research and development concession received	396,256	364,121
Payments to suppliers and employees	(3,235,589)	(2,862,111)
Grant funds received	702,274	275,182
Interest received	92,929	49,930
NET CASH USED IN OPERATING ACTIVITIES	4 (a) (1,886,123)	(2,172,878)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,155,646)	(1,283,176)
Payments for acquisition of business	-	(133,376)
Purchase of intangible assets	(23,525)	(99,041)
NET CASH USED IN INVESTING ACTIVITIES	(1,179,171)	(1,515,593)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	1,558,234	5,302,880
Transaction costs of issue of shares	(95,079)	(308,424)
Proceeds from borrowings	-	16,057
Repayment of borrowings	(9,054)	(7,494)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,454,101	5,003,019
Net increase/(decrease) in cash and cash equivalents	(1,611,193)	1,314,548
Cash at the beginning of the year	2,444,112	1,129,564
CASH AT THE END OF THE YEAR	832,919	2,444,112

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation

The Preliminary Final Report has been prepared in accordance with ASX Listing Rule 4.3A and has been derived from the unaudited consolidated Annual Financial Report.

The Preliminary Final Report has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The Financial Report also complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board.

The Preliminary Final Report is presented in Australian dollars and has been prepared on the basis of historical cost except where assets and liabilities are stated at their fair values in accordance with relevant accounting policies.

The consolidated Annual Financial Report is in the process of being audited and will be made available prior to 30 September 2011. This Report should also be read in conjunction with any public announcements made by Papyrus during the year in accordance with the continuous disclosure requirements arising under the Corporations Act 2001 and ASX Listing Rules.

b. Basis of Consolidation

The consolidated financial statements comprise the financial statements of Papyrus Australia Ltd and its subsidiaries as at 30 June each year (the Group).

The financial statements of the subsidiaries are prepared for the same reporting period as the parent Group, using consistent accounting policies.

In preparing the consolidated financial statements, all interGroup balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

c. Business Combinations

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Costs directly attributable to the combination are expensed as incurred. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the Statement of Comprehensive Income, but only after a reassessment of the identification and measurement of the net assets acquired.

d. Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

Interest income

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

e. Government Grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the Statement of Comprehensive Income over the expected useful life of the relevant asset by equal annual instalments.

f. Borrowing Costs

Borrowing costs are recognised as an expense when incurred.

g. Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the Statement of Comprehensive Income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. Lease incentives are recognised in the Statement of Comprehensive Income as an integral part of the total lease expense.

h. Cash and Cash Equivalents

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank and in hand and short term deposits with an original maturity of 3 months or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

i. Trade and Other Receivables

All receivables are recognised at cost less provision for doubtful debts, which in practice will equal the amounts receivable upon settlement. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect on all amounts due according to the original terms of receivables. The amount of the provision is recognised in the Statement of Comprehensive Income.

j. Income Tax

Income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses. Current and deferred tax expense attributable to amounts recognised directly in equity is also recognised directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

k. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Property, Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight-line over the estimated useful life of the assets as follows:

Plant and equipment 2.5 - 10 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the Statement of Comprehensive Income in a combination of functional expense items.

I. Intangible Assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are expensed against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

m. Trade and Other Payables

Trade payables and other payables are carried at cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

n. Interest-Bearing Loans and Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost.

o. Employee Leave Benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

p. Share-Based Payment Transactions

The Group provides benefits to employees and consultants of the Group in the form of share-based payments, whereby employees or consultants receive option incentives (equity-settled transactions).

There is currently one plan in place to provide these benefits, the Employee Share Option Plan (ESOP) which provides benefits to directors and employees.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The cost is recognised as an expense in the Statement of Comprehensive Income, together with a corresponding increase in the share option reserve, when the options are issued. The fair value is determined using the Black Scholes option pricing model.

Upon the exercise of options, the balance of share based payments reserve relating to those options is transferred to share capital.

q. Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

r. Earnings Per Share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

s. Significant Accounting Judgements and Key Estimates

The preparation of financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Except as described below, in preparing this report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2010.

In the year ended 30 June 2011, management reassessed its estimates in respect of:

Key Estimates — Impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to an 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.

Significant Accounting Estimate

The Group has capitalised the development costs in relation to the development of the Banana Veneering and Fibre Technology Processes. The recoverability of the asset is dependent on the successful commercialisation of the technology. As 30 June 2011, the commercialisation of the project was not yet complete.

t. Adoption of New and Revised Accounting Standards

During the current year the Consolidated group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations that became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact that adoption of these standards and interpretations has had on the financial statements. The Group has adopted the following revisions and amendments to AASB's issued

by the Australian Accounting Standards Board and IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Group's financial statements for the annual period beginning 1 July 2010:

- Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project- AASB 2009-5
- Improvements to IFRSs- AASB 2010-03

The adoption of new and revised Accounting Standards effective for the financial statements for the annual period beginning 1 July 2010 did not have a material impact on the Group's financial statements.

2. REVENUE AND EXPENSES

	Consolidated Group	
	2011	2010
	\$	\$
REVENUE		
<i>(a) Revenue from operating activities</i>		
Interest received from other parties	55,851	87,009
Sales revenue	139,219	-
	<u>195,070</u>	<u>87,009</u>
<i>(b) Other income</i>		
Net profit/(loss) on disposal of property, plant and equipment	21,500	(1,891)
Export Market Development Grant	-	25,425
	<u>21,500</u>	<u>23,534</u>
EXPENSES		
<i>(c) Depreciation of non-current assets</i>		
Plant and equipment	280,148	95,278
Total depreciation	<u>280,148</u>	<u>95,278</u>
<i>(d) Employees benefits expense</i>		
Wages, salaries and other remuneration expenses	1,715,416	1,374,252
Superannuation expense	65,287	61,723
Transfer to annual leave provision	14,140	(20,188)
Share-based payments expense	8,519	76,055
Transfer to capitalised intangibles and plant and equipment	(389,820)	(335,317)
Total employee benefits expense	<u>1,413,542</u>	<u>1,156,525</u>
<i>(e) Other expenses</i>		
Audit fees	37,500	31,927
Legal fees	11,046	82,668
Professional services	302,845	371,067
Travel and accomodation	170,438	80,363
Directors fees	73,333	159,887
Company secretarial	30,008	32,795
Rent	240,635	221,357
Communications expense	48,155	48,687
Share registry and ASX expenses	111,918	67,592
Marketing expenses	19,347	186,572
Public relations costs	39,170	41,354
Contractors	213,906	138,822
Freight expenses	46,571	3,139
Motor vehicle costs	87,135	65,695
Factory operating costs	153,223	262,073
Other expenses	28,620	38,706
	<u>1,613,850</u>	<u>1,832,704</u>
<i>(f) Impairment of assets</i>		
Intangibles	1,989,489	-
Total impairment of assets	<u>1,989,489</u>	<u>-</u>

3. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit/(loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit/(loss) attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Consolidated Group	
	2011	2010
	\$	\$
Net loss attributable to ordinary equity holders of the parent	(4,791,978)	(2,776,336)
	2011	2010
Weighted average number of ordinary shares for basic earnings per share	100,967,047	85,933,005
Effect of dilution		
Share options	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	<u>100,967,047</u>	<u>85,933,005</u>
Earnings per share:	<i>Cents</i>	<i>Cents</i>
Basic earnings per share	(4.75)	(3.23)
Diluted earnings per share	(4.75)	(3.23)

In accordance with AASB 133 'Earnings per Share', as potential ordinary shares may only result in a situation where their conversion results in an increase in loss per share or decrease in profit per share from continuing operations, no dilutive effect has been taken into account.

4. CASH AND CASH EQUIVALENTS

	Consolidated Group	
	2011	2010
	\$	\$
Cash at bank and in hand	832,919	481,327
Short-term deposits	-	1,962,785
	832,919	2,444,112

(a) Reconciliation of net loss after tax to net cash flows from operations

Net loss	(4,791,978)	(2,776,336)
<i>Adjustments for non-cash items:</i>		
Impairment of assets	1,989,489	-
Depreciation	280,148	95,278
Share-based payments	8,519	76,055
Non cash tax expense	28,524	92,527
Net profit on disposal of property, plant and equipment	-	1,891
<i>Changes in assets and liabilities</i>		
Decrease/(Increase) in trade and other receivables	90,103	45,546
(Increase) in other current assets	72,343	(43,765)
Increase in trade and other payables	(294,873)	8,108
(Decrease)/Increase in provisions	29,328	(20,188)
Increase in deferred income	702,274	348,006
Net cash from operating activities	(1,886,123)	(2,172,878)

5. TRADE AND OTHER RECEIVABLES

	Consolidated Group	
	2011	2010
	\$'000	\$'000
<i>Current</i>		
Trade receivables	16,472	26,400
GST receivable	36,071	102,491
Other receivables	-	13,763
	52,543	142,654

6. OTHER CURRENT ASSETS

	Consolidated Group	
	2011	2010
	\$	\$
Prepayments	34,376	75,246
Accrued interest	-	37,078
Other	39,980	34,375
	<u>74,356</u>	<u>146,699</u>

7. PROPERTY, PLANT AND EQUIPMENT

	Consolidated Group	
	2011	2010
	\$	\$
Plant and equipment		
<i>Cost</i>		
Opening balance	1,276,366	135,316
Additions	379,868	485,481
Acquisitions through business combinations	-	662,192
Disposals	-	(6,623)
	<u>1,656,234</u>	<u>1,276,366</u>
<i>Accumulated depreciation</i>		
Opening balance	163,298	70,479
Depreciation for the year	280,148	95,278
Disposals	-	(2,459)
	<u>443,446</u>	<u>163,298</u>
Net book value of plant and equipment	<u>1,212,788</u>	<u>1,113,068</u>
Capital works in progress		
<i>Cost</i>		
Opening balance	3,124,139	2,755,818
Additions	840,843	639,854
Disposals	(84,000)	-
Transfer to/(from) intangibles	-	133,119
Recovery of R&D costs	-	(404,652)
	<u>3,880,982</u>	<u>3,124,139</u>
Net book value of capital works in progress	<u>3,880,982</u>	<u>3,124,139</u>
Total net book value of property, plant and equipment	<u>5,093,770</u>	<u>4,237,207</u>

8. INTANGIBLE ASSETS

	Consolidated Group	
	2011	2010
	\$	\$
Patents and intellectual property		
<i>Cost</i>		
Opening balance	687,315	633,669
Additions	23,525	53,646
Net book value of patents and intellectual property	<u>710,840</u>	<u>687,315</u>
Development costs		
<i>Cost</i>		
Opening balance	4,166,979	4,121,584
Additions	-	178,514
Transfer (to)/from plant and equipment	-	(133,119)
Impairment of assets	(1,989,489)	-
Net book value of development costs	<u>2,177,490</u>	<u>4,166,979</u>
Total net book value of intangible assets	<u>2,888,330</u>	<u>4,854,294</u>

9. TRADE AND OTHER PAYABLES

	Consolidated Group	
	2011	2010
	\$	\$
Trade payables	116,282	323,898
Sundry payables and accrued expenses	107,658	278,914
	<u>223,940</u>	<u>602,812</u>

10. BORROWINGS

	Consolidated Group	
	2011	2010
	\$	\$
Short-Term Borrowings		
Finance Lease	26,674	9,054
	<u>26,674</u>	<u>9,054</u>
Long-Term Borrowings		
Finance Lease	38,389	-
	<u>38,389</u>	<u>-</u>

11. PROVISIONS

	Consolidated Group	
	2011	2010
	\$	\$
Short-Term Provisions		
Opening balance	52,468	72,656
Net increase in provision during financial year	14,140	(20,188)
Closing balance	<u>66,608</u>	<u>52,468</u>
Long-Term Provisions		
Opening balance	-	-
Net increase in provision during financial year	15,188	-
Closing balance	<u>15,188</u>	<u>-</u>

12. OTHER NON-CURRENT LIABILITIES

	Consolidated Group	
	2011	2010
	\$	\$
Deferred income - Government Grant	<u>3,118,031</u>	<u>2,415,757</u>
	<u>3,118,031</u>	<u>2,415,757</u>

13. ISSUED CAPITAL

	Consolidated Group	
	2011	2010
109,504,764 fully paid ordinary shares (2010: 96,519,483)	<u>18,380,815</u>	<u>16,889,136</u>
	<u>18,380,815</u>	<u>16,889,136</u>

13. ISSUED CAPITAL (Cont.)

	2011		2010	
	Number	\$	Number	\$
Ordinary shares				
Balance at beginning of year	96,519,483	16,889,136	74,790,412	11,273,337
Shares issued pursuant to private placement	12,985,281	1,558,234		
Shares issued upon exercise of listed and unlisted options at various dates	-	-	20,454,120	5,302,880
Acquisition of remaining interest in Pulp Fiction Joint Venture	-	-	-	-
Transaction costs (net of tax)	-	(66,555)	-	-
Shares issued to acquire the remaining interest in Pulp Fiction Joint Venture	-	-	1,274,951	528,816
Share-based payments	-	-	-	(215,897)
Balance at end of financial year	109,504,764	18,380,815	96,519,483	16,889,136

14. RESERVES

	Consolidated Group	
	2011	2010
	\$	\$
Share-option reserve		
	769,771	761,252
	769,771	761,252
Share-option reserve		
Balance at beginning of financial year	761,252	685,197
Issue of options to placees in private placement on a 1 is for 2 basis	8,519	76,055
Balance at end of financial year	769,771	761,252

15. INTEREST IN SUBSIDIARIES

Name of entity	Country of Incorporation	Ownership Interest	
		2011 %	2010 %
<u>Parent entity</u>			
Papyrus Australia Ltd	Australia		
<u>Subsidiaries</u>			
PPY Engineering Pty Ltd	Australia	100	100
Papyrus Technology Pty Ltd	Australia	100	100
PPY Manufacturing Pty Ltd	Australia	100	100
Australian Advanced Manufacturing Centre Pty Ltd	Australia	100	100
Pulp Fiction Manufacturing Pty Ltd	Australia	100	100

16. 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 Veneering and Fibre Technology Processes within Australia.

17. GOING CONCERN

The financial report has been prepared on the basis of going concern. The Group 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 Group continues to be in consultation with its advisers to evaluate alternative means of raising additional capital.

The Group's ability to continue as a going concern is contingent upon generation of profit from its business and/or successfully 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 Group 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.

COMPLIANCE STATEMENT

1. This report has been prepared in accordance with AASB Standards, other authoritative pronouncements and Urgent Issues Group Consensus Views.
2. This report gives a true and fair view of the matters disclosed.
3. This report is based on accounts which are in the process of being audited



Donald Stephens
Director

31 August 2011