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Papyrus Australia Ltd

ABN 63 110 868 409

Half Year Report

for the half year ended 31 December 2011

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Appendix 4D Requirements

Results for announcement to the market

	2011 \$A	2010 \$A		Percentage change
Revenues from ordinary activities	19,885	46,740	down	(57)%
Loss from ordinary activities after tax attributable to the members	(1,208,655)	(1,454,915)	down	17%
Loss for the period attributable to members	(1,208,655)	(1,454,915)	down	17%

Dividends (distributions)

No dividend has been paid during the period ended 31 December 2011

The directors have not proposed a dividend for the half-year ended 31 December 2011

Net Tangible Assets Per Security - cents	\$0.017	\$0.023
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All other requirements are contained within the attached financial statements and notes.

Directors' Report

The directors of Papyrus Australia Ltd ('Papyrus Australia') present their Report together with the financial statements of the consolidated entity, being Papyrus Australia Ltd ('the Company') and its controlled entities ('the Group') for the half year ended 31 December 2011 and the Independent Review Report thereon.

Director Details

The following persons were directors of Papyrus Australia during or since the end of the financial year.

Mr Edward Byrt, Chairman
Mr Ramy Azer, Managing Director
Mr Christopher Smerdon, Non-Executive Director (Resigned 31 August 2011)
Mr Donald Stephens, Non-Executive Director
Mr Colin Dunsford, Non-Executive Director

Review of Operations

1. Corporate

The Company's commercial focus during the period was on developing its operational activity in Egypt, the market for product in Egypt and Europe, and the development of Yellow Pallet - discussed below. The Company has also worked diligently at reducing its overheads, including the non payment of directors' fees, to preserve available working capital.

A share placement was announced to the market on 7 November 2011 injecting \$1052K in capital, the first tranche of \$722K in November 2011 with the balance via a second tranche following a General Meeting of Shareholders on 18 January 2012 (ASX Announcement 7 November 2011). A non-refundable deposit of \$100k was received from the Egyptian Banana Fibre Company ("EBFC") for the supply of machines (ASX Announcement 20 October 2011). Mr Christopher Smerdon retired as a director of the Company. (ASX Announcement 31 August 2011). The Company has chosen not to replace the position at present.

The Company's Annual Report was published (ASX Announcement 21 November 2011). The Annual General Meeting was held on 23 November 2011 whereat the Chairman and Managing Director gave comprehensive reviews of the Company's operation and reinforced the commercialisation strategy of the Company - being a technology licencing company assisting suitable entities to establish banana veneer and panel production factories worldwide where bananas are grown (ASX Announcements 21 October 2011 and 23 November 2011).

During the period a Shareholder Newsletter was published (ASX Announcement 20 October 2011).

The Company's intellectual property bank continued to grow. In December 2011 the Company was advised that its patent for Method and Apparatus for Removing Sheets of Fibres from Banana Plants (Original Patent) was shortly to be granted in the United States and which occurred in January 2012. Patent rights have now been granted for this patent in the following countries: Australia, China, Egypt, Hong Kong, Indonesia, Japan, Mexico, New Zealand, Philippines, Russia, Singapore, South Africa, Vietnam, African Regional Intellectual Property Organisation (ARIPO) countries and the United States.

The Company's patent application for Improved Fibre Furnish has entered the national phase for patent protection in the following Patent Cooperation Treaty (PCT) countries: Australia, Brazil, Canada, China, Egypt, Hong Kong, India, Japan, Mexico, New Zealand, Russia, Sri Lanka, Ukraine and USA. This patent is for the production of fibre chips (to be used for the making of panel and other products) and directly relates to the Fibre Production Unit, recently developed, and attaches to the Beta Veneering Unit (which is the patent protected under the group's Original Patent).

2. Walkamin Demonstration Factory

The Company previously reported that production at the Walkamin Demonstration Factory had been scaled back to preserve working capital while the Company focuses its efforts in the development of the Egypt facility. Prior to the scale back in Q1 the Company was able to confidently demonstrate the machinery and in-line production - that is the linkages between the Log Yard and conveying system, to the Beta Veneering Unit, to the drying oven for veneer and Fibre Production Unit for chips - worked seamlessly. As previously stated this was an important milestone in the context of developing the Company's (through Papyrus Egypt) first full scale operation in Egypt. Work continued during the period making minor enhancements to the Beta Veneering and the Fibre Production Units and further product testing. Small quantities of veneer and fibre were produced with several sample batches being forwarded for testing in Egypt and the Netherlands.

3. Product Development

In Q2 the Company entered into an agreement with a significant Government owned Egyptian company Nag-Hamady, which manufactures panelboard from bagasse, the residue of sugar cane (ASX Announcement 18 October 2011). The agreement was to scientifically test and industrially trial and produce banana fibre MDF and other panelboard, starting with a mix of bagasse and banana fibres, proceeding to 100% banana fibre to be sold by Papyrus Egypt in Egypt, the Middle East region and exported to Europe. The scientific tests and industrial trials with banana fibre supplied from the Walkamin Demonstration Factory commenced in November 2011 and subject to the findings will help to secure an "off-take" agreement with Papyrus Egypt to purchase the annual production of banana fibre from the first banana fibre factory established by Papyrus Egypt.

Veneer produced and sold from the Walkamin Demonstration Factory to EBFC continued for the making of floorboards (the veneer being applied to MDF/HDF substrate), skins for doors and decorative panels all for sale in Egypt and Europe. EBFC continues to supply Steward Design Panels in Holland with banana veneer laminate on bagasse MDF panel board for decorative acoustic ceiling panels, which are now being sold for installation in several construction projects in Holland. The banana veneered floorboards and the decorative banana veneered panels made by EBFC are the first totally "green" natural fibre panels available in Egypt and Europe - absolutely tree free. This is a significant marketing edge for the Papyrus branded products.

At the Walkamin Demonstration Factory an alternative veneer drying processes using pressure as an alternative to oven drying has been trialled with the testing regime expected to be completed in Q 3.

The Australian trials with fibre referred to in the Q1 report concluded that more work was required on the binding properties for structural panel which has now been taken up by Nag-Hamady. However for non structural panel such as ceiling/acoustic tiles and insulation it appears banana fibre is quite suitable and is now to be market tested.

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

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.

It was reported in Q 1 that one of the two veneering machines under construction would be completed and shipped to Egypt by the end of December 2011. Unfortunately AAMC did not achieve this objective. Having a machine available for the Egyptian factory is a high priority in Q3 in satisfaction of the licence agreement between the Company and Papyrus Egypt.

5. Environmental Value

The Company continues to monitor the developments and opportunities in carbon emission reduction initiatives worldwide. As previously reported the Company is cognisant that the conversion of banana tree trunk waste into usable product will generate particularly in developing countries, "carbon certificates" which are able to be monetised and are presently tradeable in Europe.

Specifically in reference to the Company's development in Egypt, a developing country, a carbon emission reduction project is eligible within the United Nations sponsored Clean Development Mechanism (CDM) and Papyrus Egypt. Once operating, a commercial factory is likely to be eligible for carbon certificates tradeable in Europe.

6. International Strategy

The Chairman and Managing Director visited Egypt and Europe in Q 1. In Egypt the principal objective was to assist in establishing the joint-venture company Papyrus Egypt (refer ASX Announcements 9 June and 26 July 2011). Papyrus Egypt is developing the world's first integrated commercial banana fibre and banana veneer factory utilising waste banana tree trunks in Sohag in Upper Egypt and developing strategic alliances with suppliers of raw materials, users of the factory's off take and distributors and users of the product produced in Egypt and Europe. Papyrus Australia Ltd in addition to being a 50% equity holder in Papyrus Egypt will also supply the machinery, intellectual property and know-how under a licence agreement and machinery purchase agreement (refer ASX Announcement / Papyrus Newsletter 20 October 2011): http://www.papirusaustralia.com.au/uploads/documents/e-newsletters/PPY_eNews_No4_Oct_2011.pdf

Also as a result of this visit Papyrus Australia secured an agreement with Nag-Hamady as reported under Product Development above (also refer ASX Announcement 18 October 2011)

In Europe, their activities were primarily to negotiate the Company's involvement in the development and production of the world's first banana fibre pallet for the transport of bananas - to be known in the market as "Yellow Pallet". Subsequently Yellow Pallet B V has been incorporated based in the Netherlands. Papyrus Australia owns 50% of the equity and has contributed funds of Euro15,000 together with the other 3 shareholders holding the other 50% equity in Dr Gert Kema, Mr Hein van Opstal and Mr Rob de Jong who have contemporaneously contributed Euro15,000. These funds supported the receipt of grants totalling Euro120,000 from 2 Dutch institutions supporting new business initiatives and will be used to conduct a detailed feasibility study for Yellow Pallet B V (for more detail refer to ASX Announcements 23 November 2011 and 18 January 2012).

A comprehensive account of these matters is contained in the respective reports of the Chairman and Managing Director when addressing the Annual General Meeting of the Company on 23 November 2011 (refer ASX Announcements 23 November 2011(2)).

Update post 31 December 2011

In late December 2011 the Managing Director travelled to Egypt and Europe to progress the development of Papyrus Egypt and to advance the business of Yellow Pallet. He was joined by the Chairman in January 2012. The Chairman issued a detailed shareholder update on the progress to date (ASX Announcement 18 January 2012):

In January 2012 the Company was pleased to announce that the United States patent was granted for the company's original patent application - Method and Apparatus for Removing Sheets of Fibres from Banana Plants (ASX Announcement 17 January 2012).

A General Meeting of Shareholders was held on 18 January 2012 to seek the approval of shareholders for the issue of shares to support the capital raising discussed above and to trigger the second tranche of funds. (ASX Announcement 18 January 2012).

In February 2012 the Chairman and Chief Executive travelled to the Philippines to explore opportunities for the Company's technology. The Philippines is one of the largest and most sophisticated banana producers in the world. Communications are ongoing.

In February 2012 representatives of Yellow Pallet from the Netherlands visited the Walkamin Demonstration Factory to conduct due diligence on the capacity of the Papyrus technology. The Company awaits the assessment report.

Auditor's independence declaration

The auditor's independence declaration is set out on page 8 and forms part of the directors' report for the half year ended 31 December 2011.

Signed in accordance with a resolution of the directors.



Mr Donald Stephens
Director

29 February 2012

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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 2011, 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
Partner

Adelaide, 29 February 2012

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Interim consolidated statement of comprehensive income

For the half-year ended 31 December 2011

	Consolidated Group	
	31 Dec 2011 \$	31 Dec 2010 \$
Revenue from operating activities	19,885	46,740
Depreciation expense	(317,779)	(173,229)
Employee benefits expenses	(645,986)	(805,775)
Other expenses	(555,974)	(839,656)
Loss before income tax benefit	(1,499,854)	(1,771,920)
Income tax benefit	291,199	317,005
Loss for the period	(1,208,655)	(1,454,915)
Loss attributable to members of the parent entity	(1,208,655)	(1,454,915)
Other comprehensive income	-	-
Total comprehensive income for the period	(1,208,655)	(1,454,915)
Total comprehensive income attributable to members of the parent entity	(1,208,655)	(1,454,915)
Earnings per share:	<i>Cents</i>	<i>Cents</i>
Basic earnings per share	(1.06)	(1.51)
Diluted earnings per share	(1.06)	(1.51)

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

Interim consolidated statement of financial position

As at 31 December 2011

		Consolidated Group	
		31 Dec 2011	30 June 2011
		\$	\$
	Note		
CURRENT ASSETS			
Cash and cash equivalents		474,015	832,919
Trade and other receivables	6	421,963	52,551
Other current assets		41,016	74,356
TOTAL CURRENT ASSETS		936,994	959,826
NON-CURRENT ASSETS			
Property, plant and equipment	7	4,783,259	5,093,770
Intangible assets	8	2,924,569	2,888,330
TOTAL NON-CURRENT ASSETS		7,707,828	7,982,100
TOTAL ASSETS		8,644,822	8,941,926
CURRENT LIABILITIES			
Trade and other payables		309,939	223,940
Short-term borrowings		34,001	26,674
Short-term provisions		-	66,608
Other current liabilities	9	100,000	-
TOTAL CURRENT LIABILITIES		443,940	317,222
NON-CURRENT LIABILITIES			
Long-term borrowings		17,725	38,389
Long-term provisions		-	15,188
Other non-current liabilities		3,190,831	3,118,031
TOTAL NON-CURRENT LIABILITIES		3,208,556	3,171,608
TOTAL LIABILITIES		3,652,496	3,488,830
NET ASSETS		4,992,326	5,453,096
EQUITY			
Issued capital	10	19,102,815	18,380,815
Reserves	11	795,656	769,771
Retained earnings/(accumulated losses)		(14,906,145)	(13,697,490)
TOTAL EQUITY		4,992,326	5,453,096

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

Interim consolidated statement of changes in equity

For the half-year ended 31 December 2011

	Note	Consolidated Group				Total
		Issued Capital \$	Retained Earnings/ Accumulated losses \$	Share Option Reserve \$		
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
Balance at 1 July 2011		18,380,815	(13,697,490)	769,771		5,453,096
Private placement on 9 November 2011	4	722,000	-	-		722,000
Share-based payments	11	-	-	25,885		25,885
Total comprehensive income for the period		-	(1,208,655)	-		(1,208,655)
Balance at 31 December 2011		19,102,815	(14,906,145)	795,656		4,992,326

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

Interim consolidated statement of cash flows

For the half-year ended 31 December 2011

	Consolidated Group	
	31 Dec 2011 \$	31 Dec 2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(1,141,193)	(1,850,028)
Grant funds received	-	442,957
Interest received	5,088	54,841
NET CASH USED IN OPERATING ACTIVITIES	(1,136,105)	(1,352,230)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(7,268)	(450,128)
Purchase of development assets	(36,239)	(259,925)
Proceeds from sale of property, plant and equipment	112,045	-
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES	68,538	(710,053)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	722,000	-
Repayment of borrowings	(13,337)	(1,509)
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES	708,663	(1,509)
Net (decrease)/increase in cash and cash equivalents	(358,904)	(2,063,792)
Cash at the beginning of the financial period	832,919	2,444,112
CASH AT THE END OF THE FINANCIAL PERIOD	474,015	380,320

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

Notes to the condensed interim consolidated financial statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

1. Corporate information

The interim consolidated financial statements of the Group for the six months ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 29 February 2012.

Papyrus Australia Ltd is a limited company incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange under the symbol PPY. The principal activities of the company and its subsidiaries (the Group) are the research, development and commercialisation of the Group's Banana Ply Paper (BPP) technology.

2. Basis of preparation and change to the Group's accounting policies

Basis of preparation

The interim consolidated financial statements for the six months ended 31 December 2011 have been prepared in accordance with AASB 134 Interim Financial Reporting.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 30 June 2011.

New standards, interpretations and amendments adopted by the Group

The interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's last annual financial statements for the year ended 30 June 2011, except for the adoption of Improvements to AASBs 2010 (2010 Improvements) as of 1 January 2011. The 2010 Improvements made several minor amendments to AASBs. The relevant amendments and their effects on the current period or prior periods are described below.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these interim financial statements.

Amendment to AASB 101 Presentation of Financial Statements

The amendment provides a choice of presenting the reconciliations for each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Group presents such reconciliations in the Consolidated Statement of Changes in Equity. Accordingly, there has been no change to the Company's financial statements.

Amendments to AASB 134 Interim Financial Reporting

The amendments clarified certain disclosures relating to events and transactions that are significant to an understanding of changes in the Group's circumstances since the last annual financial statements. The Group's interim financial statements as of 31 December 2011 reflect these amended disclosure requirements, where applicable.

Notes to the condensed interim consolidated financial statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

3. Estimates

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from these estimates.

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2011.

4. Significant events and transactions

On 7 November 2011, the Company announced that it had entered into agreements to raise a total of \$1,082,000 by way of a placement of ordinary fully paid shares in the Company at a price of \$0.05 per share. The placement has resulted in the issue of 21,640,000 new ordinary fully paid shares. The Company received a total of \$722,000 representing the allotment of 14,440,000 ordinary fully paid shares in the Company on 9 November 2011. The remaining proceeds were received on 30 January and 10 February 2012 upon approval by shareholders at a general meeting on 18 January 2012.

5. Segment reporting

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.

6. Trade and other receivables

	Consolidated Group	
	31 Dec 2011 \$	30 Jun 2011 \$
<i>Current</i>		
Trade receivables	46,842	42,880
Provision for doubtful debts	(26,400)	(26,400)
GST receivable	37,522	36,071
R&D Tax Offset Receivable	363,999	-
	421,963	52,551

Notes to the condensed interim consolidated financial statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

7. Property, plant and equipment

	Consolidated Group	
	31 Dec 2011 \$	30 Jun 2011 \$
Plant and equipment		
<i>Cost</i>		
Opening balance	1,650,601	1,276,366
Additions	7,268	374,235
Transfer from capital works in progress	3,886,615	-
	5,544,484	1,650,601
<i>Accumulated depreciation</i>		
Opening balance	443,446	163,298
Depreciation for the period	317,779	280,148
	761,225	443,446
Net book value of plant and equipment	4,783,259	1,207,155
Capital works in progress		
<i>Cost</i>		
Opening balance	3,886,615	3,124,139
Additions	-	762,476
Transfer to plant and equipment	(3,886,615)	-
Net book value of capital works in progress	-	3,886,615
Total net book value of property, plant and equipment	4,783,259	5,093,770

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Notes to the condensed interim consolidated financial statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

8. Intangible assets

	Consolidated Group	
	31 Dec 2011 \$	30 Jun 2011 \$
Patents and intellectual property		
<i>Cost</i>		
Opening balance	710,840	687,315
Additions	36,239	23,525
Net book value of patents and intellectual property	747,079	710,840
Development costs		
<i>Cost</i>		
Opening balance	2,177,490	4,166,979
Impairment of assets	-	(1,989,489)
Net book value of development costs	2,177,490	2,177,490
Total net book value of intangible assets	2,924,569	2,888,330

9. Other current liabilities

Deferred income (a)	100,000	-
	100,000	-

- (a) Deferred income at 31 December 2011 represents the initial non-refundable deposit from the Egyptian Fibre Company ("EBFC") for machinery to be built and delivered by the Company. For further information, refer to the Company's release to the ASX dated 20 October 2011.

10. Issued capital

	Consolidated Group	
	As at 31 Dec 11 \$	As at 30 Jun 11 \$
Fully paid ordinary shares	19,102,815	18,380,815
	19,102,815	18,380,815
	Number	\$
Ordinary shares		
Balance at beginning of financial period	109,504,764	18,380,815
Private placement on 9 November 2011	14,440,000	722,000
Balance at end of the financial period	123,944,764	19,102,815

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Notes to the condensed interim consolidated financial statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

11. Share based payments

Grant date	Number of instruments	Vesting conditions	Contractual life of options
1 July 2011	500,000	Not Applicable	5 years
1 July 2011	250,000	Vest on 1 January 2012	5 years
Fair value at grant date			\$0.035
Share price			\$0.050
Exercise price			\$0.120
Expected volatility			107.1%
Risk-free interest rate			4.96%

12. Subsequent events

On 31 January and 10 February 2012, the remaining proceeds of the Company's placement announced on 7 November 2011 were allotted upon approval from shareholders at a general meeting dated 18 January 2012. A total of \$360,000 proceeds were received (before costs), resulting in the issue of 7,200,000 ordinary fully paid shares in the capital of the Company.

13. Contingent liabilities

There has been no change in contingent liabilities since the last reporting date.

14. Going concern

The financial report has been prepared on the basis of going concern. During the half year ended 31 December 2011, the group had a combined cash outflow from operating activities and investing activities of \$ 1,067,567. 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.

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 the opinion of the directors of Papyrus Australia Ltd:

- (a) the consolidated financial statements and notes of Papyrus Australia Ltd are in accordance with the Corporations Act 2001, including:
 - (i) give a true and fair view of its financial position as at 31 December 2011 and of its performance for the half-year ended on that date; 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

29 February 2012

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF POPYRUS AUSTRALIA LTD

We have reviewed the accompanying half-year financial report of Papyrus Australia Ltd (“Company”), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2011, 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 2011 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 Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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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 Ltd 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 2011 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 qualifying our opinion, we draw attention to Note 14 in the financial report which indicates that the consolidated entity incurred a net cash outflow from operating and investing activities of \$1,067,567 for the half-year ended 31 December 2011. These conditions, along with other matters as set forth in Note 14, 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 discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.



GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants



J L Humphrey
Partner

Adelaide, 29 February 2012

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