

PAPYRUS AUSTRALIA LTD

ABN 63 110 868 409

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

For personal use only

Contents

Corporate information	3
Directors' report	4
Auditor's independence declaration	17
Consolidated Statement of Comprehensive Income	18
Consolidated Statement of Financial Position	19
Statement of Changes in Equity	20
Consolidated Statement of Cash Flows	21
Notes to the Financial Statements	22
1 Nature of operations	22
2 General information and statement of compliance	22
3 Changes in accounting policies	22
4 Summary of accounting policies	24
5 Parent Information	32
6 Operating Segments	33
7 Revenue and expenses	33
8 Income tax expense	34
9 Earnings per share	35
10 Cash and cash equivalents	36
11 Trade and other receivables	37
12 Other current assets	38
13 Property, plant and equipment	38
14 Intangible assets	39
15 Share based payments	39
16 Trade and other payables	41
17 Borrowings	41
18 Provisions	41
19 Other non-current liabilities	42
20 Issued capital	42

21 Reserves	43
22 Commitments for expenditure	43
23 Contingent liabilities and contingent assets	44
24 Auditor's remuneration	44
25 Controlled and other entities	44
26 Financial risk management	45
27 Related party disclosure and key management personnel remuneration	47
28 Going concern	49
Directors' Declaration	50
Auditor's Report to the members of Papyrus Australia Limited	51

For personal use only

Corporate information

This annual report covers both Papyrus Australia Ltd (ABN 63 110 868 409) as a consolidated group ('Group') comprising Papyrus Australia Ltd and its subsidiaries. The Group's functional and presentation currency is Australian dollars.

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report on pages 5 to 10. The directors' report is not part of the financial report.

Directors

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

Company Secretary

Mr Pierre Van Der Merwe

Registered Office

C/- HLB Mann Judd (SA) Pty Ltd
169 Fullarton Road
DULWICH SA 5065

Principal place of business

Building 42, Adelaide University Research Precinct
12 Queen Street
THEBARTON SA 5031

Share Register

Computershare Investor Securities Pty Ltd
Level 5, 115 Grenfell Street
ADELAIDE SA 5000

Legal Advisors

O'Loughlins Lawyers
Level 2, 99 Frome Street
ADELAIDE SA 5000

Bankers

National Australia Bank
22 - 28 King William Street
ADELAIDE SA 5000

Auditors

Grant Thornton, South Australian Partnership
Chartered Accountants
Level 1
67 Greenhill Road
WAYVILLE SA 5034

Directors' report

Your directors present their report on the consolidated group for the financial year ended 30 June 2012.

Directors

The names of the Directors in office at any time during, or since the end of, the year are:

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

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Names, qualifications, experience and special responsibilities

Mr Edward Byrt, LLB, (Chairman)

Ted Byrt is a company director with over 30 years experience in commerce, corporate governance and international business. He is a specialist strategic advisor for major development and infrastructure projects within Australia and offshore.

Ted is a business advisor and Board member of several leading organisations in South Australia. He is Presiding Member of the Development Assessment Commission, Chairman of the China Cluster, The Australian Advanced Manufacturing Centre Pty Ltd and SMAC Technologies Pty Ltd, a Director of Treyo Leisure & Entertainment Ltd (ASX listed) and a Board member of the Aboriginal Foundation of SA Inc. He is also a member of the Company's Audit committee and has been a Director of Papyrus since 2004.

Mr Ramy Azer, MSTC, MSc (Eng), Grad Dip Bus, Bachelor of Engineering (Mechanical), (Managing Director)

Ramy Azer is the founder and developed the Company's technology. He has been a regular guest lecturer and speaker on issues including sustainable business development and innovation.

Ramy has been Managing Director since 2005 and prior to that had 10 years experience with Papyrus Technology Pty Ltd.

Mr Donald Stephens, BAcc, FCA, (Non-Executive Director)

Donald Stephens is a Chartered Accountant and corporate adviser with over 20 years experience in the accounting industry, including 14 years as a partner of HLB Mann Judd Stephens, a firm of Chartered Accountants.

Donald is a non-executive director of Mithril Resources Ltd and TW Holdings Ltd and is company secretary to Toro Energy Ltd, Minotaur Exploration Ltd, and Petratherm Ltd (all ASX Listed entities). He holds other public company secretarial positions and directorships with private companies and provides corporate advisory services to a wide range of organisations.

He is also a member of the Company's Audit committee.

Mr Colin Dunsford, B.Ec., FCA, (Non-Executive Director)

Colin is a former partner of Ernst and Young, having joined the firm in May 2002 as a result of the integration with Arthur Andersen. At Arthur Andersen, Colin was Managing Partner and Division Head of the Adelaide Assurance and Business Advisory Division with many client responsibilities, a position held at Ernst and Young until his retirement in July 2010. During his more than 40 year professional career, Colin has had extensive experience with a wide range of corporate, government and incorporated clients in Australia and the United States of America.

Colin's current directorships include, Chairman of Bedford Group, Independent Gaming Corporation, Adelaide Symphony Orchestra and Leaders Institute of South Australia. Board member of Aboriginal Foundation of South Australia and University of Adelaide Finance Committee. Colin joined the Board of Papyrus Australia Ltd in October 2010 and is Chairman of the Company's Audit committee.

Mr Christopher Smerdon, (Non-Executive Director)

Chris Smerdon has extensive experience in the Information Technology field. He founded Protech Australasia in 1984 and was Managing Director until he sold his interests in 1995. Under his leadership, Protech commenced as a start up and was developed into a national business with offices located throughout Australia. In 1996, he established IT Services Group which in 2001 became part of Vectra Corporation Ltd, an international player in Security Consulting Solutions and Infrastructure. Chris is currently a Director of the South Australia Government Motorsport Board, Kangaroo Island Sealink Ltd and Coachlines of Australia Pty Ltd.

COMPANY SECRETARY

Mr Pierre Van Der Merwe, CA

Pierre is a Chartered Accountant with over 20 years experience and is currently a director of HLB Mann Judd (SA) Pty Ltd, a firm of Chartered Accountants in Adelaide, and a number of other private companies. He provides corporate advice and support to a number of companies listed on the ASX, has held the position of Company Secretary to ASX listed companies and is currently Company secretary to a number of unlisted companies. Pierre has extensive experience in the provision of professional services to clients, including tax consulting, management of client accounting systems, reporting at Board level assisting with financial interpretations and strategic planning. He is also a Fellow of the Financial Services Institute of Australasia.

REVIEW OF OPERATIONS

Corporate

During the financial year:-

- The Company placed a total of 21,640,000 ordinary fully paid shares at a price of \$0.05, raising \$1.082 million; and
- A total of 750,000 unlisted options with an exercise price of \$0.12 and an expiry date of 30 June 2016 were issued to key management personnel.

The Company's commercialisation strategy is to be a technology licensing company assisting suitable entities to establish banana veneering and fibre production factories in locations worldwide where bananas are grown. The Company's revenue will be generated from technology licencing fees, machinery sales and support services. To that end the commercial focus during FY12 was on developing its operational activity in Egypt, the market for product in Egypt and Europe, and the development of the joint venture company Yellow Pallet BV based in the Netherlands. The Company significantly reduced its operating costs, including the non payment of directors' fees, to preserve working capital. At 30 June 2012, the Company held \$366k in available cash.

Mr Christopher Smerdon retired as a director of the Company on 31 August 2011. The Company chose not to replace the position.

The Company's 2011 Annual Report was published: ASX Announcement 21 November 2011.

The Annual General Meeting of the Company was held on 23 November 2011 whereat the Chairman and Managing Director gave comprehensive reviews of the Company's operations: ASX Announcements 21 October 2011 and 23 November 2011.

During the period Shareholder Newsletters were published: ASX Announcements - 20 October 2011, 18 January 2012, 18 April 2012 and 25 June 2012.

The company's leased facility at Yeerongpilly, Brisbane, Queensland (former Brimms factory) ceased on 30 June 2012. Removal of all redundant plant and equipment has taken place and all settlement arrangements with the landlord were achieved satisfactorily.

Intellectual Property

The Company's intellectual property bank continued to grow. During FY12, patents were granted for the Method and Apparatus for Removing Sheets of Fibres from Banana Plants (Original Patent) by the United States and Taiwan. Patent rights have now been granted for this patent in the following countries: Australia, China, Egypt, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Peru, Philippines, Russia, Singapore, South Africa, Vietnam, African Regional Intellectual Property Organisation (ARIPO) countries, the United States and Taiwan.

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).

Capital Raising

A share placement announced to the market on 7 November 2011 injected \$1082K in capital to the Company. The first tranche of \$722K occurred in November 2011: ASX Announcement 7 November 2011. The balance via the second tranche of \$360k followed a General Meeting of Shareholders held on 18 January 2012: ASX Announcement 18 January 2012. The funds raised were applied to working capital requirements in particular, to assist the Company in continuing to support the establishment of Papyrus Egypt and the Yellow Pallet project.

Papyrus Egypt

The Company's objective in Egypt is to develop the world's first integrated commercial banana fibre and banana veneer factory utilising waste banana tree trunks 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 of the established company Papyrus Egypt will also supply the machinery, intellectual property and know-how under a licence agreement and machinery purchase agreement.

The choice of Egypt, more specifically Sohag in Upper Egypt (over 500km South of Cairo in the Nile Valley), as the location of the first factory was a considered strategic decision of the Board, having regard to many factors not the least of which were:

- the identified demand in Egypt for a new indigenous renewable and sustainable source of fibre - Egypt does not have any forests and imports at great cost most of the fibre required for its considerable domestic consumption;
- the comparatively cheaper and readily available energy, labour and infrastructure costs in Upper Egypt;
- the availability of abundant quantities of waste banana tree trunk material in Upper Egypt which is currently a nuisance waste by-product of banana fruit production; and
- the encouragement of the Egyptian government, the Executive Governor of the Sohag Governate in Upper Egypt (a Governate is the equivalent of a State in the Australian context), and leading business organisations such as the National Bank of Egypt and the Upper Egypt Investment Company, and regional communities, to establish a new, and for Upper Egypt, a significant economic enterprise which benefits the community and the environment.

Papyrus Egypt has been granted land by the local authorities of 2,000sqm in the Kawthar industrial estate in Sohag to build the factory which is around 1200 sqm of concrete and masonry construction build. The necessary operating infrastructures have been connected. This is at the cost of our partner, the Egypt Banana Fibre Company (EBFC). EBFC is solely responsible to fund the capital and initial operating requirements of Papyrus Egypt through the joint venture and Papyrus Australia will own 50% of the issued shares in Papyrus Egypt. Details of EBFC have been advised to the market during FY12 - refer Shareholder Newsletters noted above.

Another important participant in Egypt is the Egyptian Government owned NAG- HAMADY Fiber Board Company also based in the Sohag Governate. NAG-HAMADY is Egypt's largest producer of bagasse fibre (from sugarcane) MDF panelboard sold in Egypt and the Middle East region, and is seeking additional sources of agricultural fibre for its growing business to export to Europe. NAG-HAMADY has successfully undertaken testing of banana fibre (sourced from the Company's Walkamin Demonstration factory in Far North Queensland) and the off take fibre from the Papyrus Egypt factory, once operational, will be an additional natural fibre source for NAG-HAMADY for their existing business of panelboard manufacture.

As the Chairman said in the June 2012 Shareholder Newsletter, Egypt continues to challenge the Company because of the prolonged unsettled political environment and consequently the social and economic climate, that has caused some uncertainty and slowed the decision making processes of government and business. The Board is of the view that patience and persistence are required and remains confident of the future for the Papyrus Egypt project.

Yellow Pallet

The company Yellow Pallet B.V. has been incorporated in the Netherlands with Papyrus Australia owning 50% equity. Details of the other joint venture partners are contained in the Shareholder Newsletter No 4 published in October 2011. The objective of the Yellow Pallet project is to develop technology and new patented machinery to produce pallets from banana fibre for use in the logistic industry starting with transport pallets for use initially by the banana industry in central and southern America.

The proposal is for Yellow Pallet to sell banana fibre producing factories which will comprise the patented Papyrus banana veneering and fibre producing machines to be manufactured by the Papyrus Australia wholly owned subsidiary The Australian Advanced Manufacturing Centre Pty Ltd (AAMC). Yellow Pallet will also be the sole supplier of proprietary adhesives and other specialist machines needed to manufacture banana fibre pallets.

In March 2012 a consulting company to Yellow Pallet, Hollandia Systems B V (a leading Dutch machinery and processing equipment manufacturing company) had a senior engineer visit the Walkamin Demonstration Factory to witness and assess the proprietary Papyrus technology and processes and validate the production capacity of the machines.

The pre-feasibility work already undertaken by the Yellow Pallet project team suggests that this project will:

- Prove the utilisation of waste banana fibre and create a new industry;
- Address the huge demand from the global shipping pallet market currently relying on forest sourced timber;
- Realise a price reduction per pallet from around US\$11 to about US\$9;
- Create at least 150 jobs per pallet factory;
- Create a stream of new bio-mass (renewable energy source) to Europe, USA and Japan; and
- Reduce carbon emissions and the use of wood.

In addition to being a 50% equity holder of this project, the Company, through its subsidiary AAMC, stands to significantly benefit from this project through the sale of the Papyrus proprietary machines for each factory and ongoing maintenance contracts.

The Yellow Pallet project is supported in various ways by a number of governmental, institutional and private companies in Europe.

The most recent activity of the project team is the preparation of a comprehensive business case to take to identified funding institutions.

Product Development

Testing of fibre and products occurred on several fronts during the year. The process was to submit batch quantities of fibre chips taken from the Company's Walkamin factory and utilising various recipes, techniques and formulae under heat test and pressure conditions to produce panel. The test panels have been 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 panelboard product alternative to wood-based products for use in the construction industry.

The Australian trials with fibre conducted early in the year concluded more work was required on the binding properties for structural panel which has now been taken up by NAG-HAMADY in Egypt and the Fraunhofer Institute in Germany. However, for non structural panel such as ceiling/acoustic tiles and insulation it appears banana fibre is quite suitable and is to be market tested.

NAG-HAMADY has now satisfactorily completed its own scientific analysis and industrial testing of banana fibre for the purpose of making fibre board (MDF). Together with another Egyptian company Abu El Holl, a large panelboard manufacturer introduced by NAG-HAMADY, we have jointly funded and commissioned the Fraunhofer Institute to develop the formula to make certifiable industrial-use panelboard from banana fibre. Papyrus Australia will retain ownership of any new intellectual property developed by Fraunhofer. These two Egyptian companies (NAG-HAMADY and Abu El Holl) remain active and interested prospective commercial participants in the business opportunities presented in Egypt and Europe for MDF and panel board production from banana fibre, as an alternate to the use of wood products.

The Fraunhofer Institute is Europe's largest agricultural application orientated research organisation and is regarded as a world leading panelboard research Institute. We expect this project to deliver an independent verification of the formula and the costs of producing panel board from banana fibre for certifiable industrial use worldwide. The results are expected in Q1 of FY13.

EBFC continues to process the veneer produced and sold from the Walkamin Demonstration Factory for the making of floorboards (the veneer being applied to MDF/HDF substrate), skins for doors and decorative panels for sale in Egypt and Europe. Additionally, EBFC has been supplying a company located in Holland, Steward Design Panels, with banana veneer laminate on bagasse MDF panel board. Steward has designed and engineered this product to create decorative acoustic ceiling panels, which has attracted the architectural profession and are now being installed in major projects in Holland. Images of these products and a catalogue can be viewed at Papyrus Australia's website: www.papyrusaustralia.com.au. 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.

During the year an alternative veneer drying process using pressure as an alternative to oven drying was trialled at the Company's Walkamin factory. The testing was successful and the process has been documented. This drying process will now be applied at a commercial scale when the Egypt factory is ready for production.

Testing for banana fibre strength and utility for the making of pallets for the Yellow Pallet project is being conducted by the Wageningen University in the Netherlands and these results will be known in Q1 of FY13.

The Australian Advanced Manufacturing Centre Pty Ltd (AAMC)

AAMC is the wholly owned subsidiary of Papyrus Australia Ltd located at 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 Board of AAMC decided to close down its precision engineering workshop early in the year due to the down turn in the economy and limited work being available or prospectively available in the short term. The tool shop has been contracted out in the interim. The plant and equipment will be available to the Company if and/or when required in the future.

The completion of 2 new veneering machines has been put on hold until such time as sufficient funding arrangements are in place from Egypt.

The 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 process for veneer and Fibre Production Unit for fibre chips - worked seamlessly. 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 producing sample batches of fibre forwarded for testing in Egypt, Germany and the Netherlands.

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 is likely to be eligible for carbon certificates which are presently tradeable in Europe. As Yellow Pallet factory facilities will be in developing countries as well, these same benefits are likely to apply.

Update post 30 June 2012

In July 2012 the Company was pleased to receive the grant of patent from African Intellectual Property Organization (OAPI) and Israel for the Company's original patent application – Method and Apparatus for Removing Sheets of Fibres from Banana Plants.

In July 2012 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 Egypt in late July 2012. The Managing Director remained in Egypt until mid August. The Company will announce any material developments from Egypt/Europe as matters progress and as required.

Going Concern - cash position of the Company

The Directors of the Company have prepared a comprehensive cash budget for the 13 month period September 2012 to September 2013 demonstrating a positive cash position in each monthly period based on expected cash inflows from the activities of Papyrus Egypt and the Yellow Pallet project and known expenditures.

In line with those expectations the Company is in receipt of a non conditional Letter of Credit (LOC) from EBFC (the Company's Egyptian joint venture partner) to the value of USD50k issued by the National Bank of Egypt. The Company is currently endeavouring to secure a further non conditional LOC of USD100k from EBFC. Additionally the Company expects to receive a cash payment into its Australian bank account of USD50k from EBFC by the end of September 2012 - all as progress payments for machinery purchase from the Company's engineering subsidiary AAMC.

The Company is also assisting EBFC in its negotiations to secure a loan of up to USD2.0M to Papyrus Egypt for further machinery payments to AAMC.

The Company is currently in negotiations to secure a company experienced in machinery development to assist AAMC with the development and construction of the proprietary Papyrus technology by way of a licence for a fee(s).

OPERATING RESULTS

The consolidated loss of the group after providing for income tax amounted to (\$5,391,335) [2011: (\$4,791,977)].

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this report, the interests of the directors in the shares and options of Papyrus Australia Ltd were:

	Number of Ordinary Shares	Number of Options over Ordinary Shares
Mr Edward Byrt	4,796,597	416,667
Mr Colin Dunsford	23,810	-
Mr Ramy Azer	28,678,853	1,250,000
Mr Donald Stephens	975,630	-

DIVIDENDS PAID OR RECOMMENDED

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

PRINCIPAL ACTIVITIES

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.

There have been no significant changes in the nature of those activities during the year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

FUTURE DEVELOPMENTS

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

ENVIRONMENTAL REGULATIONS

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. The Group however believes that it has adequate systems in place for the management of any future environmental regulations.

SUBSEQUENT EVENTS

No matters or circumstances have arisen since 30 June 2012 that has significantly affected, or may significantly affect the operations of the Group.

Unissued Shares

At the date of this report, the following options to acquire ordinary shares in the Company were on issue:

Issue Date	Expiry Date	Exercise Price	Balance at 1 July 2011	Net Issued/(Exercised or expired) during year	Balance at 30 June 2012
14/08/2006	13/08/2011	\$0.40	500,000	(500,000)	-
14/08/2006	13/08/2011	\$0.50	500,000	(500,000)	-
08/10/2007	07/10/2012	\$0.80	250,000	-	250,000
08/10/2007	07/10/2012	\$1.25	250,000	-	250,000
15/10/2007	14/10/2012	\$0.80	250,000	-	250,000
15/10/2007	14/10/2012	\$1.25	250,000	-	250,000
01/07/2008	30/06/2013	\$1.50	100,000	-	100,000
01/07/2008	30/06/2013	\$1.75	100,000	-	100,000
17/03/2009	16/03/2014	\$1.50	125,000	-	125,000
17/03/2009	16/03/2014	\$1.50	175,000	-	125,000
17/02/2011	31/03/2013	\$0.12	4,825,974	-	4,825,974
24/03/2011	31/03/2013	\$0.12	1,666,667	-	1,666,667
01/07/2011	30/06/2016	\$0.12	-	750,000	750,000
			8,942,641	(250,000)	8,692,641

SHARE OPTIONS

Shares issued as a result of exercise of options

No shares were issued as a result of an exercise of options during the financial year.

New options issued

During the financial year, 750,000 options were issued to an employee of the Company under the Employee Share Option Plan. The options have an exercise price of \$0.12 and expire 30 June 2016.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

To the extent permitted by law, the Company has indemnified (fully insured) each Director and the Company Secretary of the Company for a premium of \$15,388. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings (that may be brought) against the officers in their capacity as officers of the Company or a related body, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company.

REMUNERATION REPORT - AUDITED

This report outlines the remuneration arrangements in place for Directors and executives of Papyrus Australia Ltd.

Remuneration philosophy

The Board is responsible for determining remuneration policies applicable to Directors and senior executives of the Group. The broad policy is to ensure that remuneration properly reflects the individuals' duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people with appropriate skills and experience. At the time of determining remuneration consideration is given by the Board to the Group's financial performance.

Employment contracts

The employment conditions of the Managing Director, Mr Ramy Azer, are formalised in a services contract between his related entity Talisker (SA) Pty Ltd and Papyrus Australia Ltd and his fee is \$300,000 per annum (exclusive of GST). The Company may terminate the services contract without cause by providing one (1) month's written notice or making payment in lieu of notice, based on the annual fee. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

The employment conditions of the Chief Executive Mr Geoff Whitbread, are formalised in a services contract dated 5 July 2010. The contract provides for a daily fee rate of \$900 (exclusive of GST). Mr Whitbread is responsible for the non engineering aspects of the Company's operation and reports to Company's Board of Directors. The Company may terminate the services contract without cause by providing one (1) month's written notice or making payment in lieu of notice, being calculated as 20 days at the daily rate. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

Key management personnel remuneration and equity holdings

The Board currently determines the nature and amount of remuneration for Board members and senior executives of the Group. The policy is to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives.

The non-executive directors and other executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation. All remuneration paid to directors and executives is expensed as incurred. Executives are also entitled to participate in the Group share option scheme. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates based on comparable companies for time, commitment and responsibilities. The Board determines payments to non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

USE OF REMUNERATION CONSULTANTS

During the financial year, there were no remuneration recommendations made in relation to key management personnel for the Company by any remuneration consultants.

VOTING AND COMMENTS MADE AT THE COMPANY'S 2011 ANNUAL GENERAL MEETING

Papyrus Australia Ltd received more than 91% of "yes" votes on its remuneration report for the 2011 financial year by proxy. The Company did not receive any specific feedback at the AGM on its remuneration report.

Table 1: Director remuneration for the year ended 30 June 2012 and 30 June 2011

	Primary Benefits	Post Employment	Share-based payments	Totals
	Salary & Fees	Superannuation	Options	\$
Mr Edward Byrt				
2012	-	-	-	-
2011	30,581	2,752	-	33,333
Mr Ramy Azer				
2012	250,000	-	-	250,000
2011	300,000	-	-	300,000
Mr Donald Stephens				
2012	-	-	-	-
2011	10,000	-	-	10,000
Mr Christopher Smerdon				
2012	-	-	-	-
2011	13,333	-	-	13,333
Mr Colin Dunsford				
2012	-	-	-	-
2011	-	-	-	-
Mr Graeme Menzies				
2012	-	-	-	-
2011	10,000	-	-	10,000
Total				
2012	250,000	-	-	250,000
2011	363,914	2,752	-	366,666

Table 2: Remuneration of key management personnel for the year ended 30 June 2012 and 30 June 2011

	Primary Benefits	Post Employment	Share-based payments	Totals
	Salary & Fees	Superannuation	Options	\$
Mr Geoff Whitbread				
2012	213,750	-	25,875	239,625
2011	239,400	-	-	239,400
Total				
2012	213,750	-	25,875	239,625
2011	239,400	-	-	239,400

Table 3: Options granted as part of remuneration

30 June 2012	Grant Date	Grant Number	Vesting Date	Value per option at grant date	Exercise price	Total fair value	% of Remuneration
Mr Geoff Whitbread	01/07/2011	500,000	01/07/2011	\$0.035	\$0.12	17,250	7.01%
Mr Geoff Whitbread	01/07/2011	250,000	01/01/2012	\$0.035	\$0.12	8,625	3.51%

No options were issued to any Key Management Personnel as part of remuneration for the year ended 30 June 2011.

No portion of remuneration paid or payable to any Key Management Personnel employed by the Group was performance based in 2011 or 2012.

HLB Mann Judd (SA) Pty Ltd has received professional fees for accounting, taxation and secretarial services provided during the year amounting to \$67,308 (2011: \$64,263). Mr Pierre Van Der Merwe, the Company Secretary, is a director of HLB Mann Judd (SA) Pty Ltd and Mr Donald Stephens, Non-Executive Director, is a consultant to HLB Mann Judd (SA) Pty Ltd.

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director were as follows:

Director	Directors' Meetings		Audit Committee	
	Eligible	Attended	Eligible	Attended
Mr Edward Byrt	16	16	2	2
Mr Colin Dunsford	16	15	2	2
Mr Ramy Azer	16	15	-	-
Mr Donald Stephens	16	13	2	2
Mr Christopher Smerdon	2	2	-	-

Members acting on the audit committee of the board are:

Colin Dunsford (Chairman)

Donald Stephens

Edward Byrt

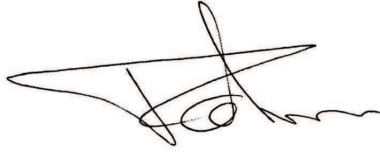
PROCEEDINGS ON BEHALF OF THE GROUP

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

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Grant Thornton South Australian Partnership, in its capacity as auditor for Papyrus Australia Ltd, has not provided any non-audit services throughout the reporting period. The auditor's independence declaration for the year ended 30 June 2012 as required under section 307C of the Corporations Act 2001 has been received and can be found on page 17.

Signed in accordance with a resolution of the Directors.



Mr Ramy Azer
Managing Director

27 September 2012

For personal use only

Level 1,
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001
T 61 8 8372 6666
F 61 8 8372 6677
E info.sa@au.gt.com
W www.granthornton.com.au

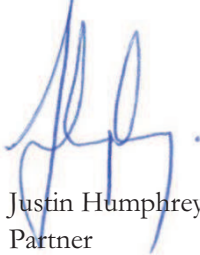
**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF PYPYRUS AUSTRALIA LIMITED**

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 30 June 2012, 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



Justin Humphrey
Partner

Adelaide, 27 September 2012

For personal use only

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2012

		Consolidated Group	
		2012	2011
		\$	\$
Revenue from operating activities	7(a)	14,783	195,070
Other income/(expenses)	7(b)	202,211	21,500
Depreciation expense	7(c)	(640,765)	(280,148)
Employee benefits expense	7(d)	(981,223)	(1,413,542)
Other expenses	7(e)	(1,162,899)	(1,613,850)
Impairment expense	13/14	(3,113,104)	(1,989,489)
Loss before income tax expense		(5,680,997)	(5,080,459)
Income tax benefit/(expense)	8	289,662	288,482
Loss from continuing operations		(5,391,335)	(4,791,977)
Loss for the year		(5,391,335)	(4,791,977)
Loss attributable to members of the parent entity		(5,391,335)	(4,791,977)
Other comprehensive income		-	-
Total comprehensive income for the year		(5,391,335)	(4,791,977)
Total comprehensive income attributable to members of the parent entity		(5,391,335)	(4,791,977)
Earnings per share:		<i>Cents</i>	<i>Cents</i>
Basic earnings per share	9	(4.43)	(4.75)
Diluted earnings per share	9	(4.43)	(4.75)

The accompanying notes form part of these financial statements.

For personal use only

Consolidated Statement of Financial Position

AS AT 30 JUNE 2012

	Note	Consolidated Group	
		2012 \$	2011 \$
CURRENT ASSETS			
Cash and cash equivalents	10	366,071	832,919
Trade and other receivables	11	35,651	52,551
Other assets	12	40,649	74,356
TOTAL CURRENT ASSETS		442,371	959,826
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,810,628	5,093,770
Intangible assets	14	2,144,593	2,888,330
Other financial assets	25	19,367	-
TOTAL NON-CURRENT ASSETS		3,974,588	7,982,100
TOTAL ASSETS		4,416,959	8,941,926
CURRENT LIABILITIES			
Trade and other payables	16	82,386	223,940
Borrowings	17	26,674	26,674
Provisions	18	-	66,608
Other current liabilities	19	100,000	-
TOTAL CURRENT LIABILITIES		209,060	317,222
NON-CURRENT LIABILITIES			
Borrowings	17	11,715	38,389
Provisions	18	-	15,188
Other non-current liabilities	19	3,030,132	3,118,031
TOTAL NON-CURRENT LIABILITIES		3,041,847	3,171,608
TOTAL LIABILITIES		3,250,907	3,488,830
NET ASSETS		1,166,052	5,453,096
EQUITY			
Issued capital	20	19,459,231	18,380,815
Reserves	21	795,646	769,771
Retained earnings/(accumulated losses)		(19,088,825)	(13,697,490)
TOTAL EQUITY		1,166,052	5,453,096

The accompanying notes form part of these financial statements.

For personal use only

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2012

		Consolidated Group			
		Issued capital	Retained losses	Share option reserve	Total
		\$	\$	\$	\$
Balance at 1 July 2010		16,889,136	(8,905,513)	761,252	8,744,875
Total comprehensive loss		-	(4,791,977)	-	(4,791,977)
Share based payments	21	-	-	8,519	8,519
Shares issued via private placement	20	1,558,234	-	-	1,558,234
Transaction costs (net of tax)	20	(66,555)	-	-	(66,555)
Balance as at 30 June 2011		18,380,815	(13,697,490)	769,771	5,453,096
Balance at 1 July 2011		18,380,815	(13,697,490)	769,771	5,453,096
Total comprehensive loss		-	(5,391,335)	-	(5,391,335)
Private placement on 9 November 2011	20	722,000	-	-	722,000
Private placement on 30 January 2012	20	160,000	-	-	160,000
Private placement on 10 February 2012	20	200,000	-	-	200,000
Transaction costs (net of tax)	20	(3,584)	-	-	(3,584)
Share-based payments	21	-	-	25,875	25,875
Balance as at 30 June 2012		19,459,231	(19,088,825)	795,646	1,166,052

The accompanying notes form part of these financial statements.

For personal use only

Consolidated Statement of Cash Flows

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

		Consolidated Group	
		2012	2011
		\$	\$
Note			
	CASH FLOWS FROM OPERATING ACTIVITIES		
	Receipts from customers	41,513	158,007
	Research and Development concession received	363,999	396,256
	Payments to suppliers and employees	(1,921,417)	(3,156,338)
	Grant funds received	-	623,023
	Interest received	14,783	92,929
	NET CASH USED IN OPERATING ACTIVITIES	10	10
		(1,501,122)	(1,886,123)
	CASH FLOWS FROM INVESTING ACTIVITIES		
	Payments for property, plant and equipment	(92,024)	(1,155,646)
	Purchase of development assets	(55,607)	(23,525)
	Proceeds from sale of property, plant and equipment	131,700	-
	NET CASH USED IN INVESTING ACTIVITIES	10	10
		(15,931)	(1,179,171)
	CASH FLOWS FROM FINANCING ACTIVITIES		
	Proceeds from issue of shares	1,082,000	1,558,234
	Transaction costs of issue of shares	(5,121)	(95,079)
	Repayment of borrowings	(26,674)	(9,054)
	NET CASH PROVIDED BY FINANCING ACTIVITIES	10	10
		1,050,205	1,454,101
	Net increase/(decrease) in cash and cash equivalents	(466,848)	(1,611,193)
	Cash at the beginning of the period	832,919	2,444,112
	CASH AT THE END OF THE YEAR	10	10
		366,071	832,919

The accompanying notes form part of these financial statements.

For personal use only

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2012

These consolidated financial statements and notes represent those of Papyrus Australia Ltd and Controlled Entities (the "consolidated group" or group").

The separate financial statements of the parent entity, Papyrus Australia Ltd, have not been presented within this financial report as permitted by the Corporations Act 2001.

1 Nature of operations

Papyrus Australia Ltd's principal activities is to continue its commercialisation strategy of being a technology licensing Group assisting suitable entities to establish banana veneering and panel production factories in locations worldwide where bananas are grown.

2 General information and statement of compliance

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Papyrus Australia Ltd is a for-profit entity for the purpose of preparing the financial statements.

Papyrus Australia Ltd is a public company incorporated and domiciled in Australia and listed on the ASX (ASX Code: PPY).

The consolidated financial statements for the year ended 30 June 2012 (including comparatives) were approved and authorised for issue by the board of directors on 27 September 2012.

3 Changes in accounting policies

Adoption of AASBs and improvements to AASBs 2011 - AASB 1054 and AASB 2011-1

The AASB has issued AASB 1054 Australian Additional Disclosures and 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project, and made several minor amendments to a number of AASBs. These standards eliminate a large portion of the differences between the Australian and New Zealand accounting standards and IFRS and retain only additional disclosures considered necessary. These changes also simplify some current disclosures for Australian entities and remove others.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below.

Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

AASB 9 Financial Instruments (effective from 1 January 2015)

The AASB aims to replace AASB 139 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (AASB 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2015. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Company. However, they do not expect to implement the amendments until all chapters of AASB 9 have been published and they can comprehensively assess the impact of all changes.

Consolidation Standards

A package of consolidation standards are effective for annual periods beginning or after 1 January 2013. Information on these new standards is presented below. The Group's management have yet to assess the impact of these new and revised standards on the Group's consolidated financial statements.

AASB 10 Consolidated Financial Statements (AASB 10)

AASB 10 supersedes the consolidation requirements in AASB 127 Consolidated and Separate Financial Statements (AASB 127) and Interpretation 112 Consolidation - Special Purpose Entities. It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same.

AASB 11 Joint Arrangements (AASB 11)

AASB 11 supersedes AASB 131 Interests in Joint Ventures (AASB 131). It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. It introduces two accounting categories (joint operations and joint ventures) whose applicability is determined based on the substance of the joint arrangement. In addition, AASB 131's option of using proportionate consolidation for joint ventures has been eliminated. AASB 11 now requires the use of the equity accounting method for joint ventures, which is currently used for investments in associates.

Consequential amendments to AASB 127 Separate Financial Statements (AASB 127) and AASB 128 Investments in Associates and Joint Ventures (AASB 128)

AASB 127 Consolidated and Separate Financial Statements was amended to AASB 127 Separate Financial Statements which now deals only with separate financial statements. AASB 128 brings investments in joint ventures into its scope. However, AASB 128's equity accounting methodology remains unchanged.

AASB 13 Fair Value Measurement (AASB 13)

AASB 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. The Group's management have yet to assess the impact of this new standard.

AASB 2011-9 Amendments to Australian Accounting Standards Presentation of Items of Other Comprehensive Income (AASB 101 Amendments)

The AASB 101 Amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Group's management expects this will change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (AASB 124 Amendments)

AASB 2011-4 makes amendments to AASB 124 Related Party Disclosures to remove individual key management personnel disclosure requirements, to achieve consistency with the international equivalent (which includes requirements to disclose aggregate (rather than individual) amounts of KMP compensation), and remove duplication with the Corporations Act 2011. The amendments are applicable for annual periods beginning on or after 1 July 2013. The Group's management have yet to assess the impact of these amendments.

4 Summary of accounting policies

(a). Overall considerations

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below.

The consolidated financial statements have been prepared using the measurement bases specified by Australian Accounting Standards for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

In preparing the financial statements, all intercompany 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 ceases to be consolidated from the date on which control is transferred out of the Group.

(b). Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiary undertakings drawn up to 30 June 2012. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. The Group obtains and exercises control through more than half of the voting rights. All subsidiaries have a reporting date of 30 June.

(c). Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where:

- (a) a legally enforceable right of set-off exists; and
- (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(d). **Investments in associates and joint ventures**

Entities whose economic activities are controlled jointly by the Group and other ventures independent of the Group (joint ventures) are accounted for using the proportionate consolidation method, whereby the Group's share of the assets, liabilities, income and expenses is included line by line in the consolidated financial statements.

Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor joint ventures. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the Group's share in the associate is not recognised separately and is included in the amount recognised as investment in associates.

The carrying amount of the investments in associates is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the Group.

Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

For personal use only

(e). **Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present.

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

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

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

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line and diminishing value basis over the asset's useful life to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The useful life for each class of depreciable assets are:

Class of Fixed Asset	Useful life
Plant and equipment	2.5 - 10 years

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

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

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

For personal use only

(f). **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.

(g). **Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to the Company, are classified as finance leases.

Finance leases are capitalised by recognising an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

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

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

For personal use only

(h). Financial Instruments

Recognition and initial measurement

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

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method*.

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

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

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

(i). Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

For personal use only

(i). **Equity-settled compensation**

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

(j). **Provisions**

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

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(k). **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of 6 months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

(l). **Employee benefits**

Defined contribution plans The Group pays fixed superannuation contributions into independent entities in relation to several state plans and insurance for individual employees. The Group has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the period that relevant employee services are received.

Short-term employee benefits

Short-term employee benefits, including annual leave entitlement, are current liabilities included in employee benefits, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

(m). **Revenue and Other Income**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. When the inflow of consideration is deferred, it is treated as the provision of financing and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue. Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period, where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

All revenue is stated net of the amount of goods and services tax (GST).

(n). **Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(o). **Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(p). **Government Grants**

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

(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.

For personal use only

(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). **Comparative Figures**

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

(t). **Critical Accounting Estimates and Judgments**

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

Key estimates

(i) Impairment

The Company assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

(ii) Intangible assets

The Group has capitalised the development costs in relation to the development of the Banana Ply Technology. The recoverability of the asset is dependent on the successful commercialisation of the technology. As 30 June 2012, the commercialisation of the project was not yet complete.

5 Parent Information

	2012	2011
	\$	\$
The following information has been extracted from the books and records of the parent and has been prepared in accordance with Accounting Standards.		
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current Assets	434,478	641,809
Non-current Assets	2,891,486	8,868,221
TOTAL ASSETS	<u>3,325,964</u>	<u>9,510,030</u>
LIABILITIES		
Current liabilities	208,833	284,919
Non-current Liabilities	1,951,079	2,195,152
TOTAL LIABILITIES	<u>2,159,912</u>	<u>2,480,071</u>
EQUITY		
Issued Capital	19,459,231	18,380,815
Reserves	795,646	769,771
Retained Earnings	(19,088,825)	(12,120,627)
TOTAL EQUITY	<u>1,166,052</u>	<u>7,029,959</u>
STATEMENT OF COMPREHENSIVE INCOME		
(Loss) for the year	(6,968,198)	(3,215,114)
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME	<u>(6,968,198)</u>	<u>(3,215,114)</u>

Guarantees

Papyrus Australia Ltd has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiaries.

Contingent Liabilities

Contingent liabilities of the parent entity have been incorporated into the Group information in note 23. The contingent liabilities of the parent are consistent with that of the Group.

Contractual Commitments

Contractual Commitments of the parent entity have been incorporated into the Group information in note 22. The contractual commitments of the parent are consistent with that of the Group.

6 Operating Segments

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

7 Revenue and expenses

	Consolidated Group	
	2012	2011
	\$	\$
(a) Revenue		
Interest received from other parties	14,783	55,851
Sales revenue	-	139,219
	<u>14,783</u>	<u>195,070</u>
(b) Other income		
Net profit on disposal of property, plant and equipment	-	21,500
Grant revenue	202,211	-
	<u>202,211</u>	<u>21,500</u>
(c) Depreciation of non-current assets		
Plant and equipment	640,765	280,148
Total depreciation	<u>640,765</u>	<u>280,148</u>
(d) Employee benefits expense		
Wages, salaries and other remuneration expenses	1,012,324	1,715,416
Superannuation expense	24,820	65,287
Transfer to/(from) annual leave provision	(81,796)	14,140
Share based payments expense	25,875	8,519
Transfer to capitalised intangibles and plant and equipment	-	(389,820)
Total employee benefits expense	<u>981,223</u>	<u>1,413,542</u>

For personal use only

	Consolidated Group	
	2012	2011
	\$	\$
(e) Other expenses		
Audit fees	37,000	37,500
Legal fees	38,537	11,046
Professional services	249,092	302,845
Travel and accomodation	106,955	170,438
Directors fees	-	73,333
Company secretarial	21,670	30,008
Rent	165,914	240,635
Communications expense	21,839	48,155
Share registry and ASX expenses	64,503	111,918
Marketing expenses	3,558	19,347
Public relations cost	-	39,170
Contractors	-	213,906
Freight expenses	-	46,571
Motor vehicle costs	17,344	87,135
Factory operating costs	24,025	153,223
Net loss on disposal of plant and equipment	357,469	-
Other expenses	54,993	28,620
	1,162,899	1,613,850

8 Income tax expense

	Consolidated Group	
	2012	2011
	\$	\$
<i>The major components of income tax expense are:</i>		
Statement of Comprehensive Income		
Current income tax charge/(benefit)	1,537	28,523
Research and Delopment Tax offset	(291,199)	(317,005)
Income tax expense/(benefit) reported in the income statement	(289,662)	(288,482)

	Consolidated Group	
	2012	2011
	\$	\$
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit before income tax	(5,680,997)	(5,080,459)
At the Group's statutory income tax rate of 30% (2011: 30%)	(1,704,299)	(1,524,138)
Expenditure not allowable for income tax purposes	998,860	596,847
Tax losses not recognised due to not meeting recognition criteria	705,439	927,291
Tax portion of share issue costs	1,537	28,523
	<u>1,537</u>	<u>28,523</u>

The Group has tax losses arising in Australia of \$10,172,276 (2011: \$7,820,814) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

Tax consolidation

Papyrus Australia Ltd and its 100% owned Australian resident subsidiaries have formed a tax consolidated group with effect from 01 July 2011. Papyrus Australia Ltd is the head entity of the tax consolidated group.

9 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit 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 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	
	2012	2011
	\$	\$
Net loss attributable to ordinary equity holders of the parent entity	(5,391,335)	(4,791,977)
Weighted average number of ordinary shares for basic earnings per share	121,606,841	100,967,047
Effect of dilution		
Share options	N/A	N/A
Weighted average number of ordinary shares adjusted for the effect of dilution	121,606,841	100,967,047

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 taking into account.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

10 Cash and cash equivalents

	Consolidated Group	
	2012	2011
	\$	\$
Cash at bank and in hand	366,071	832,919
	<u>366,071</u>	<u>832,919</u>

Cash at bank earns interest at floating rates based on daily deposit rates

Short-term deposits are made for varying periods between one day and six months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rate.

Reconciliation to Statement of Cash Flows

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following at 30 June:

Cash at banks and in hand	366,071	832,919
	<u>366,071</u>	<u>832,919</u>

For personal use only

	Consolidated Group	
	2012	2011
	\$	\$
Reconciliation of net loss after tax to net cash flows from operations		
Net profit/(loss)	(5,391,335)	(4,791,977)
<i>Adjustments for non-cash items:</i>		
Impairment of non-current assets	3,113,104	1,989,489
Depreciation	640,765	280,148
Share based payments	25,875	8,519
Non cash tax expense	1,537	28,524
Net (profit)/loss from sale of property, plant and equipment	357,469	-
<i>Changes in assets and liabilities</i>		
Decrease/(Increase) in trade and other receivables	16,900	90,102
Decrease/(Increase) in other current assets	33,707	72,343
(Decrease)/increase in trade and other payables	(293,041)	(294,873)
(Decrease)/increase in provisions	81,796	29,328
(Decrease)/increase in provisions	(87,899)	702,274
Net cash from operating activities	<u>(1,501,122)</u>	<u>(1,886,123)</u>

11 Trade and other receivables

	Consolidated Group	
	2012	2011
	\$	\$
Trade receivables (i)	18,353	42,880
Provision for doubtful debts	-	(26,400)
Goods and Services Tax Receivable	17,298	36,071
	<u>35,651</u>	<u>52,551</u>

- (i) Trade receivables are non-interest bearing and are generally on 30-90 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. No impairment was recognised in 2011 and 2012 and no receivables are past due at balance date.

Information regarding the credit risk of current receivables is set out in note 26.

12 Other current assets

	Consolidated Group	
	2012	2011
	\$	\$
Prepayments	34,149	34,376
Other	6,500	39,980
	40,649	74,356

13 Property, plant and equipment

	Consolidated Group	
	2012	2011
	\$	\$
Plant and equipment		
<i>Cost</i>		
Opening balance	1,650,601	1,276,366
Additions	72,657	374,235
Disposals	(441,769)	-
Transfer from Capital Works in Progress	3,886,615	-
Impairment of assets	(2,313,760)	-
	2,854,344	1,650,601
<i>Accumulated depreciation</i>		
Opening balance	443,446	163,298
Depreciation for the year	640,765	280,148
Disposals	(40,495)	-
	1,043,716	443,446
Net book value of plant and equipment	1,810,628	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)	-
	-	3,886,615
Total net book value of property, plant and equipment	1,810,628	5,093,770

In 2012, an impairment loss of \$2,313,760 represented the group writing down its property plant and equipment to its recoverable amount. This was recognised in the statement of comprehensive income in the line item "Impairment expense". The recoverable amount was based on value in use and determined using a discounted cash flow model. The discount rate applied on a pre-tax basis was 30.6%.

14 Intangible assets

	Consolidated Group	
	2012	2011
	\$	\$
Patents and intellectual property		
<i>Cost</i>		
Opening balance	710,840	687,315
Additions	55,607	23,525
Net book value of patents and intellectual property	766,447	710,840
Development costs		
<i>Cost</i>		
Opening balance	2,177,490	4,166,979
Impairment of assets	(799,344)	(1,989,489)
Net book value of development costs	1,378,146	2,177,490
Total net book value of intangible assets	2,144,593	2,888,330

In 2012, an impairment loss of \$799,344 (2011: \$1,989,489) represented the group writing down its patents and intellectual property to its recoverable amount. This was recognised in the statement of comprehensive income in the line item "Impairment expense". The recoverable amount was based on value in use and determined using a discounted cash flow model. The discount rate applied on a pre-tax basis was 30.6%.

15 Share based payments

Employee Share Option Plan

The Company has established the Papyrus Australia Ltd Employee Share Option Plan and a summary of the Rules of the Plan are set out below:

- All employees (full and part time) will be eligible to participate in the Plan after a qualifying period of 12 months employment by a member of the Group, although the Board may waive this requirement.
- Options are granted under the Plan at the discretion of the board and if permitted by the board, may be issued to an employee's nominee.
- Each option is to subscribe for one fully paid ordinary share in the Company and will expire 5 years from its date of issue. An option is exercisable at any time from its date of issue. Options will be issued free. The exercise price of options will be determined by the board, subject to a minimum price equal to the market value of the Company's shares at the time the board resolves to offer those options. The total number of shares the subject of options issued under the Plan, when aggregated with issues during the previous 5 years pursuant to the Plan and any other employee share plan, must not exceed 5% of the Company's issued share capital.
- If, prior to the expiry date of options, a person ceases to be an employee of a Group company for any reason other than retirement at age 60 or more (or such earlier age as the board permits), permanent disability, redundancy or death, the options held by that person (or that person's nominee) automatically lapse on the first to occur of a) the expiry of the period of 6 months from the date of such occurrence, and b) the expiry date. If a person dies, the options held by that person will be exercisable by that person's legal personal representative.

- Options cannot be transferred other than to the legal personal representative of a deceased option holder.
- The Company will not apply for official quotation of any options.
- Shares issued as a result of the exercise of options will rank equally with the Company's previously issued shares.
- Option holders may only participate in new issues of securities by first exercising their options.

The Board may amend the Plan Rules subject to the requirements of the Listing Rules. The expense recognised in the Statement of Comprehensive Income in relation to share-based payments is disclosed in note 4 (e). The following table illustrates the number (No.) and weighted average exercise prices (WAEP) and movements in share options under the Company's Employee Share Option Plan issued during the year:

	2012 No.	2012 WAEP	2011 No.	2011 WAEP
Outstanding at the beginning of the year	2,450,000	0.33	2,450,000	0.90
Granted during the year	750,000	0.12	6,492,641	0.12
Expired or lapsed during the year	(1,000,000)	0.30	-	-
Outstanding at the end of the year	<u>8,692,641</u>	<u>0.30</u>	<u>8,942,641</u>	<u>0.33</u>
Exercisable at the end of the year	8,692,641	0.30	8,942,641	0.33

The outstanding balance as at 30 June 2012 is represented by:

- 250,000 options exercisable at any time until 7 October 2012 with an exercise price of \$0.80.
- 250,000 options exercisable at any time until 7 October 2012 with an exercise price of \$1.25.
- 250,000 options exercisable at any time until 14 October 2012 with an exercise price of \$0.80.
- 250,000 options exercisable at any time until 14 October 2012 with an exercise price of \$1.25.
- 100,000 options exercisable at any time until 30 June 2013 with an exercise price of \$1.50.
- 100,000 options exercisable at any time until 30 June 2013 with an exercise price of \$1.75.
- 125,000 options exercisable at any time until 16 April 2014 with an exercise price of \$1.50.
- 125,000 options exercisable at any time until 16 April 2014 with an exercise price of \$1.75.
- 6,492,641 options exercisable at any time until 31 March 2013 with an exercise price of \$0.12.
- 750,000 options exercisable at any time until 30 June 2016 with an exercise price of \$0.12.

The weighted average remaining contractual life for the share options outstanding as at 30 June 2012 was 0.98 years (2011: 1.55 years).

The range of exercise prices for options outstanding at the end of the year was \$0.12 - \$1.75 (2011: \$0.12 - \$1.75).

The weighted average fair value of options granted during the year was \$0.035, as no options were issued (2011: Nil).

The fair value of the equity-settled share options granted under the option plan is estimated as at the date of grant using a Black-Scholes model taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 30 June 2012.

	2012
Historical volatility (%)	107.1%
Risk free interest rate	4.96%
Expected life of options (years)	5

16 Trade and other payables

	Consolidated Group	
	2012	2011
	\$	\$
Trade payables (i)	56,824	116,282
Sundry payables and accrued expenses (ii)	25,562	107,658
	<u>82,386</u>	<u>223,940</u>

- i. Trade payables are non-interest bearing and are normally settled on 30-day terms.
- ii. Sundry payables are non-interest bearing and are normally settled within 30 - 90 days.

Information regarding the credit risk of current payables is set out in note 26.

17 Borrowings

	Consolidated Group	
	2012	2011
	\$	\$
Current		
Obligations hire purchase contracts	26,674	26,674
	<u>26,674</u>	<u>26,674</u>
Non-current		
Obligations hire purchase contracts	11,715	38,389
	<u>11,715</u>	<u>38,389</u>

18 Provisions

	Consolidated Group	
	2012	2011
	\$	\$
Current		
Opening balance	66,608	52,468
Net increase/(decrease in provision)	(66,608)	14,140
Closing Balance 30 June	<u>-</u>	<u>66,608</u>

For personal use only

For personal use only

	Consolidated Group	
	2012	2011
	\$	\$
Non-current		
Balance at 1 July	15,188	-
Net increase/(decrease in provision)	(15,188)	15,188
Closing Balance 30 June	-	15,188

19 Other non-current liabilities

	Consolidated Group	
	2012	2011
	\$	\$
<i>Current</i>		
Deferred income +	100,000	-
	100,000	-
<i>Non-current</i>		
Deferred income ++	3,030,132	3,118,031
	3,030,132	3,118,031

+ Deferred income of \$100,000 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.

++ The Company has been the recipient of two government grants that contain claw back provisions if certain performance targets are not met by the Company. The Company has fulfilled its contractual obligations under the respective Grant Deeds as at 30 June 2012. The Company has also filed all reports required of it pursuant to the Grant Deeds. Under government grant conditions it is usual for the grant recipient to be required to continue to file reports for specified periods after the conclusion of the funding agreement and claw back provisions remain alive until the reporting requirement periods expire.

20 Issued capital

	Consolidated Group	
	2012	2011
	\$	\$
131,144,764 fully paid ordinary shares (2011: 109,504,764)	19,459,231	18,380,815
	19,459,231	18,380,815

	2012		2011	
	Number	\$	Number	\$
<i>Ordinary shares</i>				
Balance at beginning of financial year	109,504,764	18,380,815	96,519,483	16,889,136
Shares issued pursuant to private placement	21,640,000	1,082,000	12,985,281	1,558,234
Transaction costs on shares issued	-	(3,584)	-	(66,555)
Balance at end of financial year	131,144,764	19,459,231	109,504,764	18,380,815

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Parent does not have authorised capital nor par value in respect of its issued shares.

Fully paid ordinary shares carry one vote per share and carry the right to dividends (in the event such a dividend was declared).

21 Reserves

	Consolidated Group	
	2012	2011
	\$	\$
Share option reserve (a)	795,646	769,771
	795,646	769,771
(a) Share option reserve		
Balance at beginning of financial year	769,771	761,252
Share based payments	25,875	8,519
Balance at end of financial year	795,646	769,771

22 Commitments for expenditure

	Consolidated Group	
	2012	2011
	\$	\$
Operating leases		
Not longer than 1 year	24,597	188,100
Longer than 1 year and not longer than 5 years	-	225,069
	24,597	413,169

For personal use only

Terms of lease arrangements

The property leases are non-cancellable, with three year terms and rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by the lower of CPI or 4% per annum. An option exists to renew the lease at the end of the three year term for an additional 3 years.

23 Contingent liabilities and contingent assets

At the date of signing this report, the Group is not aware of any Contingent Asset or Liability that should be disclosed in accordance with AASB 137.

24 Auditor's remuneration

	Consolidated Group	
	2012	2011
	\$	\$
Audit or review of the financial report	41,000	37,500
	41,000	37,500

No other services have been provided.

25 Controlled and other entities

Name of entity	Country of incorporation	Ownership interest	
		2012	2011
		%	%
<i>Parent entity</i>			
Papyrus Australia Limited (i)			
<i>Subsidiaries</i>			
PPY EU Pty Ltd (ii)	Australia	100	100
Papyrus Technology Pty Ltd (ii)	Australia	100	100
PPY Manufacturing Pty Ltd (ii)	Australia	100	100
Australian Advanced Manufacturing Centre Pty Ltd (ii)	Australia	100	100
Pulp Fiction Manufacturing Pty Ltd (ii)	Australia	100	100
<i>Other entities</i>			
Papyrus Egypt (iii)	Egypt	50	-
Yellow Pallet B.V. (iii)	The Netherlands	50	-

i. Papyrus Australia Ltd is the head entity within the tax-consolidated group.

ii. These companies are members of the tax-consolidated group.

iii. These entities were non operating shell companies at 30 June 2012 (A total \$19,367 was spent on the initial setup of Yellow Pallet B.V. which has been classified as other financial assets in the Group's Statement of Financial Position).

26 Financial risk management

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in notes 20 and 21 respectively.

Proceeds from share issues are used to maintain and expand the Groups exploration activities and fund operating costs.

	Consolidated Group	
	2012	2011
	\$	\$
<i>FINANCIAL ASSETS</i>		
Cash and cash equivalents	366,071	832,919
Trade receivables	35,651	52,551
<i>FINANCIAL LIABILITIES</i>		
Payables	82,386	223,940
Borrowings	38,389	65,063

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from activities.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk.

Interest rate risk

The tables listed below detail the Group's interest bearing assets, consisting solely of cash on hand and on short term deposit (with all maturities less than one year in duration).

	Weighted average effective interest rate %	Less than one year \$
2011		
Variable interest rate	1.57	832,919

	Weighted average effective interest rate %	Less than one year \$
2012		
Variable interest rate	0.00	366,071

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's:

- net loss would increase or decrease by \$1,478 which is mainly attributable to the Group's exposure to interest rates on its variable bank deposits.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves.

Liquidity and interest risk tables

The following table details the Company's and the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Consolidated

	Weighted average effective interest rate %	Less than one year \$	Longer than 1 year and not longer than 5 years \$
2011			
Interest bearing	6.38%	26,674	38,389
Non-interest bearing	0.00%	223,940	-

	Weighted average effective interest rate %	Less than one year \$	Longer than 1 year and not longer than 5 years \$
2012			
Interest bearing	6.38%	26,674	11,715
Non-interest bearing	0.00%	82,386	-

27 Related party disclosure and key management personnel remuneration

The following individuals are classified as key management personnel in accordance with AASB 124 'Related Party Disclosures':

Mr Edward Byrt, Chairman
 Mr Ramy Azer, Managing Director
 Mr Donald Stephens, Non-Executive Director
 Mr Christopher Smerdon, Non-Executive Director (resigned 31 August 2011)
 Mr Colin Dunsford, Non-Executive Director
 Mr Pierre Van Der Merwe, Company Secretary
 Mr Geoff Whitbread, Chief Executive

	Consolidated Group	
	2012	2011
	\$	\$
Short-term employee benefits	463,750	603,314
Post employment benefits	-	2,752
Share-based payments	25,875	-
	489,625	606,066

(a). Option holdings of Key Management Personnel

Directors

30 June 2012	Balance at beginning of period	Granted as remuneration	Exercised	Net change other	Balance at end of period	Expiry Date	First Exercise Date	Last Exercise Date
Ramy Azer*	1,250,000	-	-	-	1,250,000	31/03/13	17/02/11	31/03/13
Edward Byrt*	416,667	-	-	-	416,667	31/03/13	24/03/11	31/03/13

30 June 2011	Balance at beginning of period	Granted as remuneration	Exercised	Net change other	Balance at end of period	Expiry Date	First Exercise Date	Last Exercise Date
Ramy Azer*	-	-	-	1,250,000	1,250,000	31/03/13	17/02/11	31/03/13
Edward Byrt*	-	-	-	416,667	416,667	31/03/13	24/03/11	31/03/13

Options held by Messers Azer and Byrt relate to options issued in conjunction with a private placement conducted in February 2011.

Executives

30 June 2012	Balance at beginning of period	Granted as remuneration	Exercised	Net change other	Balance at end of period	Expiry Date	First Exercise Date	Last Exercise Date
Geoff Whitbread	-	500,000	-	-	500,000	30/06/16	01/07/11	30/06/16
Geoff Whitbread	-	250,000	-	-	250,000	30/06/16	01/01/12	30/06/16

(b). Shareholdings of Key Management Personnel

30 June 2011	Balance at 1 July 2010	On Exercise of Options	Net Change Other	Balance 30 June 2011
Mr Edward Byrt	973,264	-	833,333	1,806,597
Mr Ramy Azer	22,928,853	-	2,500,000	25,428,853
Mr Donald Stephens	975,630	-	-	975,630
Mr Christopher Smerdon	506,399	-	-	506,399
Mr Colin Dunsford	23,810	-	-	23,810
Mr Geoff Whitbread	25,783	-	100,000	125,783

30 June 2012	Balance at 1 July 2011	On Exercise of Options	Net Change Other	Balance 30 June 2012
Mr Edward Byrt	1,806,597	-	2,990,000	4,796,597
Mr Ramy Azer	25,428,853	-	3,250,000	28,678,853
Mr Donald Stephens	975,630	-	-	975,630
Mr Christopher Smerdon +	506,399	-	(506,399)	-
Mr Colin Dunsford	23,810	-	-	23,810
Mr Geoff Whitbread	125,783	-	-	125,783

+ The net change of (506,399) shares in Papyrus relating to Mr Smerdon is due to him no longer being a director at 30 June 2012. Mr Smerdon did hold all 506,399 shares at 30 June 2012 in his capacity as a shareholder.

Loans

The wholly owned Group consists of those entities listed in note 25. Transactions between Papyrus Australia Ltd and other entities in the wholly owned Group during the year consisted of loans advanced by Papyrus Australia Ltd to fund research and development activities.

Director related entities

The following transactions with related parties occurred during the financial year. All of the transactions were undertaken on an arm's length basis and at applicable commercial rates.

HLB Mann Judd (SA) Pty Ltd has received professional fees for accounting, taxation and secretarial services provided during the year of \$67,308 (2011: \$64,263). \$4,836 was owing to the entity at 30 June 2012 (2011: Nil). Mr Pierre Van Der Merwe is a director of HLB Mann Judd (SA) Pty Ltd and Mr Donald Stephens is a consultant to HLB Mann Judd (SA) Pty Ltd.

Einstien's Cafe has received payments in relation to meals and refreshments made available to the staff of Papyrus. Mr Ramy Azer is a director of Einstien's Cafe. Papyrus has made payments of \$2,530 during the financial year (2011: \$9,056). No amount was owed to the entity at 30 June 2012 (2011: \$874).

28 Going concern

The financial report has been prepared on the basis of a going concern. The financial report shows the group incurred a net loss of \$5,391,335 and a net cash outflow from operating and investing activities of \$1,517,053 during the year ended 30 June 2012. The group continues to be economically dependent on the generation of cashflow 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 cashflow from its business and/ or successfully raising additional capital. If sufficient cash flow is 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 at amounts different from those stated in the financial report. No allowance for such circumstances has been made in the financial report.

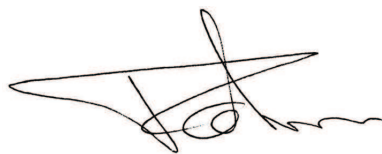
For personal use only

Directors' Declaration

The Directors of the company declare that:

1. the financial statements and notes, as set out on pages 18 to 49, are in accordance with the Corporations Act 2001 and:
 - a. comply with Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
 - b. give a true and fair view of the financial position as at 30 June 2012 and of the performance for the year ended on that date of the company and consolidated group;
2. the Managing Director and Chief Executive have each declared that:
 - a. the financial records of the company for the financial year have been properly maintained in accordance with s 286 of the *Corporations Act 2001*;
 - b. the financial statements and notes for the financial year comply with Accounting Standards; and
 - c. the financial statements and notes for the financial year give a true and fair view; and
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable (refer to note 28).

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



Mr Ramy Azer
Managing Director

27 September 2012

Level 1,
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001
T 61 8 8372 6666
F 61 8 8372 6677
E info.sa@au.gt.com
W www.granthornton.com.au

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PYPYRUS AUSTRALIA LIMITED

Report on the financial report

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

Directors responsibility for the financial report

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

Auditor's responsibility

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

For personal use only

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Auditor's opinion

In our opinion:

- a the financial report of Papyrus Australia Limited is in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Material uncertainty regarding continuation as a going concern

Without qualifying our opinion, we draw attention to Note 28 in the financial report which indicates that the consolidated entity incurred a net loss of \$5,391,335 and a net cash outflow from operating and investing activities of \$1,517,053 during the year ended 30 June 2012. These conditions, along with other matters as set forth in Note 28, 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.

Report on the remuneration report

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

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Papyrus Australia Limited for the year ended 30 June 2012, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants



Justin Humphrey
Partner

Adelaide, 27 September 2012