

# **Papyrus Australia Ltd**

**ABN 63 110 868 409**

## **Annual Financial Report**

**for the year ended 30 June 2009**

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## Corporate Information

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This annual report covers both Papyrus Australia Ltd (ABN 63 110 868 409) as an individual entity and the 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 6 to 8. The directors' report is not part of the financial report.

### Directors

Mr Edward Byrt (Chairman)  
Dr David Wyatt  
Mr Ramy Azer  
Mr Graeme Menzies  
Mr Donald Stephens  
Mr Christopher Smerdon

### Company Secretary

Mr Vincent Rigano

### Registered Office

Ground Floor, Elizabeth House  
231 North Terrace  
ADELAIDE SA 5000

### Principal place of business

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

### Share Register

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

### Legal Advisors

Norman Waterhouse Lawyers  
Level 15  
45 Pirie Street  
ADELAIDE SA 5000

### Auditors

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

## Directors' report continued

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Your directors submit their report for the year ended 30 June 2009.

Mr Edward Byrt (Chairman)  
Dr David Wyatt  
Mr Ramy Azer  
Mr Graeme Menzies  
Mr Donald Stephens  
Mr Christopher Smerdon

### DIRECTORS

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

#### Names, qualifications, experience and special responsibilities

##### **Edward Byrt**, LLB (Non-Executive Chariman)

Ted Byrt is a legal practitioner with over 30 years experience specialising in commerce and public law, 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, Deputy Chairman of Bedford Industries Inc., a Director of Treyo Leisure & Entertainment Ltd and a Board member of the SA Housing Trust and 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.

##### **David Wyatt**, PhD, MBA, Graduate Diploma Education, Bachelor Applied Science (Non-Executive Director)

David Wyatt has over 30 years experience spanning medical research, private pathology and technology commercialisation businesses. He co-founded two successful ASX-listed biotechnology company's and was managing director of PanBio Ltd between 1991 and 1998. David led PanBio from start-up to a fully integrated and profitable operation comprising R&D, manufacturing, marketing and distribution to over 30 countries.

David was the former Chairman of the Company and former member of the audit committee.

##### **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.

## Directors' report continued

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### **Graeme Menzies**, LLB, (Non-Executive Director)

Mr Menzies is a Barrister and Solicitor with over 30 years experience in practice. Prior to establishing his own practice in 1988 he had extensive corporate dealings, including takeovers, reconstructions and capital raisings. As a sole practitioner Graeme has continued to work soely in the corporate arena, specialising in corporate reconstructions, capital raisings, mergers, demergers and public company listings. He is presently a director of Moby Oil and Gas Limited (ASX Code: MOG) and Octanex NL (NSX Code: OCT) as well as a number of unlisted companies.

### **Donald Stephens**, BAcc, FCA (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 Mithril Resources Ltd and is company secretary to Toro Energy Ltd, Minotaur Exploration Ltd , Petratherm Ltd and Ferraus 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 Chairman of the Company's audit committee.

### **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 current Director of the South Australia Government Motorsport Board, Kangaroo Island Sealink and Coachlines of Australia Pty Ltd.

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

## COMPANY SECRETARY

### **Vincent Rigano**, BAcc, CPA

Mr Rigano is a Certified Practicing Accountant with over 30 years experience in providing accounting, corporate secretarial and consulting services to a large number of corporate clients. He has been involved in providing accounting and financial advice to Papyrus since its inception.

## OPERATING RESULTS

The consolidated loss of the consolidated group after providing for income tax amounted to (\$1,581,410) [2008: (\$1,863,725)].

## Directors' report continued

### 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	973,264	-
Dr David Wyatt	2,198,878	1,193,757
Mr Ramy Azer	21,237,777	11,046,000
Mr Graeme Menzies	58,609	783,424
Mr Donald Stephens	228,478	3,333,557
Mr Christopher Smerdon	321,847	840,241

### DIVIDENDS

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 principal activities of the Company and Group during the financial year was the commercialisation of the banana paper technology

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

### OPERATIONS REVIEW

#### Operational

During the year the Company successfully completed the construction of its first commercial manufacturing line on schedule. All elements of the manufacturing line were either constructed on-site by Papyrus Australia or in Adelaide and transported to North Queensland for final installation. The Company has installed all plant, equipment and machinery necessary to operate the Walkamin Production Facility.

Since the re-location of the pilot plant in August 2008 to the site, the Company has successfully designed and is well advanced in developing a harvesting, transport and logistical infrastructure to integrate the banana tree trunk harvesting activities into the existing banana fruit production.

In May, 2009 the Company announced the development of a new and innovative mechanical banana harvester as part of the logistics to support the Papyrus manufacturing process. As the Company continued to work with the banana farmers it became clear that there was a need for a machine that could harvest both fruit and the banana trunks required for the manufacturing process. A provisional patent was lodged by the Company.

## Directors' report continued

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The Company has also obtained all necessary approvals from local Governments, Primary Industry, Quarantine authorities, and others to allow it to run the production facility on a commercial scale.

The Company was in the process of commissioning the new factory in Queensland and experienced delays relating specifically to mechanical failures contained within the Beta Veneer Unit ("BVU").

The BVU supplied by the independent contractor, did not pass the Acceptance Test, previously agreed by the independent contractor and Papyrus Australia Limited, therefore the BVU could not be handed over to the production team.

Papyrus instigated an independent assessment of the status and integrity of the BVU, which established that there were a number of mechanical issues. The Company has executed an agreement with the independent contractor to enable the Company to have access to the software and automation system contained in the BVU and to resolve the dispute between the two Companies by expert determination. This arrangement has enabled the Company to immediately begin the process of completing the commissioning of the BVU by resolving the mechanical issues involved and then by implementing its engineering and production plan to ultimately achieve continuous production of its products.

As a consequence of the delays with commissioning the BVU and therefore the production line, the Company was not in a position to fulfill its production timetable with its partners namely:

- World Future Fibre - JV Agreement to Operate Manufacturing Line in North Queensland.
- Hayot - Agreement to Licence Technology in European Union
- 3W Tout Bois Agreement - to Distribute and Sell Decorative Veneers Board Products in the European Union.

3W Tout Bois, represented by Mr. Mario Cassin, concluded a visit to Australia and the Walkamin factory in May this year by signing an extension to its existing agreement to facilitate marketing and selling of the Company's products in the European Union. These products include its decorative veneers and fibreboard. The decision to enter the European markets was attributed to the volume of product required, the highest product value and the quality of the distributor. The Company is continuing commercial discussions with World Future Fibre and Hayot.  
Corporate

During the financial year 5,611,284 ordinary fully paid shares were issued at \$0.44 (44 cents) per share and 1,197,120 unlisted options were exercised for ordinary fully paid shares at \$0.25 (25 cents) per share.

Also 400,000 unlisted options were granted to key management personnel in accordance with terms and conditions announced to the market at the date of granting.

## Directors' report continued

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The net assets of the consolidation entity as at 30 June, 2009 amounted to \$5,829,357 with cash on hand of \$1,129,564.

The directors believe the Group has sufficient funds to continue its operations.

### Matters Arising Since the Reporting Date

In July, 2009 Dr David Wyatt retired as Chairman of the Company and Mr Edward Byrt (a founding director of the Company) was appointed as his replacement. At the same time the Board of Directors established an Executive Committee including Mr Ramy Azer (Managing Director), Mr Donald Stephens (Executive Director) and Mr Edward Byrt (Chairman) to take over the management of the Company.

In August 2009, the Company entered into a new agreement with 3W Tout Bois in Monaco to assist the Company in marketing, stocking and distributing its products through their existing networks and clients in Europe. In accordance with the agreement, Papyrus has been supplying samples of its decorative veneer and fibreboard to 3W Tout Bois in preparation for a launch of its products at the Monaco Yacht Show in late September, 2009.

The products to be exhibited at the Monaco Yacht Show have been supplied to 3W Tout Bois from the Company's Walkamin factory, located in Far North Queensland. The Company continues to implement its Engineering and Production Plan achieving to date, batch production of its products.

Finally, subsequent to reporting date, a total of 4,735,000 unlisted options were exercised by various parties, resulting in gross proceeds of \$1,314,625.

### RISK MANAGEMENT

The Group takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Group believes that it is crucial for all Board members to be a part of this process, and as such the Board has not established a separate risk management committee.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses the Group's vision, mission and strategy statements, designed to meet stakeholders needs and manage business risk.
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of performance indicators of both a financial and non financial nature.



## Directors' report continued

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### **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.

### **LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

Information as to the likely developments in the operations of the Group and the expected results of those operations in future years has not been included in the Annual Report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

### **ENVIRONMENTAL REGULATION AND PERFORMANCE**

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.

### **Unissued Shares**

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

## Directors' report continued

### SHARE OPTIONS

Issue Date	Expiry Date	Exercise Price	Balance at 1 July 2008	Net Issued/ (Exercised or expired) during Year	Balance at 30 June 2009
02/12/2004	31/03/2010	\$0.25	16,240,000	(1,197,120)	15,042,880
02/12/2004	31/03/2010	\$0.30	8,493,155	-	8,493,155
14/04/2005	31/03/2010	\$0.25	2,000,000	-	2,000,000
16/05/2005	15/05/2010	\$0.25	50,000	-	50,000
30/06/2006	31/03/2010	\$0.40	200,000	-	200,000
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	7/10/2012	\$0.80	250,000	-	250,000
08/10/2007	7/10/2012	\$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	-	100,000	100,000
17/03/2009	16/03/2014	\$1.75	-	100,000	100,000
			28,983,155	(797,120)	28,186,035

### Shares issued as a result of the exercise of options

During the financial year, 1,197,120 unlisted options were exercised by various option holders, resulting in gross proceeds of \$299,280. In addition, subsequent to reporting date, a total of 4,735,000 unlisted options were exercised by various parties, resulting in gross proceeds of \$1,314,625.

### New options issued

During the financial year, 400,000 unlisted options were issued to employees in accordance with the Company's Employee Share Option Plan Refer to note 19 of the financial statements for further details on these allotments.

### INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

To the extent permitted by law, the Company has indemnified (fully insured) each director and the secretary of the Company for a premium of \$12,497. 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.

## Directors' report continued

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### 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 entity. 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 and his fee is \$300,000 per annum (exclusive of GST). The Company may terminate the services contract without cause by providing one (1) months 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 Operating Officer, Mr Grant Pigot, are formalised in a contract of employment. Mr Pigot commenced employment on 7 July 2006 and his gross salary, inclusive of the 9% superannuation guarantee, is \$160,000 per annum (effective from 1 July 2008). The Company may terminate the employment contract without cause by providing three (3) months written notice or making payment in lieu of notice, based on the annual salary component. 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.

## Directors' report continued

### REMUNERATION REPORT CONTINUED- AUDITED

Table 1: Director remuneration for the year ended 30 June 2009 and 30 June 2008

	Primary Benefits	Post Employment	Share-based Payments	Total
	Salary & Fees	Superannuation	Options	\$
Mr Edward Byrt				
2009	32,700	-	-	32,700
2008	32,700	-	-	32,700
Dr David Wyatt				
2009	43,600	-	-	43,600
2008	43,600	-	-	43,600
Mr Ramy Azer				
2009	300,000	-	-	300,000
2008	323,000	27,000	-	350,000
Mr Graeme Menzies				
2009	32,700	-	-	32,700
2008	32,700	-	-	32,700
Mr Donald Stephens				
2009	32,700	-	-	32,700
2008	32,700	-	-	32,700
Mr Christopher Smerdon				
2009	32,700	-	-	32,700
2008	32,700	-	-	32,700
<b>Total</b>				
2009	474,400	-	-	474,400
2008	497,400	27,000	-	524,400

## Directors' report continued

### REMUNERATION REPORT CONTINUED- AUDITED

**Table 2: Remuneration of key management personnel for the year ended 30 June 2009 and 30 June 2008**

	Primary Benefits	Post Employment	Share-based Payments	Total
	Salary & Fees	Superannuation	Options	\$
Mr Grant Piggot				
2009	146,789	13,211	-	<b>160,000</b>
2008	146,789	13,211	8,699	<b>168,699</b>
Mr Vince Rigano				
2009	32,700	-	-	<b>32,700</b>
2008	32,700	-	-	<b>32,700</b>
Mr William Halliday *				
2008	146,789	13,211	78,167	<b>238,167</b>
Mr Anthony Cichonski *				
2008	146,789	13,211	81,068	<b>241,068</b>
<b>Total</b>				
2009	179,489	13,211	-	<b>192,700</b>
2008	473,067	39,633	167,934	<b>680,634</b>

\* The executives noted with an asterisk have ceased to be classed as key management personnel in 2009 and accordingly there are no disclosures for them in the current year.

### 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:

	Directors' Meetings	Audit Committee
<b>Number of meetings held</b>	11	2
<b>Number of meetings attended:</b>		
Mr Edward Byrt	11	-
Dr David Wyatt	11	2
Mr Ramy Azer	11	-
Mr Graeme Menzies	11	-
Mr Donald Stephens	10	2
Mr Christopher Smerdon	11	2

## Directors' report continued

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Members acting on the audit committee of the board are:

Edward Byrt	Non-executive director (Appointed July 2009)
David Wyatt	Non-executive director (Retired July 2009)
Donald Stephens	Non-executive director
Christopher Smerdon	Non-executive director

### 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.

The Group was not a party to any such proceedings during the year.

### 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 2009 as required under section 307C of the Corporations Act 2001 has been received and can be found on page 15.

Signed in accordance with a resolution of the directors.



Mr Donald Stephens  
Director

30 September 2009

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Adelaide SA 5001

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**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF PAPYRUS AUSTRALIA LTD**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Papyrus Australia Ltd for the year ended 30 June 2009, 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  
South Australian Partnership  
Chartered Accountants



S J Gray  
Partner

Signed at Wayville on this 30<sup>th</sup> day of September 2009

# Corporate Governance Statement

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## Introduction

The board of directors is responsible for the corporate governance of Papyrus Australia Ltd (the Company) and its controlled entities (the Group). The Group operates in accordance with the corporate governance principles as set out by the ASX corporate governance council and required under ASX listing rules.

The Group details below the corporate governance practices in place at the end of the financial year, all of which comply with the principles and recommendations of the ASX corporate governance council unless otherwise stated.

## Principle 1: Lay solid foundations for management and oversight

### Board Responsibilities

The Board is accountable to the Shareholders for the performance of the Group and has overall responsibility for its operations. Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives, are formally delegated by the Board to the Managing Director and ultimately to senior executives.

The key responsibilities of the board include:

- Approving the strategic direction and related objectives of the Group and monitoring management performance in the achievement of these objectives;
- Adopting budgets and monitoring the financial performance of the Group;
- Reviewing annually the performance of the managing director and senior executives against the objectives and performance indicators established by the Board.
- Overseeing the establishment and maintenance of adequate internal controls and effective monitoring systems.
- Overseeing the implementation and management of effective safety and environmental performance systems.
- Ensuring all major business risks are identified and effectively managed.
- Ensuring that the Group meets its legal and statutory obligations.

For the purposes of the proper performance of their duties, the Directors are entitled to seek independent professional advice at the Group's expense, unless the Board determines otherwise. The Board schedules meetings on a regular basis and other meetings as and when required.

The Board has not publicly disclosed a statement of matters reserved for the Board, or the Board charter and therefore the Group has not complied with recommendation 1.3 of the Corporate Governance Council. Given the experience and skills of the Board of directors, the Group has not considered it necessary to formulate a Board charter.



## Corporate Governance Statement continued

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### Principle 2: Structure the Board to add value

#### Size and composition of the Board

At the date of this statement the Board consists of five non-executive directors and one executive. Directors are expected to bring independent views and judgement to the Board's deliberations.

- |                          |                        |
|--------------------------|------------------------|
| • Mr Edward Byrt         | Non-Executive Chairman |
| • Dr David Wyatt         | Non-Executive Director |
| • Mr Ramy Azer           | Managing Director      |
| • Mr Graeme Menzies      | Non-Executive Director |
| • Mr Donald Stephens     | Executive Director     |
| • Mr Christopher Smerdon | Non-Executive Director |

The Board considers this to be an appropriate composition given the size and development of the Group at the present time. The names of directors including details of their qualifications and experience are set out in the Directors' Report of this Annual Report.

#### Independence

The Board is conscious of the need for independence and ensures that where a conflict of interest may arise, the relevant Director(s) leave the meeting to ensure a full and frank discussion of the matter(s) under consideration by the rest of the Board. Those Directors who have interests in specific transactions or potential transactions do not receive Board papers related to those transactions or potential transactions, do not participate in any part of a Directors' meeting which considers those transactions or potential transactions, are not involved in the decision making process in respect of those transactions or potential transactions, and are asked not to discuss those transactions or potential transactions with other Directors.

At the date of this statement the Board consists of four non-executive directors. Mr Edward Byrt, who is also chairman of the Board, Mr Graeme Menzies and Mr Christopher Smerdon have no other material relationship with the Group or its subsidiary other than their directorships. Dr Wyatt holds significant equity securities in the Company. The Company therefore has three independent directors as that relationship is currently defined.

The Board does not consist of a majority of independent directors and therefore the Group has not complied with recommendation 2.1 of the Corporate Governance Council. The Company considers the current structure to be an appropriate composition of the required skills and experience, given the size and development of the Group at the present time.

#### Nomination, retirement and appointment of Director's

The Board has not established a nomination committee and therefore the Group has not complied with recommendation 2.4 of the Corporate Governance Council. Given the size of the Group, the Board does not consider a separate committee appropriate. The Board takes ultimate responsibility for these matters.

## Corporate Governance Statement continued

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The composition/membership of the Board is subject to review in a number of ways, as outlined below:

- The Group's constitution provides that at every Annual General Meeting, one third of the directors shall retire from office but may stand for re-election.
- Board composition is also reviewed periodically either when a vacancy arises or if it is considered that the Board would benefit from the services of a new director, given the existing mix of skills and experience of the board which should match the strategic demands of the Group. Once it has been agreed that a new director is to be appointed, a search would be undertaken, sometimes using the services of external consultants. Nominations are subsequently received and reviewed by the Board.

### **Evaluation of Board performance**

The Board continues to review performance and identify ways to improve performance. The Chairman is responsible for reviewing the Board performance on an annual basis.

### **Board Committee's**

It is the role of the Board to oversee the management of the Group and it may establish appropriate committees to assist in this role.

The Board has established an audit, risk and compliance committee. At the present time no other committees have been established because of the size of the Group and the involvement of the Board in the operations of the Group. The Board takes ultimate responsibility for the operations of the Group including remuneration of Directors and executives and nominations to the Board.

The Board has not publicly disclosed the process for evaluating the performance of the Board, its committees and individual directors. Therefore, the Group has not complied with recommendation 2.5 of the Corporate Governance Council. Given the size of the Group, the Board does not consider disclosure of the performance evaluation process necessary. The board takes ultimate responsibility for these matters.

## **Principle 3: Promote ethical and responsible decision making**

### **Code of Conduct**

The Board recognises the need for Directors and employees to observe the highest standards of behaviour and business ethics when engaging in corporate activity. The Group intends to maintain a reputation for integrity. The Group's officers and employees are required to act in accordance with the law and with the highest ethical standards. The Board has adopted a formal code of conduct applying to the Board and all Employees. However, the Group has not publicly disclosed the code of conduct and therefore the Group has not complied with recommendation 3.1 of the Corporate Governance Council. Given the size of the Group, the Board does not consider disclosure of the code of conduct to be necessary. The Board takes ultimate responsibility for these matters.

## Corporate Governance Statement continued

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### Securities Trading Policy

The Group's constitution permits designated persons to acquire securities in the Group, however Group policy prohibits designated persons from dealing in the Group's securities at any time whilst in possession of price sensitive information and for 24 hours after:

- Any major announcements;
- The release of the Group's quarterly, half yearly and annual financial results to the Australian Securities Exchange; and
- The Annual General Meeting.

Directors must advise the chairman of the board before buying or selling securities in the Group. All such transactions are reported to the Board. In accordance with the provisions of the Corporations Act and the Listing Rules of the Australian Securities Exchange, the Group advises the Exchange of any transaction conducted by directors in securities in the Group.

The Group has not established and publicly disclosed a policy concerning trading in Group securities by directors, senior executives and employees other than as disclosed above, and therefore has not complied with recommendation 3.2 of the Corporate Governance Council. Given the size of the Group, the Board does not consider establishment or disclosure of a trading policy to be appropriate. The Board takes ultimate responsibility for these matters.

### Principle 4: Safeguard integrity in financial reporting

The Group has structured financial management to independently verify and safeguard the integrity of their financial reporting. The structure established by the Group includes:

- Review and consideration of the financial statements by the audit committee;
- A process to ensure the independence and competence of the Group's external auditors.

### Audit Committee

The audit, risk and compliance committee comprises Mr Donald Stephens (Chairman), Mr Christopher Smerdon, Mr Edward Byrt and the Company Secretary. Due to the size of the board, it is not possible to meet recommendation 4.3 of the Corporate Governance Council of having at least three non-executive directors as members, the majority of which are independent. The Board will annually confirm the membership of the committee.

## Corporate Governance Statement continued

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The committee's primary responsibilities are to:

- oversee the existence and maintenance of internal controls and accounting systems;
- oversee the management of risk within the Group;
- oversee the financial reporting process;
- review the annual and half-year financial reports and recommend them for approval by the Board of Directors;
- nominate external auditors;
- review the performance of the external auditors and existing audit arrangements; and
- ensure compliance with laws, regulations and other statutory or professional requirements, and the Group's governance policies.

Given the experience and skills of the members of the committee, the Board has not documented a formal committee charter and therefore the Group has not complied with recommendation 4.3 of the Corporate Governance Council.

Given the size of the Group the members of the audit committee have been chosen for their relevant skills and experience. The Board continues to monitor the composition of the committee and the roles and responsibilities of the members.

### **Principle 5: Make timely and balanced disclosure**

The Group has a policy that all shareholders and investors have equal access to the Group's information. The Board ensures that all price sensitive information is disclosed to the ASX in accordance with the continuous disclosure requirements of the Corporation's Act and ASX Listing Rules. The company secretary has primary responsibility for all communications with the ASX and is accountable to the Board through the chair for all governance matters.

The Group has not publicly disclosed a formal disclosure policy and therefore has not complied with recommendation 5.1 of the Corporate Governance Council. Given the size of the Group, the Board does not consider a public disclosure policy to be appropriate. The board takes ultimate responsibility for these matters.

### **Principle 6: Respect the rights of shareholders**

The Board strives to ensure that Shareholders are provided with sufficient information to assess the performance of the Group and its Directors and to make well-informed investment decisions.

Information is communicated to Shareholders through:

- annual, half-yearly and quarterly financial reports;
- annual and other general meetings convened for Shareholder review and approval of Board proposals;
- continuous disclosure of material changes to ASX for open access to the public; and
- the Group maintains a website where all ASX announcements, notices and financial reports are published as soon as possible after release to ASX.

## Corporate Governance Statement continued

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All information disclosed to the ASX is posted on the Group's web site [www.papyrusaustralia.com.au](http://www.papyrusaustralia.com.au).

The auditor is invited to attend the annual general meeting of Shareholders. The Chairman will permit Shareholders to ask questions about the conduct of the audit and the preparation and content of the audit report.

The Group has not designed or publicly disclosed a communications policy and therefore has not complied with recommendation 6.1 of the Corporate Governance Council. Given the size of the Group, the Board does not consider the disclosure of a communications policy to be appropriate. The Board takes ultimate responsibility for these matters.

### **Principle 7: Recognise and manage risk**

The Board has identified the significant areas of potential business and legal risk of Papyrus Australia Ltd. The identification, monitoring and, where appropriate, the reduction of significant risk to the Group is the responsibility of the Managing Director and the Board. The Board has also established the audit, risk and compliance committee which addresses the risk of the Group.

The Board reviews and monitors the parameters under which such risks will be managed. Management accounts are prepared and reviewed with the Managing Director at subsequent Board meetings. Budgets are prepared and compared against actual results.

Management and the Board monitor the Group's material business risks and reports are considered at regular meetings.

### **Managing Director and Company Secretary declaration to the Board of Director's**

The Managing Director and the Company Secretary will be required to state in writing to the Board that the Group's financial reports present a true and fair view, in all material respects, of the Group's financial condition and operational results are in accordance with relevant accounting standards. Included in this statement will be confirmation that the Group's risk management and internal controls are operating efficiently and effectively.

## Corporate Governance Statement continued

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The Group has not established or publicly disclosed a policy for the oversight and management of material business risks and therefore has not complied with recommendation 7.1 of the Corporate Governance Council. Given the size of the Group, the Board does not consider establishment or disclosure of a risk management policy to be appropriate. The Board takes ultimate responsibility for these matters.

### **Principle 8: Remunerate fairly and responsibly**

The Chairman and the non-executive Directors are entitled to draw Directors fees and receive reimbursement of reasonable expenses for attendance at meetings. The Group is required to disclose in its annual report details of remuneration to Directors. The maximum aggregate annual remuneration which may be paid to non-executive Directors is \$300,000. This amount cannot be increased without the approval of the Group's shareholders. Please refer to the remuneration report within the directors' report for details regarding the remuneration structure of the managing director and senior management.

The Board has not established a remuneration committee or disclosed a remuneration committee charter and therefore the Group has not complied with recommendation 8.1 and 8.3 respectively of the Corporate Governance Council. Given the size of the Group, the Board does not consider a separate committee appropriate. The Board takes ultimate responsibility for these matters. Refer to the Directors Report of the Annual Report for details regarding the remuneration of non-executive directors, executive directors and senior executives.

## Income Statement

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

	Note	Consolidated		Parent	
		2009 \$	2008 \$	2009 \$	2008 \$
Revenue from operating activities	4 (a)	281,976	145,114	281,976	145,114
Other income	4 (b)	28,611	-	35,617	-
Depreciation expense	4 (c)	(21,172)	(8,641)	(9,116)	(5,623)
Employee benefits expenses	4 (d)	(941,924)	(978,164)	(927,981)	(978,164)
Other expenses	4 (e)	(1,335,531)	(1,022,034)	(1,327,547)	(1,022,034)
<b>Loss before income tax benefit</b>		<b>(1,988,040)</b>	<b>(1,863,725)</b>	<b>(1,947,051)</b>	<b>(1,860,707)</b>
Income tax benefit	5	406,630	-	406,630	-
<b>Loss from ordinary activities after income tax expense</b>		<b>(1,581,410)</b>	<b>(1,863,725)</b>	<b>(1,540,421)</b>	<b>(1,860,707)</b>
<b>Loss attributable to members of the parent entity</b>		<b>(1,581,410)</b>	<b>(1,863,725)</b>	<b>(1,540,421)</b>	<b>(1,860,707)</b>
<b>Earnings per share:</b>		<i>Cents</i>	<i>Cents</i>		
Basic earnings per share	6	(2.25)	(3.27)		
Diluted earnings per share	6	(2.25)	(3.27)		

*The above income statement should be read in conjunction with the accompanying notes.*

## Balance Sheet

### AS AT 30 JUNE 2009

	Note	Consolidated		Parent	
		2009 \$	2008 \$	2009 \$	2008 \$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	7	1,129,564	2,145,022	1,129,350	2,144,808
Trade and other receivables	8	188,200	75,235	166,487	75,235
Other current assets	9	102,934	-	102,934	-
<b>TOTAL CURRENT ASSETS</b>		<b>1,420,698</b>	<b>2,220,257</b>	<b>1,398,771</b>	<b>2,220,043</b>
<b>NON-CURRENT ASSETS</b>					
Trade and other receivables	8	-	-	493,408	375,709
Other financial assets	10	-	-	230,085	230,085
Property, plant and equipment	11	2,820,655	1,777,919	2,624,434	1,766,091
Intangible assets	12	4,755,253	2,583,694	4,121,584	2,003,671
<b>TOTAL NON-CURRENT ASSETS</b>		<b>7,575,908</b>	<b>4,361,613</b>	<b>7,469,511</b>	<b>4,375,556</b>
<b>TOTAL ASSETS</b>		<b>8,996,606</b>	<b>6,581,870</b>	<b>8,868,282</b>	<b>6,595,599</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	13	1,026,842	247,259	823,356	226,815
Short-term provisions	14	72,656	56,067	72,656	56,067
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,099,498</b>	<b>303,326</b>	<b>896,012</b>	<b>282,882</b>
<b>NON-CURRENT LIABILITIES</b>					
Other non-current liabilities	15	2,067,751	1,932,596	2,067,751	1,932,596
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>2,067,751</b>	<b>1,932,596</b>	<b>2,067,751</b>	<b>1,932,596</b>
<b>TOTAL LIABILITIES</b>		<b>3,167,249</b>	<b>2,235,922</b>	<b>2,963,763</b>	<b>2,215,478</b>
<b>NET ASSETS</b>		<b>5,829,357</b>	<b>4,345,948</b>	<b>5,904,519</b>	<b>4,380,121</b>
<b>EQUITY</b>					
Share capital	16	11,273,337	8,567,800	11,273,337	8,567,800
Reserves	17	685,197	325,915	685,197	325,915
Retained earnings	18	(6,129,177)	(4,547,767)	(6,054,015)	(4,513,594)
<b>TOTAL EQUITY</b>		<b>5,829,357</b>	<b>4,345,948</b>	<b>5,904,519</b>	<b>4,380,121</b>

*The above balance sheet should be read in conjunction with the accompanying notes.*



## Statement of Changes in Equity

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

	Consolidated				Parent			
	Share Capital	Retained Earnings	Share Option Reserves	Total	Share Capital	Retained Earnings	Share Option Reserves	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance at 1 June 2007</b>	6,333,275	(2,684,042)	157,982	3,807,215	6,333,275	(2,652,887)	157,982	3,838,370
Shares issued upon exercise of listed options <b>16</b>	1,920,870	-	-	1,920,870	1,920,870	-	-	1,920,870
Shares issued as settlement of long term loan in Company subsidiary <b>16</b>	313,655	-	-	313,655	313,655	-	-	313,655
Share-based payments <b>17</b>	-	-	167,933	167,933	-	-	167,933	167,933
(Loss) attributable to members of the parent entity	-	(1,863,725)	-	(1,863,725)	-	(1,860,707)	-	(1,860,707)
<b>Balance at 30 June 2008</b>	<b>8,567,800</b>	<b>(4,547,767)</b>	<b>325,915</b>	<b>4,345,948</b>	<b>8,567,800</b>	<b>(4,513,594)</b>	<b>325,915</b>	<b>4,380,121</b>
	Consolidated				Parent			
	Share Capital Ordinary	Retained Earnings	Share Option Reserves	Total	Share Capital Ordinary	Retained Earnings	Share Option Reserves	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance at 1 July 2008</b>	8,567,800	(4,547,767)	325,915	4,345,948	8,567,800	(4,513,594)	325,915	4,380,121
Shares issued upon exercise of options <b>16</b>	299,280	-	-	299,280	299,280	-	-	299,280
Shares issued pursuant to Share Purchase Plan <b>16</b>	1,256,000	-	-	1,256,000	1,256,000	-	-	1,256,000
placements <b>16</b>	1,212,904	-	-	1,212,904	1,212,904	-	-	1,212,904
(Loss) attributable to members of the parent entity	-	(1,581,410)	-	(1,581,410)	-	(1,540,421)	-	(1,540,421)
Transaction costs (net of tax) <b>16</b>	(62,647)	-	-	(62,647)	(62,647)	-	-	(62,647)
Share-based payments <b>17</b>	-	-	359,282	359,282	-	-	359,282	359,282
<b>Balance at 30 June 2009</b>	<b>11,273,337</b>	<b>(6,129,177)</b>	<b>685,197</b>	<b>5,829,357</b>	<b>11,273,337</b>	<b>(6,054,015)</b>	<b>685,197</b>	<b>5,904,519</b>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

## Cash Flow Statement

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

	Consolidated		Parent	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	199,232	63,548	199,232	63,548
R&D tax offset	542,894	-	542,894	-
Payments to suppliers and employees	(2,123,416)	(2,248,224)	(2,098,271)	(2,248,224)
Grant funds received	98,030	938,703	98,030	938,703
Interest received	97,169	125,488	97,169	125,488
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>7</b>	<b>(1,186,091)</b>	<b>(1,160,946)</b>	<b>(1,120,485)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment	(1,392,172)	(237,597)	(1,392,172)	(237,597)
Proceeds from sale of property, plant and equipment	17,868	-	46,368	-
Purchase of development costs	(1,133,752)	(610,831)	(1,133,752)	(610,831)
Loan to wholly-owned subsidiaries	-	-	(53,645)	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(2,508,056)</b>	<b>(2,533,201)</b>	<b>(848,428)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from issue of shares	2,768,184	1,920,870	2,768,184	1,920,870
Transaction costs of issue of shares	(89,495)	-	(89,495)	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		<b>2,678,689</b>	<b>2,678,689</b>	<b>1,920,870</b>
Net (decrease) in cash and cash equivalents	(1,015,458)	(48,043)	(1,015,458)	(48,043)
Cash at the beginning of the financial year	2,145,022	2,193,065	2,144,808	2,192,851
<b>CASH AT THE END OF THE FINANCIAL YEAR</b>	<b>1,129,564</b>	<b>2,145,022</b>	<b>1,129,350</b>	<b>2,144,808</b>

*The above cash flow statement should be read in conjunction with the accompanying notes.*

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

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#### 1. CORPORATE INFORMATION

The financial report of Papyrus Australia Ltd (the Company) for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the directors on 30 September 2009. Papyrus Australia Ltd is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

#### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

##### a. Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accrual basis and is based on historical costs, modified, where applicable by the measurement at fair value of selected Non-current assets, financial assets and financial liabilities.

##### b. Principle of consolidation

The consolidated financial statements comprise the financial statements of Papyrus Australia Ltd and its subsidiaries as at 30 June each year (the Group). A list of controlled entities is contained in Note 23 to the financial statements. All controlled entities have a June financial year-end.

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

In preparing the consolidated 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 cease to be consolidated from the date on which control is transferred out of the Group.

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

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#### c. Revenue Recognition

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

##### *Sale of goods*

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

##### *Interest income*

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

#### d. Government grants

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

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

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

#### e. Borrowing costs

Borrowing costs are recognised as an expense when incurred.

#### f. Leases

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

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

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

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

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

#### **g. Cash and cash equivalents**

Cash and short-term deposits in the balance sheet comprise cash at bank, cash in hand and short term deposits with an original maturity of 3 months or less.

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

#### **h. Trade and other receivables**

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

#### **i. Income tax**

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

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

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

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

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

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

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

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

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

#### *Tax consolidation*

Papyrus Australia Ltd and its wholly-owned Australian controlled entity have not yet decided to implement the tax consolidation legislation as of the date of signing this report. The Australian Taxation Office has not yet been notified of any decision.

If the Group were to implement the tax consolidation legislation in the current or future reporting period, the consequence would be that Papyrus Australia Ltd, as the head entity in the tax consolidated Group, recognises current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entities in the consolidated Group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances.

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

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Amounts receivable or payable under an accounting tax sharing agreement with the tax consolidated entities are recognised separately as tax-related amounts receivable or payable. Expenses and revenues arising under the tax sharing agreement are recognised as a component of income tax expense (revenue). The deferred tax balances recognised by the parent entity in relation to wholly-owned entities joining the tax consolidated Group are measured based on their carrying amounts at the level of the tax consolidated Group before the implementation of the tax consolidation regime.

There will be no impact of the legislation on the Group's historical carrying amounts of its deferred tax assets, as these have not been recognised in the parent or Group financial statements

#### **j. Goods and Services Tax (GST)**

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

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

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

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

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

#### **k. Property, plant and equipment**

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

Depreciation is calculated on a straight-line and diminishing value basis over the estimated useful life of the assets. The useful life of the assets for both 2009 and 2008 is as follows:

Plant and equipment    2.5 - 10 years

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

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#### *Impairment*

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

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

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

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

#### **I. Intangible assets**

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

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

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



## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

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#### **m. Financial instruments**

##### *Recognition*

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

##### *Investments in subsidiaries*

Investments in subsidiaries are measured at cost less any impairment.

##### *Impairment*

At each reporting date, the Group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

#### **n. Impairment of assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

#### **o. Trade and other payables**

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

#### **p. Interest-bearing loans and borrowings**

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

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

#### **q. Employee benefits**

##### *Wages, salaries, annual leave and sick leave*

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

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

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#### *Share based payment transactions*

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

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

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using the Black-Scholes option pricing model.

The cost of equity-settled transactions is recognised as an expense in the income statement, together with a corresponding increase in the share option reserve, when the options are issued.

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

#### **r. Issued capital**

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.

#### **s. 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) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

#### **t. Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial report 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 Group.

#### *Key Estimates — Impairment*

The Group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to an impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

#### *Significant Accounting Estimate*

The Group has capitalised the development costs in relation to the development of the Banana Ply Technology. The recoverability of the asset is dependent on the successful commercialisation of the technology. As 30 June 2009, the commercialisation was not complete.

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

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#### u. New accounting standards and interpretations not yet adopted

Certain new accounting standards, amendments to standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The following standards and amendments are available for early adoption but have not been applied by the Company in these financial statements:

*AASB 3: Business Combinations, AASB 127: Consolidated and Separate Financial Statements, AASB 2008-3: Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1,2,4,5,7,101,107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2008-7: Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136] (applicable for annual reporting periods commencing from 1 January 2009).*

These standards are applicable prospectively and so will only affect relevant transactions and consolidations occurring from the date of application. In this regard, its impact on the Group will be unable to be determined. The following changes to accounting requirements are included:

- acquisition costs incurred in a business combination will no longer be recognised in goodwill but will be expensed unless the cost relates to issuing debt or equity securities;
- contingent consideration will be measured at fair value at the acquisition date and may only be provisionally accounted for during a period of 12 months after acquisition;
- a gain or loss of control will require the previous ownership interests to be remeasured to their fair value;
- there shall be no gain or loss from transactions affecting a parent's ownership interest of a subsidiary with all transactions required to be accounted for through equity (this will not represent a change to the Group's policy);
- dividends declared out of pre-acquisition profits will not be deducted from the cost of an investment but will be recognised as income;
- impairment of investments in subsidiaries, joint ventures and associates shall be considered when a dividend is paid by the respective investee; and
- where there is, in substance, no change to Group interests, parent entities inserted above existing groups shall measure the cost of its investments at the carrying amount of its share of the equity items shown in the balance sheet of the original parent at the date of reorganisation.

*AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] (applicable for annual reporting periods commencing from 1 January 2009).*

AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Group's board for the purposes of decision making. While the impact of this standard cannot be assessed at this stage, there is the potential for more segments to be identified.

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

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Given the lower economic levels at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, impairment calculations may be affected. Management does not presently believe impairment will result.

*AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009).*

The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Group. If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.

*AASB 123: Borrowing Costs and AASB 2007-6: Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12] (applicable for annual reporting periods commencing from 1 January 2009).*

The revised AASB 123 has removed the option to expense all borrowing costs and will therefore require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Management has determined that there will be no effect on the Group as a policy of capitalising qualifying borrowing costs has been maintained by the Group.

*AASB 2008-1: Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009).*

This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share-based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.

*AASB 2008-5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-5) and AASB 2008-6: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-6) detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project.*

No changes are expected to materially affect the Group.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Group's financial statements.

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

#### 3. SEGMENT INFORMATION

The Group comprises of one business segment, being the research, development and commercialisation of the Company's Banana Ply Paper (BPP) technology. Geographically, the Company operates solely within Australia.

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$

#### 4. REVENUE AND EXPENSES

##### REVENUE

###### (a) Revenue from operating activities

Interest received from other parties	87,025	115,949	87,025	115,949
Sales revenue	194,951	-	194,951	-
Other revenue	-	29,165	-	29,165
	<b>281,976</b>	<b>145,114</b>	<b>281,976</b>	<b>145,114</b>

###### (b) Other income

Net profit on disposal of property, plant and equipment	4,071	-	11,077	-
Export Market Development Grant	24,540	-	24,540	-
	<b>28,611</b>	<b>-</b>	<b>35,617</b>	<b>-</b>

Export Market Development Grants of \$24,540 (2008: \$23,248) were recognized as other income by the group during the financial year. There are no unfulfilled conditions or other contingencies attached to these grants. Amounts of \$386,332 were received during the year in respect of funding for the development of the Banana Ply Project. The money received is credited to the Balance Sheet as deferred income (see note 15).

##### EXPENSES

###### (c) Depreciation of non-current assets

Plant and equipment	21,172	8,641	9,116	5,623
Total depreciation	<b>21,172</b>	<b>8,641</b>	<b>9,116</b>	<b>5,623</b>

###### (d) Employees benefits expense

Wages, salaries, directors fees and other remuneration expenses	928,984	1,190,776	915,041	1,190,776
Superannuation expense	50,868	81,020	50,868	81,020
Transfer to annual leave provision	16,589	7,512	16,589	7,512
Share-based payments expense	359,282	167,933	359,282	167,933
Transfer to capitalised intangibles and plant and equipment	(413,798)	(469,077)	(413,798)	(469,077)
Total employee benefits expense	<b>941,925</b>	<b>978,164</b>	<b>927,982</b>	<b>978,164</b>

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<i>(e) Other expenses</i>				
Audit fees	27,800	26,200	27,800	26,200
Professional service	266,506	303,784	266,176	303,784
Travel and accomodation	116,175	95,744	115,642	95,744
Directors fees	169,169	160,000	169,169	160,000
Company secretarial	32,700	30,000	32,700	30,000
Rent and and communications	183,231	218,516	116,888	218,516
Patent expenses	-	36,787	-	36,787
Share registry and ASX expenses	89,859	65,178	89,859	65,178
Marketing expenses	65,263	10,274	65,263	10,274
Contractors	75,098	-	75,098	-
Freight expenses	58,230	1,597	58,230	1,597
Motor vehicle costs	77,179	71,340	74,867	71,340
Other expenses	174,321	2,614	174,321	2,614
	<b>1,335,531</b>	<b>1,022,034</b>	<b>1,266,013</b>	<b>1,022,034</b>

## 5. INCOME TAX

The major components of income tax expense are:

### Income Statement

#### Current income tax

Current income tax charge	26,849	-	26,849	-
R&D Tax offset	(433,479)	-	(433,479)	-
Income tax expense/(benefit) reported in the income statement	<b>(406,630)</b>	<b>-</b>	<b>(406,630)</b>	<b>-</b>

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	<b>(1,988,040)</b>	<b>(1,863,725)</b>	<b>(1,947,051)</b>	<b>(1,860,707)</b>
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At the Group's statutory income tax rate of 30% (2008: 30%)	(596,412)	(559,118)	(584,115)	(558,212)
Expenditure not allowable for income tax purposes	68,451	54,060	68,451	54,060
Tax losses not recognised due to not meeting recognition criteria	527,961	505,058	515,664	504,152
Tax portion of share issue costs	26,849	-	26,849	-
	<b>26,849</b>	<b>-</b>	<b>26,849</b>	<b>-</b>

### Tax losses

The directors estimate that the potential future income tax benefit at the year end not brought to account is:

	<b>1,278,221</b>	<b>938,871</b>	<b>1,242,586</b>	<b>937,218</b>
	<b>1,278,221</b>	<b>938,871</b>	<b>1,242,586</b>	<b>937,218</b>

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

#### 6. 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:

	<b>Consolidated</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Net loss attributable to ordinary equity holders of the parent	(1,581,410)	(1,863,725)
	<b>2009</b>	<b>2008</b>
Weighted average number of ordinary shares for basic earnings per share	70,436,336	57,066,150
Effect of dilution		
Share options	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	70,436,336	57,066,150
<b>Earnings per share:</b>	<i>Cents</i>	<i>Cents</i>
Basic earnings per share	(2.25)	(3.27)
Diluted earnings per share	(2.25)	(3.27)

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.

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>7. CASH AND CASH EQUIVALENTS</b>				
Cash at bank and in hand	329,564	447,694	329,350	447,480
Short-term deposits	800,000	1,697,328	800,000	1,697,328
	<b>1,129,564</b>	<b>2,145,022</b>	<b>1,129,350</b>	<b>2,144,808</b>

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

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

#### Reconciliation to Cash Flow Statement

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

Cash at banks and in hand	329,564	447,694	329,350	447,480
Short-term deposits	800,000	1,697,328	800,000	1,697,328
	<b>1,129,564</b>	<b>2,145,022</b>	<b>1,129,350</b>	<b>2,144,808</b>

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

Net loss	(1,581,410)	(1,863,725)	(1,540,421)	(1,860,707)
<i>Adjustments for non-cash items:</i>				
Depreciation	21,172	8,641	9,116	5,623
Share-based payments	359,282	167,933	359,282	167,933
Non cash tax expense	26,849	-	26,849	-
Net profit on disposal of property, plant and equipment	(4,071)	-	(11,077)	-
<i>Changes in assets and liabilities</i>				
(Increase)/decrease in trade and other receivables	(112,964)	34,383	(91,252)	34,383
Increase in other current assets	(102,934)	-	(102,934)	-
Decrease in trade and other payables	56,241	(927,632)	37,747	(927,632)
Increase in provisions	16,589	7,512	16,589	7,512
Increase in deferred income	135,155	1,452,403	135,155	1,452,403
Net cash from operating activities	<b>(1,186,091)</b>	<b>(1,120,485)</b>	<b>(1,160,946)</b>	<b>(1,120,485)</b>



## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>8. TRADE AND OTHER RECEIVABLES</b>				
<i>Current</i>				
Trade debtors (i)	27,003	-	27,003	-
GST receivable	154,394	49,427	132,681	49,427
Other debtors	6,803	25,808	6,803	25,808
	<b>188,200</b>	<b>75,235</b>	<b>166,487</b>	<b>75,235</b>
<i>Non-current</i>				
Amounts receivable from:				
- Wholly owned subsidiaries	-	-	493,408	375,709
	<b>-</b>	<b>-</b>	<b>493,408</b>	<b>375,709</b>
(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 2008 and 2009 and no receivables are past due at balance date.				
Information regarding the credit risk of current receivables is set out in note 24.				
<b>9. OTHER CURRENT ASSETS</b>				
Prepayments	100,690	-	100,690	-
Other	2,244	-	2,244	-
	<b>102,934</b>	<b>-</b>	<b>102,934</b>	<b>-</b>
<b>10. OTHER FINANCIAL ASSETS</b>				
Investment in wholly owned subsidiaries	-	-	230,085	230,085
	<b>-</b>	<b>-</b>	<b>230,085</b>	<b>230,085</b>
<b>11. PROPERTY, PLANT AND EQUIPMENT</b>				
<b>Plant and equipment</b>				
<i>Cost</i>				
Opening balance	99,568	98,392	50,844	49,666
Additions	35,748	1,176	35,694	1,178
Disposals	-	-	(28,487)	-
	<b>135,316</b>	<b>99,568</b>	<b>58,051</b>	<b>50,844</b>
<i>Accumulated depreciation</i>				
Opening balance	56,299	47,658	19,403	13,780
Depreciation for the year	21,172	8,641	9,116	5,623
Disposals	(6,992)	-	(6,992)	-
	<b>70,479</b>	<b>56,299</b>	<b>21,527</b>	<b>19,403</b>
Net book value of plant and equipment	<b>64,837</b>	<b>43,269</b>	<b>36,524</b>	<b>31,441</b>

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Capital works in progress</b>				
<i>Cost</i>				
Opening balance	1,734,650	1,498,229	1,734,650	1,498,229
Additions	1,958,116	236,421	1,790,208	236,421
Disposals	(14,859)	-	(14,859)	-
Transfer to intangibles	(922,089)	-	(922,089)	-
Net book value of capital works in progress	2,755,818	1,734,650	2,587,910	1,734,650
<b>Total net book value of property, plant and equipment</b>	2,820,655	1,777,919	2,624,434	1,766,091
<b>12. INTANGIBLE ASSETS</b>				
<b>Patents and intellectual property</b>				
<i>Cost</i>				
Opening balance	580,023	580,023	-	-
Additions	53,646	-	-	-
Net book value of plant and equipment	633,669	580,023	-	-
<b>Development costs</b>				
<i>Cost</i>				
Opening balance	2,003,671	1,392,840	2,003,671	1,392,840
Additions	1,195,824	610,831	1,195,824	610,831
Transfer from plant and equipment	922,089	-	922,089	-
Net book value of capital works in progress	4,121,584	2,003,671	4,121,584	2,003,671
<b>Total net book value of intangible assets</b>	4,755,253	2,583,694	4,121,584	2,003,671

The expenditure capitalised as intangible assets relate to the Company's development of the Banana Ply Project and associated patents. As discussed in note 2 (t), the recoverability of the asset is dependent on the successful commercialisation of the technology. As 30 June 2009, the commercialisation was not complete.

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

#### 13. TRADE AND OTHER PAYABLES (CURRENT)

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
Trade payables (i)	818,499	172,859	615,013	152,415
Sundry payables and accrued expenses	208,343	74,400	208,343	74,400
	1,026,842	247,259	823,356	226,815

(i) Trade payables are non-interest bearing and are normally settled on 30-day terms.

Information regarding the credit risk of current payables is set out in note 24.

#### 14. SHORT-TERM PROVISIONS

##### Annual Leave Provision

Opening balance	56,067	48,555	56,067	48,555
Net increase in provision during financial year	16,589	7,512	16,589	7,512
	72,656	56,067	72,656	56,067

#### 15. OTHER NON-CURRENT LIABILITIES

Deferred income - Government Grants	2,067,751	1,932,596	2,067,751	1,932,596
	2,067,751	1,932,596	2,067,751	1,932,596

#### 16. ISSUED CAPITAL

74,790,412 fully paid ordinary shares  
(2008: 67,982,008)

	11,273,337	8,567,800	11,273,337	8,567,800
	11,273,337	8,567,800	11,273,337	8,567,800

	2009		2008	
	Number	\$	Number	\$
<b>Ordinary shares</b>				
Balance at beginning of year	67,982,008	8,567,800	57,743,245	6,333,275
Shares issued upon exercise of listed options at various dates	1,197,120	299,280	9,604,350	1,920,870
Shares issued pursuant to Share Purchase Plan	2,854,684	1,256,000	634,413	313,655
Shares issued pursuant to private placements	2,756,600	1,212,904	-	-
Transaction costs (net of tax)	-	(62,647)	-	-
Balance at end of financial year	74,790,412	11,273,337	67,982,008	8,567,800

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).

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

#### 17. RESERVES

	Consolidated		Parent	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Share-option reserve</b>	685,197	325,915	685,197	325,915
	685,197	325,915	685,197	325,915
<b>Share-option reserve</b>				
Balance at beginning of financial year	325,915	157,982	325,915	157,982
Issue of options to employees and officers under Employee Share Option Plan	359,282	167,933	359,282	167,933
Balance at end of financial year	685,197	325,915	685,197	325,915

#### Nature and purpose of reserves

##### Share option reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to note 19 for further details of these plans.

#### 18. RETAINED EARNINGS

Balance at beginning of financial year	(4,547,767)	(2,684,042)	(4,513,594)	(2,652,887)
Net profit attributable to members of the parent entity	(1,581,410)	(1,863,725)	(1,540,421)	(1,860,707)
Balance at end of financial year	(6,129,177)	(4,547,767)	(6,054,015)	(4,513,594)

#### 19. 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 time and part time) will be eligible to participate in the Plan
- 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 (provided all relevant vesting conditions, if applicable, have been met. Options will be issued free. The exercise price of options will be determined by the board. 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.

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

- 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 30 days 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 following table illustrates the number (No.) and weighted average exercise prices (WAEP) and movements in share options issued during the year (including those issues outside of the ESOP plan):

	2009 No.	2009 WAEP	2008 No.	2008 WAEP
Outstanding at the beginning of the year	28,983,155	0.30	37,587,505	0.25
Granted during the year	400,000	1.63	1,000,000	1.03
Exercised during the year	(1,197,120)	0.25	(9,604,350)	0.20
Outstanding at the end of the year	28,186,035	0.32	28,983,155	0.30
Exercisable at the end of the year	27,286,035	0.28	27,483,155	0.27

The weighted average remaining contractual life for the share options outstanding as at 30 June 2009 was 0.94 years (2008: 1.89 years).

The range of exercise prices for options outstanding at the end of the year was \$0.25 - \$1.75 (2008: \$0.25 - \$1.25).

The weighted average fair value of options granted during the year was \$0.20 (2008: \$0.51).

The fair value of all share options are measured at the reporting date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted. The following table lists the inputs to the model used for the years ended 30 June 2009 and 30 June 2008.

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

	2009	2008
Weighted Average Exercise price	1.63	1.03
Weighted Average Volatility	77.82%	72.40%
Weighted Average Risk-free interest rate (%)	5.18%	6.43%
Expected life of option (years)	5.00	5.00
Dividend rate	0%	0%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements. The life of the options is based on the historical exercise pattern, which may or may not eventuate in the future.

## 20. COMMITMENTS FOR EXPENDITURE

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<u>Operating leases</u>				
Not longer than 1 year	210,439	252,049	210,439	252,049
Longer than 1 year and not longer than 5 years	791,611	429,354	791,611	429,354
	1,002,050	681,403	1,002,050	681,403

### 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.

The vehicle leases are non-cancellable leases with a 2 - 5 year term and a residual payout of \$76,838.

## 21. 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.

## 22. AUDITOR'S REMUNERATION

Audit or review of the financial report	27,800	26,200	27,800	26,200
	27,800	26,200	27,800	26,200

No other services have been provided.

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

#### 23. SUBSIDIARIES

Name of entity	Country of incorporation	Ownership interest	
		2009 %	2008 %
<u>Parent entity</u>			
Papyrus Australia Ltd	Australia		
<u>Subsidiaries</u>			
PPY Engineering Pty Ltd	Australia	100	-
Papyrus Technology Pty Ltd	Australia	100	100
PPY Manufacturing Pty Ltd	Australia	100	-
Australian Advanced Manufacturing Centre Pty Ltd	Australia	100	-
Pulp Fiction Manufacturing Pty Ltd	Australia	50	-

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

#### 24. 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 16, 17 and 18 respectively.

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

The Group and parent entity hold the following financial instruments:

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<i>FINANCIAL ASSETS</i>				
Cash and cash equivalents	1,129,564	2,145,022	1,129,350	2,144,808
Trade receivables	188,200	75,235	166,487	75,235
<i>FINANCIAL LIABILITIES</i>				
Payables	1,026,842	247,259	823,356	226,815

##### 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 sensitivity analysis

The tables listed below detail the Company's interest bearing asset, consisting solely of cash on hand and on short term deposit.

##### Consolidated

	Weighted average effective interest rate %	Less than 1 year \$
<b>2009</b>		
Variable interest rate	3.34	1,129,564



## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

*Parent*

	Weighted average effective interest rate %	
<b>2009</b>		
Variable interest rate	3.34	1,129,350

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 \$5,650 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 have 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 1 year \$	Longer than 1 year and not longer than 5 years \$
<b>2009</b>			
Non-interest bearing	0.00%	1,026,842	-
	Weighted average effective interest rate %	Less than 1 year \$	Longer than 1 year and not longer than 5 years \$
<b>2008</b>			
Non-interest bearing	0.00%	247,259	-

*Parent*

	Weighted average effective interest rate %	Less than 1 year \$	Longer than 1 year and not longer than 5 years \$
<b>2009</b>			
Non-interest bearing	0.00%	823,356	-
	Weighted average effective interest rate %	Less than 1 year \$	Longer than 1 year and not longer than 5 years \$
<b>2008</b>			
Non-interest bearing	0.00%	226,815	-

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

#### 25. 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  
 Dr David Wyatt, Non-Executive Director  
 Mr Ramy Azer, Managing Director  
 Mr Graeme Menzies, Non-Executive Director  
 Mr Donald Stephens, Executive Director  
 Mr Christopher Smerdon, Non-Executive Director  
 Mr Grant Pigot - Chief Operation Officer  
 Mr Vincent Rigano - Company Secretary

The remuneration details of the above personnel can be found in remuneration report of the director's report. The totals of remuneration paid to KMP of the Group during the year are as follows:

	2009	2008
	\$	\$
<b>Consolidated group</b>		
Short-term employee benefits	653,889	970,467
Post employment benefits	13,211	66,633
Share-based payments	-	167,934
	<u>667,100</u>	<u>1,205,034</u>

The parent's remuneration was the same as the consolidated group for both 2009 and 2008.

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

#### Option holdings of Key Management Personnel

30-Jun-09	Balance at beginning of period	Granted as remuneration	Options Exercised	Net change other	Balance at end of period	Vested at 30 June 2009		
						Expiry Date	First Exercise Date	Last Exercise Date
<b>Directors</b>								
Mr Edward Byrt	-	-	-	-	-	N/A	N/A	N/A
Dr David Wyatt	1,793,757	-	(600,000)	-	1,193,757	02/12/04	02/12/04	31/03/10
Mr Ramy Azer	11,046,000	-	-	-	11,046,000	02/12/04	02/12/04	31/03/10
Mr Graeme Menzies	783,424	-	-	-	783,424	02/12/04	02/12/04	31/03/10
Mr Donald Stephens	3,333,557	-	-	-	3,333,557	02/12/04	02/12/04	31/03/10
Mr Christopher Smerdon	840,241	-	-	-	840,241	02/12/04	02/12/04	31/03/10

#### **Executives**

Mr Grant Pigot	500,000	-	-	-	500,000	14/08/06	14/08/07	13/08/11
	500,000	-	-	-	500,000	14/08/06	14/08/08	13/08/11
Mr Vincent Figano	3,026,874	-	-	-	3,026,874	02/12/04	02/12/04	31/03/10

No options were allotted to Key Management Personnel in 2009 or 2008.

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

30-Jun-08	Balance at beginning of period	Granted as remuneration	Options Exercised	Net change other	Balance at end of period	Vested at 30 June 2008		
						Expiry Date	First Exercise Date	Last Exercise Date
<b>Directors</b>								
Mr Edward Byrt	-	-	-	-	-	N/A	N/A	N/A
Dr David Wyatt	1,793,757	-	-	-	1,793,757	02/12/04	02/12/04	31/03/10
Mr Ramy Azer	11,046,000	-	-	-	11,046,000	02/12/04	02/12/04	31/03/10
Mr Graeme Menzies	783,424	-	-	-	783,424	02/12/04	02/12/04	31/03/10
Mr Donald Stephens	3,333,557	-	-	-	3,333,557	02/12/04	02/12/04	31/03/10
Mr Christopher Smerdon	970,241	-	(130,000)	-	840,241	02/12/04	02/12/04	31/03/10

#### Executives

Mr Grant Pigot	500,000	-	-	-	500,000	14/08/06	14/08/07	13/08/11
	500,000	-	-	-	500,000	14/08/06	14/08/08	13/08/11
Mr Vincent Figano	3,026,874	-	-	-	3,026,874	02/12/04	02/12/04	31/03/10
Mr William Halliday *	250,000	-	-	-	250,000	08/10/12	08/10/09	08/10/12
	250,000	-	-	-	250,000	08/10/12	08/10/10	08/10/12
Mr Anthony Cichonski *	250,000	-	-	-	250,000	15/10/12	15/10/09	15/10/12
	250,000	-	-	-	250,000	15/10/12	15/10/10	15/10/12

All of the above listed options were fully vested (2008: 500,000 held by Mr Grant Pigot first exercisable from 14/08/2008 were unvested, all others vested).

\* The executives noted with an asterisk have ceased to be classed as key management personnel in 2009 and accordingly there are no disclosures for them in the current year.

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

#### Shareholdings of Key Management Personnel

	30 June 09	Balance at 1 July 08	On Exercise of Options	Net Change Other	Balance 30 June 09
<b>Directors</b>					
Mr Edward Byrt		950,536	-	22,728	973,264
Dr David Wyatt		1,587,514	600,000	11,364	2,198,878
Mr Ramy Azer		21,226,413	-	11,364	21,237,777
Mr Graeme Menzies		51,790	-	6,819	58,609
Mr Donald Stephens		217,114	-	11,364	228,478
Mr Christopher Smerdon		310,483	-	11,364	321,847

#### **Executives**

Mr Grant Pigot		-	-	-	-
Mr Vincent Rigano		213,747	-	-	213,747

	30 June 08	Balance at 1 July 07	On Exercise of Options	Net Change Other	Balance 30 June 08
<b>Directors</b>					
Mr Edward Byrt		950,536	-	-	950,536
Dr David Wyatt		1,587,514	-	-	1,587,514
Mr Ramy Azer		20,592,000	634,413	-	21,226,413
Mr Graeme Menzies		36,733	-	15,057	51,790
Mr Donald Stephens		217,114	-	-	217,114
Mr Christopher Smerdon		180,483	-	130,000	310,483

#### **Executives**

Mr Grant Pigot		-	-	-	-
Mr Vincent Rigano		153,747	60,000	-	213,747
Mr William Halliday		-	-	-	-
Mr Anthony Cichonski		-	-	20,000	20,000

## Notes to the Financial Statements continued

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

#### Wholly owned group transactions

##### Loans

The wholly owned Group consists of those entities listed in note 23. 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. The closing value of all loan amounts to wholly owned members of the Group is contained within the balance sheet under other receivables and cash movements throughout the year are detailed within the body of the cash flow statement under loans to wholly owned subsidiaries.

##### Director related entities

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

Management fees and corporate advisory fees paid to DCS Corporate Advisory Services Pty Ltd for services provided. Mr Donald Stephens is the sole director of the entity - \$72,000 (2008: \$24,000).

Legal fees paid to Norman Waterhouse Lawyers for the provision of legal services. Mr Edward Byrt is a director of Norman Waterhouse Lawyers - \$64 (2008: \$8,102).

Accounting fees paid to VP Rigano and Co Pty Ltd for accounting services provided. Mr Vincent Rigano is a director of VP Rigano and Co Pty Ltd - \$40,820 (2008: \$38,400)

#### **26. GOING CONCERN**

The financial report has been prepared on the basis of going concern. The company will require additional capital for the continued development of its Banana Ply Project and working capital. The directors note that there are significant options that (at the date of signing this report) are in the money that fall due in March 2010 and if exercised would provide sufficient working capital. The Company additionally continues to be in consultation with its advisers to evaluate alternative means of raising additional capital.

The Company's ability to continue as a going concern is contingent upon successful raising additional capital. If additional funds are not raised, the going concern basis may not be appropriate, with the result that the Company may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and in amounts different from those states in this financial report. No allowance for such circumstances has been made in the financial report.

## Directors' Declaration

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 23 to 54, are in accordance with the *Corporations Act 2001* and:
  - a. comply with Accounting Standards; and
  - b. give a true and fair view of the financial position as at 30 June 2009 and the performance for the year ended on that date of the Company and consolidated Group;
2. the Managing Director and Company Secretary have each declared that:
  - a. the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
  - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
  - c. the financial statements and notes for the financial year give a true and fair view;
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.

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



Mr Donald Stephens  
Director

30 September 2009

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PYPYRUS AUSTRALIA LTD**

### **Report on the Financial Report**

We have audited the accompanying financial report of Papyrus Australia Ltd, (the company) which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing Standards require that we 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.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PYPYRUS AUSTRALIA LTD Cont**

### **Auditor's responsibility Cont**

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 entity's preparation and fair presentation of the financial report 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 entity'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 opinions.

### **Independence**

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

### **Auditor's opinion**

In our opinion:

- a the financial report of Papyrus Australia Ltd is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

### **Material uncertainty regarding continuation as a going concern**

Without qualifying our opinion attention is drawn to Note 26 – going concern basis of accounting to the Annual Financial Report. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's and consolidated entity's ability to continue as a going concern. The financial report has been prepared on the basis of going concern. The company and consolidated entity are reliant on the raising of additional capital for the continued development of their existing projects and working capital.

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

**Material uncertainty regarding continuation as a going concern Cont**

The company's and consolidated entity's ability to continue as a going concern is contingent upon successfully raising additional capital. If additional funds are not raised, the going concern basis may not be appropriate, with the result that the company and consolidated entity may have to realise their assets and extinguish their liabilities, other than in the ordinary course of business and in amounts different from those stated in the Annual Financial Report. No allowance for such circumstances has been made in the financial report.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 11 to 13 of the directors' report for the year ended 30 June 2009. 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**

In our opinion the Remuneration Report of Papyrus Australia Ltd for the year ended 30 June 2009, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON  
South Australian Partnership  
Chartered Accountants



S J Gray  
Partner

Signed at Wayville on this 30<sup>th</sup> day of September 2009