

Papyrus Australia Ltd

ABN 63 110 868 409

Annual Report

for the year ended 30 June 2011

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Corporate Information

This annual report covers Papyrus Australia Ltd (ABN 63 110 868 409) 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 7 to 12. The directors' report is not part of the financial report.

Directors

Mr Edward Byrt (Chairman)
Mr Ramy Azer
Mr Graeme Menzies (resigned 17 June 2011)
Mr Donald Stephens
Mr Christopher Smerdon (resigned 31 August 2011)
Mr Colin Dunsford (appointed 7 October 2010)

Company Secretary

Mr Pierre Van Der Merwe

Registered Office

C/- HLB Mann Judd (SA) Pty Ltd
82 Fullarton Road
NORWOOD SA 5067

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

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

Auditors

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

Directors' report

Your directors submit their report for the year ended 30 June 2011.

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.

Mr Edward Byrt (Chairman)

Mr Ramy Azer

Mr Graeme Menzies (resigned 17 June 2011)

Mr Donald Stephens

Mr Christopher Smerdon (resigned 31 August 2011)

Mr Colin Dunsford (appointed 7 October 2010)

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, a Director of Treyo Leisure & Entertainment Ltd (ASX Code: TYO) and a Board member of the SA Housing Trust and the Aboriginal Foundation of South Australia Inc.

He is also a member of the Company's Audit committee and has been a Director of Papyrus since 2004.

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

Graeme Menzies, LLB, (Non-Executive Director)

Mr Menzies is a Barrister and Solicitor with over 40 years experience in practice. He commenced legal practice in 1972. He established his own legal practice in 1988 focussing on company and corporate law, primarily relating to takeovers, mergers, reconstructions, listings and capital raisings. Graeme continues to work solely in the corporate arena, both as a solicitor and, more recently, as an employee of a commercial consultancy firm which provides commercial consultancy advice and management relating to his areas of expertise. He is presently a director of Moby Oil and Gas Limited (ASX Code: MOG), Octanex NL (ASX Code: OXX) and Exoil Limited (NSX Code: EXX) 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 25 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 (ASX Code: MTH) and CRW Holdings Ltd (ASX Code: CRW) and is company secretary to Toro Energy Ltd (ASX Code: TOE), Minotaur Exploration Ltd (ASX Code: MEP), and Petratherm Ltd (ASX Code: PTR). He holds other company secretarial positions and directorships with private companies and provides corporate advisory services to a wide range of organisations.

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

Christopher Smerdon, (Non-Executive Director)

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

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

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

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

Directors' report continued

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

COMPANY SECRETARY

Pierre Van Der Merwe, CA

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

OPERATING RESULTS

The loss of the consolidated group after providing for income tax amounted to (\$4,791,977) (2010: (\$2,776,336)).

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	2,556,597	416,667
Mr Colin Dunsford	23,810	-
Mr Ramy Azer	24,678,853	1,250,000
Mr Graeme Menzies (resigned 17 June 2011)	204,576	-
Mr Donald Stephens	975,630	-
Mr Christopher Smerdon (resigned 31 August 2011)	506,399	-

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 Group's commercialisation strategy remains focused on being a technology licensing Group assisting suitable entities to establish banana veneering and panel

Directors' report continued

production factories in locations worldwide where bananas are grown.

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

OPERATIONS REVIEW

Corporate

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

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

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

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

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

Yearly expenditure included \$1.138 Million in capital for planned development work to the Group's Walkamin Demonstration Factory, Far North Queensland, and the design and construction of new machines noted later in this report. The Group acknowledges the assistance and financial support from a Commonwealth Government grant for developing industries.

Capital Raising

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

Directors' report continued

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

Intellectual Property

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

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

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

Operations

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

a. Walkamin Demonstration Factory

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

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

The fibre production process was established during Q2 with the completion of the Fibre Production Unit (FPU) which was placed in line with the BVU during Q3. This enabled the roundup produced by the BVU to be in-line processed by the FPU to produce fibre chips which are then mechanically removed for drying. Fibre chips are used as the base material for the production of panel.

Directors' report continued

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

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

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

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

b. Product Development

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

Directors' report continued

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

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

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

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

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

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

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

Directors' report continued

d. Environmental Value

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

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

e. International Strategy

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

The Group remains committed to a commercialisation strategy which involves licensing its technology to enable the establishment of the first full-scale production factory in Egypt to supply the European panel and veneer markets. The Group chose Egypt because it has established networks and contacts in that region and it is a strong banana growing country, with established infrastructure and good logistic connections with Europe. The Group continues to investigate market potentials in Europe for product produced from the Papyrus process.

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

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

Directors' report continued

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

Update post 30 June 2011

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

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

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.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matters or circumstances have arisen since 30 June 2011 that has significantly affected, or may significantly affect the operations of the Group.

Directors' report continued

Shares under option

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

Issue Date	Expiry Date	Exercise Price	Balance
14/08/2006	13/08/2011	\$0.40	500,000
14/08/2006	13/08/2011	\$0.50	500,000
08/10/2007	7/10/2012	\$0.80	250,000
08/10/2007	7/10/2012	\$1.25	250,000
15/10/2007	14/10/2012	\$0.80	250,000
15/10/2007	14/10/2012	\$1.25	250,000
01/07/2008	30/06/2013	\$1.50	100,000
01/07/2008	30/06/2013	\$1.75	100,000
17/03/2009	16/03/2014	\$1.50	125,000
17/03/2009	16/03/2014	\$1.75	125,000
17/02/2011	31/03/2013	\$0.12	4,825,974
24/03/2011	31/03/2013	\$0.12	1,666,667
			8,942,641

Shares issued as a result of the exercise of options

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

New options issued

During the year, 6,492,641 options were issued to participants in the Company's private placement in February 2011. The options can be exercised at any time until 31 March 2013 and have an exercise price of \$0.12.

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 \$14,855. 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 willful 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

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

The employment conditions of the General Manager, Mr Geoff Whitbread, are formalised in a services contract dated 5 July 2010. The contract provides for a daily fee rate of \$900 (exclusive of GST), with Mr Whitbread to prepare a work plan on a quarterly basis for approval by the Company's executive committee. The Company may terminate the services contract without cause by providing one (1) month's written notice or making payment in lieu of notice, being calculated as 20 days at the daily rate. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

Key management personnel remuneration and equity holdings

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

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

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

Directors' report continued

Non executive directors' fees are determined within an aggregate director's fee pool limit, which is periodically recommended for approval by shareholders. The pool does not include the remuneration payable to the Managing Director Mr Ramy Azer. The maximum currently stands at \$300,000 per annum and was approved by shareholders prior to the Company listing in April 2005.

REMUNERATION REPORT CONTINUED- AUDITED

Table 1: Director remuneration for the year ended 30 June 2011 and 30 June 2010

	Primary Benefits	Post Employment	Share-based Payments	Total
	Salary & Fees	Superannuation	Options	\$
Mr Edward Byrt	\$	\$	\$	
2011	30,581	2,752	-	33,333
2010	50,025	29,975	-	80,000
Dr David Wyatt				
2011	-	-	-	-
2010	18,400	22,402	-	40,802
Mr Ramy Azer				
2011	300,000	-	-	300,000
2010	300,000	-	-	300,000
Mr Graeme Menzies				
2011	10,000	-	-	10,000
2010	38,175	-	-	38,175
Mr Donald Stephens				
2011	10,000	-	-	10,000
2010	38,175	-	-	38,175
Mr Christopher Smerdon				
2011	13,333	-	-	13,333
2010	38,175	-	-	38,175
Mr Colin Dunsford				
2011	-	-	-	-
2010	-	-	-	-
Total				
2011	363,914	2,752	-	366,666
2010	482,950	52,377	-	535,327

Directors' report continued

REMUNERATION REPORT CONTINUED- AUDITED

Table 2: Remuneration of key management personnel for the year ended 30 June 2011 and 30 June 2010

	Primary Benefits	Post Employment	Share-based Payments	Total
	Salary & Fees	Superannuation	Options	\$
Mr Geoff Whitbread	\$	\$	\$	
2011	239,400	-	-	239,400
2010	110,672	-	-	110,672
Mr Grant Piggot				
2011	-	-	-	-
2010	103,617	1,922	-	105,539
Mr Vince Rigano				
2011	-	-	-	-
2010	28,525	-	-	28,525
Total				
2011	239,400	-	-	239,400
2010	242,814	1,922	-	244,736

Effective from 1 November 2010, the Directors resolved that no further remuneration be payable to Directors, with this to be reviewed in January 2012.

No remuneration for Directors for the year ended 30 June 2011 or 30 June 2010 was performance based and no options were granted to directors.

HLB Mann Judd (SA) Pty Ltd has received professional fees for accounting, taxation and secretarial services provided during the year amounting to \$64,263 (2010: \$39,840). Pierre Van Der Merwe, the Company Secretary, is a director of HLB Mann Judd (SA) Pty Ltd and Mr Donald Stephens, Executive Director, is a consultant to HLB Mann Judd (SA) Pty Ltd.

Directors' report continued

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
Number of meetings held	6	2
Number of meetings attended:		
Mr Edward Byrt	6	1
Mr Colin Dunsford	5	-
Mr Ramy Azer	5	-
Mr Graeme Menzies (resigned 17 June 2011)	6	-
Mr Donald Stephens	6	2
Mr Christopher Smerdon (resigned 31 August 2011)	5	2

Members acting on the audit committee of the Board are:

Colin Dunsford	Non-executive director (Chairman, appointed June 2011)
Edward Byrt	Non-executive director
Donald Stephens	Executive director
Christopher Smerdon	Non-executive director (Resigned from committee June 2011)

PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

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.

Directors' report continued

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2011 as required under section 307C of the Corporations Act 2001 has been received and can be found on page 19.

Signed in accordance with a resolution of the directors.

A handwritten signature in cursive script that reads "Donald Stephens".

Mr Donald Stephens
Director

30 September 2011

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Papyrus Australia Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants



J L Humphrey
Partner

Adelaide, 30 September 2011

Statement of Comprehensive Income

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

				Consolidated Group		
		Note	2011	2010		
			\$	\$		
Revenue from operating activities	4 (a)		195,070	87,009		
Other income	4 (b)		21,500	23,534		
Depreciation expense	4 (c)		(280,148)	(95,278)		
Employee benefits expenses	4 (d)		(1,413,542)	(1,156,525)		
Other expenses	4 (e)		(1,613,850)	(1,832,704)		
Impairment of assets	4 (f)		(1,989,489)	-		
Loss before income tax benefit			(5,080,459)	(2,973,964)		
Income tax benefit	5		288,482	197,628		
Loss from ordinary activities after income tax expense			(4,791,977)	(2,776,336)		
Loss attributable to members of the parent entity			(4,791,977)	(2,776,336)		
Other comprehensive income			-	-		
Total comprehensive income for the year			(4,791,977)	(2,776,336)		
Total comprehensive income attributable to members of the parent entity			(4,791,977)	(2,776,336)		
Earnings per share:			<i>Cents</i>	<i>Cents</i>		
Basic earnings per share	6		(4.75)	(3.23)		
Diluted earnings per share	6		(4.75)	(3.23)		

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

Statement of Financial Position

AS AT 30 JUNE 2011

	Note	Consolidated Group	
		2011 \$	2010 \$
CURRENT ASSETS			
Cash and cash equivalents	7	832,919	2,444,112
Trade and other receivables	8	52,551	142,654
Other current assets	9	74,356	146,699
TOTAL CURRENT ASSETS		959,826	2,733,465
NON-CURRENT ASSETS			
Property, plant and equipment	10	5,093,770	4,237,207
Intangible assets	11	2,888,330	4,854,294
TOTAL NON-CURRENT ASSETS		7,982,100	9,091,501
TOTAL ASSETS		8,941,926	11,824,966
CURRENT LIABILITIES			
Trade and other payables	12	223,940	602,812
Short-term borrowings	13	26,674	9,054
Short-term provisions	14	66,608	52,468
TOTAL CURRENT LIABILITIES		317,222	664,334
NON-CURRENT LIABILITIES			
Long-term borrowings	13	38,389	-
Long-term provisions	14	15,188	-
Other non-current liabilities	15	3,118,031	2,415,757
TOTAL NON-CURRENT LIABILITIES		3,171,608	2,415,757
TOTAL LIABILITIES		3,488,830	3,080,091
NET ASSETS		5,453,096	8,744,875
EQUITY			
Issued capital	16	18,380,815	16,889,136
Reserves	17	769,771	761,252
Retained earnings		(13,697,490)	(8,905,513)
TOTAL EQUITY		5,453,096	8,744,875

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

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

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

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

Statement of Cash Flows

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

		Consolidated group	
		2011	2010
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
		158,007	-
		396,256	364,121
		(3,156,338)	(2,862,111)
		623,023	275,182
		92,929	49,930
NET CASH USED IN OPERATING ACTIVITIES	7 (a)	(1,886,123)	(2,172,878)
CASH FLOWS FROM INVESTING ACTIVITIES			
		(1,155,646)	(1,283,176)
		-	(133,376)
		(23,525)	(99,041)
NET CASH USED IN INVESTING ACTIVITIES		(1,179,171)	(1,515,593)
CASH FLOWS FROM FINANCING ACTIVITIES			
		1,558,234	5,302,880
		(95,079)	(308,424)
		-	16,057
		(9,054)	(7,494)
NET CASH PROVIDED BY FINANCING ACTIVITIES		1,454,101	5,003,019
		(1,611,193)	1,314,548
		2,444,112	1,129,564
CASH AT THE END OF THE YEAR	7	832,919	2,444,112

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

1. CORPORATE INFORMATION

The financial report of Papyrus Australia Ltd for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 30 September 2011. 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. Principles 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 22 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 2011

c. Business combinations

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

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

d. Revenue recognition

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

Sale of goods

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

Interest income

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

e. Government grants

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

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

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

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

f. Borrowing costs

Borrowing costs are recognised as an expense when incurred.

g. Leases

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

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

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

h. Cash and cash equivalents

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

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

i. Trade and other receivables

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

j. Income tax

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

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

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:

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

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

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

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

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

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

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.

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

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

k. Goods and Services Tax (GST)

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

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

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

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

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

l. 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 2011 and 2010 is as follows:

Plant and equipment 2.5 - 10 years

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 recent 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.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

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.

m. 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.

n. Financial instruments

Initial recognition and measurement

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

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

Classification and subsequent measurement

Finance instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method, or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

Amortised cost is calculated as:

- a) The amount at which the financial asset or financial liability is measured at initial recognition;
- b) Less principal repayments;
- c) Plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and
- d) Less any reduction for impairment.

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

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

Loans and receivables

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

Loans and receivables are included in current assets, except those which are not expected to mature within 12 months after the end of the reporting period (All other loans and receivables are classified as non-current assets).

Fair Value

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

Impairment

At each reporting date, the Group assesses 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 statement of comprehensive income.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

o. 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.

p. 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.

q. 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.

r. 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 2011

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

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 statement of comprehensive income, 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.

s. 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.

t. 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.

u. Comparative figures

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

When the Group applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements, a statement of financial position as at the beginning of the earliest comparative period will be disclosed.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

v. **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 2011, the commercialisation was not complete.

w. **New and Revised Accounting Standards**

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

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

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

x. **Accounting standards not yet effective**

The accounting standards that have not been early adopted for the year ended 30 June 2011, but will be applicable to Papyrus Australia Ltd in future reporting periods, are detailed below. Apart from these standards, we have considered other accounting standards that will be applicable in future periods, however they have been considered insignificant to Papyrus Australia Ltd

(a) Consolidated Financial Statements

IFRS 10: "Consolidated Financial Statements" was issued by the IASB in May 2011 and replaces both the existing IAS 27: "Consolidated and Separate Financial Statements" and SIC 12: "Consolidation - Special Purpose Entities". This new standard revises the definition of control and related application guidance so that a single control model can be applied to all entities. This standard will apply to Papyrus Australia Ltd from 1 July 2013 and it is believed there will be insignificant impact for Papyrus Australia Ltd.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

(b) Joint Arrangements

IFRS 11: "Joint Arrangements" was also issued by the IASB in May 2011 and provides for a more realistic reflection of joint arrangements by focussing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. This standard is applicable from 1 July 2013, with early adoption permitted. Management is assessing the impact on Papyrus Australia Ltd but at this stage it is believed there will be insignificant impact on the company.

(c) Disclosure of Interests in Other Entities

IFRS 12: "Disclosure of Interests in other Entities" was issued by the IASB in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard is applicable from 1 July 2013 and management is currently assessing the impacts of the standard, which will be limited to disclosure impacts only. There have also been consequential amendments to IAS 28: "Investment in Associates" as a result of the above new standard. These amendments are applicable from 1 July 2013 and at this stage it is believed there will be no impact on the company.

(d) Fair Value Measurement

IFRS 13: "Fair Value Measurement" was issued by the IASB in May 2011 and provides a precise definition of a fair value, is a single source of fair value measurement and prescribes disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The standard will apply to Papyrus Australia Ltd from 1 July 2013 and at this stage it is believed there will be no impact on the company.

(e) Other

In addition to the above recently issued accounting standards that are applicable in future years, we note the following new accounting standards that are applicable in future years:

- AASB 124: "Related Party Disclosures";
- AASB 2009-12: "Amendments to Australian Accounting Standards";
- AASB 2010-4: "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project";
- AASB 2010-5: "Amendments to Australian Accounting Standards";
- AASB 2010-8: "Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets"; and
- AASB 2011-4 "Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements".

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

We do not expect these accounting standards to materially impact our financial results upon adoption.

y. Impact of the Carbon Tax Legislation

On 10 July 2011, the Commonwealth Government announced the “Securing a Clean Energy Future - the Australian Government’s Climate Change Plan”. Whilst the announcement provides further details of the framework for a carbon pricing mechanism, uncertainties continue to exist on the impact of any carbon pricing mechanism on the Group as legislation must be voted on and passed by both Houses of Parliament. In addition, as the Group will not fall within the “Top 500 Australian Polluters”, the impact of the Carbon Scheme will be through indirect effects of increased prices on many production inputs and general business expenses as suppliers subject to the carbon pricing mechanism are likely to pass on their carbon price burden to their customers in the form of increased prices. Directors expect that this will not have a significant impact upon the operation costs within the business, and therefore will not have an impact upon the valuation of assets and/or going concern of the business.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

3. SEGMENT INFORMATION

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

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

4. REVENUE AND EXPENSES

	Consolidated Group	
	2011	2010
	\$	\$
REVENUE		
<i>(a) Revenue from operating activities</i>		
Interest received from other parties	55,851	87,009
Sales revenue	139,219	-
	<u>195,070</u>	<u>87,009</u>
<i>(b) Other income</i>		
Net profit/(loss) on disposal of property, plant and equipment	21,500	(1,891)
Export Market Development Grant	-	25,425
	<u>21,500</u>	<u>23,534</u>
EXPENSES		
<i>(c) Depreciation of non-current assets</i>		
Plant and equipment	280,148	95,278
Total depreciation	<u>280,148</u>	<u>95,278</u>
<i>(d) Employees benefits expense</i>		
Wages, salaries and other remuneration expenses	1,715,416	1,374,252
Superannuation expense	65,287	61,723
Transfer to annual leave provision	14,140	(20,188)
Share-based payments expense	8,519	76,055
Transfer to capitalised intangibles and plant and equipment	(389,820)	(335,317)
Total employee benefits expense	<u>1,413,542</u>	<u>1,156,525</u>

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

	Consolidated Group	
	2011	2010
	\$	\$
<i>(e) Other expenses</i>		
Audit fees	37,500	31,927
Legal fees	11,046	82,668
Professional services	302,845	371,067
Travel and accommodation	170,438	80,363
Directors fees	73,333	159,887
Company secretarial	30,008	32,795
Rent	240,635	221,357
Communications expense	48,155	48,687
Share registry and ASX expenses	111,918	67,592
Marketing expenses	19,347	186,572
Public relations costs	39,170	41,354
Contractors	213,906	138,822
Freight expenses	46,571	3,139
Motor vehicle costs	87,135	65,695
Factory operating costs	153,223	262,073
Other expenses	28,620	38,706
	1,613,850	1,832,704
<i>(f) Impairment of assets</i>		
Intangibles	1,989,489	-
Total impairment of assets	1,989,489	-

In accordance with AASB 136 *Impairment of Assets* the Group has reviewed its carrying amounts in relation to both Property, Plant and Equipment and Intangible Assets. Subsequent to this review, it was determined that certain expenditure incurred in developing the Group's technology was redundant for future purposes. Accordingly, an impairment expense of \$1,989,489 (2010: Nil) has been recognised in relation to redundant IP contained within the Group's intangible assets.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

5. INCOME TAX

Consolidated Group	
2011	2010
\$	\$

The major components of the income tax benefit is:

Current income tax

Current income tax charge	28,523	93,669
R&D Tax offset	(317,005)	(291,297)
Income tax benefit reported in the statement of comprehensive income	(288,482)	(197,628)

A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:

Loss before income tax	(5,080,459)	(2,973,964)
------------------------	-------------	-------------

At the Group's statutory income tax rate of 30% (2010: 30%)

Expenditure not allowable for income tax purposes	596,847	67,997
Tax losses not recognised due to not meeting recognition criteria	927,291	824,192
Tax portion of share issue costs	28,523	93,669
	28,523	93,669

Tax losses

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

	2,650,996	1,723,705
	2,650,996	1,723,705

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

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:

	<u>Consolidated Group</u>	
	<u>2011</u>	<u>2010</u>
	\$	\$
Net loss attributable to ordinary equity holders of the parent	(4,791,977)	(2,776,336)
	<u>2011</u>	<u>2010</u>
Weighted average number of ordinary shares for basic earnings per share	100,967,047	85,933,005
Effect of dilution		
Share options	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	<u>100,967,047</u>	<u>85,933,005</u>
Earnings per share:	<i>Cents</i>	<i>Cents</i>
Basic earnings per share	(4.75)	(3.23)
Diluted earnings per share	(4.75)	(3.23)

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

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 2011

7. CASH AND CASH EQUIVALENTS

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

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.

	Consolidated Group	
	2011	2010
	\$	\$
Reconciliation to Statement of Cash Flows		
For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following at 30 June:		
Cash at banks and in hand	832,919	481,327
Short-term deposits	-	1,962,785
	832,919	2,444,112

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

Net loss	(4,791,977)	(2,776,336)
<i>Adjustments for non-cash items:</i>		
Impairment of assets	1,989,489	-
Depreciation	280,148	95,278
Share-based payments	8,519	76,055
Non cash tax expense	28,524	92,527
Net loss from sale of property, plant and equipment	-	1,891
<i>Changes in assets and liabilities</i>		
Decrease/(Increase) in trade and other receivables	90,102	45,546
(Increase) in other current assets	72,343	(43,765)
Increase in trade and other payables	(294,873)	8,108
(Decrease)/Increase in provisions	29,328	(20,188)
Increase in deferred income	702,274	348,006
Net cash from operating activities	(1,886,123)	(2,172,878)

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

8. TRADE AND OTHER RECEIVABLES

	Consolidated Group	
	2011	2010
	\$	\$
<i>Current</i>		
Trade receivables	42,880	26,400
Provision for doubtful debts	(26,400)	-
GST receivable	36,071	102,491
Other receivables	-	13,763
	<u>52,551</u>	<u>142,654</u>

Information regarding the credit risk of current receivables is set out in note 23.

9. OTHER CURRENT ASSETS

Prepayments	34,376	75,246
Accrued interest	-	37,078
Other	39,980	34,375
	<u>74,356</u>	<u>146,699</u>

10. PROPERTY, PLANT AND EQUIPMENT

Plant and equipment		
<i>Cost</i>		
Opening balance	1,276,366	135,316
Additions	374,235	485,481
Acquisitions through business combinations	-	662,192
Disposals	-	(6,623)
	<u>1,650,601</u>	<u>1,276,366</u>
<i>Accumulated depreciation</i>		
Opening balance	163,298	70,479
Depreciation for the year	280,148	95,278
Disposals	-	(2,459)
	<u>443,446</u>	<u>163,298</u>
Net book value of plant and equipment	<u>1,207,155</u>	<u>1,113,068</u>

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

	Consolidated Group	
	2011	2010
	\$	\$
Capital works in progress		
<i>Cost</i>		
Opening balance	3,124,139	2,755,818
Additions	762,476	639,854
Transfer to/(from) intangibles	-	133,119
Recovery of R&D costs	-	(404,652)
Net book value of capital works in progress	3,886,615	3,124,139
Total net book value of property, plant and equipment	5,093,770	4,237,207
11. INTANGIBLE ASSETS		
Patents and intellectual property		
<i>Cost</i>		
Opening balance	687,315	633,669
Additions	23,525	53,646
Net book value of patents and intellectual property	710,840	687,315
Development costs		
<i>Cost</i>		
Opening balance	4,166,979	4,121,584
Additions	-	178,514
Transfer (to)/from plant and equipment	-	(133,119)
Impairment of assets	(1,989,489)	-
Net book value of development costs	2,177,490	4,166,979
Total net book value of intangible assets	2,888,330	4,854,294

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 (v), the recoverability of the asset is dependent on the successful commercialisation of the technology. At 30 June 2011, the commercialisation was not complete.

In relation to the impairment expense of \$1,989,489 recorded against development costs, please refer to note 2.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

12. TRADE AND OTHER PAYABLES (CURRENT)

	Consolidated Group	
	2011	2010
	\$	\$
Trade payables (i)	116,282	323,898
Sundry payables and accrued expenses	107,658	278,914
	223,940	602,812

(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 23.

13. BORROWINGS

SHORT-TERM BORROWINGS

Finance Lease	26,674	9,054
	26,674	9,054

LONG-TERM BORROWINGS

Finance Lease	38,389	-
	38,389	-

The bank loan is secured by way of a fixed charge against the various pieces of office equipment owned by Papyrus Australia Ltd.

14. PROVISIONS

Short term

Opening balance	52,468	72,656
Net increase in provision during financial year	14,140	(20,188)
Closing balance	66,608	52,468

Long term

Opening balance	-	-
Net increase in provision during financial year	15,188	-
Closing balance	15,188	52,468

Short term provisions relate to unpaid annual leave and other employee benefits.

15. OTHER NON-CURRENT LIABILITIES

Deferred income - Government Grant	3,118,031	2,415,757
	3,118,031	2,415,757

The Company has been the recipient of two government grants that contain claw back provisions if certain performance targets are not met by the Company. The Company has fulfilled its contractual obligations under the respective Grant Deeds as at 30 June 2011. The Company has also filed all reports required of it pursuant to the Grant Deeds. Under government grant conditions it is usual for the grant recipient to be required to continue to file reports for specified periods after the conclusion of the funding agreement and claw back provisions remain alive until the reporting requirement periods expire.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

16. ISSUED CAPITAL

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

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).

17. RESERVES

	Consolidated Group	
	2011	2010
	\$	\$
Share-option reserve		
	769,771	761,252
	769,771	761,252
Share-option reserve		
Balance at beginning of financial year	761,252	685,197
Share based payments	8,519	76,055
Balance at end of financial year	769,771	761,252

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

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 18 for further details of these plans.

18. 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.
- 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.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) and movements in share options issued during the year:

	2011 No.	2011 WAEP	2010 No.	2010 WAEP
Outstanding at the beginning of the year	2,450,000	0.90	28,186,035	0.30
Granted during the year	6,492,641	0.12	50,000	1.63
Expired during the year	-	-	(25,786,035)	0.30
Outstanding at the end of the year	<u>8,942,641</u>	<u>0.33</u>	<u>2,450,000</u>	<u>0.90</u>
Exercisable at the end of the year	<u>8,942,641</u>	<u>0.33</u>	<u>2,325,000</u>	<u>0.85</u>

The weighted average remaining contractual life for the share options outstanding as at 30 June 2011 was 1.55 years (2010: 1.82 years).

The range of exercise prices for options outstanding at the end of the year was \$0.12 - \$1.75 (2010: \$0.40 - \$1.75).

19. COMMITMENTS FOR EXPENDITURE

	<u>Consolidated Group</u>	
	2011	2010
	\$	\$
Commitments for expenditure		
<u>Operating leases</u>		
Not longer than 1 year	188,100	193,519
Longer than 1 year and not longer than 5 years	225,069	346,554
	<u>413,169</u>	<u>540,073</u>

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.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

20. 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.

21. AUDITOR'S REMUNERATION

	Consolidated Group	
	2011	2010
	\$	\$
Audit or review of the financial report	37,500	31,927
	37,500	31,927

No other services have been provided.

22. SUBSIDIARIES

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

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

23. 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 and 17 respectively.

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

The Group holds the following financial instruments:

	Consolidated Group	
	2011	2010
	\$	\$
<i>FINANCIAL ASSETS</i>		
Cash and cash equivalents	832,919	2,444,112
Trade receivables	52,551	142,654
<i>FINANCIAL LIABILITIES</i>		
Payables	223,940	602,812
Short-term borrowings	26,674	9,054
Long-term borrowings	38,389	-

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 Group's interest bearing asset, consisting solely of cash on hand and on short term deposit.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

Consolidated

	Weighted average effective interest rate %	Less than 1 year \$
2011		
Variable interest rate	1.57	832,919

	Weighted average effective interest rate %	
2010		
Variable interest rate	3.34	2,444,112

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 \$4,165 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 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 \$
2011			
Non-interest bearing	0.00%	223,940	-
Interest bearing	6.38%	26,674	38,389
	Weighted average effective interest rate %	Less than 1 year \$	Longer than 1 year and not longer than 5 years \$
2010			
Non-interest bearing	0.00%	602,812	-
Interest bearing	6.38%	9,054	-

In all cases of financial assets and liabilities held by the group, the fair value of the instruments are equal to their relevant cost amounts.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

24. RELATED PARTY DISCLOSURE AND KEY MANAGEMENT PERSONNEL REMUNERATION

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

Mr Edward Byrt - Chairman
 Mr Ramy Azer - Managing Director
 Mr Graeme Menzies - Non-Executive Director (resigned 17 June 2011)
 Mr Donald Stephens - Executive Director
 Mr Christopher Smerdon - Non-Executive Director (resigned 31 August 2011)
 Mr Colin Dunsford - Non-Executive Director (appointed 7 October 2010)
 Mr Pierre Van Der Merwe - Company Secretary
 Mr Geoff Whitbread, General Manager

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:

	Consolidated group	
	2011	2010
	\$	\$
Short-term employee benefits	603,314	725,764
Post employment benefits	2,752	54,299
Share-based payments	-	-
	606,066	780,063

Option holdings of Key Management Personnel

No options were allotted to Key Management Personnel in 2011 or 2010.

No options were held by Key Management Personnel either during or at the end of the year ended 30 June 2011 with the exception of Mr Ramy Azer and Mr Edward Byrt. Mr Ramy Azer held 1,250,000 unlisted options and Mr Edward Byrt held 416,667 unlisted options. Both parcel of options were issued to Mr Azer and Mr Byrt in connection with a private placement and expire 31 March 2013 and are exercisable at \$0.12.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

30-Jun-10	Balance at beginning of year	Granted as remuneration	Options Exercised	Net change other	Balance at end of year	Vested at 30 June 2010		
						Expiry Date	First Exercise Date	Last Exercise Date
Directors								
Mr Edward Byrt	-	-	-	-	-	N/A	N/A	N/A
Dr David Wyatt	1,193,757	-	2,198,878	(3,392,635)	-	N/A	N/A	N/A
Mr Ramy Azer	11,046,000	-	(1,691,058)	(9,354,942)	-	N/A	N/A	N/A
Mr Graeme Menzies	783,424	-	(145,967)	(637,457)	-	N/A	N/A	N/A
Mr Donald Stephens	3,333,557	-	(747,152)	(2,586,405)	-	N/A	N/A	N/A
Mr Christopher Smerdon	840,241	-	(184,552)	(655,689)	-	N/A	N/A	N/A

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 Geoff Whitbread	-	-	(782,072)	782,072	-	N/A	N/A	N/A

Shareholdings of Key Management Personnel

30 June 11	Balance at 1 July 10	On Exercise of Options	Net Change Other	Balance 30 June 11
Directors				
Mr Edward Byrt	973,264	-	833,333	1,806,597
Mr Ramy Azer	22,928,853	-	2,500,000	25,428,853
Mr Graeme Menzies	204,576	-	-	204,576
Mr Donald Stephens	975,630	-	-	975,630
Mr Christopher Smerdon	506,399	-	-	506,399
Mr Colin Dunsford	23,810	-	-	23,810
Dr David Wyatt	2,637,652	-	(2,170,351)	467,301

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

30 June 11	Balance at 1 July 10	On Exercise of Options	Net Change Other	Balance 30 June 11
Executives				
Mr Geoff Whitbread	25,783	-	100,000	125,783

30 June 10	Balance at 1 July 09	On Exercise of Options	Net Change Other	Balance 30 June 10
Directors				
Mr Edward Byrt	973,264	-	-	973,264
Dr David Wyatt	2,198,878	(2,198,878)	-	-
Mr Ramy Azer	21,237,795	1,691,058	-	22,928,853
Mr Graeme Menzies	58,609	145,967	-	204,576
Mr Donald Stephens	228,478	747,152	-	975,630
Mr Christopher Smerdon	321,847	184,552	-	506,399

Executives				
Mr Grant Pigot	-	-	-	-
Mr Vincent Rigano	213,747	782,072	-	995,819

Wholly owned group transactions

Loans

The wholly owned Group consists of those entities listed in note 22. Transactions between Papyrus Australia Ltd and other entities in the wholly owned Group during the year consisted of loans advanced by Papyrus Australia Ltd to fund research and development activities.

Director related entities

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

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 - \$35,000 (2010: \$90,000). The amount of \$38,500 including GST was owed to the entity at 30 June 2011 (2010: \$11,917).

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

HLB Mann Judd (SA) Pty Ltd has received professional fees for accounting, taxation and secretarial services provided during the year of \$64,263 (2010: \$39,840). No amount was owed to the entity at 30 June 2011 (2010: \$7,997). Mr Pierre Van Der Merwe is a director of HLB Mann Judd (SA) Pty Ltd and Mr Donald Stephens is a consultant to HLB Mann Judd (SA) Pty Ltd.

Einstien's Café has received payments in relation to meals and refreshments made available to the staff of Papyrus. Mr Ramy Azer is a director of Einstien's Café. Papyrus has made payments of \$9,056 during the financial year (2010: \$6,114). The amount of \$874 was owed to the entity at 30 June 2011 (2010: nil).

25. PARENT ENTITY INFORMATION

	2011 \$	2010 \$
Financial Position		
Assets		
Current Assets	641,809	2,667,673
Non-current Assets	8,868,221	9,064,892
	<u>9,510,030</u>	<u>11,732,565</u>
Liabilities		
Current liabilities	284,919	571,933
Non-current Liabilities	2,195,152	2,415,757
	<u>2,480,071</u>	<u>2,987,690</u>
Equity		
Issued Capital	18,380,815	16,889,136
Reserves	769,771	761,252
Retained Earnings	(12,120,627)	(8,905,513)
	<u>7,029,959</u>	<u>8,744,875</u>
Financial Performance		
(Loss) for the year	(3,215,114)	(2,851,498)
Other comprehensive income	-	-
	<u>(3,215,114)</u>	<u>(2,851,498)</u>

Contingent Liabilities

Contingent liabilities of the parent entity have been incorporated into the Group information in note 20. The contingent liabilities of the parent are consistent with that of the Group.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

Contractual Commitments

Contractual Commitments of the parent entity are detailed in the below listed table.

	Parent 2011 \$	Parent 2010 \$
<u>Operating leases</u>		
Not longer than 1 year	188,100	62,894
Longer than 1 year and not longer than 5 years	225,069	210,051
	413,169	272,945
<u>Finance leases</u>		
Not longer than 1 year	26,674	
Longer than 1 year and not longer than 5 years	42,070	
	68,744	
Less: future finance charges	(3,731)	
	65,013	

26. GOING CONCERN

The financial report has been prepared on the basis of going concern. During the year ended 30 June 2011, the Group had a combined cash outflow from operating and investing activities of (\$3,065,294). The company continues to be economically dependent on generating profits from the business and/or raising additional capital for the continued development of its Banana Ply Project and working capital. The Group continues to be in consultation with its advisers to evaluate alternative means of raising additional capital.

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

27. SIGNIFICANT EVENTS AFTER BALANCE DATE

No subsequent events have occurred after the balance date.

Directors' Declaration

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 20 to 55, are in accordance with the *Corporations Act 2001* and:
 - a. comply with Australian Accounting Standards; and
 - b. give a true and fair view of the financial position as at 30 June 2011 and the performance for the year ended on that date of the Consolidated Group; and
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 (noting the disclosures made by the directors' in note 26) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
4. These financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

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



Mr Donald Stephens
Director

30 September 2011

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

Report on the financial report

We have audited the accompanying financial report of Papyrus Australia Limited (the “Company”), which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors’ declaration of the consolidated entity comprising the Company and the entities it controlled at the year’s end or from time to time during the financial year.

Directors responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, 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 which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Auditor's opinion

In our opinion:

- a the financial report of Papyrus Australia Limited is in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Material uncertainty regarding continuation as a going concern

Without qualifying our opinion, we draw attention to Note 26 in the financial report which indicates that the consolidated entity incurred a net cash outflow from operating and investing activities of \$3,065,294 during the year ended 30 June 2011. These conditions, along with other matters as set forth in Note 26, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2011. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Papyrus Australia Limited for the year ended 30 June 2011, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants



J.L. Humphrey
Partner

Adelaide, 30 September 2011