

Papyrus Australia Ltd

ABN 63 110 868 409

Half Year Report

for the half year ended 31 December 2009

Contents to Half Year Report

Appendix 4D Requirements	3
Auditor's Independence Declaration	9
Consolidated Statement of Comprehensive Income	10
Consolidated Statement of Financial Position	11
Consolidated Statement of Changes in Equity	12
Consolidated Statement of Cash Flows	13
Notes to the Financial Statements	14
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	14
2. SEGMENT INFORMATION	15
3. TRADE AND OTHER RECEIVABLES	16
4. ISSUED CAPITAL	16
5. BUSINESS COMBINATIONS	16
6. TRADE AND OTHER PAYABLES	17
7. SUBSEQUENT EVENTS	17
8. CONTINGENT LIABILITIES	18
9. GOING CONCERN	18
Directors' Declaration	19
Independent Auditor's Review Report	20

Appendix 4D Requirements

Results for announcement to the market

	2009 \$A	2008 \$A		Percentage change
Revenues from ordinary activities	18,808	225,902	down	(92)%
Loss from ordinary activities after tax attributable to the members	(900,322)	(1,078,515)	down	17%
Loss for the period attributable to members	(900,322)	(1,078,515)	down	17%

Dividends (distributions)

No dividend has been paid during the period ended 31 December 2009

The directors have not proposed a dividend for the half year ended 31 December 2009

Net Tangible Assets Per Security - cents	\$0.104	\$0.042
---	---------	---------

All other requirements are contained within the attached financial statements and notes.

Directors' Report

The directors of Payrus Australia Ltd submit their report for the half-year ended 31 December 2009.

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

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

Review of Operations

Corporate Overview

During the Reporting Period

On the 21st July 2009 Mr Edward Byrt was appointed Chairman of the Company and the board of Directors approved the establishment of an Executive Committee comprising, Mr Ramy Azer (Managing Director), Mr Donald Stephens (Executive Director) and Mr Edward Byrt. The Committee was established to take over the management of the Company on a day-to-day basis and to develop and implement policy as it moves from research and development to production and sales of products.

In August 2009 funds were raised to assist ongoing working capital requirements from the exercise of unlisted options as follows:

1st Tranche

\$614,625 net of expenses from the exercise of 2,235,000 options held by a seed capitalist.

2nd Tranche

\$700,000 net of expenses from the exercise of 2,500,000 options by Taylor Collison Ltd, which were acquired from the Company's Managing Director, Mr Ramy Azer.

Papyrus Australia Ltd (PPY) and World Future Fibre Pty Ltd (WFF) agreed to end their joint venture in Pulp Fiction Manufacturing Pty Ltd, a company established to develop and own the manufacturing site and facility in Walkamin, Far North Queensland. PPY issued and allotted WFF a total 1,274,951 fully paid ordinary shares in PPY at an aggregate issue price of \$528,816. As a result PPY acquired all of the shares in Pulp Fiction held by WFF and the parties entered into mutual releases.

The Company signed a Memorandum of Understanding with the Prince Albert II of Monaco Foundation in Monaco on 25th September 2009. The interest of which is to assist the promotion of the use Papyrus environmentally sustainable technologies and products worldwide.

The Company's contractual dispute with Sage Automation, in relation to their failure to deliver a working Beta Veneer Unit early in 2009, remains unresolved.

After the Reporting Period

On the 18th January 2010 the Company issued and allotted 9,775,885 ordinary shares resulting from the exercise of unlisted options. Upon completion of the allotment the Company raised \$2.44m (before expenses) which is being used for the employment of labour and the purchase of material handling and transport equipment to facilitate the planned increase in production at the Company's factory in Walkamin, Far North Queensland.

Papyrus has been successful in winning the following awards:
The Investor Ready Award in South Australia's Top 20 Innovation Awards; and
The KPMG Excellence in Cleantech Award.

Operational Overview

At the Company's AGM in November 2009 the Chairman advised that the Company's commercialisation strategy was focussed on Papyrus Australia Ltd (PPY) being a technology licensing company assisting suitable entities to establish banana veneer and banana fibre production factories in locations worldwide where bananas are grown.

Such commercial opportunities are well advanced and we expect significant progress in the implementation of this strategy in the current financial year.

This commercialisation strategy to be a technology licensing company requires us to:

First, prove our technology in a working factory and production environment, which we are doing at Walkamin;

- Second, to confirm the market demand and commercial values for our banana veneer and fibreboard products which we are doing in Australia and Europe.

Our market research demonstrates that we cannot today produce the quantity of veneer and fibreboard, which the market demands. We would require substantial capital to do that alone, hence our strategy to license the opportunity to others for fees while retaining control over the product for sale.

Walkamin Factory

In November 2009 PPY announced that its first working factory at Walkamin had started continuous production. Since then the factory production rate has been ramped up considerably.

In the simplest form the rate of production has three main functional elements:

1. Harvesting and transport

New harvesting and transport technology had to be designed, built and then integrated into the existing banana fruit production system and infrastructure. To that end PPY has invented a banana trunk harvester, built various models culminating into the commercial model, which now has been tested and accepted in Walkamin by the banana farmers and the production manager at the factory.

A provisional patent for the harvester has been lodged as the harvester is a cost saving machine that allows the banana farmers to safely and legally harvest large banana tree trunks, which can be 6m high, as well as banana fruit bunches, which can weigh up to 100kg. PPY has also designed and built a transport trailer to accept loading from the harvester machine as well as unloading by our purposely designed and built raw material infrastructure at the Walkamin factory. Mr Bruce Watkins, the owner of the banana farm at Mount Uncle, has been engaged as general manager of the factory to be responsible for the harvesting and transport as well as managing the facility.

2. Veneering

The beta veneering machine is the heart of the veneering operation and the technology as a whole. It is covered by worldwide patents and now granted in several countries. Since taking control of the commissioning of the beta veneering unit the internal PPY engineering and production team has managed to fix the early problems with the machine and successfully commission the machine and start continuous production in November 2009. Since then the rate of veneering has risen from 60 billets per hour to 197 billets per hour producing 197 veneers per hour. The unit has been operating since November 2009 without any breakdowns.

Outer fibre waste removal from the machine is currently a manual process. To further increase the rate of veneering, a simple automatic waste removal system will be commissioned to operate continuously rather than stop the run to clear the waste.

3. Drying

After the beta veneering machine veneers the core the veneers are transferred to the drying process. That process has been successfully commissioned and entered production in November 2009. The drying system is now capable of producing 300 veneers per hour. The drying process was successfully commissioned by the PPY team ahead of schedule, below budget and at a higher processing rate than expected. Energy consumption for drying is the biggest component in the cost of production and the tests show that the drying process has consumed less gas than expected.

The drying and veneering rates must be matched before we can engage the automatic transfer system to be built and installed at Walkamin. We expect this to occur during the current quarter.

Based on information and data obtained from the operations at Walkamin detailed work on the financial modelling for a banana veneer and banana fibreboard production facility is nearing completion.

Market demand and commercial values for our products.

Now that the complete production system is in place and has been commissioned the company is focused on ramping up production to meet the demand for our products and fulfil the orders it has from local and international customers.

Increasing the rate of production requires capital investment in more mechanical harvesters, tractors and trailers to bring the raw material to the factory, increased labour to operate the factory, as well as increasing the rate of each of the three main processes and matching all components to the optimum production rate.

Currently harvesting and transporting raw material to the factory is the bottleneck. The company successfully raised capital in mid January 2010. More harvesters and tractors and trailers will be commissioned to increase the production rate at least to the 300 veneers per hour drying rate. That will mean that the veneering rate needs to be increased to 300 billets per hour. The combined engineering and production team is currently working on site to achieve that task. The local team at Walkamin is growing including Bruce Watkins the owner of Mt Uncle as general manager harvesting.

Veneer and fibreboard production from Walkamin has been shipped to our customers in Europe in ever increasing quantities. Customers in Australia will also receive products from the existing stock at Walkamin. The first commercial size shipment of veneer arrived in Milan in January 2010 received by our European agent Mr Mario Cassin from 3W Tout Bois. A second shipment twice as big is scheduled to leave Walkamin early March 2010.

Managing Director Mr Ramy Azer and Executive Director Mr Donald Stephens were recently in Europe, attending the Hanover based Domatex floorboard exhibition. Samples of Papyrus banana-fibre floorboards, fire door material, and furniture board were exhibited in Hanover, and customers showed great interest in the product.

The banana fibreboard product must be certified to a standard in Europe before sales can commence. While PPY, 3W Tout Bois and our customer in Belgium, Delospan are confident that the banana fibreboard will meet and exceed the specification requirement, it is a process of sending samples to the authorised testing facilities for destruction testing repeatedly until we are issued with the certificates which we are now doing.

Manufacturing plant and equipment.

Walkamin is not just a commercialisation production facility, its other main function is as a showcase facility promoting the technology and the machinery.

Based on the progress at Walkamin the company has received substantive enquiries and expressions of interest from other Australian banana plantation farmers to purchase a factory for their banana plantations. PPY has also received firm interest from overseas clients to buy factories.

To fulfil these orders PPY must invest in it's engineering facilities to be able to build machinery for our technology clients. To that end PPY was successful in obtaining a SAIF Grant from the Commonwealth and SA State governments through it's wholly owned subsidiary The Australian Advanced Manufacturing Centre Pty Ltd (AAMC).

AAMC has signed a capital grant deed with the Commonwealth government for a project worth up to \$3m of which AAMC is expecting a capital grant of up to \$1.5m to be expended over the next 12 months to allow AAMC to acquire capital equipment and to ultimately supply all the necessary machinery to fulfil the first orders for factories this year.

Auditor's independence declaration

The auditor's independence declaration is set out on page 9 and forms part of the directors' report for the half year ended 31 December 2009.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink that reads "Donald Stephens". The signature is written in a cursive style with a large initial 'D' and 'S'.

Mr Donald Stephens
Director

26 February 2010

Grant Thornton South Australian
Partnership
ABN 27 244 906 724

Level 1,
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001

T 61 8 8372 6666
F 61 8 8372 6677
E info@gtsa.com.au
W www.grantthornton.com.au

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Papyrus Australia Ltd for the half-year ended 31 December 2009, I declare that, to the best of my knowledge and belief, there have been:

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

GRANT THORNTON
South Australian Partnership
Chartered Accountants



J L Humphrey
Partner

Signed at Adelaide on this 26th day of February 2010

Consolidated Statement of Comprehensive Income

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	Consolidated Group	
	31 Dec 2009 \$	31 Dec 2008 \$
Revenue from operating activities	18,808	225,902
Depreciation expense	(7,324)	(2,821)
Employee benefits expenses	(555,768)	(792,572)
Other expenses	(627,242)	(509,024)
Loss before income tax benefit	(1,171,526)	(1,078,515)
Income tax benefit	271,204	-
Loss from ordinary activities after income tax expense	(900,322)	(1,078,515)
Loss attributable to members of the parent entity	(900,322)	(1,078,515)
Other comprehensive income	-	-
Total comprehensive income for the period	(900,322)	(1,078,515)
Earnings per share:	<i>Cents</i>	<i>Cents</i>
Basic earnings per share	(1.14)	(1.60)
Diluted earnings per share	(1.14)	(1.60)

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

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2009

	Note	Consolidated	
		31 Dec 2009 \$	30 June 2009 \$
CURRENT ASSETS			
Cash and cash equivalents		598,120	1,129,564
Trade and other receivables	3	529,949	188,200
Other current assets		64,961	102,934
TOTAL CURRENT ASSETS		1,193,030	1,420,698
NON-CURRENT ASSETS			
Property, plant and equipment		4,030,821	2,820,655
Intangible assets		4,807,760	4,755,253
TOTAL NON-CURRENT ASSETS		8,838,581	7,575,908
TOTAL ASSETS		10,031,611	8,996,606
CURRENT LIABILITIES			
Trade and other payables	6	924,174	1,026,842
Short-term provisions		46,203	72,656
TOTAL CURRENT LIABILITIES		970,377	1,099,498
NON-CURRENT LIABILITIES			
Other non-current liabilities		2,140,575	2,067,751
TOTAL NON-CURRENT LIABILITIES		2,140,575	2,067,751
TOTAL LIABILITIES		3,110,952	3,167,249
NET ASSETS		6,920,659	5,829,357
EQUITY			
Issued capital	4	13,204,895	11,273,337
Reserves		745,263	685,197
Retained earnings		(7,029,499)	(6,129,177)
TOTAL EQUITY		6,920,659	5,829,357

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

Consolidated Statement of Changes in Equity

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	Consolidated Group			Total \$
	Issued Capital \$	Retained Earnings \$	Share Option Reserve \$	
Balance at 1 July 2008	8,567,800	(4,547,767)	325,915	4,345,948
Shares issued upon exercise of unlisted options	41,779	-	-	41,779
Share-based payments	-	-	127,400	127,400
Total comprehensive income for the period	-	(1,078,515)	-	(1,078,515)
Balance at 31 December 2008	8,609,579	(5,626,282)	453,315	3,436,612
Balance at 1 July 2009	11,273,337	(6,129,177)	685,197	5,829,357
Shares issued upon exercise of options	1,449,625	-	-	1,449,625
Acquisition of remaining interest in Pulp Fiction Joint Venture	528,816	-	-	528,816
Total comprehensive income for the period	-	(900,322)	-	(900,322)
Transaction costs (net of tax)	(46,883)	-	-	(46,883)
Share-based payments	-	-	60,066	60,066
Balance at 31 December 2009	13,204,895	(7,029,499)	745,263	6,920,659

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

Consolidated Statement of Cash Flows

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	Consolidated Group	
	31 Dec 2009	31 Dec 2008
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	-	124,902
Payments to suppliers and employees	(1,666,654)	(1,557,571)
Grant funds received	-	647,309
Interest received	21,053	75,355
NET CASH USED IN OPERATING ACTIVITIES	(1,645,601)	(710,005)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(101,844)	(1,071,163)
Purchase of development assets	(166,648)	(135,294)
NET CASH USED IN INVESTING ACTIVITIES	(268,492)	(1,206,457)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	1,449,625	41,779
Transaction costs on issue of shares	(66,976)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,382,649	41,779
Net (decrease) in cash and cash equivalents	(531,444)	(1,874,683)
Cash at the beginning of the financial period	1,129,564	2,145,022
CASH AT THE END OF THE FINANCIAL PERIOD	598,120	270,339

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

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting entity

Papyrus Australia Ltd (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2009 comprises the Company and its subsidiaries (the "consolidated entity").

The consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2009 is available upon request from the Company's registered office.

b. Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards including AASB 134: Interim Financial Reporting and the Corporations Act 2001. Compliance with Australian Accounting Standards ensures that the financial statements and notes comply with International Financial Reporting Standards.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2009 together with any public announcements made during the half year.

The same accounting policies have been followed in this interim financial report as applied in the annual report except for adoption of the following new standards:

- *AASB 8 Operating Segments*

The standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary and secondary reporting segments. The adoption of this Standard did not result in any change for the Group as the Group only contains one identifiable operating segment.

- *AASB 101 Presentation of Financial Statements (Revised)*

The revised standard introduces the requirement to produce a statement of comprehensive income that presents all items of recognised income and expense. Other revisions include impact on the presentation of items in the statement of changes and of equity and new presentation requirements for restatements or reclassifications of items in the financial statements.

- *AASB 2008-1 Amendments to Australian Accounting Standard Share-based Payments: Vesting Conditions and Cancellations*

The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' and prescribe the accounting treatment of an award where conditions that are neither service nor performance conditions ("non-vesting conditions") are not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

- AASB 3 Business Combinations

The revised Standard introduces a number of changes to the accounting treatment of business combinations, the most significant of which includes the requirement to recognise transaction costs immediately as an expense. The adoption of this amendment did not have an impact on the financial position or performance of the Group.

c. Significant accounting judgements and key estimates

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

Except as described below, in preparing this interim report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2009.

In the half-year ended 31 December 2009, management reassessed its estimates in respect of:

Key Estimates — Impairment

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

Significant Accounting Estimate

The Group has capitalised the development costs in relation to the development of the Banana Ply Technology. The recoverability of the asset is dependent on the successful commercialisation of the technology. As 31 December 2009, the commercialisation of the project was not yet complete.

2. SEGMENT INFORMATION

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

The Group remains focused on the research, development and commercialisation of the Group's Banana Ply Paper (BPP) technology within Australia.

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

3. TRADE AND OTHER RECEIVABLES

Trade receivables	27,003	27,003
GST receivable	137,632	154,394
R&D tax offset claim	364,121	-
Other debtors	1,193	6,803
	<u>529,949</u>	<u>188,200</u>

4. ISSUED CAPITAL

	Consolidated Group	
	As at 31 Dec 09 \$	As at 30 Jun 09 \$
Fully paid ordinary shares	13,204,895	11,273,337
	<u>13,204,895</u>	<u>11,273,337</u>
	Number	\$
Ordinary shares		
Balance at beginning of financial period	74,790,412	11,273,337
Shares issued upon acquisition of the remaining interest in Pulp Fiction Joint Venture	1,274,951	528,816
Issued upon exercise of various unlisted options	5,075,000	1,449,625
Transaction costs on shares issued	-	(46,883)
Balance at end of the financial period	<u>81,140,363</u>	<u>13,204,895</u>

5. BUSINESS COMBINATIONS

Acquisitions of the remaining interest in the Pulp Fiction Joint Venture

On 23 October 2009, Papyrus Australia Ltd ('PPY') and World Future Fiber Pty Ltd (WFF) executed an agreement to bring the Pulp Fiction Joint Venture to an end. Under the agreement, PPY has issued 1,274,951 fully paid ordinary shares in the Company to WFF at an average issue price of 41.4 cents per share to acquire the remaining share of the joint venture entity.

The fair value of the ordinary shares issued to WFF was determined as the quoted bid price at the date of acquisition.

Name of business acquired	Principal activity	Date of acquisition	Cost of acquisition \$
Pulp Fiction JV (acquisition of the 50% interest not owned by PPY)	Manufacturer of fibre, paper and veneers using Papyrus' banana paper technology	23/10/2009	528,816

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

Net assets acquired:

Fair values of assets and liabilities acquired at acquisition date:

	Consolidated Group	
	Recognised on acquisition \$	Carrying value \$
Property, plant and equipment	528,816	528,816
	<u>528,816</u>	<u>528,816</u>
Liabilities	-	-
	<u>-</u>	<u>-</u>
Fair value of identifiable net assets	528,816	528,816
	<u>528,816</u>	<u>528,816</u>
Cost of the combinations:		
Shares issued, at fair value	528,816	
Total cost of the combinations	<u>528,816</u>	

From the date of acquisition, the business acquired has not contributed to the net loss of the Group, as the Plant and Equipment was not in use until post the balance date and hence not depreciated. Similarly, there would be have been no impact to the Company's financials if the combination took place at the beginning of the period.

Under the terms of the acquisition agreement executed between PPY and WFF, if the proceeds from the sale of the shares is less than \$528,816, PPY is liable to reimburse WFF for the shortfall. In the event of a shortfall, the, above allocation of purchase price will be required to be amended. At the date of this report, 816,491 shares are still to be sold and to prevent a reimbursement by PPY, they must be sold for at least \$358K.

6. TRADE AND OTHER PAYABLES

Included in the trade and other payables is an amount of \$439,652 claimed by SAGE Automation Ltd (representing almost 50% of the Company's payables at the reporting date). The Company and SAGE are presently in dispute in relation to the contract agreement in place between both parties. Notwithstanding the dispute, the amount recognised within the accounts represents the total due pursuant to the agreement for Papyrus and the Company hopes to resolve the dispute as soon as possible.

7. SUBSEQUENT EVENTS

On 8 January 2010, the Company announced that it reached an agreement with its brokers, Taylor Collison Ltd, to provide a capital contribution to the Company by way of a conversion of options. The shares were allotted on 18 January 2010 and resulted in the issue of 9,775,885 ordinary fully paid shares in the Company and proceeds of \$2,443,971 (prior to capital raising costs).

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

8. CONTINGENT LIABILITIES

As described in the business combination note, pursuant to the sale and purchase agreement executed by Papyrus Australia Ltd ('PPY') and World Future Fiber Pty Ltd (WFF), if the proceeds received from the sale of PPY shares issued in accordance with the agreement is less than \$528,816, PPY is liable to reimburse WFF for the shortfall. At the date of this report, 816,491 shares are still to be sold and to prevent a reimbursement by PPY, they must be sold for at least \$358K.

9. GOING CONCERN

The financial report has been prepared on the basis of going concern. 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 directors note that there still remains a significant number of unlisted options that (at the date of signing this report) are in the money that fall due in March 2010 and if exercised would provide ongoing working capital. The Company additionally continues to be in consultation with its advisers to evaluate alternative means of raising additional capital.

The Company's ability to continue as a going concern is contingent upon 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 Company may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and in amounts different from those stated in this financial report. No allowance for such circumstances has been made in the financial report.

Directors' Declaration

In accordance with a resolution of the directors of Papyrus Australia Ltd I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001 , including:
 - (i) give a true and fair view of the financial position as at 31 December 2009 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Mr Donald Stephens
Director

26 February 2010

Grant Thornton South Australian
Partnership
ABN 27 244 906 724

Level 1,
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001

T 61 8 8372 6666
F 61 8 8372 6677
E info@gtsa.com.au
W www.grantthornton.com.au

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

We have reviewed the accompanying half-year financial report of Papyrus Australia Ltd (“Company”), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors’ declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year’s end or from time to time during the half-year.

Directors’ responsibility for the half-year financial report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity’s financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001.

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

Auditor's responsibility Cont

As the auditor of Papyrus Australia Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Papyrus Australia Ltd is not in accordance with the Corporations Act 2001, including:

- a giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001.

Significant uncertainty regarding continuation as a going concern

Without qualification to the conclusion expressed above, we draw attention to Note 9 to the half-year financial report. These conditions indicate the existence of a significant uncertainty which may cast significant doubt about the company's and consolidated entity's ability to continue as a going concern. The half-year financial report has been prepared on the basis of going concern. The company and consolidated entity are reliant upon generation of profits from the business and/or the raising of additional capital for the continued development of their existing projects and working capital.

The company's and consolidated entity's ability to continue as a going concern is contingent upon generation of profits from the business and/or successfully raising of additional capital.

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

Significant uncertainty regarding continuation as a going concern Cont

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 company and consolidated entity may have to realise their assets and extinguish their liabilities, other than in the ordinary course of business and in amounts different from those stated in the half-year financial report. No allowance for such circumstances has been made in the half-year financial report.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



J L Humphrey
Partner

Signed at Adelaide on this 26th day of February 2010