

Papyrus Australia Ltd

ABN 63 110 868 409

Annual Financial Report

for the year ended 30 June 2010

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Corporate Information

This annual report covers both 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 6 to 9. The directors' report is not part of the financial report.

Directors

Mr Edward Byrt (Chairman)
Dr David Wyatt (Retired 21 June 2010)
Mr Ramy Azer
Mr Graeme Menzies
Mr Donald Stephens
Mr Christopher Smerdon

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
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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 2010.

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)
Dr David Wyatt (Retired 21 June 2010)
Mr Ramy Azer
Mr Graeme Menzies
Mr Donald Stephens
Mr Christopher Smerdon

Names, qualifications, experience and special responsibilities

Edward Byrt, LLB (Non-Executive Chariman)

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

Ted is a business advisor and Board member of several leading organisations in South Australia. He is Presiding Member of the Development Assessment Commission, Chairman of the China Cluster, The Australian Advanced Manufacturing Centre Pty Ltd and SMAC Technologies Pty Ltd, Deputy Chairman of Bedford Industries Inc., a Director of Treyo Leisure & Entertainment Ltd (ASX listed) and a Board member of the SA Housing Trust and the Aboriginal Foundation of SA Inc.

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

David Wyatt, PhD, MBA, Graduate Diploma Education, Bachelor Applied Science (Non-Executive Director) - Resigned 21 June 2010

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

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

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

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

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

Directors' report continued

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 including 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 20 years experience in the accounting industry, including 14 years as a partner of HLB Mann Judd Stephens, a firm of Chartered Accountants.

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

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

Christopher Smerdon, (Non-Executive Director)

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

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

COMPANY SECRETARY

Pierre Van Der Merwe, CA, Appointed 10 May 2010

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 Company's. Pierre has extensive experience in the provision of professional services to clients, including tax consulting, management of client accounting systems, reporting at Board level assisting with financial interpretations and strategic planning. He is also a Fellow of the Financial Services Institute of Australasia.

Directors' report continued

Vincent Rigano, BAcc, CPA, Retired 10 May 2010

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

OPERATING RESULTS

The loss of the consolidated group after providing for income tax amounted to (\$2,776,336) (2009: (\$1,581,410)).

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

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

	Number of Ordinary Shares	Number of Options over Ordinary Shares
Mr Edward Byrt	973,264	-
Mr Ramy Azer	22,928,835	-
Mr Graeme Menzies	204,576	-
Mr Donald Stephens	975,630	-
Mr Christopher Smerdon	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 principal activities of the Group during the financial year was the commercialisation of the banana paper technology.

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

OPERATIONS REVIEW

Corporate

During the financial year:-

- 20,454,120 unlisted options were converted to shares at average price of 26 cents per share; and
- 50,000 unlisted options were granted to one employee, with an average exercise price of \$1.63 and a maturity of five years.

At 30 June 2010, the Company held \$2.44 Million in available cash.

Directors' report continued

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

- Mr Edward Byrt was appointed Chairman of the Company.
- The Board of Directors approved the establishment of an Executive Committee, including Mr Ramy Azer (Managing Director), Mr Donald Stephens (Executive Director) and Mr Ted Byrt (Chairman) to take over the management of the Company.
- The Company successfully developed a new and innovative mechanical harvester. A provisional patent was lodged.
- Under an agreement with World Future Fibre the Company took full control and ownership of the harvesting equipment and the manufacturing site and facility at Mt Uncle in Walkamin.
- The Company executed a confidential Deed of Release with SAGE Group Holdings Limited which finalised an ongoing dispute relating to monies claimed by SAGE for completion of the Company's Beta Veneering Unit.

Operational Activities

Walkamin Factory

During the first half of the year, the Company continued to experience delays in commencing production at its factory in Walkamin relating to mechanical failures contained within the Beta Veneering Unit (BVU) built and supplied by the independent engineering contractor. The process of resolving the mechanical issues was ongoing during the implementation of management's Production and Engineering Plan as approved by the Board. As announced on 26 November 2009 the Company completed the commissioning of the BVU and commenced production of veneer with a limited labour force.

The scale up of production capability began after the Company's successful capital raising from the exercise of unlisted options between January and March 2010. Funds received were used to design and build a complete production process, increase the labour force and invest in more material handling, harvesting and transport equipment, as well as veneer grading, trimming, storage and packing infrastructure. This meant that the BVU was able to operate at increasing production rates to produce wet veneer, and that the drying process as well as the rest of the manufacturing facility and processes were able to operate at increasing production rates to produce product for trialling, testing and the provision of further samples to prospective customers in Australia and Europe.

As the BVU was pushed to operate at higher production rates, further design deficiencies were revealed in the BVU causing regular and intermittent cleaning, debris removal and technical mechanical fixes. Recent mechanical upgrades have increased the reliability of the BVU and have improved the efficiency of production outputs and the consistency of quality of veneers produced.

Directors' report continued

While the BVU is the most important and crucial machine at the factory, and is subject of our most important IP, it does not operate to produce sellable products by itself. A complete infrastructure of machines and processes need to be in place to select, harvest and transport enough good quality banana tree trunks to the facility. The banana tree trunks are then trimmed and cut into billets to be delivered and dispensed into the BVU for veneering.

The BVU produces delicate wet veneer that requires a complete infrastructure to convey, press, dry, iron, grade, trim, store and package the final dry veneer product for dispatch.

The manufacturing facility also requires equipment and facilities to service plant and equipment, and a complete infrastructure to handle wastes, to comply with quarantine and OH&S rules and to recruit, train and accommodate labour.

A recent comprehensive review of the Walkamin factory operations has been conducted resulting in the division of responsibilities into:

1. Facilities Management (harvesting and transporting of banana tree trunks to the factory/ construction, maintenance and security of factory facilities on site as well as the management of staff and statutory responsibilities including those of occupational health and safety);
2. Engineering (all technical aspects of the machinery production line including continued research and development and general maintenance and planned upgrading of equipment); and,
3. Production (receiving, grading, sizing, loading the banana tree trunks into the conversion process and managing the production of veneer and fibre for conversion to panel products).

A program of integrating the various equipment for production of fibre for panel manufacture is planned for the ensuing quarter now that the requisite materials and equipment have arrived on site.

Commercialisation Strategy

At the Company's AGM in November 2009 the Chairman informed shareholders that the Company's commercialisation strategy was focused on being a technology licensing Company assisting suitable entities to establish banana veneer and panel production factories in locations worldwide where bananas are grown.

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

The trial production process at Walkamin has validated the essential veneering technology and as a result, the Company has received substantive enquiries and expressions of interest in the technology from local banana plantations and overseas institutions.

Directors' report continued

To fulfil orders for factories in the future, the Company continues to invest in its engineering facilities. AAMC, a wholly owned subsidiary of the Company, signed a capital grant deed with the Commonwealth Government for a project worth A\$3M of which a grant of \$1.5 Million is expected. This grant will assist AAMC to acquire capital equipment and to ultimately, supply the necessary machinery and equipment to fulfil orders from customers.

Marketing

The Company, in conjunction with Tout Bois, a specialist veneering and timber product distributor based in Monaco, publicly exhibited banana veneer and panel products at the Monaco Yacht Show in September 2009. The response from design professionals and the general public to the veneer and panel products was outstanding. The panel product was also tested for its fire retardant and water resistant qualities and demonstrated at the exhibition.

In January 2010, Ramy Azer, Managing Director and Donald Stephens, Executive Director along with Mario Cassin from Tout Bois and Piet Delodder from Flexura, attended the Domotex FloorBoard Trade Show in Hanover, Germany at the invitation of Flexura, a FloorBoard Manufacturer in Belgium. The Flexura Stand displayed the Papyrus veneer and panel products. The response to our technology and products from international floorBoard buyers was encouraging.

The Board and management endorsed the strategy of commencing our market development in Europe as the best strategy for controlled growth of the Company.

RISK MANAGEMENT

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

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

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

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

Directors' report continued

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

As detailed in note 16 of the Group's financials, Papyrus has raised significant capital through the exercise of unlisted options, resulting in gross proceeds of \$5.3 Million and expansion of the Group's issued capital base. In addition, as detailed in note 23, the Company has purchased the remaining 50% of the Pulp Fiction Joint Venture. Both these items have resulted in a change to the scale and nature of operations of the Group.

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 2010 that has significantly affected, or may significantly affect the operations of the group.

Shares under option

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

Directors' report continued

Issue Date	Expiry Date	Exercise Price	Balance at 1 July 2009	Net Issued/ (Exercised or expired) during Year	Balance at 30 June 2010
02/12/2004	31/03/2010	\$0.25	15,042,880	(15,042,880)	-
02/12/2004	31/03/2010	\$0.30	8,493,155	(8,493,155)	-
14/04/2005	31/03/2010	\$0.25	2,000,000	(2,000,000)	-
16/05/2005	15/05/2010	\$0.25	50,000	(50,000)	-
30/06/2006	31/03/2010	\$0.40	200,000	(200,000)	-
14/08/2006	13/08/2011	\$0.40	500,000	-	500,000
14/08/2006	13/08/2011	\$0.50	500,000	-	500,000
08/10/2007	7/10/2012	\$0.80	250,000	-	250,000
08/10/2007	7/10/2012	\$1.25	250,000	-	250,000
15/10/2007	14/10/2012	\$0.80	250,000	-	250,000
15/10/2007	14/10/2012	\$1.25	250,000	-	250,000
01/07/2008	30/06/2013	\$1.50	100,000	-	100,000
01/07/2008	30/06/2013	\$1.75	100,000	-	100,000
17/03/2009	16/03/2014	\$1.50	100,000	25,000	125,000
17/03/2009	16/03/2014	\$1.75	100,000	25,000	125,000
			28,186,035	(25,736,035)	2,450,000

Shares issued as a result of the exercise of options

During the financial year, 20,454,120 unlisted options were exercised by various option holders, resulting in gross proceeds of \$5,302,880.

New options issued

During the financial year 50,000 unlisted options were issued to employees in accordance with the Company's Employee Share Option Plan. Refer to note 18 of the financial statements for further details on these allotments.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

To the extent permitted by law, the Company has indemnified (fully insured) each director and the secretary of the Company for a premium of \$12,497. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings (that may be brought) against the officers in their capacity as officers of the Company or a related body, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company.

Directors' report continued

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) months written notice or making payment in lieu of notice, based on the annual fee. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

The employment conditions of the Chief Operating Officer, Mr Grant Pigot, were formalised in a contract of employment. Mr Pigot commenced employment on 7 July 2006 and his gross salary, inclusive of the 9% superannuation guarantee, was \$160,000 per annum (effective from 1 July 2008). Grant Pigot was made redundant from his position effective from 28 August 2009.

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.

Directors' report continued

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.

Non executive directors' fees are determined within an aggregate director's fee pool limit, which is periodically recommended for approval by shareholders. 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 2010 and 30 June 2009

	Primary Benefits	Post Employment	Share-based Payments	Total
	Salary & Fees	Superannuation	Options	\$
Mr Edward Byrt	\$	\$	\$	
2010	50,025	29,975	-	80,000
2009	32,700	-	-	32,700
Dr David Wyatt				
2010	18,400	22,402	-	40,802
2009	43,600	-	-	43,600
Mr Ramy Azer				
2010	300,000	-	-	300,000
2009	300,000	-	-	300,000
Mr Graeme Menzies				
2010	38,175	-	-	38,175
2009	32,700	-	-	32,700
Mr Donald Stephens				
2010	38,175	-	-	38,175
2009	32,700	-	-	32,700
Mr Christopher Smerdon				
2010	38,175	-	-	38,175
2009	32,700	-	-	32,700
Total				
2010	482,950	52,377	-	535,327
2009	474,400	-	-	474,400

Directors' report continued

REMUNERATION REPORT CONTINUED- AUDITED

Table 2: Remuneration of key management personnel for the year ended 30 June 2010 and 30 June 2009

	Primary Benefits	Post Employment	Share-based Payments	Total
	Salary & Fees	Superannuation	Options	\$
Mr Grant Piggot	\$	\$	\$	
2010	103,617	1,922	-	105,539
2009	146,789	13,211	-	160,000
Mr Vince Rigano				
2010	28,525	-	-	28,525
2009	32,700	-	-	32,700
Total				
2010	132,142	1,922	-	134,064
2009	179,489	13,211	-	192,700

No remuneration for Directors for the year ended 30 June 2010 or 30 June 2009 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 \$39,840 (2009: Nil). Pierre Van Der Merwe, the Company Secretary, is a director of HLB Mann Judd (SA) Pty Ltd.

DIRECTORS' MEETINGS

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

	Directors' Meetings	Audit Committee
Number of meetings held	7	2
Number of meetings attended:		
Mr Edward Byrt	7	2
Dr David Wyatt	7	-
Mr Ramy Azer	7	-
Mr Graeme Menzies	4	-
Mr Donald Stephens	7	2
Mr Christopher Smerdon	7	2

Directors' report continued

Members acting on the audit committee of the Board are:

Edward Byrt	Non-executive director
Donald Stephens	Executive director
Christopher Smerdon	Non-executive director

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.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2010 as required under section 307C of the Corporations Act 2001 has been received and can be found on page 16.

Signed in accordance with a resolution of the directors.



Mr Donald Stephens
Director

30 September 2010

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Papyrus Australia Limited for the year ended 30 June 2010, 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 2010

Corporate Governance Statement

Introduction

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

The Group details below the corporate governance practices in place at the end of the financial year, all of which comply with the principles and recommendations of the ASX corporate governance council unless otherwise stated. Some of the charters and policies that form the basis of the corporate governance practices of the Group may be located on the Group's website, www.papyrusaustralia.com.au.

The ASX Corporate Governance Council has released amendments dated 30 June 2010 to the second edition Corporate Governance Principles and Recommendations (Principles and Recommendations) in relation to diversity, remuneration, trading policies and briefings. The Group has addressed the amended principles within this statement.

Principle 1: Lay solid foundations for management and oversight

Board Responsibilities

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

The key responsibilities of the Board include:

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

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

Corporate Governance Statement continued

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

Recommendation 1.2: Performance evaluation of Senior Management

The Managing Director and senior management participate in annual performance reviews. The performance of staff is measured against the objectives and performance indicators established by the Board. A performance evaluation for senior management took place for the current reporting period in accordance with the Group's documented process. The performance of senior management is reviewed by comparing performance against agreed measures, examining the effectiveness and results of their contribution and identifying area for potential improvement. In accordance with recommendations 1.2 and 1.3 of the ASX Corporate Governance Council the Group has not disclosed a description of the performance evaluation process in addition to the disclosure above.

Principle 2: Structure the Board to add value

Size and composition of the Board

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

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

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

Recommendation 2.1: Independence

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

Corporate Governance Statement continued

At the date of this statement the Board consists of three non-executive directors. Mr Edward Byrt, who is also chairman of the Board, Mr Graeme Menzies and Mr Christopher Smerdon have no other material relationship with the Group or its subsidiary other than their directorships.

The Board therefore does consist of a majority of independent directors and the Group has complied with recommendation 2.1 of the Corporate Governance Council.

Recommendations 2.2, 2.3: Role of the Chairman

The role of the Chairman is to provide leadership to the Board and facilitate the efficient organisation and conduct of the Board's functioning. Mr Edward Byrt, the Chairman of the Group, does not also perform the role of the Managing Director, in accordance with recommendation 2.3 of the Corporate Governance Council. He is also independent and therefore the Group has complied with recommendation 2.2.

Recommendation 2.4: Nomination, retirement and appointment of Directors

The Board has not established a nomination and remuneration committee in accordance with recommendation 2.4 of the Corporate Governance Council. The Board takes ultimate responsibility for these matters and continues to monitor the composition of the committee and the roles and responsibilities of the members. Accordingly, the Group has not established remuneration and nomination committee charter in accordance with recommendations 2.4 and 2.6 of the ASX Corporate Governance Council.

Recommendation 2.5: Evaluation of Board performance

The Board continues to review performance against appropriate measures and identify ways to improve performance. A performance evaluation of the Board, its committees and individual directors took place for the current reporting period in accordance with the Group's documented process. The Board has not formally disclosed the process in accordance with recommendations 2.5 and 2.6 of the ASX Corporate Governance Council. The Board takes ultimate responsibility for these matters and does not consider the disclosure of the performance evaluation necessary at this stage.

Principle 3: Promote ethical and responsible decision making

Recommendation 3.1: Code of Conduct

The Board recognises the need for directors and employees to observe the highest standards of behaviour and business ethics when engaging in corporate activity. The Group intends to maintain a reputation for integrity and is highly committed to demonstrating appropriate corporate practices and decision making. The Group's officers and employees are required to act in accordance with the law and with the highest ethical standards. The Board has not adopted and disclosed a formal code of conduct applying to the Board and all employees in accordance with recommendations 3.1 and 3.3 of the Corporate Governance Council. The Board takes ultimate responsibility for these matters and does not consider the disclosure of the code necessary at this stage.

Corporate Governance Statement continued

Securities Trading Policy

Effective from the 1 January 2011, the Group is required to adopt and disclose a securities trading policy under ASX Listing Rules. A securities trading policy was previously a recommendation of the Corporate Governance Council, however the Group has chosen to early-adopt the amendments in accordance with the addition to the ASX Listing Rules. The Group has established a policy concerning trading in Group securities by directors, senior executives and employees, however the plan has not yet been publicly disclosed and therefore has not complied with recommendation 3.2 or 3.3 of the second edition of the Corporate Governance Council principles. The Board take ultimate responsibility for these matters.

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

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

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

Recommendations 3.2, 3.3, 3.4: Diversity

The ASX Corporate Governance Council has released amendments dated 30 June 2010 to the second edition Corporate Governance Principles and Recommendations (Principles and Recommendations) in relation to diversity. The Group is committed to supporting diversity, including consideration of gender, age, ethnicity and cultural background. The Board is ultimately responsible for reviewing the achievement of this policy. The Group recognises that through consideration of diversity and the best available talent, it will assist in promoting a working environment to maximise achievement of the corporate goals of the organisation.

The Group continues to strive towards achieving objectives established towards increasing gender diversity. At the end of the reporting period, the Group employed eleven staff, of which two were female and the Board of directors consisted of five male members.

The Group is highly aware of the positive impacts that diversity may bring to an organization. The Group continues to assess all staff and Board appointments on their merits with consideration to diversity as a driver in decision making. The Group has not yet developed or disclosed a formal diversity policy and therefore has not complied with the recommendations 3.2 and 3.3 of the Corporate Governance Council effective from 1 January 2011.

Corporate Governance Statement continued

Principle 4: Safeguard integrity in financial reporting

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

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

Recommendations 4.1, 4.2, 4.3: Audit Committee

The audit, risk and compliance committee comprises Mr Donald Stephens (Chairman), Mr Christopher Smerdon and Mr Edward Byrt. Mr Christopher Smerdon and Mr Edward Byrt are considered independent. The Board will annually confirm the membership of the committee.

The committee's primary responsibilities are to:

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

The Group has complied with recommendation 4.2 of the Corporate Governance Council because it consists of a majority of independent directors and only three committee members.

The Board has not adopted and disclosed a formal committee charter in accordance with recommendations 4.3 and 4.4 of the Corporate Governance Council.

Principle 5: Make timely and balanced disclosure

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

Recommendations 5.1: Disclosure policy

The Group has not publicly disclosed a formal disclosure policy in accordance with recommendations 5.1 and 5.2 of the Corporate Governance Council. The Board takes ultimate responsibility for these matters and does not consider disclosure of a disclosure policy to be appropriate at this stage.

Corporate Governance Statement continued

Principle 6: Respect the rights of shareholders

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

Recommendations 6.1: Communications policy

Information is communicated to Shareholders through:

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

All information disclosed to the ASX is posted on the Group's web site

www.papyrusaustralia.com.au.

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

The Group has not publicly disclosed a communications policy in accordance with recommendations 6.1 and 6.2 of the Corporate Governance Council. The Board takes ultimate responsibility for these matters and does not consider disclosure of a communications policy to be appropriate at this stage.

Principle 7: Recognise and manage risk

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

Recommendations 7.1, 7.2: Risk management policy

The identification, monitoring and, where appropriate, the reduction of significant risk to the Group is the responsibility of the Managing Director and the Board.

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

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

The Group has not publicly disclosed a policy for the oversight and management of material business risks in accordance with recommendations 7.1 and 7.4 of the Corporate Governance Council. The Board takes ultimate responsibility for these matters and does not consider disclosure of a risk management policy to be appropriate at this stage.

Corporate Governance Statement continued

Recommendations 7.3: Declaration from Managing Director and Company Secretary

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

Principle 8: Remunerate fairly and responsibly

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

Recommendation 8.1: Remuneration Committee

The Board has not established a remuneration committee or disclosed a committee charter on the Company website and therefore has not complied with recommendations 8.1 and 8.3 of the Corporate Governance Council. The Board takes ultimate responsibility for these matters and does not consider a remuneration committee to be appropriate at this stage.

Statement of Comprehensive Income

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Note	Consolidated group	
		2010 \$	2009 \$
Revenue from operating activities	4 (a)	87,009	281,976
Other income	4 (b)	23,534	28,611
Depreciation expense	4 (c)	(95,278)	(21,172)
Employee benefits expenses	4 (d)	(1,156,525)	(941,924)
Other expenses	4 (e)	(1,832,704)	(1,335,531)
Loss before income tax benefit		(2,973,964)	(1,988,040)
Income tax benefit	5	197,628	406,630
Loss from ordinary activities after income tax expense		(2,776,336)	(1,581,410)
Loss attributable to members of the parent entity		(2,776,336)	(1,581,410)
Other comprehensive income		-	-
Total comprehensive income for the year		(2,776,336)	(1,581,410)
Total comprehensive income attributable to members of the parent entity		(2,776,336)	(1,581,410)
Earnings per share:		<i>Cents</i>	<i>Cents</i>
Basic earnings per share	6	(3.23)	(2.25)
Diluted earnings per share	6	(3.23)	(2.25)

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

Statement of Financial Position

AS AT 30 JUNE 2010

	Note	Consolidated group	
		2010 \$	2009 \$
CURRENT ASSETS			
Cash and cash equivalents	7	2,444,112	1,129,564
Trade and other receivables	8	142,654	188,200
Other current assets	9	146,699	102,934
TOTAL CURRENT ASSETS		2,733,465	1,420,698
NON-CURRENT ASSETS			
Property, plant and equipment	10	4,237,207	2,820,655
Intangible assets	11	4,854,294	4,755,253
TOTAL NON-CURRENT ASSETS		9,091,501	7,575,908
TOTAL ASSETS		11,824,966	8,996,606
CURRENT LIABILITIES			
Trade and other payables	12	602,812	1,026,842
Short-term borrowings	13	9,054	-
Short-term provisions	14	52,468	72,656
TOTAL CURRENT LIABILITIES		664,334	1,099,498
NON-CURRENT LIABILITIES			
Other non-current liabilities	15	2,415,757	2,067,751
TOTAL NON-CURRENT LIABILITIES		2,415,757	2,067,751
TOTAL LIABILITIES		3,080,091	3,167,249
NET ASSETS		8,744,875	5,829,357
EQUITY			
Issued capital	16	16,889,136	11,273,337
Reserves	17	761,252	685,197
Retained earnings		(8,905,513)	(6,129,177)
TOTAL EQUITY		8,744,875	5,829,357

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 2010

Consolidated group				
	Share Capital	Retained Earnings	Share Option Reserve	Total
	\$	\$	\$	\$
Balance at 1 July 2008	8,567,800	(4,547,767)	325,915	4,345,948
Total comprehensive income for the year	-	(1,581,410)	-	(1,581,410)
Shares issued upon exercise of options	16 299,280	-	-	299,280
Shares issued pursuant to Share Purchase Plan	16 1,256,000	-	-	1,256,000
Shares issued pursuant to private placements	16 1,212,904	-	-	1,212,904
Transaction costs (net of tax)	16 (62,647)	-	-	(62,647)
Share-based payments	17 -	-	359,282	359,282
Balance at 30 June 2009	11,273,337	(6,129,177)	685,197	5,829,357

Consolidated group				
	Share 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	16 5,302,880	-	-	5,302,880
Acquisition of remaining interest in Pulp Fiction Joint Venture	23 528,816	-	-	528,816
Transaction costs (net of tax)	16 (215,897)	-	-	(215,897)
Share-based payments	17 -	-	76,055	76,055
Balance at 30 June 2010	16,889,136	(8,905,513)	761,252	8,744,875

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 2010

		Consolidated group	
		2010	2009
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
		-	199,232
		364,121	542,894
		(2,862,111)	(2,123,416)
		275,182	98,030
		49,930	97,169
NET CASH USED IN OPERATING ACTIVITIES	7 (a)	(2,172,878)	(1,186,091)
CASH FLOWS FROM INVESTING ACTIVITIES			
		(1,283,176)	(1,392,172)
	23	(133,376)	
		-	17,868
		(99,041)	(1,133,752)
NET CASH USED IN INVESTING ACTIVITIES		(1,515,593)	(2,508,056)
CASH FLOWS FROM FINANCING ACTIVITIES			
		5,302,880	2,768,184
		(308,424)	(89,495)
		16,057	-
		(7,494)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES		5,003,019	2,678,689
		1,314,548	(1,015,458)
		1,129,564	2,145,022
CASH AT THE END OF THE YEAR		2,444,112	1,129,564

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 2010

1. CORPORATE INFORMATION

The financial report of Papyrus Australia Ltd for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 30 September 2010. 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 2010

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 income statement, 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 2010

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 2010

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 sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the 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 2010

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

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.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

i. 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 2010 and 2009 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 present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

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.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

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.

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 amortization of the difference, if any, between the amount initially recognized and the maturity amount calculated using the *effective interest method*; and
- d) Less any reduction for impairment.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

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 recognized in the statement of comprehensive income.

Derecognition

Financial assets are derecognized 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 derecognized 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.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

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.

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.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

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.

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 2010, the commercialisation was not complete.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

w. **New accounting standards**

During the current year the group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations that became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact that adoption of these standards and interpretations has had on the financial statements.

AASB 3: Business Combinations

In March 2008 the Australian Accounting Standards Board revised AASB 3 and as a result, some aspects of business combination accounting have changed. The changes only apply to business combinations first recognised after 1 July 2009.

Recognition and measurement impact

Recognition of acquisition costs - The revised standard requires that all acquisition costs are expensed in the period in which they occur. Previously these costs were capitalised as part of the cost of the business combination.

Measurement of contingent consideration - The revised standard requires that contingent consideration associated with a business combination be included as part of the cost of the business combination. They are recognised at the fair value of expected payment. Any subsequent changes in the fair value or probability of settlement are recognised in the statement of comprehensive income, except to the extent that they relate to conditions that existed at the date of acquisition and that are identified during any "Measurement period." In this case the cost of acquisition is adjusted. The previous version of the standard allowed such changes to be recognised as a cost of the combination impacting goodwill.

AASB 8: Operating Segments

In February 2007, the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. Consequently, some of the required operating segment disclosures have changed. In addition, there is a possible impact on the impairment testing of goodwill allocated to cash generating units (CGUs) of the entity. Set out below is an overview of the key changes and the impact on the Consolidated group's financial statements.

Identification and measurement of segments - AASB 8 requires a "management approach" to the identification, measurement and disclosure of operating segments. This approach requires that segments are identified on the basis of internal reports that are regularly reviewed by management, for the purpose of allocating resources and assessing performance.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

Unlike AASB 114 this could identify segments that primarily or exclusively sell to other internal operating segments. Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered. The adoption of the management approach to segment reporting has identified reportable segments largely consistent with the prior year.

AASB 101: Presentation of Financial Statements

In September 2007, the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. An overview of the key impacts on the Consolidated group's financial statements is set out below.

Terminology changes - The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements and the change of the term "minority interests" to "non-controlling interests."

Reporting changes in equity - The revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be recognised in the statement of changes in equity, with all other changes in equity to be recognised in a new statement of comprehensive income. Previously, all changes in equity were recognised in the statement of changes in equity.

Statement of comprehensive income - The revised standard requires that all income and expenses are presented in either a single statement of comprehensive income or in two statements, one being a separate income statement as well as a new statement of comprehensive income. Previously, only an income statement was required. The Consolidated group has adopted the single statement approach and the financial statements now include a statement of comprehensive income that replaces the previously reported income statement.

Other comprehensive income - The revised standard introduces the concept of "other comprehensive income" which comprises income and expenses that are not recognised in profit or loss as required by Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

x. **New Accounting Standards for Application in Future Periods**

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

AASB 9: Financial Instruments and AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
 - a) the objective of the entity's business model for managing the financial assets; and
 - b) the characteristics of the contractual cash flows.

AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

AASB 2009-4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

AASB 2009-8: Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.

AASB 2009-9: Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Group.

AASB 2009-10: Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Group.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.

AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Group.

AASB 2009-14: Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

The Group does not anticipate the early adoption of any of the above Australian Accounting Standards.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

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

	Consolidated group	
	2010	2009
	\$	\$
4. REVENUE AND EXPENSES		
<i>(a) Revenue from operating activities</i>		
Interest received from other parties	87,009	87,025
Sales revenue	-	194,951
	<u>87,009</u>	<u>281,976</u>
<i>(b) Other income</i>		
Net profit/(loss) on disposal of property, plant and equipment	(1,891)	4,071
Export Market Development Grant	25,425	24,540
	<u>23,534</u>	<u>28,611</u>

Export Market Development Grants of \$25,425 (2009: \$24,540) were recognised as other income by the group during the financial year. There are no unfulfilled conditions or other contingencies attached to these grants. Amounts of \$348,006 were received during the year in respect of funding for the development of the Banana Ply Project. The amount received is credited to the statement of financial position as deferred income (see note 15).

EXPENSES

<i>(c) Depreciation of non-current assets</i>		
Plant and equipment	95,278	21,172
Total depreciation	<u>95,278</u>	<u>21,172</u>
<i>(d) Employees benefits expense</i>		
Wages, salaries and other remuneration expenses	1,374,252	928,983
Superannuation expense	61,723	50,868
Transfer to annual leave provision	(20,188)	16,589
Share-based payments expense	76,055	359,282
Transfer to capitalised intangibles and plant and equipment	(335,317)	(413,798)
Total employee benefits expense	<u>1,156,525</u>	<u>941,924</u>

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Consolidated group	
	2010	2009
	\$	\$
<i>(e) Other expenses</i>		
Audit fees	31,927	27,800
Legal fees	82,668	49,476
Professional services	371,067	217,030
Travel and accomodation	80,363	116,175
Directors fees	159,887	169,169
Company secretarial	32,795	32,700
Rent	221,357	130,926
Communications expense	48,687	52,305
Share registry and ASX expenses	67,592	89,859
Marketing expenses	186,572	65,263
Public relations costs	41,354	-
Contractors	138,822	75,098
Freight expenses	3,139	58,230
Motor vehicle costs	65,695	77,179
Factory operating costs	262,073	-
Other expenses	38,706	174,321
	1,832,704	1,335,531

5. INCOME TAX

The major components of the income tax benefit is:

Income Statement

Current income tax

Current income tax charge	93,669	26,849
R&D Tax offset	(291,297)	(433,479)
Income tax benefit reported in the statement of comprehensive income	(197,628)	(406,630)

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

Loss before income tax	(2,973,964)	(1,988,040)
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At the Group's statutory income tax rate of 30% (2009: 30%)	(892,189)	(596,412)
Expenditure not allowable for income tax purposes	67,997	68,451
Tax losses not recognised due to not meeting recognition criteria	824,192	527,961
Tax portion of share issue costs	93,669	26,849
	93,669	26,849

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Consolidated	
	2010	2009
	\$	\$
Tax losses		
The directors estimate that the potential future income tax benefit at the year end not brought to account is:	1,806,113	1,278,221
	1,806,113	1,278,221

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:

	Consolidated group	
	2010	2009
	\$	\$
Net loss attributable to ordinary equity holders of the parent	(2,776,336)	(1,581,410)
	2010	2009
Weighted average number of ordinary shares for basic earnings per share	85,933,005	70,436,336
Effect of dilution		
Share options	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	85,933,005	70,436,336
Earnings per share:	<i>Cents</i>	<i>Cents</i>
Basic earnings per share	(3.23)	(2.25)
Diluted earnings per share	(3.23)	(2.25)

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

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

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Consolidated group	
	2010	2009
	\$	\$
7. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	481,327	329,564
Short-term deposits	1,962,785	800,000
	<u>2,444,112</u>	<u>1,129,564</u>

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

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

Reconciliation to 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	481,327	329,564
Short-term deposits	1,962,785	800,000
	<u>2,444,112</u>	<u>1,129,564</u>

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

Net loss	(2,776,336)	(1,581,410)
<i>Adjustments for non-cash items:</i>		
Depreciation	95,278	21,172
Share-based payments	76,055	359,282
Non cash tax expense	92,527	26,849
Net profit on disposal of property, plant and equipment	1,891	(4,071)
<i>Changes in assets and liabilities</i>		
Decrease/(Increase) in trade and other receivables	45,546	(112,964)
(Increase) in other current assets	(43,765)	(102,934)
Increase in trade and other payables	8,108	56,241
(Decrease)/Increase in provisions	(20,188)	16,589
Increase in deferred income	348,006	135,155
Net cash from operating activities	<u>(2,172,878)</u>	<u>(1,186,091)</u>

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Consolidated group	
	2010	2009
	\$	\$
8. TRADE AND OTHER RECEIVABLES		
<i>Current</i>		
Trade receivables	26,400	27,003
GST receivable	102,491	154,394
Other receivables	13,763	6,803
	142,654	188,200

- (i). Trade receivables are non-interest bearing and are generally on 30-90 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. No impairment was recognised in 2009 and 2010 and no receivables are past due at the reporting date.

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

9. OTHER CURRENT ASSETS

Prepayments	75,246	100,690
Accrued interest	37,078	-
Other	34,375	2,244
	146,699	102,934

10. PROPERTY, PLANT AND EQUIPMENT

Plant and equipment		
<i>Cost</i>		
Opening balance	135,316	99,568
Additions	485,481	35,748
Acquisitions through business combinations	662,192	-
Disposals	(6,623)	-
	1,276,366	135,316
<i>Accumulated depreciation</i>		
Opening balance	70,479	56,299
Depreciation for the year	95,278	21,172
Disposals	(2,459)	(6,992)
	163,298	70,479
Net book value of plant and equipment	1,113,068	64,837

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Consolidated Group	
	2010	2009
	\$	\$
Capital works in progress		
<i>Cost</i>		
Opening balance	2,755,818	1,734,650
Additions	639,854	1,958,116
Disposals	-	(14,859)
Transfer to/(from) intangibles	133,119	(922,089)
Recovery of R&D costs	(404,652)	-
Net book value of capital works in progress	3,124,139	2,755,818
Total net book value of property, plant and equipment	4,237,207	2,820,655
11. INTANGIBLE ASSETS		
Patents and intellectual property		
<i>Cost</i>		
Opening balance	633,669	580,023
Additions	53,646	53,646
Net book value of patents and intellectual property	687,315	633,669
Development costs		
<i>Cost</i>		
Opening balance	4,121,584	2,003,671
Additions	178,514	1,195,824
Transfer (to)/from plant and equipment	(133,119)	922,089
Net book value of development costs	4,166,979	4,121,584
Total net book value of intangible assets	4,854,294	4,755,253

The expenditure capitalised as intangible assets relate to the Company's development of the Banana Ply Project and associated patents. As discussed in note 2 (t), the recoverability of the asset is dependent on the successful commercialisation of the technology. At 30 June 2010, the commercialisation was not complete.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

12. TRADE AND OTHER PAYABLES (CURRENT)

	Consolidated Group	
	2010	2009
	\$	\$
Trade payables	323,898	818,499
Sundry payables and accrued expenses	278,914	208,343
	<u>602,812</u>	<u>1,026,842</u>

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

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

13. SHORT TERM BORROWINGS

Bank loan (secured)	9,054	-
	<u>9,054</u>	<u>-</u>

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

14. SHORT-TERM PROVISIONS

Opening balance	72,656	56,067
Net increase in provision during financial year	(20,188)	16,589
Closing balance	<u>52,468</u>	<u>72,656</u>

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

15. OTHER NON-CURRENT LIABILITIES

Deferred income - Government Grant	2,415,757	2,067,751
	<u>2,415,757</u>	<u>2,067,751</u>

16. ISSUED CAPITAL

96,519,483 fully paid ordinary shares (2009: 74,790,412)	16,889,136	11,273,337
	<u>16,889,136</u>	<u>11,273,337</u>

	2010		2009	
	Number	\$	Number	\$
Ordinary shares				
Balance at beginning of year	74,790,412	11,273,337	67,982,008	8,567,800
Shares issued upon exercise of listed and unlisted options at various dates	20,454,120	5,302,880	1,197,120	299,280
Shares issued pursuant to Share Purchase Plan	-	-	2,854,684	1,256,000
Shares issued pursuant to private placements	-	-	2,756,600	1,212,904
Shares issued to acquire the remaining interest in Pulp Fiction Joint Venture	1,274,951	528,816	-	-
Transaction costs (net of tax)	-	(215,897)	-	(62,647)
Balance at end of financial year	<u>96,519,483</u>	<u>16,889,136</u>	<u>74,790,412</u>	<u>11,273,337</u>

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

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	
	2010	2009
	\$	\$
Share-option reserve	761,252	685,197
	<u>761,252</u>	<u>685,197</u>
Share-option reserve		
Balance at beginning of financial year	685,197	325,915
Issue of options to employees and officers under Employee Share Option Plan	76,055	359,282
Balance at end of financial year	<u>761,252</u>	<u>685,197</u>

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.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

- If, prior to the expiry date of options, a person ceases to be an employee of a Group company for any reason other than retirement at age 60 or more (or such earlier age as the Board permits), permanent disability, redundancy or death, the options held by that person (or that person's nominee) automatically lapse on the first to occur of a) the expiry of the period of 30 days from the date of such occurrence, and b) the expiry date. If a person dies, the options held by that person will be exercisable by that person's legal personal representative.
- Options cannot be transferred other than to the legal personal representative of a deceased option holder.
- The Company will not apply for official quotation of any options.
- Shares issued as a result of the exercise of options will rank equally with the Company's previously issued shares.
- Option holders may only participate in new issues of securities by first exercising their options.

The Board may amend the Plan Rules subject to the requirements of the Listing Rules.

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

	2010 No.	2010 WAEP	2009 No.	2009 WAEP
Outstanding at the beginning of the year	28,186,035	0.30	28,983,155	0.30
Granted during the year	50,000	1.63	400,000	1.63
Exercised during the year	(20,454,120)	0.26	(1,197,120)	0.25
Expired during the year	(5,331,915)	0.30	-	-
Outstanding at the end of the year	<u>2,450,000</u>	<u>0.90</u>	<u>28,186,035</u>	<u>0.30</u>
Exercisable at the end of the year	<u>2,325,000</u>	<u>0.85</u>	<u>26,686,035</u>	<u>0.28</u>

The weighted average remaining contractual life for the share options outstanding as at 30 June 2010 was 1.82 years (2009: 0.94 years).

The range of exercise prices for options outstanding at the end of the year was \$0.40 - \$1.75 (2009: \$0.25 - \$1.75).

The weighted average fair value of options granted during the year was \$0.20 (2009: \$0.20).

The fair value of all share options are measured at the reporting date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted. The following table lists the inputs to the model used for the years ended 30 June 2010 and 30 June 2009.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	2010	2009
Weighted Average Exercise price	1.63	1.63
Weighted Average Volatility	77.82%	77.82%
Weighted Average Risk-free interest rate (%)	5.18%	5.18%
Expected life of option (years)	5.00	5.00
Dividend rate	0%	0%

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

19. COMMITMENTS FOR EXPENDITURE

	Consolidated Group	
	2010	2009
	\$	\$
<u>Operating leases</u>		
Not longer than 1 year	193,519	210,439
Longer than 1 year and not longer than 5 years	346,554	791,611
	<u>540,073</u>	<u>1,002,050</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.

The vehicle leases are non-cancellable leases with a 2 - 5 year term and a residual payout of \$183,286.

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

Audit or review of the financial report	31,927	27,800
	<u>31,927</u>	<u>27,800</u>

No other services have been provided.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

22. SUBSIDIARIES

Name of entity	Country of incorporation	Ownership interest	
		2010 %	2009 %
<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	50

23. BUSINESS COMBINATIONS

Acquisitions of the remaining interest in the Pulp Fiction Joint Venture

On 23 October 2009, Papyrus Australia Ltd ('PPY') and World Future Fibre Pty Ltd (WFF) executed an agreement to bring the Pulp Fiction Joint Venture to an end. Under the agreement, PPY 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.

In addition to this, in accordance with the agreement, as the sale of the shares by WFF resulted in a shortfall, PPY has paid an additional \$133,376 in cash in relation to the acquisition of the remaining interest in the Joint Venture on 16 June 2010.

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	662,192

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

Fair values of assets and liabilities acquired at acquisition date:

	Consolidated Group	
	Recognised on acquisition \$	Carrying value \$
Property, plant and equipment	662,192	662,192
Liabilities	-	-
Fair value of identifiable net assets	662,192	662,192
Cost of the combinations:		
Shares issued, at fair value	528,816	
Cash contribution	133,376	
Total cost of the combinations	662,192	

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 year. Similarly, there would be have been no impact to the Company's financials if the combination took place at the beginning of the period.

24. FINANCIAL RISK MANAGEMENT

Capital risk management

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

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in notes 16 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	
	2010 \$	2009 \$
<i>FINANCIAL ASSETS</i>		
Cash and cash equivalents	2,444,112	1,129,564
Trade receivables	142,654	188,200
<i>FINANCIAL LIABILITIES</i>		
Payables	602,812	1,026,842
Borrowings	9,054	-

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

Credit risk management

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

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

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

Interest rate sensitivity analysis

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

Consolidated

	Weighted average effective interest rate %	Less than 1 year \$
2010		
Variable interest rate	4.64	2,444,112

	Weighted average effective interest rate %	
2009		
Variable interest rate	3.34	1,129,564

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 \$9,375 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.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

Consolidated

	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	-
	Weighted average effective interest rate %	Less than 1 year \$	Longer than 1 year and not longer than 5 years \$
2009			
Non-interest bearing	0.00%	1,026,842	-

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.

25. RELATED PARTY DISCLOSURE AND KEY MANAGEMENT PERSONNEL REMUNERATION

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

Mr Edward Byrt - Chairman
 Dr David Wyatt - Non-Executive Director (Resigned 21 June 2010)
 Mr Ramy Azer - Managing Director
 Mr Graeme Menzies - Non-Executive Director
 Mr Donald Stephens - Executive Director
 Mr Christopher Smerdon - Non-Executive Director
 Mr Grant Pigot - Chief Operation Officer (Resigned 28 August 2009)
 Mr Pierre Van Der Merwe - Company Secretary
 Mr Vincent Rigano - Company Secretary (Retired 10 May 2010)

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	
	2010	2009
	\$	\$
Short-term employee benefits	615,092	653,889
Post employment benefits	54,299	13,211
Share-based payments	-	-
	669,391	667,100

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

Option holdings of Key Management Personnel

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	-	(438,774)	(754,983)	-	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 Vincent Rigano	3,026,874	-	(782,072)	(2,244,802)	-	N/A	N/A	N/A

No options were allotted to Key Management Personnel in 2010 or 2009.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

30-Jun-09	Balance at beginning of year	Granted as remuneration	Options Exercised	Net change other	Balance at end of year	Vested at 30 June 2009		
						Expiry Date	First Exercise Date	Last Exercise Date
Directors								
Mr Edward Byrt	-	-	-	-	-	N/A	N/A	N/A
Dr David Wyatt	1,793,757	-	(600,000)	-	1,193,757	02/12/04	02/12/04	31/03/10
Mr Ramy Azer	11,046,000	-	-	-	11,046,000	02/12/04	02/12/04	31/03/10
Mr Graeme Menzies	783,424	-	-	-	783,424	02/12/04	02/12/04	31/03/10
Mr Donald Stephens	3,333,557	-	-	-	3,333,557	02/12/04	02/12/04	31/03/10
Mr Christopher Smerdon	840,241	-	-	-	840,241	02/12/04	02/12/04	31/03/10
Executives								
Mr Grant Pigot	500,000	-	-	-	500,000	14/08/06	14/08/07	13/08/11
	500,000	-	-	-	500,000	14/08/06	14/08/08	13/08/11
Mr Vincent Rigano	3,026,874	-	-	-	3,026,874	02/12/04	02/12/04	31/03/10

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

Shareholdings of Key Management Personnel

	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	438,774	-	2,637,652
Mr Ramy Azer		21,237,777	1,691,058	-	22,928,835
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

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

Executives

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

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

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. The closing value of all loan amounts to wholly owned members of the Group is contained within the statement of financial position under other receivables and cash movements throughout the year are detailed within the body of the statement of cash flows under loans to wholly owned subsidiaries.

Director related entities

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

Management fees and corporate advisory fees paid to DCS Corporate Advisory Services Pty Ltd for services provided. Mr Donald Stephens is the sole director of the entity - \$90,000 (2009: \$72,000). The amount of \$11,917 including GST was owed to the entity at 30 June 2010 (2009: 11,248).

Legal fees paid to Norman Waterhouse Lawyers for the provision of legal services. Mr Edward Byrt is a director of Norman Waterhouse Lawyers - \$3,000 (2009: \$64). No amount was owed to the entity at 30 June 2010 or 30 June 2009.

Accounting fees paid to VP Rigano and Co Pty Ltd for accounting services provided. Mr Vincent Rigano is a director of VP Rigano and Co Pty Ltd - nil (2009: \$40,820). No amount was owed to the entity at 30 June 2010 (2009: \$4,070).

HLB Mann Judd (SA) Pty Ltd has received professional fees for accounting, taxation and secretarial services provided during the year of \$39,840 (2009:Nil). The amount of \$7,997 was owed to the entity at 30 June 2010 (2009: Nil).

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. The entity has received payments of \$6,114 during the financial year (2009: 11,491). No amount was owed to the entity at 30 June 2010 or 30 June 2009.

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

26. PARENT ENTITY INFORMATION

	2010 \$	2009 \$
Financial Position		
Assets		
Current Assets	2,667,673	1,398,771
Non-current Assets	9,064,892	7,469,511
	<u>11,732,565</u>	<u>8,868,282</u>
Liabilities		
Current liabilities	571,933	896,012
Non-current Liabilities	2,415,757	2,076,751
	<u>2,987,690</u>	<u>2,972,763</u>
Equity		
Issued Capital	16,889,136	11,273,337
Reserves	761,252	685,197
Retained Earnings	(8,905,513)	(6,054,015)
	<u>8,744,875</u>	<u>5,904,519</u>
	-	
Financial Performance		
(Loss) for the year	(2,851,498)	(1,540,421)
Other comprehensive income	-	-
	<u>(2,851,498)</u>	<u>(1,540,421)</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.

Contractual Commitments

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

	<u>Parent</u> <u>2010</u> \$
<u>Operating leases</u>	
Not longer than 1 year	62,894
Longer than 1 year and not longer than 5 years	210,051
	<u>272,945</u>

Notes to the Financial Statements continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

27. GOING CONCERN

The financial report has been prepared on the basis of going concern. During the year ended 30 June 2010, the Company had a combined cash outflow from operating and investing activities of (3,688,471). 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 Company 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.

28. 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 24 to 62, 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 2010 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 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 2010

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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 statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report and the directors’ declaration of the consolidated entity comprising the Company and the entities it controlled at the year’s end or from time to time during the financial year.

Directors’ responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that are 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. 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.

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

Auditor's responsibility Cont

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2010 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Material uncertainty regarding continuation as a going concern

Without qualifying our opinion, attention is drawn to Note 27 in the Annual Financial Report. These conditions 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.

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

Report on the remuneration report

We have audited the Remuneration Report included in pages 12 to 14 of the directors' report for the year ended 30 June 2010. 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 2010, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



J L Humphrey
Partner

Adelaide, 30 September 2010