

# **Papyrus Australia Limited**

**ABN 63 110 868 409**

## **Preliminary Final ASX Report**

**for the year ended 30 June 2010**

<b>Results for announcement to the market</b>	<b>2010</b>	<b>2009</b>		<b>Percentage change</b>
	<b>\$</b>	<b>\$</b>		
Revenues from ordinary activities	87,009	281,976	down	(69)%
Loss from ordinary activities after tax attributable to the members	2,661,336	1,581,410	up	(68)%
Loss for the period attributable to members	2,661,336	1,581,410	up	(68)%

### **Dividends (distributions)**

No dividends have been paid during the financial year ended 30 June 2010

The directors have not proposed a dividend for the year end 30 June 2010

<b>Net Tangible Assets Per Security - cents</b>	<b>\$0.042</b>	<b>\$0.009</b>
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### **Audit Status**

The financial statements contained within this Appendix 4E is based on accounts which are in the process of being audited.

Refer to note 17 within the financials for details of entities over which control has been gained during the year.

All other requirements of Appendix 4E of the ASX Listing Rules are contained within the attached financial report.

### **Basis of Financial Report Preparation**

This financial report is for the year ended 30 June 2010 and has been prepared in accordance with the Australian Securities Exchange Listing rules as they relate to Appendix 4E and in accordance with the Corporations Act 2001. The accounting policies adopted with the contents of this report are consistent with those of the previous financial year and corresponding interim reporting period. Comments are for the twelve months ended 30 June 2010 with comparatives for the twelve months ended 30 June 2009 shown in parentheses. All amounts are measured in Australian Dollars, unless otherwise specified.

### **Review of Papyrus Australia Ltd 2010 Results**

#### **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 key management personnel, 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.

## **Review of Papyrus Australia Ltd 2010 Results (Cont.)**

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.

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.

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.

## Statement of Comprehensive Income

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Note	Consolidated group	
		2010 \$	2009 \$
Revenue from operating activities	2 (a)	87,009	281,976
Other income	2 (b)	23,534	28,611
Depreciation expense	2 (c)	(95,278)	(21,172)
Employee benefits expenses	2 (d)	(1,156,525)	(941,924)
Other expenses	2 (e)	(1,832,704)	(1,335,531)
<b>Loss before income tax benefit</b>		<b>(2,973,964)</b>	<b>(1,988,040)</b>
Income tax benefit		197,628	406,630
<b>Loss from ordinary activities after income tax expense</b>		<b>(2,776,336)</b>	<b>(1,581,410)</b>
<b>Loss attributable to members of the parent entity</b>		<b>(2,776,336)</b>	<b>(1,581,410)</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>(2,776,336)</b>	<b>(1,581,410)</b>
<b>Total comprehensive income attributable to members of the parent entity</b>		<b>(2,776,336)</b>	<b>(1,581,410)</b>
<b>Earnings per share:</b>		<i>Cents</i>	<i>Cents</i>
Basic earnings per share	3	(3.23)	(2.25)
Diluted earnings per share	3	(3.23)	(2.25)

## Statement of Financial Position

### AS AT 30 JUNE 2010

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

## Statement of Changes in Equity

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Consolidated group			
	Share Capital Ordinary \$	Retained Earnings \$	Share Option Reserve \$	Total \$
<b>Balance at 1 July 2008</b>	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	13 299,280	-	-	299,280
Shares issued pursuant to Share Purchase Plan	13 1,256,000	-	-	1,256,000
Shares issued pursuant to private placements	13 1,212,904	-	-	1,212,904
Transaction costs (net of tax)	13 (62,647)	-	-	(62,647)
Share-based payments	14 -	-	359,282	359,282
<b>Balance at 30 June 2009</b>	<b>11,273,337</b>	<b>(6,129,177)</b>	<b>685,197</b>	<b>5,829,357</b>

	Consolidated group			
	Share Capital Ordinary \$	Retained Earnings \$	Share Option Reserve \$	Total \$
<b>Balance at 1 July 2009</b>	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	13 5,302,880	-	-	5,302,880
Acquisition of remaining interest in Pulp Fiction Joint Venture	13 528,816	-	-	528,816
Transaction costs (net of tax)	13 (215,897)	-	-	(215,897)
Share-based payments	14 -	-	76,055	76,055
<b>Balance at 30 June 2010</b>	<b>16,889,136</b>	<b>(8,905,513)</b>	<b>761,252</b>	<b>8,744,875</b>

## Statement of Cash Flows

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

		<b>Consolidated group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
		-	199,232
		364,121	542,894
		(2,862,111)	(2,123,416)
		275,182	98,030
		49,930	97,169
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>4 (a)</b>	<b>(2,172,878)</b>	<b>(1,186,091)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
		(1,416,552)	(1,392,172)
		-	17,868
		(99,041)	(1,133,752)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(1,515,593)</b>	<b>(2,508,056)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
		5,302,880	2,768,184
		(308,424)	(89,495)
		16,057	-
		(7,494)	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		<b>5,003,019</b>	<b>2,678,689</b>
		1,314,548	(1,015,458)
		1,129,564	2,145,022
<b>CASH AT THE END OF THEYEAR</b>		<b>2,444,112</b>	<b>1,129,564</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a. Basis of Preparation

The Preliminary Final Report has been prepared in accordance with ASX Listing Rule 4.3A and has been derived from the unaudited consolidated Annual Financial Report.

The Preliminary Final Report has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The Financial Report also complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board.

The Preliminary Final Report is presented in Australian dollars and has been prepared on the basis of historical cost except where assets and liabilities are stated at their fair values in accordance with relevant accounting policies.

The consolidated Annual Financial Report is in the process of being audited and will be made available prior to 30 September 2010. This Report should also be read in conjunction with any public announcements made by Papyrus during the year in accordance with the continuous disclosure requirements arising under the Corporations Act 2001 and ASX Listing Rules.

#### b. Basis 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).

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.

**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 income statement over the expected useful life of the relevant asset by equal annual instalments.

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

**h. Cash and cash equivalents**

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

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

**i. Trade and other receivables**

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

**j. Income tax**

Income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses. Current and deferred tax expense attributable to amounts recognised directly in equity is also recognised directly in equity.

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

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

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

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

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

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

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

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

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

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.

**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 is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

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

Cash flows are included in the 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.

**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 over the estimated useful life of the assets as follows:

Plant and equipment    2.5 - 10 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

*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 units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the statement of comprehensive income in a combination of functional expense items.

**m. Intangible assets**

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

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

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

**n. Trade and other payables**

Trade payables and other payables are carried at cost 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.

**o. 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.

**p. Employee leave benefits**

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.

**q. Share-based payment transactions**

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

There is currently one plan in place to provide these benefits, the Employee Share Option Plan (ESOP) which provides benefits to directors and 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 cost is recognised as an expense in the income statement, together with a corresponding increase in the share option reserve, when the options are issued. The fair value is determined using the Black Scholes option pricing model.

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

**r. Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**s. Earnings per share**

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**t. Significant accounting judgements and key estimates**

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

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

In the year ended 30 June 2010, management reassessed its estimates in respect of:

*Key Estimates — Impairment*

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

*Significant Accounting Estimate*

The Group has capitalised the development costs in relation to the development of the Banana Ply Technology. The recoverability of the asset is dependent on the successful commercialisation of the technology. As 30 June 2010, the commercialisation of the project was not yet complete.

**u. Adoption of New and Revised Accounting Standards**

During the current year the Consolidated 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.

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 two statement approach and the financial statements now include a statement of comprehensive income as well as a separate 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.

## 2. REVENUE AND EXPENSES

	<b>Consolidated group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>REVENUE</b>		
<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>
<b>EXPENSES</b>		
<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>
<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
	<u>1,832,704</u>	<u>1,335,531</u>

### 3. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	<b>Consolidated group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Net loss attributable to ordinary equity holders of the parent	(2,776,336)	(1,581,410)
	<b>2010</b>	<b>2009</b>
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
<b>Earnings per share:</b>	<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.

	<b>Consolidated group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>

### 4. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	481,327	329,564
Short-term deposits	1,962,785	800,000
	<b>2,444,112</b>	<b>1,129,564</b>

	<b>Consolidated group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Reconciliation to Cash Flow Statement</b>		
For the purposes of the Cash Flow Statement, 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>

**4(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>		
(Increase)/decrease in trade and other receivables	45,546	(112,964)
(Increase)/Decrease in other current assets	(43,765)	(102,934)
(Decrease)/Increase in trade and other payables	8,108	56,241
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>

**5. TRADE AND OTHER RECEIVABLES**

*Current*

Trade receivables	26,400	27,003
GST receivable	102,491	154,394
Other receivables	13,763	6,803
	<u>142,654</u>	<u>188,200</u>

## 6. OTHER CURRENT ASSETS

	<b>Consolidated group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Prepayments	75,246	100,690
Accrued interest	37,078	-
Other	34,375	2,244
	<b>146,699</b>	<b>102,934</b>

## 7. PROPERTY, PLANT AND EQUIPMENT

### Plant and equipment

#### Cost

Opening balance	135,316	99,568
Additions	485,481	35,748
Acquisitions through business combinations	662,192	-
Disposals	(6,623)	-
	<b>1,276,366</b>	<b>135,316</b>

#### Accumulated depreciation

Opening balance	70,479	56,299
Depreciation for the year	95,278	21,172
Disposals	(2,459)	(6,992)
	<b>163,298</b>	<b>70,479</b>
Net book value of plant and equipment	<b>1,113,068</b>	<b>64,837</b>

### Capital works in progress

#### Cost

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)
Recuperation of R&D costs	(404,652)	-
Net book value of capital works in progress	<b>3,124,139</b>	<b>2,755,818</b>

### Total net book value of property, plant and equipment

	<b>4,237,207</b>	<b>2,820,655</b>
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## 8. INTANGIBLE ASSETS

	<b>Consolidated group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Patents and intellectual property</b>		
<i>Cost</i>		
Opening balance	633,669	580,023
Additions	53,646	53,646
Net book value of patents and IP	<u>687,315</u>	<u>633,669</u>
<b>Development costs</b>		
<i>Cost</i>		
Opening balance	4,121,584	2,003,671
Additions	277,810	1,195,824
Transfer (to)/from plant and equipment	(232,415)	922,089
Net book value of capital works in progress	<u>4,166,979</u>	<u>4,121,584</u>
<b>Total net book value of intangible assets</b>	<u>4,854,294</u>	<u>4,755,253</u>

## 9. TRADE AND OTHER PAYABLES

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

Included in sundry payables is an amount of \$115,000 claimed by Inventure Partners Pty Ltd in relation to success fee for a grant application on behalf of the Company. The Company and Inventure are presently in dispute in relation to the contract agreement in place between both parties. Notwithstanding the dispute, the amount recognised within the accounts represents the total due pursuant to the agreement and the Company hopes to resolve the dispute as soon as possible.

## 10. SHORT TERM BORROWINGS

Bank loan	9,054	-
	<u>9,054</u>	<u>-</u>

## 11. 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>

## 12. OTHER NON-CURRENT LIABILITIES

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

### 13. ISSUED CAPITAL

96,519,483 fully paid ordinary shares  
(2009: 74,790,412)

	2010		2009	
	Number	\$	Number	\$
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	96,519,483	16,889,136	74,790,412	11,273,337

#### Ordinary shares

#### Consolidated group

2010	2009
\$	\$

### 14. RESERVES

#### Reserves

##### Share-option reserve

761,252	685,197
761,252	685,197

##### Share-option reserve

Balance at beginning of financial year  
Issue of options to employees and officers under Employee Share Option Plan  
Balance at end of financial year

685,197	325,915
76,055	359,282
761,252	685,197

### 15. SHARE BASED PAYMENTS

#### Employee Share Option Plan

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

- All employees (full time and part time) will be eligible to participate in the Plan.
- Options are granted under the Plan at the discretion of the board and if permitted by the board, may be issued to an employee's nominee.
- Each option is to subscribe for one fully paid ordinary share in the Company and will expire 5 years from its date of issue. An option is exercisable at any time from its date of issue (provided all relevant vesting conditions, if applicable, have been met. Options will be issued free. The exercise price of options will be determined by the board. The total number of shares the subject of options issued under the Plan, when aggregated with issues during the previous 5 years pursuant to the Plan and any other employee share plan, must not exceed 5% of the Company's issued share capital.

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

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

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):

	<b>2010 No.</b>	<b>2010 WAEP</b>	<b>2009 No.</b>	<b>2009 WAEP</b>
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.

	<b>2010</b>	<b>2009</b>
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%

## 16. INTEREST IN 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

## 17. 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

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
	<u>662,192</u>	<u>662,192</u>
Liabilities	-	-
	<u>-</u>	<u>-</u>
Fair value of identifiable net assets	662,192	662,192
	<u>662,192</u>	<u>662,192</u>
Cost of the combinations:		
Shares issued, at fair value	528,816	
Cash contribution	133,376	
Total cost of the combinations	<u>662,192</u>	

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

## 18. 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.

## 19. GOING CONCERN

The financial report has been prepared on the basis of going concern. The company continues to be economically dependent on generating profits from the business and/or raising additional capital for the continued development of its Banana Ply Project and working capital. The 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.

**COMPLIANCE STATEMENT**

1. This report has been prepared in accordance with AASB Standards, other authoritative pronouncements and Urgent Issues Group Consensus Views.
2. This report gives a true and fair view of the matters disclosed.
3. This report is based on accounts which are in the process of being audited



Donald Stephens  
Director

31 August 2010