

## Chairman's message to shareholders



Dear Shareholders,

Since I last wrote to shareholders in April 2012 the Company has continued to pursue its commercialisation goals in Egypt and through the Yellow Pallet project. We will remain focused on these two commercialisation opportunities to advance the interests of the Company.

Egypt continues to challenge us because of the political climate and the recent decision to set aside the parliamentary elections has again caused some more uncertainty and has slowed the decision making processes of government and business. Patience and persistence are required. We remain confident of the future for the Papyrus Egypt project in Sohag.

The Egyptian shareholders of Papyrus Egypt are progressing their bank finance proposals and to date the applications have received support from the Governor of Sohag and remain under serious consideration by the Industrialisation and Development Bank of Egypt. The applications have met and passed all assessment criteria set to date. The Bank has encouraged the Egyptian shareholders to raise additional equity for their interest in Papyrus Egypt and this exercise is underway.

We have afforded the Egyptian shareholders extra time to secure the additional equity, and to obtain the bank finance for operations and capital expenditure. Personal guarantees have been provided by the Egyptian shareholders for these loans. Papyrus Australia is not exposed at all to these loan applications or the guarantees.

The Managing Director is in regular contact with the shareholders, the bank and the Egyptian government officials supporting, and those assessing, the loan applications. The Managing Director will be returning to Egypt in the first week of July 2012. I will follow him in the second week during which time we will again meet the relevant Egyptian government and banking officials. As with any foreign investment personal engagement is essential and we are meeting those expectations.

The Fraunhofer Institute in Germany has commenced the scientific testing and industrial trialling of banana fibre to produce panel board. The Managing Director has been involved remotely with those undertakings to date, and has now been invited to participate personally in the continuation of those trials in mid July, which he will do. The results of these industrial trials will produce documented formula and recipes from an expert and independent source to produce certifiable structural panel board made from banana fibre for the Egyptian and European markets.

Our prospective Egyptian participants in the production of MDF and panel board from banana fibre, Nag Hamady and Abu El Holl, about whom I have previously reported, are recipients of the outcomes of the Fraunhofer trials. Abu El Holl is funding one half of the Fraunhofer costs and Papyrus Australia will retain ownership of all new IP developed by Fraunhofer. These two Egyptian companies remain active and interested prospective commercial participants in the business opportunities presented in Egypt and Europe for MDF and panel board production from banana fibre, as an alternate to the use of wood products.

The Yellow Pallet project team have progressed the development of this commercialisation project. As previously reported this project is supported by various governmental, institutional and private companies. Papyrus Australia and our Dutch partners have made the necessary financial contributions for the project, and we are now awaiting funding from the governmental, institutional and private companies to proceed to the next stage.

The goal of the project is to realise the first factory in the world to produce shipping pallets made from waste banana fibre, to be used by the banana sector itself for exporting banana, as well as other agricultural produce.

The pre-feasibility work already undertaken by the project team suggests that this project will:

- Prove the utilisation of waste banana fibre and create a new industry
- Address the huge demand from the global shipping pallet market currently relying on forest sourced timber
- Realise a price reduction per pallet from around US\$11 to about US\$9
- Create at least 150 jobs per pallet factory
- Create a stream of new bio-mass to Europe, USA and Japan
- Reduce carbon emissions and the use of wood

Papyrus Australia owns 50% of the project and the company will benefit greatly from the forecast demand for its patented machinery that process banana tree trunks into a usable fibre source for the production of shipping pallets.

Corporately and financially the company continues to operate in Australia and Egypt on an absolute minimum cost basis to preserve working capital. We are meeting all expenses as they fall due and there are no known unbudgetted expense items. Cash at bank is presently around \$370k and we expect to be in receipt of funds from Egypt shortly in accordance with the agreement between us. Moreover this is a key objective in the Managing Director's and my visit to Egypt in the coming days. All of the directors of the company have agreed to continue to forego fees.

In conclusion, I again thank our shareholders for their patience and understanding as we strive to finalise the commercialisation phase of the project to produce commercially certifiable MDF and panel board from banana fibre, and as we support the Yellow Pallet project team in Europe. I hope to report to you again by mid August 2012 by which time I will be expecting reportable progress in Egypt and with the Yellow Pallet project.

Ted Byrt  
Chairman