

PAPYRUS AUSTRALIA LIMITED

ACN 110 868 409

**NOTICE OF GENERAL MEETING
EXPLANATORY MEMORANDUM
PROXY FORM**

Date of Meeting
16 March 2011

Time of Meeting
10.00 am (SA time)

Place of Meeting
The Lecture Theatre, University of Adelaide Thebarton Campus, 35-37 Stirling Street Thebarton,
South Australia

NOTICE OF GENERAL MEETING

PAPYRUS AUSTRALIA LIMITED ACN 110 868 409

Notice is hereby given that a general meeting of shareholders of Papyrus Australia Limited will be held at 10.00 am (SA time) on 16 March 2011 at The Lecture Theatre, University of Adelaide Thebarton Campus, 35-37 Stirling Street Thebarton, South Australia to consider and, if thought fit, pass the following resolutions as ordinary resolutions:

Resolution 1: Subsequent approval of the issue of 8,333,333 Placement Shares and 4,166,667 Placement Options

'That for the purpose of ASX Listing Rule 7.4 and for all other purposes, approval be and is hereby given to the grant, allotment and issue by the Company of 8,333,333 ordinary shares and 4,166,667 options on the terms and conditions described in the Explanatory Memorandum which is attached to and forms part of this Notice.'

Resolution 2: Issue of 2,500,000 Placement Shares and 1,250,000 Placement Options to Ramy Azer and/or his nominee

'That for the purpose of ASX Listing Rule 10.11 and for all other purposes, approval be and is hereby given to the grant, allotment and issue by the Company of 2,500,000 ordinary shares and 1,250,000 options to Mr Ramy Azer and/or his nominee on the terms and conditions described in the Explanatory Memorandum which is attached to and forms part of this Notice.'

Resolution 3: Issue of 833,333 Placement Shares and 416,667 Placement Options to Edward Byrt and/or his nominee

'That for the purpose of ASX Listing Rule 10.11 and for all other purposes, approval be and is hereby given to the grant, allotment and issue by the Company of 833,333 ordinary shares and 416,667 options to Mr Edward Byrt and/or his nominee on the terms and conditions described in the Explanatory Memorandum which is attached to and forms part of this Notice.'

DATED: 11 February 2011

**BY ORDER OF THE BOARD
PAPYRUS AUSTRALIA LIMITED**



**PIERRE VAN DER MERWE
COMPANY SECRETARY**

NOTES:

1. Explanatory Memorandum

The Explanatory Memorandum accompanying this Notice of General Meeting is incorporated in and comprises part of this Notice of General Meeting and should be read in conjunction with this Notice of General Meeting.

Shareholders are specifically referred to the Glossary in the Explanatory Memorandum which contains definitions of capitalised terms used in both this Notice of General Meeting and the Explanatory Memorandum.

2. Voting Exclusion Statement

2.1 Resolution 1

The Company will disregard any votes cast on Resolution 1 by a person who participated in the issue of Initial Placement Shares and Initial Placement Options and associates of that person.

2.2 Resolution 2 and 3

The Company will disregard any votes cast on each of Resolutions 2 and 3 if they are cast by a person who is named in the relevant resolution or that person's nominee and associates of the person who is named in the relevant resolution or that person's nominee.

2.3 All Resolutions

However the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

3. Proxies

A shareholder entitled to attend this Meeting and vote is entitled to appoint a proxy to attend and vote for the shareholder at the Meeting. A proxy need not be a shareholder. If the shareholder is entitled to cast two or more votes at the Meeting the shareholder may appoint two proxies and may specify the proportion or number of votes which each proxy is appointed to exercise. A form of proxy accompanies this Notice.

4. Voting Entitlement

The Company may specify a time, not more than 48 hours before the Meeting, at which a 'snap-shot' of shareholders will be taken for the purposes of determining shareholder entitlements to vote at the Meeting. The Directors have determined that a person's entitlement to vote at the Meeting will be the entitlement of that person set out in the register of shareholders as at 7.00 pm (SA time) on 14 March 2011. This means that any shareholder registered at 7.00 pm (SA time) on 14 March 2011 is entitled to attend and vote at the Meeting.

5. Corporate Representative

Any corporate shareholder who has appointed a person to act as its corporate representative at the Meeting should provide that person with a certificate or letter executed in accordance with the *Corporations Act 2001* (Cth) authorising him or her to act as that company's representative. The authority may be sent to the Company and/or registry in advance of the Meeting or handed in at the Meeting when registering as a corporate representative.

EXPLANATORY MEMORANDUM

This Explanatory Memorandum forms part of a Notice convening a general meeting of shareholders of Papyrus Australia Limited to be held on 16 March 2011. This Explanatory Memorandum is to assist shareholders in understanding the background to and the legal and other implications of the Notice and the reasons for the resolutions proposed. Both documents should be read in their entirety and in conjunction with each other.

BACKGROUND

On 20 January 2011, the Company announced a placement of 11,666,667 ordinary shares (**Placement Shares**) and 5,833,333 free attaching options (**Placement Options**) at an issue price of \$0.12 per share to raise \$1.4 million. Each Placement Option entitles the optionholder to subscribe for one ordinary share in the Company at an exercise price of \$0.12 at any time on or before 31 March 2013.

8,333,333 Placement Shares (**Initial Placement Shares**) and 4,166,667 Placement Options (**Initial Placement Options**) were issued on or about 11 February 2011. The purpose of Resolution 1 is to obtain shareholder approval for the issue of the Initial Placement Shares and Initial Placement Options for the purposes of ASX Listing Rule 7.4 and for all other purposes.

Subject to obtaining shareholder approval, the remaining 3,333,333 Placement Shares (**GM Placement Shares**) and 1,666,667 Placement Options (**GM Placement Options**) will be issued to two Directors and/or their respective nominees. The purpose of Resolutions 2 and 3 is to obtain shareholder approval for the purpose of ASX Listing Rule 10.11 and for all other purposes.

RESOLUTION 1: SUBSEQUENT APPROVAL OF THE ISSUE OF 8,333,333 PLACEMENT SHARES AND 4,166,667 PLACEMENT OPTIONS

ASX Listing Rule 7.1 provides, in summary, that a listed company may not issue equity securities in any 12 month period which exceeds 15% of the number of issued securities of the company held at the beginning of the 12 month period, except with the prior approval of shareholders of the company in general meeting, unless an exception in ASX Listing Rule 7.2 applies.

However, ASX Listing Rule 7.4 provides that an issue of equity securities made without shareholder approval under ASX Listing 7.1 is treated as having been made with shareholder approval for the purpose of ASX Listing Rule 7.1 if:

- the issue did not breach ASX Listing Rule 7.1; and
- holders of ordinary securities subsequently approve it.

The issue of the Initial Placement Shares and Initial Placement Options did not result in the Company breaching the 15% limit referred to in ASX Listing Rule 7.1. The issue of the Initial Placement Shares and Initial Placement Options does not therefore depend on shareholders passing Resolution 1. The purpose of Resolution 1 is to obtain shareholder approval for the purpose of ASX Listing Rule 7.4 and for all other purposes. If shareholders approve the issue of the Initial Placement Shares and Initial Placement Options for the purpose of ASX Listing Rule 7.4, the issue of the Initial Placement Shares and Initial Placement Options will not count towards determining the number of equity securities which the Company can issue in any 12 month period. However, if shareholders do not approve the issue of the Initial Placement Shares and Initial Placement Options for the purpose of ASX Listing Rule 7.4, the issue of the Initial Placement Shares and Initial Placement Options will count towards the number of equity securities which the Company can issue in any 12 month period.

For the purpose of ASX Listing Rule 7.5 information regarding the Initial Placement Shares and Initial Placement Options is provided as follows:

- 8,333,333 Initial Placement Shares and 4,166,667 Initial Placement Options have been allotted.
- The Initial Placement Shares were issued at an issue price of \$0.12 each. The Initial Placement Options were issued for no consideration.
- The terms and conditions of the Initial Placement Shares are the same as the terms and conditions of already issued fully paid ordinary shares in the Company.

- The terms and conditions of the Initial Placement Options are set out in the annexure.
- The allottees of the Initial Placement Shares and Initial Placement Options are applicants for Initial Placement Shares and Initial Placement Options as determined by the Board.
- Funds raised from the issue of the Initial Placement Shares will be used to continue improvements in production at the Company's Walkamin Factory in far North Queensland, manufacturing and commissioning of new veneering units and for working capital purposes.
- No funds are being raised from the issue of the Initial Placement Options as they are being issued for no consideration.

The Directors recommend that Shareholders vote in favour of Resolution 1.

RESOLUTION 2: ISSUE OF 2,500,000 PLACEMENT SHARES AND 1,250,000 PLACEMENT OPTIONS TO RAMY AZER AND/OR HIS NOMINEE

Subject to shareholder approval, it is proposed that Mr Ramy Azer and/or his nominee will be issued with 2,500,000 GM Placement Shares and 1,250,000 GM Placement Options.

The proposed share and option issue to Mr Azer and/or his nominee requires the approval of shareholders pursuant to ASX Listing Rule 10.11. Shareholder approval is required under ASX listing Rule 10.11 because Mr Azer is a director of the Company and, as such, is a related party of the Company. If shareholder approval is given under ASX Listing Rule 10.11, shareholder approval is not required under ASX Listing Rule 7.1.

For the purpose of ASX Listing Rule 10.13 information regarding the proposed share and option issue is provided as follows to the extent that such information is not disclosed elsewhere in this Explanatory Memorandum:

- If Resolution 2 is passed, the GM Placement Shares and GM Placement Options to be issued to Mr Azer and/or his nominee will be issued no later than one month after the date of the Meeting.
- The GM Placement Shares will be issued at an issue price of \$0.12 each. The GM Placement Options will be issued for no consideration.
- The terms and conditions of the GM Placement Shares are the same as the terms and conditions of already issued fully paid ordinary shares in the Company.
- The terms and conditions of the GM Placement Options are set out in the annexure.
- \$300,000 will be raised by the issue of the GM Placement Shares to Mr Azer and/or his nominee. Funds raised from the issue of the GM Placement Shares will be used to continue improvements in production at the Company's Walkamin Factory in far North Queensland, manufacturing and commissioning of new veneering units and for working capital purposes.
- No funds are being raised from the issue of the GM Placement Options as they are being issued for no consideration.

The Directors (other than Mr Azer) do not have an interest in the outcome of Resolution 2 and recommend that shareholders vote in favour of Resolution 2.

RESOLUTION 3: ISSUE OF 833,333 PLACEMENT SHARES AND 416,667 PLACEMENT OPTIONS TO EDWARD BYRT AND/OR HIS NOMINEE

Subject to shareholder approval, it is proposed that Mr Edward Byrt and/or his nominee will be issued with 833,333 GM Placement Shares and 416,667 GM Placement Options.

The proposed share and option issue to Mr Byrt and/or his nominee requires the approval of shareholders pursuant to ASX Listing Rule 10.11. Shareholder approval is required under ASX Listing Rule 10.11 because Mr Byrt is a director of the Company and, as such, is a related party of the Company. If shareholder approval is given under ASX Listing Rule 10.11, shareholder approval is not required under ASX Listing Rule 7.1.

For the purpose of ASX Listing Rule 10.13 information regarding the proposed share and option issue is provided as follows to the extent that such information is not disclosed elsewhere in this Explanatory Memorandum:

- If Resolution 3 is passed, the GM Placement Shares and GM Placement Options to be issued to Mr Byrt and/or his nominee will be issued no later than one month after the date of the Meeting.
- The GM Placement Shares will be issued at an issue price of \$0.12 each. The GM Placement Options will be issued for no consideration.
- The terms and conditions of the GM Placement Shares are the same as the terms and conditions of already issued fully paid ordinary shares in the Company.
- The terms and conditions of the GM Placement Options are set out in the annexure.
- \$100,000 will be raised by the issue of the GM Placement Shares to Mr Byrt and/or his nominee. Funds raised from the issue of the GM Placement Shares will be used to continue improvements in production at the Company's Walkamin Factory in far North Queensland, manufacturing and commissioning of new veneering units and for working capital purposes.
- No funds are being raised from the issue of the GM Placement Options as they are being issued for no consideration.

The Directors (other than Mr Byrt) do not have an interest in the outcome of Resolution 3 and recommend that shareholders vote in favour of Resolution 3.

GLOSSARY

In this Explanatory Memorandum and Notice of General Meeting the following expressions have the following meanings unless stated otherwise or unless the context otherwise requires:

ASX means ASX Limited ACN 008 624 691;

ASX Listing Rules means the official listing rules of ASX;

Board means the board of directors of the Company;

Company means Papyrus Australia Limited ACN 110 868 409;

Director means a director of the Company;

Meeting means the general meeting of shareholders convened by the Notice; and

Notice means the notice of general meeting to which this Explanatory Memorandum is attached.

ANNEXURE

TERMS AND CONDITIONS OF OPTIONS

1. Each option entitles the holder to one ordinary share in the Company.
2. Each of the options will be exercisable at a price of \$0.12.
3. Each option is exercisable in whole or in part at any time during the period commencing on the date of issue and expiring on 31 March 2013 (**Exercise Period**). Options not exercised before the expiry of the Exercise Period will lapse.
4. Options are exercisable by notice in writing to the Board delivered to the registered office of the Company and payment of the exercise price per option in cleared funds.
5. The Company will not apply to ASX for official quotation of the options.
6. The Company will make application for official quotation on ASX of new shares allotted on exercise of the options. Those shares will participate equally in all respects with existing issued ordinary shares, and in particular new shares allotted on exercise of the options will qualify for dividends declared after the date of their allotment.
7. Options are not transferable within 12 months after their issue. Thereafter, options may be transferred in the form commonly used for the transfer of options at any time until the expiry of the Exercise Period, subject to any restrictions that may be imposed by ASX.
8. An optionholder may only participate in new issues of securities to holders of ordinary shares in the Company if the option has been exercised and shares allotted in respect of the option before the record date for determining entitlements to the issue. The Company must give prior notice to the optionholder of any new issue before the record date for determining entitlements to the issue in accordance with the ASX Listing Rules.
9. If there is a bonus issue to the holders of ordinary shares in the capital of the Company, the number of ordinary shares over which the option is exercisable will be increased by the number of ordinary shares which the holder of the option would have received if the option had been exercised before the record date for the bonus issue.
10. If the Company makes a rights issue (other than a bonus issue), the exercise price of options on issue will be reduced according to the following formula:

$$A = O - \frac{E [P - (S + D)]}{(N + 1)}$$

Where:

- A = the new exercise price of the option;
 - O = the old exercise price of the option;
 - E = the number of underlying ordinary shares into which one option is exercisable;
 - P = the average closing sale price per ordinary share (weighted by reference to volume) recorded on the stockmarket of ASX during the five trading days immediately preceding the ex rights date or ex entitlements date (excluding special crossings and overnight sales and exchange traded option exercises);
 - S = the subscription price for a security under the pro rata issue;
 - D = the dividend due but not yet paid on existing underlying securities (except those to be issued under the pro rata issue); and
 - N = the number of securities with rights or entitlements that must be held to receive a right to one new security.
11. If, during the currency of the options the issued capital of the Company is reorganised, those options will be reorganised to the extent necessary to comply with ASX Listing Rules.

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