

ASX Announcement



9 JUNE 2011

PAPYRUS SIGNS JOINT VENTURE AGREEMENT

Papyrus Australia Ltd (ASX: PPY) is pleased to announce it has entered into an agreement with the Egyptian Banana Fibre Company (EBFC), a company incorporated in Egypt. The principals of EBFC have long term expertise in banana growing, timber and wood trading and manufacture as well as packaging and paperboard manufacturing.

This development follows an announcement to the market on 16 March 2011 that Papyrus Australia in conjunction with EBFC released a catalogue demonstrating veneer products (floorboards and decorative panels) produced from banana tree trunks utilising the Papyrus Australia methodology and process from veneers sourced from the Papyrus Australia Walkamin Demonstration Factory in Far North Queensland.

The essential elements of the agreement between the parties include:

- A 50/50 joint-venture vehicle located in Egypt to be known as Papyrus Egypt for the purpose of which is to own and operate a factory to produce veneers for sale and finished product identified in the released catalogue;
- Papyrus Egypt will have a board of directors comprising 4 persons with each party having 2 directors. The Chairman will always be a Papyrus representative who will have a casting vote;
- EBFC will raise the necessary capital required for the project to be established in accordance with a business plan to be finalised by the board of Papyrus Egypt by 30 June 2011. In consideration Papyrus Australia will issue Papyrus Egypt with an exclusive licence for the territory of Egypt;
- Papyrus Egypt will purchase from The Australian Advanced Manufacturing Centre Pty Ltd (a wholly owned subsidiary of Papyrus Australia) the necessary proprietary plant and equipment for AUD 2.0 million to be delivered no later than 31 December 2011 with payment terms determined in the licence agreement;
- Papyrus Australia will supply the necessary support for the setup of such plant and equipment in the factory, the training of staff in the operation and ongoing maintenance, recipes and knowledge for production of product and ongoing support for the proper functioning of the proprietary plant and equipment and proprietary supplies;

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- Papyrus Australia will be responsible for the quality control aspects of plant and equipment and to ensure compliance to agreed specifications;
- Acknowledgment that the project will be eligible to apply under the United Nations backed Clean Development Mechanism (CDM) and initial studies by independent experts show it can generate up to 107,601 tonnes of CO2 per annum equivalent Greenhouse Gas Emission Reduction Certificates (CER's). Any financial benefit derived from these CER's is the property of Papyrus Australia.

The parties have agreed to document and accept the terms of the exclusive licence, which will be consistent with the terms of the agreement, by 30 June 2011.

The Chairman of Papyrus Australia Mr Ted Byrt said "This development is an important step forward for Papyrus Australia. Papyrus Australia has been engaging with various entities in Egypt for the past several months and the markets established by the Egyptian Banana Fibre Company, utilising veneers produced in Australia and shipped to EBFC, has encouraged EBFC to join with Papyrus Australia in creating a commercial entity in Egypt to produce and sell banana veneer products into the Egyptian and European marketplaces. I am pleased that our managing director Mr Ramy Azer was able to validate the success of EBFC during his recent trip to Egypt and to negotiate the key elements of the agreement."

Members and investors should note that although the entering into this agreement is important, significant work still needs to be done to complete satisfactory commercial arrangements to the mutual benefit of the parties concerned as identified and including the timings attached thereto in the agreement and as noted in this Announcement.

The Company also advises that the Memorandum of Understanding with Tawazon For Solid Management SAE (Tawazon) in Egypt as announced to the market on 3 December 2011 remains active although negotiations slowed during the recent political difficulties. Mr Azer reported from his recent visit that Tawazon's prime interest is in developing a banana fibre panel factory in Egypt and with the establishment of Papyrus Egypt comes the opportunity to supply Tawazon with the banana fibre raw material for its proposed panel factory. The deal with Tawazon is not expected to be finalised before September 2011.

The Board of Papyrus Australia has also determined to scale back the Walkamin Demonstration Factory's operation in Far North Queensland to 1 week in every 4 but with increased productivity in the week of full scale operation. This decision has been taken with the support of the host farmer and EBFC, the current purchaser of the veneer product. Development activities, including that relating to panel, and equipment maintenance are now concentrated in the non production weeks. This decision significantly reduces the cost of operation, thus preserving available working capital, whilst only moderately impacting on the supply of veneer to EBFC.

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