



31 October 2011

Appendix 4C Commentary - Quarter ending 30 September 2011

Corporate

The Company's cash at bank as at 30 September 2011 was \$290K. The Company's focus for the quarter was in developing its operational activity in Egypt and the market for product in Europe. The Company has also worked diligently at continuing to reduce its overheads to preserve its available working capital. The Directors have considered a number of capital raising measures appropriate to the current economic climate and are expected to make an announcement in the next quarter.

During the period Mr Christopher Smerdon retired as a director of the Company (ASX Announcement 31 August 2011).

Operations

1. The Walkamin Demonstration Factory

The Company reported to the market on 9 June 2011 that the activities at the Walkamin Demonstration Factory in Far North Queensland would be scaled back to operate 1 week in every 4 which it has done successfully since that time. The machinery and inline production has mainly operated without interruption demonstrating that the linkages between the Log Yard and conveying system, to the Beta Veneering Unit, to the drying oven for veneer and Fibre Production Unit for chips is now working seamlessly. This is an important milestone in the context of developing the Company's (through Papyrus Egypt) first full scale operating factory in Egypt.

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The factory continues to produce veneer for a client, the Egyptian Banana Fibre Company (EBFC) in Egypt and fibre for testing in various applications in Australia, Egypt and Europe as discussed below.

2. Product Development

EBFC continues to process the veneer produced and sold from the Walkamin Demonstration Factory for the making of floorboards (the veneer being applied to MDF/HDF substrate), skins for doors and decorative panels all for sale in Egypt and Europe. Additionally, EBFC has been supplying a company located in Holland, Steward Design Panels, with banana veneer laminate on bagasse MDF panel board. Steward has designed and engineered this product to create decorative acoustic ceiling panels, which has attracted the architectural profession and are now being installed in major projects in Holland. Images of these products and a catalogue can be viewed at Papyrus Australia's website: www.papyrusaustralia.com.au

Test trials continued during the quarter on batch quantities of fibre chips, utilising various recipes, techniques and formulae under heat test and pressure conditions to produce panel. The test panels were submitted for independent testing and evaluation. The objective is to achieve results of suitable standards and certification to enable banana fibre panel to be offered as a sustainable and superior panelboard product alternative to wood-based products for use in the construction industry.

Three test batches have now been conducted. The first test results were reported to the market (ASX Announcement 4 May 2011). The second testing focussed on a variant of using banana fibre that had undergone a process of retting (a process of soaking the banana fibre in water over varying periods of time to remove unnecessary material resulting in a more virgin fibre). In short, the results from this cycle of testing demonstrated improved internal bonding and curing in the production of sample panel utilising a low emission urea agent. Utilising the earlier learnings the third cycle of testing concentrated on using starch as an agent in lieu of urea. These results are anticipated in early November 2011.

An Australian company specialising in commercial and residential insulation solutions is currently testing banana fibre supplied by the Walkamin factory in the product development of an environmental and sustainable insulation medium.

3. The Australian Advanced Manufacturing Centre Pty Ltd (AAMC)

The Board of AAMC (a wholly-owned subsidiary of Papyrus Australia Limited) decided to close down its precision engineering workshop due to the down turn in the economy and limited work being available or prospectively available in the short term. The tool shop has been contracted out in the interim. The plant and equipment will be available to the Company if and/or when required in the future.

Two new veneering machines are currently under construction. As advised to the market (ASX Announcement 26 July 2011) at least one machine will be required in Egypt by the end of December 2011 in satisfaction of a condition of the license agreement between the Company and Papyrus Egypt.

4. Environmental Value

The Company has previously reported that the initiative of the Federal Government's carbon price regime will not affect, certainly in the initial stages, its activities in Australia as agriculture is currently excluded from the scheme.

Having now established a presence in Egypt, a developing country, a carbon emission reduction project is eligible within the United Nations sponsored Clean Development Mechanism (CDM) and Papyrus Egypt is likely to be eligible for carbon certificates which are presently tradeable in Europe, and are in demand.

5. International Strategy

The Chairman and Managing Director visited Egypt and Europe during the quarter. In Egypt the principle objective was to assist in establishing the joint-venture company Papyrus Egypt (refer ASX Announcements 9 June and 26 July 2011). The purpose of Papyrus Egypt is to own and operate a factory in Egypt to produce banana veneer for the furniture industry and banana fibre

chips for the making of panel for the construction industry to be marketed in Egypt and Europe.

In Europe, their activities were primarily to negotiate the Company's involvement in the development and production of the world's first banana fibre pallet to be known in the market as "Yellow Pallet".

The Chairman wrote a comprehensive briefing note to shareholders (ASX Announcement 20 October 2011) that gives a full account of the Company's plans and activities in both Egypt in Europe:

http://www.papyrusaustralia.com.au/uploads/documents/e-newsletters/PPY_eNews_No4_Oct_2011.pdf

Update post 30 September 2011

Subsequent to the end of the quarter and as an outcome of the visit to Egypt by the Chairman and Managing Director the Company announced (ASX Announcement 18 October 2011) the establishment of an agreement with an Egyptian company NAG-HAMADY in support of the activities of Papyrus Egypt.

The Company announced the receipt of the 1st tranche of a non-refundable deposit from EBFC for the purchase of proprietary machinery for the functioning of Papyrus Egypt (ASX Announcement 20 October 2011). The Company will continue to work closely with EBFC for the remainder of the non-refundable deposit (AUD400,000) and then the balance of AUD1.5m for the supply of plant and equipment, as agreed.

The Company's 2011 Annual Report was released to the market (ASX Announcement 21 October 2011) and the Annual General Meeting will be held at 10:30 AM on 23 November 2011.

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10

Name of entity

Papyrus Australia Limited

ABN

63 110 868 409

Quarter ended ("current quarter")

30 September 2011

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) staff costs	(297)	(297)
(b) advertising and marketing	(2)	(2)
(c) research and development	-	-
(d) leased assets	(8)	(8)
(e) other working capital	(211)	(211)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	3	3
1.5 Interest and other costs of finance paid	(2)	(2)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net operating cash flows	(517)	(517)

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

	Current quarter \$A'000	Year to date (3 months) \$A'000
1.8 Net operating cash flows (carried forward)	(517)	(517)
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	(4)	(4)
(e) other non-current assets	(23)	(23)
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other (provide details if material)	-	-
	(27)	(27)
Net investing cash flows		
1.14 Total operating and investing cash flows	(544)	(544)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	-	-
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	-
1.18 Repayment of borrowings	-	-
1.19 Dividends paid	-	-
1.20 Other (provide details if material)	-	-
Net financing cash flows	-	-
Net increase (decrease) in cash held	(544)	(544)
1.21 Cash at beginning of quarter/year to date	834	834
1.22 Exchange rate adjustments to item 1.20		
1.23 Cash at end of quarter	290	290

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	-
1.25	Aggregate amount of loans to the parties included in item 1.11	-

1.26 Explanation necessary for an understanding of the transactions

Payment of director fees has been deferred since November 2010. The managing director has also surrendered his entitlement to receive remuneration from 1 July 2011 until such time as the company is in a financial position to make the payments.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities		
3.2	Credit standby arrangements		

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	78	132
4.2 Deposits at call	212	702
4.3 Bank overdraft		
4.4 Other (provide details)		
Total: cash at end of quarter (item 1.23)	290	834

Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1 Name of entity		
5.2 Place of incorporation or registration		
5.3 Consideration for acquisition or disposal		
5.4 Total net assets		
5.5 Nature of business		

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: Donald Stephens Date: 31 October 2011
 Director

Print name: DONALD STEPHENS

+ See chapter 19 for defined terms.

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report except for any additional disclosure requirements requested by AASB 107 that are not already itemised in this report.
3. **Accounting Standards.** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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