



CHAIRMAN'S REPORT

I turn now to the Chairman's Report.

I refer shareholders to my report contained within the published Annual Report for 2011. I ask that the published report be taken as read.

I refer also to my Message to Shareholders in October 2011 in which there is a comprehensive report of the present activities of the company worldwide. I ask that the Message to Shareholders also be taken as read today.

At the 2009 and 2010 AGM, I advised shareholders that the company's commercialisation strategy and future was to become a technology development and licensing company, and I advise that since that time, we have worked to complete the proof of concept at Walkamin and now we are entering the period of rolling out the banana fibre factory opportunity in Egypt and down the track in Central and Southern America.

During the year, production at Walkamin was limited to supply of veneer to Egypt and banana fibre for testing and trialling in Australia to determine the processes and recipes required to make panelboard.

Activity at Walkamin will be further reduced in the year ahead as our core activity focus moves to Egypt. The new banana veneering and fibre production machines being built by our subsidiary AAMC, will be commissioned and trialled at Walkamin before being sold elsewhere.

The technology development and validation process will continue for the company for the foreseeable future as you would expect of a technology development company.

The markets for banana veneer, and for banana fibre to make panelboard as a substitute for forest timber fibre, are in their infancy.

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We have customers for banana veneer, banana veneered floorboards and banana veneered panelboard in Egypt and Europe. Papyrus Egypt in which we have a 50% equity is poised to take advantage of those opportunities.

Recent examples of product made from banana veneer in Egypt are available on the web site and today our Managing Director Ramy Azer will take you through the trials and projects which are being undertaken in Egypt and soon to be undertaken in Holland to utilise banana fibre and create new products and new industries.

Banana fibre itself as a raw material has significant market potential, both as a substitute for or as an addition to timber based fibre, such as that used to make hardboard, MDF, chipboard and cork equivalent. We know from our trials and those conducted for us by CSIRO, that our banana fibre can be successfully mixed with timber fibre to produce these commonly known timber based products.

In Egypt where there are no forests, bagasse is used as the fibre to make MDF. Bagasse is the waste fibre from sugar cane after the extraction of the juice.

Nag Hamady Fibreboard Company in Upper Egypt which makes MDF from bagasse has entered into an agreement with Papyrus to test and trial banana fibre for panelboard production with the intention to procure banana fibre to make MDF either as an addition to or as a substitute for bagasse. Nag Hamady are presently undertaking scientific testing of the banana fibre in their laboratory and next year will undertake industrial trials to make mixed banana and bagasse MDF panelboard.

In the opinion of the Board, the past year has been very challenging but with the consummation of the Papyrus Egypt project, the engagement with Nag Hamady and the prospective Yellow Pallet project in Holland which will seek to supply banana growers in Central and Southern America with banana fibre pallets for transport of packed fruit, we believe that the foundations are being laid for a brighter future.

It should be noted that the Yellow Pallet project is the sort of inventive thinking and new business opportunity we expect to see in the future to utilise banana fibre. The proponents of Yellow Pallet approached Papyrus with a new business opportunity to meet the needs of banana growers in Central and Southern America. The project will take at least 12 months to reach maturity but we are confident from our own knowledge of banana fibre that it will be successful.

Ramy Azer will outline and detail the Yellow Pallet project and its proponents initiated by Dr Gert Kema from Wageningen University in Holland, a world leading agri university.

We are facing some new challenges from former partners who are representing that they can supply banana veneer to the market. We believe that they are breaching their contractual obligations to Papyrus and they are also breaching our patent rights but we have inadequate evidence at the moment to justify taking legal action. Our Patent Attorney is briefed and we are ready to take legal action at the appropriate time. We have communicated our opinion to the offending parties as a precursor to any legal action.

Governance

I note the attendance of our directors Ramy Azer, Donald Stephens and Colin Dunsford and thank them for their ongoing support and guidance.

The governance of the company has been overseen by the Executive Committee and reinforced by the appointment of an Executive General Manager Geoff Whitbread whom I thank for his tireless efforts at meeting our expectations and all regulatory requirements.

We saw the retirement of original directors Graeme Menzies in July 2010 and Chris Smerdon in August 2011. I thank Graeme and Chris for their outstanding contributions to the formation and governance of the company since 2004.

The board is committed and working hard to achieve a sound and a sustainable future for the Company. We have recently implemented significant cost cutting measures to ensure sustainability consistent with our needs and future direction.

The board anticipates that in the coming year we will have established a fully functioning factory in Egypt, Nag Hamady will be producing banana mixed MDF panelboard, the market in Europe for our banana veneered and fibre panel products will be developing, and the Yellow Pallet project will be proceeding toward commercial implementation.

In Australia we will consider all appropriate means of further capital raising including offering our shareholders an opportunity through a rights issue or a share purchase plan, and we will seek the engagement of a partner in the Australian paper, cardboard or panelboard industries to take the opportunity forward locally.

In conclusion, as I said last year, the board is working strategically to reward shareholders with a return on investment through capital growth and dividend income in the longer term. I thank the directors for their tireless commitment to the future of Papyrus Australia worldwide.