



Shareholder update 18 January 2012.

Papyrus Egypt.

I have just returned from a 10 day trip to Egypt where, with the Managing Director, Ramy Azer, we met all investors in Papyrus Egypt and were introduced to several other potential investors in the Papyrus technologies.

The appetite for a new fibre in Egypt to be a substitute for forest sourced timber fibre remains strong and is growing as wood industry participants become aware of and better understand the potential of this new banana fibre.

The political climate in Egypt remains relatively stable given that the elections are nearly completed. The city of Cairo was peaceful and there is an expectation that the newly elected Parliament will deliver needed social and economic reforms.

The business climate remains tentative but there is an expectation that it is only a matter of time before there is an improved business climate. The government agencies continue to support new business opportunities and Papyrus Egypt is one such enterprise.

The shareholders of our Egyptian partner, Egypt Banana Fibre Company “EBFC”, are all committed and dedicated to capital raising to enable Papyrus Egypt to meet the financial obligations related to the purchase of Papyrus patented machinery to establish the world’s first commercial banana fibre and banana veneer factory in Sohag.

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Yesterday, our Managing Director and the Chief Executive of Papyrus Egypt, met the Sohag manager of the Upper Egypt Social Development Fund, which is supporting the establishment of the factory, and submitted loan applications totaling LE6M (Egyptian Pounds) needed to complete the initial capital raising. We expect an answer to the applications shortly, and the finalization of the capital raising process before the end of February 2012.

We have had to be patient with the Egyptian partners in terms of timing of financial commitments because they have experienced unprecedented social and economic upheaval in the past year, yet they continue to believe in the Papyrus Egypt project and have personally committed capital to underpin the project. I am confident that we have trustworthy partners who will meet our business and financial expectations. As I said earlier, I expect significant progress by the end of February 2012.

Papyrus Egypt has prepared development plans for the 1200 square metre factory to be built in Sohag on the 2000 square metre allotment of land which has been granted to Papyrus Egypt by the Egyptian government. I have seen the plans and believe that the building will meet all needs and expectations. Construction will commence as soon after development approval is granted, as all capital raising has been completed.

While in Egypt I also met the Chairman and Chief Executive of Nag Hamady Fibreboard Company, Mr Mahmoud Soliman, who confirmed that their scientific tests and industrial trials of banana fibre for making MDF (which are continuing) demonstrate the utility of banana fibre for MDF production validating their commitment to an off-take agreement with Papyrus Egypt for fibre, also reported at the AGM.

Yellow Pallet.

At the AGM in November 2011, I informed shareholders that we had agreed to establish a JV in Holland to undertake a project to be known as Yellow Pallet. The goal of the Yellow Pallet project is to develop technology and new patented machinery to produce pallets from banana fibre for use in the transport industry starting with pallets for use by the banana industry in Central and Southern America.

A Dutch company, Yellow Pallet B.V. has now been incorporated and Papyrus Australia owns 50% of the equity. The other 50% of the equity is owned by three shareholders, Gert Kema, Hein van Opstal and Rob de Jong whom I profiled at the AGM.

Pursuant to the terms of a recently signed binding Terms Sheet, Papyrus Australia has this week contributed 15k Euro to the capital of Yellow Pallet B.V. to match the 15k Euro contemporaneously contributed by the other shareholders.

It is intended by the JV to raise an additional 120k Euro capital to finance a feasibility study through “soft” loans from PPM OOST NL, a Dutch government economic development entity, and Start-Life NL, a public fund to make value out of knowledge from Wageningen University, about which I profiled at the AGM.

Yesterday the 45k Euro loan from Start-Life NL was approved and funds have been transferred to the Yellow Pallet B.V. bank account, and we expect the remaining loan of 75k Euro from PPM OOST to be approved later today in Holland. Funds will then be transferred immediately to Yellow Pallet.

These funds will be used by Yellow Pallet to undertake and complete the detailed feasibility study which is programmed to take 4 months to complete. The feasibility study will commence immediately and our Managing Director will be participating as Technical Director as reported at the AGM. The Yellow Pallet directors and managers will be paid appropriate fees and all expenses will be covered as envisaged in the project plan.

The objective of the feasibility study is to independently validate the identified business opportunity to produce pallets from banana fibre for use in the banana fruit industry in Central and Southern America, and by extension elsewhere in the world.

As part of the validation process under the feasibility study, an independent engineer from a Dutch Engineering company Hollandia Systems will be visiting our demonstration factory at Walkamin in early February to run trials with the banana veneering and banana fibre producing units to validate the production capacity of those machines.

As part of the feasibility study, Hollandia Systems engineers will produce a technical layout for a test factory and will propose a list of equipment to choose and buy immediately after the validation process. Also, the final production factory for 1 million pallets per year will be designed in a flow scheme and the logistical analyses will be executed to validate the required gross amount to invest in such a factory

Independently other work is programmed in the feasibility study for Central and Southern America to validate the banana business opportunity from a product/marketing point of view, and scientific tests will be undertaken by Wageningen University to validate the utility of banana fibre with a selected resin to make pallets for transporting boxes of banana fruit and compare these test results with testing equal parts of available wood pressed pallets

During the feasibility study Yellow Pallet will continue to search for more funds and continue the discussions with potential investors. The first meetings have been scheduled.

Philippines.

The Chief Executive of our company, Geoff Whitbread, has since the middle of last year been in dialogue with a party in Mindanao, Philippines, who approached Papyrus Australia to investigate the acquisition of our patented technology to address a serious issue facing the Mindanao region in the disposal of waste banana tree trunks.

The Philippines is one of the most significant banana fruit growers worldwide and Mindanao is the central region for such enterprise. The Chief Executive and I are scheduled to travel to the Philippines in the first week of February 2012 to take our discussions to the next level. We need to validate the opportunity and to independently confirm the financial capacity of the party to meet our financial expectations related to purchasing the technology.

Conclusion.

Progress toward our corporate goal has been slow but steadily going in the right direction. The board is confident that the world's first commercial banana veneer and banana fibre production factory in Sohag, Egypt, will be underway midyear 2012.

Ted Byrt
Chairman