



30 January 2012

Appendix 4C Commentary - Quarter ending 31 DECEMBER 2011

Corporate

The Company's cash at bank as at 31 December 2011 was \$474K. A share placement was announced to the market on 7 November 2011 injecting \$1052K in capital to the Company in 2 tranches of \$722K in November 2011 with the balance via the second tranche following a General Meeting of Shareholders on 18 January 2012 (details are contained in ASX Announcement 7 November 2011). Additionally a non-refundable deposit of \$100k was received from the Egyptian Banana Fibre Company ("EBFC") for the supply of machines (ASX Announcement 20 October 2011). The Company continued to reduce its overheads to preserve working capital. The Company's focus for the quarter continued in the development of its operational activity in Egypt, the market for product in Egypt and Europe and the development Yellow Pallet discussed below.

During the quarter a Shareholder Newsletter was published (ASX Announcement 20 October 2011) the Company's Annual Report was published (ASX Announcement 21 November 2011) and the Annual General Meeting was held on 23 November 2011 (ASX Announcements 21 October 2011 and 23 November 2011).

Operations

1. The Walkamin Demonstration Factory

The Company previously reported that production at the Walkamin Demonstration Factory had been scaled back while the company focuses its efforts in the development of the Egypt facility. Activities at Walkamin during the quarter were making minor enhancements to the Beta Veneering and the Fibre Production Units and further product testing. Small quantities of veneer and fibre were produced with several sample batches being forwarded for testing in Egypt and in the Netherlands.

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2. Product Development

The Company entered into an exclusive agreement with a significant Government owned Egyptian company Nag-Hamady, a panel maker of bagasse from the residue of sugar cane. The agreement is to scientifically test and industrially trial and produce banana fibre MDF and other panelboard, starting with a mix of bagasse and banana fibres, proceeding to 100% banana fibre to be sold by Papyrus Egypt in Egypt, the Middle East region and exported to Europe. These scientific tests and industrial trials with banana fibre supplied from the Walkamin Demonstration Factory commenced in November 2011 and subject to the findings will help to secure an “off-take” agreement with Papyrus Egypt to purchase the annual production of banana fibre from the first banana fibre factory established by Papyrus Egypt.

Veneer produced and sold from the Walkamin Demonstration Factory to EBFC continues 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. EBFC continues to supply Steward Design Panels in Holland with banana veneer laminate on bagasse MDF panel board for decorative acoustic ceiling panels, which are now being sold for installation in several construction projects in Holland. The banana veneered floorboards and the decorative banana veneered panels made by EBFC are the first totally “green” natural fibre panels available in Egypt and Europe – absolutely tree free. This is a significant marketing edge for the Papyrus branded products.

At the Walkamin Demonstration Factory alternative veneer drying processes using pressure as an alternative to oven drying had been trialed with the testing regime expected to be completed in Q3.

The Australian trials with fibre referred to in the previous quarterly report concluded more work is required on the binding properties for structural panel which has now been taken up by Nag-Hamady. However for non structural panel such as ceiling/acoustic tiles and insulation it appears banana fibre is quite suitable and is now to be market tested.

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

In the previous quarter it was reported that one of the two veneering machines under construction would be completed and shipped to Egypt by the end of December 2011. Unfortunately AAMC (a wholly owned subsidiary of Papyrus Australia Ltd) did not achieve this objective. Having a machine available for the Egyptian factory is a high priority in Q3 in satisfaction of the license agreement between the Company and Papyrus Egypt.

4. Environmental Value

The Company continues to monitor the developments and opportunities in carbon emission reduction initiatives worldwide. As previously reported the Company is cognisant that the conversion of banana tree trunk waste into usable product will generate in some countries, particularly developing countries "carbon certificates" which are able to be monetised and are presently tradeable in Europe. No further specific work was carried out in this area during the quarter.

5. International Strategy

The Company has previously advised that the strategic focus of the company is to develop the world's first integrated commercial banana fibre and banana veneer factory utilising waste banana tree trunks in Sohag in Upper Egypt and developing strategic alliances with suppliers of raw materials, users of the factory's off take and distributors and users of the product produced in Egypt and Europe. Papyrus Australia Ltd in addition to being a 50% equity holder of the established company Papyrus Egypt will also supply the machinery, intellectual property and know-how under a licence agreement and machinery purchase agreement.

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

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

Additionally at the Company's Annual General Meeting the Chairman and Managing Director gave further account of these activities in their respective reports (ASX Announcement 23 November 2011 (2))

Update post 31 December 2011

In January 2012 the Company was pleased to announce that a United States patent was granted for the company's original patent application - Method and Apparatus for Removing Sheets of Fibres from Banana Plants (ASX Announcement 17 January 2012).

A General Meeting of Shareholders was held on 18 January 2012 to seek the approval of shareholders for the issue of shares to support the capital raising discussed above and to trigger the second tranche of funds of \$330K (ASX Announcement 18 January 2012).

In late December the Managing Director travelled to Egypt to progress the development of Papyrus Egypt and to advance the business of Yellow Pallet. He was joined by the Chairman in January 2012. The Chairman issued a detailed shareholder update on 18 January 2012 on the progress to date (ASX Announcement 18 January 2012):

<http://www.papyrusaustralia.com.au/uploads/documents/releases/120118%20ASX%20Release%20-%20Shareholder%20Update.pdf>

ENDS

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001, 24/10/2005.

Name of entity

Papyrus Australia Ltd

ABN

63 110 868 409

Quarter ended ("current quarter")

31 December 2011

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from customers		
1.2 Payments for		
(a) staff costs	(271)	(568)
(b) advertising and marketing	(1)	(3)
(c) research and development		
(d) leased assets	(12)	(20)
(e) other working capital	(354)	(565)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	2	5
1.5 Interest and other costs of finance paid	(2)	(4)
1.6 Income taxes paid		
1.7 Other		
Net operating cash flows	(638)	(1,155)

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

	Current quarter \$A'000	Year to date (12 months) \$A'000
1.8 Net operating cash flows (carried forward)	(638)	(1,155)
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	(3)	(7)
(e) other non-current assets	(9)	(32)
1.10 Proceeds from disposal of:		
(a) businesses (item 5)		
(b) equity investments		
(c) intellectual property		
(d) physical non-current assets	112	112
(e) other non-current assets		
1.11 Loans to other entities		
1.12 Loans repaid by other entities		
1.13 Other (Grants , R&D Tax Offset)		
Net investing cash flows	100	73
1.14 Total operating and investing cash flows	(538)	(1,082)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	722	722
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 (capital raising costs)		
Net financing cash flows	722	722
Net increase (decrease) in cash held	184	(360)
1.21 Cash at beginning of quarter/year to date	290	834
1.22 Exchange rate adjustments to item 1.20		
1.23 Cash at end of quarter	474	474

+ 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	25
1.25	Aggregate amount of loans to the parties included in item 1.11	
1.26	<p>Explanation necessary for an understanding of the transactions</p> <div style="border: 1px solid black; padding: 5px;"> Payment of director fees has been deferred since November 2010. The managing director has also surrendered the majority of his entitlement to receive remuneration from 1 July 2011 until such time as the company is in a financial position to make the payments. </div>	

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. (See AASB 1026 paragraph 12.2).

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

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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	251	77
4.2 Deposits at call	223	212
4.3 Bank overdraft	-	-
4.4 Other (Grant Account)	-	-
Total: cash at end of quarter (item 1.23)	474	290

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.

Donald Stephens

Donald Stephens
 Director

Date: 30th January 2012

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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 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
 - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
 - 9.2 - itemised disclosure relating to acquisitions
 - 9.4 - itemised disclosure relating to disposals
 - 12.1(a) - policy for classification of cash items
 - 12.3 - disclosure of restrictions on use of cash
 - 13.1 - comparative information
3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting 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.

+ See chapter 19 for defined terms.