



Chairman's report to the AGM on 27 November 2013.

This report is presented to shareholders on behalf of the board and the managing director, all of whom are available today to answer any questions shareholders may have following the formalities.

I refer shareholders to the directors' report contained within the published Annual Report for 2013 which gave a comprehensive overview of the activities of the company. I ask that the published report be taken as read.

The published directors report adequately covers all activities of the Company and I look forward to receiving any questions shareholders may have at the end of formalities but now I turn to comment on the few key activities for the financial year 2012/2013.

MAP Capital.

This past year has essentially been one of reassessment of our business model which had been in place for several years. We do not resile from the belief that the best commercial position for the company is to be the developer and licensor of Intellectual Property. However we have experienced many frustrating challenges in bringing such a strategy to a beneficial commercial outcome, particularly given the economic climate we have endured in recent times.

Accordingly we engaged the financial advisors MAP Capital who reviewed all of our past and then current activities and they advised the Board that it was essential for the Company to itself establish a successful commercial operation in Australia utilising the patented technology and technical know-how.

Not being in a financial position where it could undertake such a commercial venture on its own account the Company engaged MAP Capital Advisors to assist in the search for a partner to bring to reality a commercial operation at Walkamin.

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It has taken longer than we first anticipated and we remain in confidential negotiations with MAP Capital and potential Australian investors about the detail of a proposed Joint Venture. These investors want to produce paper mache products for their clients in the wholesale fruit and vegetable industry. Without going into the detail of the business and financial model which is commercial-in-confidence, suffice to say that making paper mache products from banana fibre presents the lowest capital expenditure for a start-up business compared to all other known banana fibre products and relatively low operating expenses compared to other products.

The directors are now looking forward to the Company entering a new phase of development as a JV partner with others who are proposing to finance the project and who bring necessary industry experience to the JV. What is critical about this proposed JV is that it is demand driven by our partners and their customers including MAP Capital which gives us greater confidence because of their commitment.

In summary we anticipate that the factory will be established at Walkamin and then commence commercial operations in the third quarter of this financial year. We anticipate that the successful establishment will be seen by others worldwide as a new business opportunity utilising the Papyrus patented technology and technical know-how.

Papyrus Egypt.

Activity in Egypt was again disrupted for a time by political unrest however at this point in time our partners in the Papyrus Egypt project have addressed our due diligence requirements necessary to facilitate the transfer of the banana fibre production machinery to Sohag, in Egypt, to enable Papyrus Egypt to commence commercial production of banana fibre products.

In the initial JV agreement with the Egyptian Banana Fibre Company, Papyrus Australia anticipated that the Egyptian partner would purchase the patented Papyrus machinery but they have not been able to raise sufficient capital to fulfill that obligation. They have completed the establishment of the factory building on land which has been granted by the Egyptian government to Papyrus Egypt and we anticipate that that land will be transferred to Papyrus Egypt once commercial operations commence in the factory building.

The present situation is that we have agreed, at the cost of the Egyptian partners, to ship the banana fibre production machinery to Egypt but will not immediately transfer ownership to Papyrus Egypt as originally envisaged. We will maintain ownership through a reliable representative whom we have appointed, and will make the machinery available as security for a commercial bank loan to Papyrus Egypt to purchase the machinery which will be paid to Papyrus Australia by the financier. Papyrus Egypt will have the use of the machinery for commercial production immediately after finalization of the financing arrangements. We are presently negotiating these terms and we will advise the shareholders as soon as the arrangements are finalised to our satisfaction.

Commercialisation strategy.

Since 2010, the company's commercialisation strategy and future has been to become a technology development and licensing company – as distinct from a producer of banana fibre product for sale to market. The board continues to adhere to that strategy and objective as being the correct one for the Company but we now acknowledge that we must partner others to get the first commercial banana fibre production facility off the ground.

As with the proposed Walkamin project and the Egypt project we may have to partner with others at the outset to satisfy concerns about the risks believed to be associated with being the first to undertake the manufacture of various banana fibre products worldwide.

We have not abandoned any of the other potential product opportunities for banana fibre. We are taking a more conservative “demand driven” approach in lieu of trying to sell to third parties.

Intellectual Property.

Our Intellectual Property bank continued to grow during the year which is detailed in the Annual Report.

One patent award deserves mention and that is the patent awarded by the United States for *Method and Apparatus for Removing Sheets of Fibres from Banana Plants* or as we know it, our “Original Patent.”

In short, this is particularly important to Papyrus because the award of a United States patent demonstrates the strength of the patent claims expressed in our veneering machine and is highly regarded because of the stringency of the United States assessment criteria.

In this context I must acknowledge our perpetual weakness – lack of funds. Today we have \$120,000 in the bank with access on call to an additional \$50,000 from a larger loan advanced by the managing director plus funds totaling \$100,000 from capital raising for which we seek shareholder approval today. We are also entitled to payment from the new JV of all expenses we have incurred to undertake due diligence and machinery acquisition for the JV which amounts to around \$25,000 which we anticipate will be received shortly.

We have pruned expenses to the absolute limit and allowing for monthly variations we spend on average \$30,000 per month, to be offset by anticipated expenses reductions at Walkamin where from commencement the JV will pay for all operating and labour expenses being around \$7,000 per month.

Governance.

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

I inform the shareholders that Colin Dunsford is today retiring from the Board having given three years of outstanding service and support.

First, I want to publicly acknowledge and congratulate Colin on being awarded as a Member of the Order of Australia for his long and significant contribution to his profession and the community. Papyrus has been fortunate to have had Colin as a director for the past three years.

In this context Colin I also want to convey to your former partners and associates at Ernst & Young our appreciation for their unstinting support for you and the board.

Colin, your wise counsel has been greatly appreciated by all of us during this time as we have endeavoured to find a new way forward for the Company. You leave the Papyrus board with our thanks and best wishes for the future where I know you will take a keen interest in the progress of Papyrus Australia.

At a meeting earlier today the board resolved to appoint two new directors effective after this AGM.

First, Peter Rigano who would be known to many of you as a former Company Secretary, a founding shareholder and supporter of the company since 1995.

Second, Andrew Ford who has for the past several years been the Chairman of Woods Bagot an international design practice with several offices worldwide. Andrew brings to the company outstanding international business experience and in particular project management experience which is now a much needed skill for the benefit of the Company.

The governance of the company has been supported by Geoff Whitbread the Chief Executive and Warwick Moyses the Business Manager whom I thank for their tireless efforts at meeting our expectations and all regulatory requirements. I also wish to acknowledge the efforts of our company secretaries Pierre van der Merwe until 17 April 2013 and since that date our long serving director Donald Stephens.

Remuneration

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

As a matter of record, the directors have not taken any fees since late in 2010 and the managing director's remuneration ceased in June 2012 and no liability is accruing for any of these items. The Chief Executive and Business Manager likewise this year accepted a reduction in paid hours to assist the company. The directors and management are all absolutely committed to this company and its potential.

It is in this context that the board has recommended to shareholders to vote in support of several resolutions to reward directors and staff with grants of options for past endeavors and future incentives. I trust that we will have your support in that regard.

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 and I thank the shareholders for their patience.

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Chairman.

27 November 2013.

