



28 January 2010

Appendix 4C Commentary - Quarter ending 31 December 2010

Corporate

The Chairman's address at the Company's AGM on 30 November 2010 provided a comprehensive account of the progress of the Company and reinforced the strategic approach of the Company in five key areas as noted hereunder.

The Company's cash at bank as at 31 December 2010 was \$377K. On 20 January 2011 the Company executed a mandate with Taylor Collison Limited to undertake a non-underwritten placement of equity to sophisticated investors and Directors to raise \$1.4 Million before costs. The funds will be used to continue improvements in production at the Company's Walkamin Factory in far North Queensland, manufacturing and commissioning of new veneering units and for working capital purposes.

Quarterly expenditure included \$ 208K in capital for the further planned development of, in particular, the fibre production process and upgrade to an automated logyard at the Walkamin factory in Far North Queensland and the construction of new machines - referred to later in this report.

The Company welcomes the appointments of Colin Dunsford as a Director and of Michelle Kerrison B.Bus., CPA., an experienced private sector accountant, as the Company's Finance Manager.

Operations

1. The Walkamin Demonstration Factory

It is appropriate in developing factories in banana plantations that the management of the factory be in the hands of the plantation management. This has always been envisaged by the Company. Accordingly the Board considered that the Walkamin factory had developed to its near completion sufficient to hand over the factory operation to our host plantation farmer Bruce Watkins. This occurred in December 2010. One of the Company's aims with this appointment is to demonstrate the successful integration of the banana fibre processing factory into the daily operations of a banana plantation. The engineering and production support will continue to be supplied from the Company's specialist management team from Adelaide.

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During the quarter, work continued on establishing the fibre production process with the completion of the Fibre Production Unit (FPU) placed in line with the Beta Veneering Unit (BVU) to enable the roundup to be in line processed to produce fibre chips and then mechanically removed for drying. The acquired heat press has been placed in line to facilitate the production of panel from the fibre chips.

In addition, production of core veneer continued – refer product development report below.

The log yard (that is the process through which the banana tree trunks are taken from the trailer transport, mechanically cut and sized and conveyed to the BVU) was reported in the previous quarterly report (refer quarter ending 30 September 2010) as having been completely redesigned and rebuilt for improved handling and loading of the banana tree trunks. During the quarter the new log yard mechanisation has been put in line, commissioned and is functioning as planned. An additional roofing structure was erected to protect the BVU and FPU from the impending wet season (January – March).

The significant capital development program for the factory is now nearing completion.

2. Product Development

Veneer production continued consistently during the quarter. Modifications to refine the handling process, thus reducing labour input were implemented and have proved successful. The Company continues to supply small quantities of veneer to prospective customers for trialling both in Australia and abroad. Example of veneer application can be viewed on the company website at www.papyrusaustralia.com.au All available veneer produced is currently sold to an Egyptian purchaser to satisfy an initial order for 10,000 square metres of trimmed veneer equivalent at a sale price of 5 Euro's per square metre. The veneer is being tested and trialling in flooring manufacture. The Company expects to receive the results from those trials shortly.

Currently staff are experimenting with various techniques and formulae for panel production and ultimately certification as alternatives for like wood-based products for use in the construction industry, as previously reported. Although the process has provided encouraging results the Company is not yet in a position to advise measurable outcomes as further refining and testing is necessary. Whereas panel making has been undertaken by a cold press method, during quarter 3 the heat press, which is expected to provide a superior result, will be in operation for trialling panel making. The Chairman's Annual Report of 30 November 2010 provided a clear summary of the tasks required in proving up the panel making process and for certification of banana fibre panel.

3. AAMC – The Australian Advanced Manufacturing Centre Pty Ltd

AAMC the wholly owned subsidiary of Papyrus Australia Limited operates from Stirling Street, Thebarton, South Australia. The company's main function is to design, build and commission machinery and equipment required by Papyrus and other customers. The engineering works at the Walkman factory, described above, was work undertaken by AAMC.

During the quarter AAMC acquired the tools and equipment of a local machinery workshop and 2 experienced staff and integrated this tool making capacity into the AAMC operation. This acquisition not only provides greater capacity to undertake work in-house, including the ability to protect the Company's intellectual property in machinery being manufactured, but also provides flexibility and access to necessary skills. AAMC is also available to undertake specialist precision engineering tasks as an extra revenue source.

4. Environmental Value

The Company has previously reported that it commissioned Sigma Global, Sydney, an internationally recognised consulting business in environmental assets, to provide advice to the Company on the potential for generating carbon assets from the process of converting current waste green banana tree trunks to dry veneer and banana fibre. Sigma Global has advised there is real potential to generate carbon assets from the Papyrus process in overseas countries that can be monetised in Europe and elsewhere. The Company awaits with interest the Federal Government's proposal to make a determination on this matter for Australia later in the year.

5. International Strategy

The Company completed a detailed Information Memorandum (IM) during the quarter with the assistance of several specialist consultancies. The IM included a comprehensive financial model and business plan for a Papyrus factory in a representative banana growing country and a distribution network in Europe. The objective of producing the IM was to demonstrate the opportunity to potential investors of establishing a Papyrus factory in an appropriate country and the indicative markets for the sale of panel into Europe. The IM has been designed so that it can be adapted to suit a particular country/region.

On 3 December 2010 the Company announced to the Australian Securities Exchange (ASX) it had signed a Memorandum of Understanding (MOU) with an Egyptian-based company to undertake negotiations with the objective of establishing a Papyrus factory in Egypt. The Managing Director travelled to Egypt for discussion and negotiation with the company on 28 December 2010. The ASX will be further informed by announcement when the Company is in a position to do so.

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 2010

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from customers	78	78
1.2 Payments for		
(a) staff costs	(471)	(969)
(b) advertising and marketing	(4)	(48)
(c) research and development		
(d) leased assets	(12)	(21)
(e) other working capital	(618)	(1,107)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	14	55
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other		
Net operating cash flows	(1,013)	(2,012)

+ 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 (6 months) \$A'000
1.8 Net operating cash flows (carried forward)	(1,013)	(2,012)
1.9 Cash flows related to investing activities		
Payment for acquisition of:		
(a) businesses (item 5)		
(b) equity investments		
(c) intellectual property		
(d) physical non-current assets		
(e) other non-current assets	(208)	(462)
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 (Grants , R&D Tax Offset)	202	443
Net investing cash flows	(6)	(19)
1.14 Total operating and investing cash flows	(1,019)	(2,031)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.		(11)
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)		(25)
Net financing cash flows	-	(36)
Net increase (decrease) in cash held	(1,019)	(2,067)
1.21 Cash at beginning of quarter/year to date	1,396	2,444
1.22 Exchange rate adjustments to item 1.20		
1.23 Cash at end of quarter	*377	*377

*** Note**

The Company executed a mandate on the 20th January 2011 with Taylor Collison Ltd to undertake a placement of equity to sophisticated investors and Directors to raise \$1.4 million before costs.

+ 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	107
1.25	Aggregate amount of loans to the parties included in item 1.11	

1.26 Explanation necessary for an understanding of the transactions

Represents directors fees, superannuation and consulting fees paid to the Company's directors.

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		

+ 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	377	38
4.2 Deposits at call	-	1,358
4.3 Bank overdraft	-	-
4.4 Other (Grant Account)	-	-
Total: cash at end of quarter (item 1.23)	377	1,396

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
 Director

Date: 28 January 2011

+ 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 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.