



ASX Announcement

29 October 2010

Appendix 4C Commentary – Quarter ended 30 September 2010

Corporate

The Company's cash at bank as at 30 September 2010 was \$1.4m.

Quarterly expenditure included \$254k in major capital items to support the factory development at Walkamin and relating to the design and build of new machines referred to in this report.

The Company welcomes Mr Colin Dunsford as a Director. Mr Dunsford, Chair of Ernst and Young, Adelaide and previously their Head of Assurance and Business Advisory Division, has a significant depth of understanding and experience in industry as well as being well known and highly regarded in Adelaide.

Operational Activities

During the quarter management has remained committed to improving the production capacity of the factory at Walkamin. The benefits from the restructuring of responsibilities reported in the previous quarterly statement are evident:

Facilities Management

The factory site undercover area has expanded by 100%. A large shed has been erected for mobile equipment storage, an engineering workshop completed, a new facility to house the fibre production line established, a climate controlled storage container for veneer has been constructed and office and ablution facilities relocated to provide additional factory space for production. Additionally the harvesting and transporting of banana tree trunks to the factory has been improved significantly with additional tractors and construction of another purpose built transporting trailer.

Engineering

Following the rebuild and modifications made to the Beta veneering unit reported previously the engineering team report an increased efficiency of the conversion process of banana tree trucks through the unit of approximately 60%. The modifications have also resulted in less man hours required on the unit freeing the resource for other production activities. In addition 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 Beta veneering unit) has been completely redesigned and rebuilt for improved handling and loading having learned much from the previous version.

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Production

Production of veneer continued during the quarter. With the modifications to the Beta veneering unit saw a significant increase in the daily average capacity of billet through put. Preliminary data indicates a rate of production output in the order of 60%. Moreover our production staff is advising of an improved level of quality and consistency of veneers and much less wastage. Small quantities of veneer were sold during the period deriving revenue of \$2,511. The Company continues to use veneer product for trialling, testing and provision of samples to prospective customers in Australia, Europe and South Africa. Our Australian distributor, Five Star Finishers has received significant quantities of banana veneer for trialling and responded to market demand to produce furniture. Stock on hand at 30 September 2010 was 1396 square metres. Examples of veneer applications can be viewed on the company web site: www.papyrusaustralia.com.au. Our European distributor, Tout Bois, has recently reaffirmed their demand for large quantities of our veneer to be supplied to certain specifications.

As previously reported the trial production process continues to validate the essential principle of veneer production and has informed the Company about the many variable recipes required to be monitored to produce a continuous supply of veneer of consistent quality and appearance.

The trial production process is enabling the Company to improve critical elements of the material handling, cutting, drying and subsequent finishing processes to meet the expectations of our customers. The process has validated the ability of the Company to produce a product which our market representatives are seeking. The Company has been focussed on establishing a showcase facility and veneer product which is required by customers.

Additionally our staff has commenced the trial fibre production process for the making of board/panel. Manual testing of the patented technology in the fibre production unit has been successful. Making of the required moulds, modifications to the recently acquired heat press and automating the fibre production line will continue over the next quarter.

The Company acknowledges the assistance and guidance of Bruce Watkins, our host farmer, in successfully integrating our pilot banana fibre processing factory into the daily operations of the Mt Uncle plantation at Walkamin, Far North Queensland.

Other Activities

The Company is committed to a commercialisation strategy which involves licensing its technology to enable the establishment of the first full scale production factory in Egypt to supply the Europe panel and veneer markets. The Company has chosen Egypt because it has established strong networks and contacts in that region and it is a strong banana growing country, with established infrastructure and good logistical connections with Europe. In Europe there is a large market for veneer and panel products and strong demand for sustainable products.

Having completed the design work for the enhanced next stage Beta veneering machine as reported in the last quarterly statement, the Company's wholly owned subsidiary The Australian Advanced Manufacturing Centre Pty Ltd (AAMC) has during the period commenced the construction of 2 new machines that are scheduled to be completed for commissioning in late January 2011.

The Company was recently the recipient of the award Innovation of the Year at the national 2010 BPN Sustainability Awards. The awards recognise designers, builders and manufacturers for best practice in sustainability. Awards judge Mr Dick Clarke said of the Papyrus entry "I have been a judge of the BPN Sustainability Awards for four years and the Papyrus technology is the best innovation I have seen yet,"

The Company was also a finalist in 2 categories of the prestigious Banksia 2010 Environmental Awards' in the Clean Technology and People's Choice awards categories.

Finally, the Company recognises and congratulates Mr Robert Watkins, Manager of the plantation operations at Mt Uncle for being awarded the Australian Young Farmer of the Year 2010.

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")

30 September 2010

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from customers		
1.2 Payments for		
(a) staff costs	(498)	(498)
(b) advertising and marketing	(44)	(44)
(c) research and development	-	-
(d) leased assets	(9)	(9)
(e) other working capital	(489)	(489)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	41	41
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other		
Net operating cash flows	(999)	(999)

+ 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 (3 months) \$A'000
1.8 Net operating cash flows (carried forward)	(999)	(999)
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	(254)	(254)
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)	241	241
Net investing cash flows	(13)	(13)
1.14 Total operating and investing cash flows	(1,012)	(1,012)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.		
1.16 Proceeds from sale of forfeited shares		
1.17 Proceeds from borrowings	(11)	(11)
1.18 Repayment of borrowings		
1.19 Dividends paid		
1.20 Other (capital raising costs)	(25)	(25)
Net financing cash flows	(36)	(36)
Net increase (decrease) in cash held	(1,048)	(1,048)
1.21 Cash at beginning of quarter/year to date	2,444	2,444
1.22 Exchange rate adjustments to item 1.20		
1.23 Cash at end of quarter	1,396	1,396

+ 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	144
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	38	481
4.2 Deposits at call	1,358	1,963
4.3 Bank overdraft		-
4.4 Other (Grant Account)		-
Total: cash at end of quarter (item 1.23)	1,396	2,444

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 (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Donald Stephens
 Director

Date: 29th October 2010

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.

+ See chapter 19 for defined terms.

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.