

29 July 2010



Appendix 4C Commentary - Quarter ending 30 JUNE 2011

Corporate

The Company's cash at bank as at 30 June 2011 was \$834K. Quarterly expenditure included \$159 K in capital in making equipment improvements at the Walkamin Demonstration Factory in Far North Queensland and the construction of new machines referred to later in this report.

During the period Mr Graeme Menzies retired as a director of the Company. (ASX Announcement 17 June 2011).

Intellectual Property

During the quarter Papyrus' patent application for *Improved Fibre Furnish* entered the national phase for patent protection in the following Patent Cooperation Treaty ("PCT") countries: Australia, Brazil, Canada, China, Egypt, Hong Kong, India, Mexico, India, Russia, Sri Lanka, Ukraine, USA and Japan.

The *Improved Fibre Furnish* patent for the production of fibre chips (to be used for the making of panel and other products) directly relates to the recently developed Fibre Production Unit that attaches to the Beta Veneering Unit (which is patent protected under the Company's original and earlier patent).

Operations

1. The Walkamin Demonstration Factory

The Walkamin Demonstration Factory in Far North Queensland has been completed. The beta veneering and fibre production units are now placed in line and capable of producing quality veneers for furniture and fibre chips that will be used for the making of panel (refer below) for the construction industry. The purpose of the factory is for the demonstration of the Papyrus technology and process and for conducting continued trials and research. As such, and as advised to the market on 9 June 2011, the Company determined to scale back the demonstration factory's operation to 1 week in every 4 to significantly reduce the cost of operation and to preserve the available working capital for the Company.

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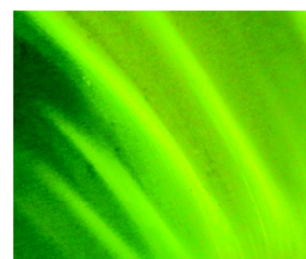
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2. Product Development

A third shipment of 1000 m² of trimmed veneer equivalent produced at the Walkamin Demonstration Factory was dispatched to the Egyptian Banana Fibre Company ("EBFC") in Egypt in June 2011 in part satisfaction of a purchase order. EBFC continues to process the veneer for the making of floorboards (the veneer being applied to MDF/HDF substrate) and more recently skins for doors and decorative panels all for sale in Egypt and Europe. A catalogue and samples of these products can be viewed at Papyrus Australia's website: www.papyrusaustralia.com.au

Test trials continued during the quarter on batch quantities of fibre chips utilising various recipes, techniques and formulae under heat test and pressure conditions to produce panel. The test panels were submitted for independent testing and evaluation. The objective is to achieve results of suitable standards and certification to enable banana fibre panel to be offered as a sustainable and superior product alternative to wood-based products for use in the construction industry.

Two test batches have now been conducted. The first test results were reported to the market on 4 May 2011. Building on the learnings from those results the second batch has been submitted with the results expected in August 2011.

It is expected the process of trialling and testing will continue over the period of the next quarter.

3. AAMC - The Australian Advanced Manufacturing Centre Pty Ltd

AAMC the wholly owned subsidiary of Papyrus Australia Limited derived \$41K in revenue from its precision engineering workshop during the quarter. Additionally AAMC's workshop produced component parts for the blade assemblies for the veneering units currently nearing construction completion.

Acceptance testing of the new veneering unit base assemblies was previously reported as being scheduled to be conducted in the quarter. This was unfortunately delayed and is now expected to take place in August 2011. Upon the acceptance test being satisfactory, the machines will be completed with the additions of blade assemblies, blades and control systems and then ready for sale (refer below).

4. Environmental Value

The Company noted with interest the announcement by the Federal Government of the future introduction of a carbon tax which will ultimately convert to a carbon trading scheme. Although agriculture is currently excluded from the scheme the Company is yet to learn of any opportunities that may arise through this national policy development. The Company will be keeping a keen eye on the detail of the policy as it becomes available especially as it relates to new sustainable technologies.

5. International Strategy

The Company made a significant announcement to the market on 9 June 2011 advising that it had signed an agreement with the Egyptian Banana Fibre Company ("EBFC") to establish a joint-venture Company in Egypt -- to be known as Papyrus Egypt -- the purpose of which is to own and operate a factory in Egypt to produce banana veneer for the furniture industry and banana fibre chips for the making of panel for the construction industry.

The announcement outlined the major premises upon which the agreement is based. Notably, the agreement requires Papyrus Egypt to purchase from AAMC the necessary proprietary plant and equipment (veneering machine and fibre production unit) for AUD 2.0 million expected to be delivered to Egypt by no later than 31 December 2011. Payment terms will be determined in a sale/purchase agreement.

Discussions continue with other interested parties in Europe and elsewhere (on a confidential basis), all of whom have received the Information Memorandum prepared by the Company in early 2011.

Update post 30 June 2011

Subsequent to the market announcement of the proposal to establish Papyrus Egypt members and investors are advised that the Company issued an ASX announcement on 26 July 2011 under the banner Papyrus Australia Establishes Papyrus Egypt and Grants an Exclusive Licence Agreement. The announcement gives further particulars on matters in relation to the progress of Papyrus Egypt and the obligations of Papyrus Australia and EBFC.

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10

Name of entity

Papyrus Australia Ltd

ABN

63 110 868 409

Quarter ended ("current quarter")

30 June 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	134	250
1.2 Payments for		
(a) staff costs	(439)	(1836)
(b) advertising and marketing	(11)	(62)
(c) research and development	0	0
(d) leased assets	(21)	(55)
(e) other working capital	(239)	(1761)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	0	80
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid	244	397
1.7 Other (provide details if material)		
Net operating cash flows	(331)	(2987)

+ 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 (12 months) \$A'000
1.8 Net operating cash flows (carried forward)	(331)	(2987)
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		
(e) other non-current assets	(159)	(793)
1.10 Proceeds from disposal of:		
(a) businesses (item 5)		
(b) equity investments		
(c) intellectual property		
(d) physical non-current assets	22	22
(e) other non-current assets		
1.11 Loans to other entities		
1.12 Loans repaid by other entities		
1.13 Other	88	702
Net investing cash flows	(50)	(69)
1.14 Total operating and investing cash flows	(380)	(3056)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.		1558
1.16 Proceeds from sale of forfeited shares		
1.17 Proceeds from borrowings	(8)	(18)
1.18 Repayment of borrowings		
1.19 Dividends paid		
1.20 Other (share issue expenses)		(94)
Net financing cash flows	(8)	1445
Net increase (decrease) in cash held	(387)	(1610)
1.21 Cash at beginning of quarter/year to date	1221	2,444
1.22 Exchange rate adjustments to item 1.20		
1.23 Cash at end of quarter	834	834

+ 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	75
1.25	Aggregate amount of loans to the parties included in item 1.11	

1.26 Explanation necessary for an understanding of the transactions

Payment of Directors Fees has been deferred since November 2010, and resolved that no further remuneration be paid or be payable to directors for the remainder of the financial year.

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.

		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	132	416
4.2 Deposits at call	702	805
4.3 Bank overdraft		
4.4 Other (provide details)		
Total: cash at end of quarter (item 1.23)	834	1221

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: 29 July 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 107: Statement of Cash Flows* apply to this report except for any additional disclosure requirements requested by AASB 107 that are not already itemised in this report.
3. **Accounting Standards.** ASX will accept, for example, the use of International Financial Reporting 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.