

## CHAIRMAN'S REPORT

I refer shareholders to my report contained within the published Annual Report for 2010 which is also available for you all today.

I ask that the published report be taken as read and note that this address has been made available to you all at the registration desk.

There have been developments since the publication of that report which I will now review.

At the 2009 AGM, I noted that the company's commercialisation strategy to become a technology licensing company, as distinct from a banana veneer and fibre producer, required us to produce at Walkamin commercial quantities of veneer, and fibre for panel production, to enable us to validate the business model we have developed.

While the Company is disappointed with the lack of sales generated this year from our Walkamin factory, management and the board of directors are very encouraged by the status of the factory production, given the level of financial and human resources currently available.

As I also said last year, production today for sales and revenues is important but only as part of the validation process – it is not the end game – it is a necessary stage in developing and achieving our international commercialisation strategy.

Larger volumes of veneer are now being produced as you will hear from the Managing Director and the Company is dedicated to establishing a market for the veneer.

Likewise you will hear from the Managing Director that fibre for panel production is being produced in ever increasing volumes to enable the Company to undertake panel production to achieve international standards and accreditations and for commercial market testing.

Let me put those production goals at Walkamin into the context of our commercialisation strategy to become a technology licensing company, as distinct from a banana veneer and fibre producer. This is a fundamental issue which needs to be understood.

The market for banana veneer and the market for banana fibre panel and the potential market for simply banana fibre – and these are very different markets - is in its infancy at best.

We have received genuine market interest for banana veneer from Australia and Egypt and Europe. The expressed interest in Australia, for example, for banana veneer is coming from various potential customers – ranging from end users at home, to cabinetmakers and furniture makers. We have responded to that interest by producing a variety of banana veneer product which has been given to a number of customers including furniture makers – and floorboard makers – to test the application of banana veneer to various substrates.

That trialling continues and we are responding to the many requests,

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for example, for different colours, thicknesses and ply, recognising that the veneer will be used as a decorative element for furniture, flooring and panel whatever the substrate. Recent examples of product made from banana veneer are available on the web site.

However we are not in the business and do not intend going into the business of furniture making etcetera relying on the likes of Five Star Finishers to meet the demand they are receiving for the end product. The demand for this veneer product will mainly come from end users of the manufactured products which Five Star Finishers, for example, will produce, namely banana veneered substrates for flooring, panels, and carcasses for furniture and cabinetmaking.

Five Star Finishers are trialling different veneer on different substrates for differing end products which they believe the market will seek. Our production over past months has been to satisfy the requests from the market to demonstrate how banana veneer can be used and what it looks like.

Our future goal will be to sell whatever veneer is requested as we are now doing in Egypt. We anticipate that the Australian market demand - which will be for a finished product such as furniture and flooring - will increase in the coming year. Our route to satisfy that demand will be through existing suppliers. We will utilise that growing demand to build into a business opportunity to support the licensing of the technology in Australia and elsewhere.

We have received genuine market interest for banana fibre panel from Europe where we have provided trial panel product and we continue to trial and test the recipes required to make banana fibre panel at Walkamin. Banana fibre panel is substantively different to banana veneer – banana veneer is a fashion based item but banana fibre panel is a structural product which must and will perform to industry expectations and comply with international standards which we will be securing. The banana fibre panel will be used as a substrate for flooring, wall panels, ceiling tiles, doors including fire doors, and the carcasses for furniture and cabinets, to name just a few applications.

Finally, banana fibre itself as a raw material has market potential as a substitute for or an addition to timber based fibre such as that used to make hardboard, MDF, chipboard and cork equivalent. We know from our trials and those conducted by CSIRO, that our banana fibre can be successfully mixed with timber fibre to produce commonly known timber based products such as hardboard, MDF, chipboard and cork equivalent. We have only just commenced discussions in the market to interest the existing timber based panel manufacturers to use banana fibre as a substitute or as a mixer. We believe that banana fibre itself has a significant market potential as soon as the existing timber based industries are aware of the potential – that will take a mind-shift from the timber based panel manufacturers but we are very confident because we all know that timber fibre is becoming limited and the price is rising whereas we have an unlimited quantity of banana fibre waiting to be harvested and utilised.

In the opinion of the Board the past year has been the most productive year the company has experienced since listing in 2005. We have progressed in 12 months from a position of facing many challenges, threats and failures, to a position of great opportunity currently limited only by available capital, resources and the time to communicate our vision to world markets.

I note the following major achievements in five discreet areas for the 2009 – 2010 year:

## 1. Walkamin demonstration factory

- 1.1 We successfully resolved all disputes which flowed from the failure by our contractor to deliver a workable veneering unit in 2009. The resolution of these disputes resulted in the company taking control of its core technology the Beta Veneering Unit and the factory at Walkamin which had been built by QFL.
- 1.2 Our engineers successfully identified and remedied all known defects in the veneering unit which is now processing in excess of 500 billets a working day, and the veneering unit is working five days a week.
- 1.3 Our engineers have this year designed, built and commissioned:
  - 1.3.1 a banana harvester machine which is subject of a patent application,
  - 1.3.2 several trailers to transport and offload heavy banana tree trunks,
  - 1.3.3 a new and improved log yard to receive the trunks and to cut them into regular billets for veneering,
  - 1.3.4 a controlled elevated conveyor and feeder system to deliver the billets to the veneering unit without causing the billets or the veneering unit any damage,
  - 1.3.5 a dewatering machine to prepare outer veneer for fibre production,
  - 1.3.6 a slitting and dicing machine to produce homogeneous banana chips which is also the subject of a patent application,
  - 1.3.7 an 80 tonne heated chip press and moulds to manufacture banana panels for use by the construction industry for doors, flooring and walling, and by furniture makers for furniture carcasses.
  - 1.3.8 the building of necessary infrastructure to accommodate the entire banana veneer and fibre processing factory including several additional buildings for mechanical workshops, tractor and equipment storage, office and administration, toilets and amenities, the board moulding press, and controlled atmosphere veneer cutting, trimming and storage facilities.
- 1.4 Of great significance is the development of a banana trunk harvesting system, which is the key to our integration into the banana fruit industry. Our host farmer Bruce Watkins will confirm that we have not only seamlessly integrated into his banana fruit plantation and business but we have demonstrated to the banana fruit industry a new business opportunity which also deals with significant waste which is presently a major problem for the banana fruit industry.
- 1.5 We have advanced the implementation and functioning of the factory to the point where it will now be handed over to Bruce Watkins for future management. Bruce Watkins is here today and is willing to answer any questions later this morning. This alone is a significant indicator of a level of functional maturity at Walkamin allowing our engineers to step aside and for the banana farmer to take full control and demonstrate to other banana farmers the functional operations of a Papyrus banana veneer and fibre factory within a banana fruit plantation.
- 1.6 We have already received expressions of interest from other banana growers in Australia about establishing Papyrus factories on their plantations to deal with the waste and to create a new revenue stream.

2. Product development
  - 2.1 We now have a continuous process and facilities for the production, drying, pressing, cutting and trimming of banana veneer,
  - 2.2 We have continued to supply a significant variety of veneer to Tout Bois in Italy and have responded to their requests for specific product development to meet the emerging customer expectations for this new product in Europe,
  - 2.3 We have supplied Five Star Finishers in Queensland with product for trialling and then to fulfil an order for furniture which has been produced and is now being market tested,
  - 2.4 We have received an order for 10,000 square metres of veneer from Egypt and we have just despatched 1,000 square metres of veneer as part of that order,
  - 2.5 We have produced trial cold pressed banana fibre panels for flooring and walling and we are in the process of developing the many recipes which will be required to manufacture consistent quality banana fibre panels as substitutes for timber based panels ranging from hardboard through to MDF, chipboard and cork equivalent panels.
  - 2.6 We have initiated the international process to achieve an international standard for "Musa Timber" (banana fibre products) and a certification of functional performance for the various banana fibre panels which we will be producing to ensure functional performance equivalent to the various timber based panels available worldwide.
  
3. AAMC – The Australian Advanced Manufacturing Centre Pty Ltd
  - 3.1 This wholly owned subsidiary of Papyrus Australia operates at Stirling Street, Thebarton and employs the key engineers and technical staff required to fulfill its business goals of designing, building, and commissioning advanced machinery and equipment required by Papyrus and other customers.
  - 3.2 Through AAMC, Papyrus has designed, built and commissioned the mechanical harvester, the log yard, the elevated controlled conveyor and billet delivery system, the mechanical dewatering machine and the slitting and dicing machine. They currently have on order from Papyrus for the design of a suitable chip dryer and the conveyor system for banana fibre chips between the slitting and dicing machine and the press.
  - 3.3 AAMC engineers and staff will maintain all Papyrus machines and equipment including those commissioned overseas.
  - 3.4 AAMC engineers have designed and under contract have commenced building modules for the next version of the veneering unit incorporating many essential design improvements for improved functionality and performance. This is the centrepiece of our suite of technologies and the key to the business opportunities.
  - 3.5 Recently AAMC acquired the tools and equipment of a local machinery workshop and acquired two experienced staff from that workshop to design and build in-house the essential and advanced blade technology for the veneering unit.

#### 4. Securing environmental value

- 4.1 Today we have as a special guest Sally Burns the Managing Director of an international business Sigma Global which has offices in Sydney, London and Amsterdam. Sigma Global is an internationally recognised consulting and trading business in environmental assets worldwide.
- 4.2 Sigma Global has advised Papyrus Australia that the process of converting current waste green banana tree trunks to dry veneer and banana fibre will generate significant carbon assets known as Certified Emission Reductions (CER's) in some parts of the world which are of real monetary value in Europe and elsewhere carbon has a price attributed.
- 4.3 Without in any way commenting about the carbon debate and situation in Australia the company has embraced this real opportunity and factored that into our business modelling for the future worldwide.
- 4.4 Sally would be pleased to answer any questions you may have later this morning.

#### 5. International strategy

- 5.1 Our international strategy is advancing.
- 5.2 With assistance from several reputable advisors from Europe, Egypt and Australia, including Sigma Global and KPMG, we have developed and published for strictly confidential reading by potential international investors in Europe, Egypt and Australia, an Information Memorandum which includes a comprehensive financial model and business plan for a Papyrus factory in a representative banana growing country and a distribution network in Europe.
- 5.3 The Information Memorandum can and will be adapted to other regions of the world including Australia for the establishment of Papyrus factories and related distribution networks.
- 5.4 We have advanced discussions with three related Egyptian entities regarding the establishment of the first commercial Papyrus banana fibre factory in that country and we have delivered a Terms Sheet for a proposed business venture.
- 5.5 The Egyptian entity is presently undertaking due diligence.

#### Governance

Since July 2009 the governance of the Company has been reinforced by the appointment of an Executive Committee which has the responsibility to develop and implement strategy subject to Board approval, to support the Managing Director and to oversee the management of the Company.

The Executive Committee comprises the Chairman, the Managing Director, the Executive Director Finance and the General Manager.

The Executive Committee meets at least weekly and more often if required reporting directly to the Board. In recent times the Executive Committee has worked closely with the international advisors to develop the Information Memorandum and a member has travelled overseas with

the Managing Director to meet the advisors, prospective international investors and partners in Egypt and the EU, and Government Ministers and representatives in Egypt where Government support for the proposed Papyrus project has been offered and acknowledged.

We have refreshed the Board membership after the retirement of David Wyatt with the key appointment of Colin Dunsford. We propose a continuous review of the board and the appointment of specially selected individuals to reflect the changing and emerging needs of the Company.

The board is committed and working hard to achieve a sound and a sustainable future for the Company.

The board is of the opinion that the short to medium term potential of the Company will be measured by its capital growth. This will be achieved through the strategy of the Company to be a technology licensing company and not a producer of product for sale.

The board anticipates that in the coming year we will have concluded our negotiations for a European market and distribution project with a manufacturing facility in Egypt, we will possess an international standard for "Musa Timber" (banana fibre) panel, and we will have upgraded all of the machines, processes and technologies at the demonstration plant at Walkamin to respond to our goal of continuous improvement and technological development for licensing worldwide. We will also have advanced measurably the potential to fulfil our vision in the Australian banana fruit industry.

In conclusion, as I said last year, the board is working strategically to reward shareholders with significant returns 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.